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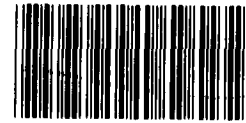
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TESTIMONY OF

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OF THE UNITED STATES



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BEFORE THE

TASK FORCE ON THE BUDGET PROCESS

COMMITTEE ON RULES

U.S. HOUSE OF REPRESENTATIVES

ON

IMPROVEMENTS TO THE CONGRESSIONAL BUDGET AND

IMPOUNDMENT CONTROL ACT

OF 1974

Mr. Chairman and Members of the Task Force:

I am pleased to be here today to present our views on possible improvements to the budget process. It is clear that the country is facing significant economic problems, and governmental decisionmakers will have to make many hard choices over the coming years on budgetary levels and allocations. Under these demanding circumstances, it behooves Government to simplify and strengthen

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its budgeting practices through an appropriate blend of changes directed at achieving greater stability, control and flexibility in the process to better meet policymaker's needs.

BALANCE NEEDED IN BUDGET PROCESS
AMONG STABILITY, CONTROL, AND FLEXIBILITY

The Congress is faced with conflicting budgetary pressures that have been accentuated by the budget process and its evolving problems. It is desirable to have more stability in Government programs and funding, especially where States and localities are concerned. It is also desirable to have greater control over expenditures, revenues, and the deficit. However, at the same time, it is desirable to retain flexibility to respond to unexpected conditions, changes in the economy, or changing priorities. In addition, simplicity in the budget process is necessary so that it can work, and not be an all-encompassing endeavor for the Congress. It must also allow sufficient time for oversight and other necessary duties. Obviously, a balance among these conflicting pressures is the only practical solution. In this testimony, I will discuss the various budget process problems and reforms being considered in the context of stability, control, or flexibility, as appropriate. I believe that the Congress, in considering the overall scope and impact of its budget process, will decide to take steps that will achieve the delicate balance needed for success.

STABILITY

I think it is essential that we bring much greater stability to our government's activities and thus to our economy. Accomplishing this task will require not only that we strengthen the basic framework for congressional decisionmaking but also that we greatly improve the Federal Government's financial management system at all levels. Such steps would also ultimately lead to better budgetary control.

The implementation of the budget process, especially in the last few years, has been a source of frustration. For example, this year's process demonstrated once again that under the present process there is simply not enough time available for the Congress to complete all the actions necessary to enact a budget by the start of the fiscal year. The Government began fiscal year 1982 on a continuing resolution and will have to begin 1983 on one as well. The problem goes beyond the unique circumstances of these particular budget cycles. In my judgment, the heavy workload that causes this situation, and which is equally a problem in the executive branch, stems in large part from a process that is unnecessarily repetitive, a structure and system that is unduly complex, and a level of decisionmaking that is inappropriately detailed.

In examining those questions, I would like to turn first to an issue that is critically urgent, the problem of funding gaps.

Funding gaps issues

Earlier this year, we testified on the "funding gap" issue. At that time, the Federal Government was facing a possible delay in raising the debt limit. More recent concern regarding funding gaps involves not only passage of the debt limit but also passage of the recent supplemental appropriation and now the continuing resolution for fiscal year 1983--three potential funding gap situations in a few weeks' time. There have been relatively frequent funding gaps due to the failure to enact timely appropriations. The effects of these gaps on Federal operations and services include lost productivity, lowered morale, disruptions in services, lowered respect for the Federal Government, and some direct costs. These effects involve not only the Federal agencies but also those who work under Federal contracts and grants, including local governments, States, universities, defense contractors, and those who receive Federal aid and services.

The extent of these effects depends on how agencies respond to the existence (or prospect) of a funding gap and

the length of the gap. The present procedure is to immediately begin an orderly shutdown of non-essential operations. The most significant shutdown was on November 23, 1981. It did not extend beyond that day and was not fully initiated in all agencies. Therefore, that experience does not provide us with a basis for assessing the effects of a longer and more complete shutdown.

The Constitution precludes the withdrawal of public funds from the Treasury except pursuant to appropriations made by law. Moreover, the Antideficiency Act establishes procedures and criminal penalties to assure that funds are neither obligated nor spent in the absence of sufficient appropriations.

For many years, the Congress and the President were able to meet fiscal year deadlines for passing appropriations measures to assure the smooth continuation of Government operations from year to year. As Government activity and related budget consideration grew more complex, however, it became increasingly difficult to meet fiscal year deadlines on an agency-by-agency basis. Stop-gap measures, called "continuing resolutions," were used to avoid disrupting Government operations. As fiscal years were ending without enactment of either specific appropriations or

continuing resolutions, anxieties increased, but congressional action took place in sufficient time to avoid more than a day or two without the provision of funds.

GAO took the position that allowing employees to report for work after the lapse of appropriations would constitute a violation of the Antideficiency Act. But, on the premise that the Congress expected the Government to continue functioning, we did not pursue our normal course in dealing with the statutory violations involved. That is where the issue stood until April 25, 1980--the day the Attorney General issued a landmark opinion concluding, in essence, that except for activities necessary to achieve an orderly shutdown, Government operations must cease when appropriations lapse without the provision of new funding. He went on to say that future violations would be subject to criminal prosecution. The Attorney General's opinion was designed to force the Congress to meet budget deadlines, thereby avoiding end-of-fiscal-year confusion. The Congress, in light of the opinion, later enacted a continuing resolution only to have it vetoed. A costly shutdown occurred. It is easy to point fingers of blame when this happens, but the real culprit is a system that promotes confrontation.

We believe, as we did before the Attorney General's opinion, that it is inconceivable that the Congress or the President wish the government to come to a halt under these circumstances. To prevent this result in the case of a lapse in appropriations, we have recommended that permanent statutory authority be enacted to allow the incurrence of obligations to continue during periods of lapsed appropriations. This would minimize the ill-effects of such situations. However, this would not allow the disbursement of funds until appropriations were made by the Congress.

A more far reaching approach would be the adoption of some form of legislation that would permanently and automatically continue funding. The authority could be in effect for a limited amount of time (less than 1 year) and fund programs at the level of the previous fiscal year or at a reduced level. Thus, government programs would be allowed to continue while the Congress had time to make orderly decisions.

Another potential funding gap relates to the debt ceiling. Voting once to raise the debt ceiling is painful enough without having to deal with this issue repeatedly. Would it not be preferable to increase the ceiling by larger amounts or perhaps make the entire debt ceiling permanent in

amounts or perhaps make the entire debt ceiling permanent in order to extend the time period covered by this legislation? This would help avoid lapses in government funding and reduce the need for frequent decisions on that issue.

Biennial Budgeting

In addition to dealing with the more urgent funding gaps issue, the Congress may wish to consider another mechanism, a biennial budget cycle, that would significantly enhance the stability of the entire budget process.

We believe that biennial budgeting offers several potential advantages over the current system. If effectively designed and implemented, it would

- allow more time for congressional decision-making and oversight;
- reduce the number of times the Congress must act on the same programs;
- provide more time for long-range planning; and
- provide an opportunity for better budget analysis, financial and operational planning, budget execution, and program review by both the Congress and the executive branch.

Biennial budgeting can also provide more funding certainty for recipients of Federal monies or services, especially if it were coupled with greater use of advance budgeting for these programs.

Despite these potential advantages, it is important to remember that determining the sequence of key events and constructing a realistic biennial timetable is very difficult. Any budget timetable represents a series of decisions as to the choice of key events in the budget process, the sequence of those events, and the amount of time allowed for each event. The timetable of the 1974 Act assumed that all the then-existing events in the budget process would remain. The Act further superimposed on all these events a guiding first budget resolution with targets, a binding second budget resolution with ceilings, and a reconciliation process. This timetable also assumed that authorizations would precede appropriations.

A biennial schedule could include all of the steps in the current process, fewer steps, or different steps. A biennial schedule could spread the budget events over an entire 2-year period with oversight occurring throughout or it could put the budget events in the first year, followed by oversight in the second year, or vice versa. The biennum could coincide with the two years of a congress or could overlap congresses. The fiscal period could begin October 1, as it does now, or could be changed to January, or back to July.

In our recent testimony of August 19, 1982, before the Senate Committee on Governmental Affairs concerning the Budget Reform Act of 1982 (S. 2629), we discussed that bill's proposed biennial budget timetable, which differs substantially from other proposals we have reviewed. Under S. 2629, all budget decisions would be made in the first session of Congress; the second session would be devoted primarily to oversight. We stated that this timetable is attractive because

- it allows difficult budget votes to come in a non-election year;
- it allows budgets to be adopted during the first year of a President's term, when there is more chance of consensus between the President and the Congress;
- it allows a newly-elected President to initiate swiftly the program outlined in the campaign; and
- it leaves the Congress relatively free in the second session to perform program and policy oversight, building a base of information for consideration in the subsequent biennium.

However, we also pointed out that this timetable does have some drawbacks. New Presidents would have little time to develop a comprehensive budget policy unless their top executives were identified early and were ready to go to work soon after the election. This problem might be ameliorated by sliding the dates for congressional action. But this would restrict the time available for congressional deliberation, which S. 2629 would relieve only slightly by shifting the start of the fiscal period to January 1.

Other timetables have different advantages and drawbacks. None seem to satisfy every concern. The choice involves tradeoffs. On the whole, we favor a timetable having congressional action on the budget take place in the first year of a Congress, with oversight and other activities primarily concentrated in the second year.

We are completing a study for the House Budget Committee's Task Force on Environment, Credit, and Multi-year Budgeting on biennial budgeting, including the experience of three states that have current experience with it. This study should provide you with more information for considering these proposals.

Advanced budgeting

Longer term and advanced budgeting methods can also serve as mechanisms to bring about greater stability by allowing funds to flow predictably. This is particularly important for activities whose efficient execution is dependent on effective long-term planning.

The type of funding should depend on the nature of the activity. For instance, one activity may dictate the use of longer term appropriations or authorizations, another may require advanced funding, and still another may benefit from some combination.

Three areas where greater stability would be particularly advantageous are

- investments in capital or physical assets,
- research and development, and
- aid to State and local governments.

Investments in capital or physical assets should involve longer term decisions on programs and funding whenever possible. Greater stability for investment programs, such as major military weapons programs, is a necessary ingredient in program efficiency. A longer term focus for investment decisions would allow the Congress to consider budget levels in relation to the overall conditions and needs for the Nation's public infrastructure and the defense structure. The 5-year programs for shipbuilding and the 3-year programs for aircraft construction are good examples of how this is presently being done for defense.

The research and development area also needs greater certainty and continuity of work as well as information for

looking across agencies. As with capital investment programs, we believe multi-year funding is appropriate to avoid the disruptive effects of sudden, unplanned changes in direction. We feel that this type of funding would have a very positive and stabilizing effect on the conduct of Federal R&D. Funding should be available to move from one phase of research to the next without disruption.

The third area is aid to State and local governments, who need more stability and continuity of funding. Their greatest need, however, may be for earlier information about the funds which will be made available. GAO currently has a study underway examining the timing problems among the Federal, State, and local budget processes. The study has found that most State and local governments, if they are to plan effectively, must have definitive information 6 months before the start of their fiscal years (in most cases July 1). But, Federal decisions on funding levels are often made just before the beginning of the Federal fiscal year, October 1, if the Congress adheres to its budget timetable. This means that most Federal decisions are made at least 9 months too late from the State and local point of view. Thus, we recommend that consideration be given for making funding decisions in this area on a 2-year cycle, with advance budgeting by 1 year for these programs.

CONGRESSIONAL CONTROL

Besides the critical need to bring a degree of stability to Federal management, now is also the time to redouble the efforts to gain more budgetary control. The issue of "controllability" involves the trade-off between the real need for longer term, stable commitment by the Federal Government to people who voluntarily or involuntarily participate in Federal programs and activities versus the real need for the Congress to "control" the budget in both the short and long term.

There is no magic formula for making this trade-off. It requires constant long-range planning; monitoring of socio-economic trends; oversight, monitoring and evaluation of Federal programs and activities; and other "good administrative controls" to support the analysis and decisionmaking on budget priorities for both the short and long terms. Further, the trade-offs have to be made on a program-by-program basis dealing with specific groups of people, specific sectors of the economy, and specific problems. These individual program decisions can be made in the context of a budget policy of encouraging multi-year (but not permanent) commitments.

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context of a budget policy of encouraging multi-year (but not permanent) commitments.

Areas I wish to discuss today that would help us to achieve greater control include: expanding the coverage of the budget; adopting more appropriate categories and level of detail for the budget; using more consistent and appropriate methods for reporting budget authority amounts; achieving more reliable budget estimates; strengthening program accountability and oversight; and streamlining congressional procedures.

Budget coverage

I believe the current focus on revenues, outlays, and the resulting deficit or surplus is appropriate. The focus on budget authority is also appropriate. However, the additional attention that has been given to these levels in the past few years has shifted some attention away from the obligation levels that are more controllable and that, in turn, control the amount, but not the precise timing of the outlays. The Congress' interests in budgetary control may be better served by shifting more focus back to obligation levels, both the new budget authority requested as well as the total obligation authority it has made available, including the carryover balances.

resulting in incomplete budget coverage of about \$20 billion. Furthermore, the growth in entitlements, tax expenditures, and the increasing economic importance of Federal credit activities have created new budget control and information problems. Incomplete coverage of these matters can only impair public confidence in the budget process.

Tax expenditures control

You asked us specifically to comment on budget control and information problems associated with tax expenditures. We suggest that Congress take an evolutionary approach to strengthen its control over tax expenditures, starting with improvements in the information base and scorekeeping procedures, followed by the use of non-binding targets. The Congress took such an evolutionary approach, successfully, in gradually bringing Federal credit activities under more direct control through the budget process. While the technical problems are quite difficult, we believe the same gradual approach would be appropriate in the case of tax expenditures.

In addition to considering the possibility of moving to tax expenditures controls through the budget process, Congress could also develop oversight procedures to compare tax expenditures with spending programs of similar purpose.

During the last Congress, the Rules Committee, as well as others, thoroughly investigated several oversight reform proposals, including some that would have considered tax expenditures along with direct spending programs. Current versions of these proposals are now before this Congress. Although these proposals seek to join the review of tax expenditures with program authorization procedures rather than bringing these directly into the budget process, they would serve the purpose of strengthening oversight over tax expenditures.

Level of detail of decisions

Decisionmakers in the Government today must give priority to improving their management control systems. They must also encourage the types of analysis that will help them make hard choices in selecting the programs and activities that are to be reduced, terminated, or expanded. It is evident that decisionmakers are currently faced with "decision and detail overload." No decisionmaker can be expected to grapple simultaneously with the myriad separate decisions represented by the appropriation account, activity, and object class structure in the Appendix to the President's Budget. This overload creates a barrier for decisionmakers towards achieving control of the budget

because the focus is on details rather than broad policy issues.

Top policy officials of the Congress, the President, and the executive agencies should focus on broad policy, including the basic direction and general content of programs. Accountability and control of this level should concentrate more on assuring that these policy directions are pursued and less on the detailed activities necessary to implement them.

This is not to say that decisions at the level of detail in the Appendix are unimportant. Decisions made at the top of the governmental structure obviously must be converted into more detailed decisions as one moves down the hierarchy and simultaneously moves from planning broad priorities to executing specific programs and activities. Once these broad priorities are decided, program managers should be delegated the authority needed to carry out those policy decisions and should be held responsible and accountable for the results.

Budget structure

Currently, proposals have been made to separate from the unified budget such items as capital investments and the trust funds that finance retirement programs. We agree that

these issues warrant particular attention and visibility in the budget process. However, we believe that can and should be done within the unified budget. Separate budgets would risk the loss of attention to the overall budget totals, which are critically important as a component of economic policy. It would also create a tempting opportunity to play games with the numbers by shifting programs from one budget, where funds may be tight, to another, where conditions may be somewhat more relaxed.

To reconcile these concerns, we suggest that the main budget structure might be revised to group the Federal Government's programs and activities into the following types of policy areas:

1. investment in capital assets, both defense and domestic,
2. research and development,
3. aid to State and local governments,
4. credit assistance,
5. entitlements for individuals,
6. interest, and
7. operating expenses.

We chose these seven categories as a starting point for developing a different budget structure, because they each involve large portions of the Federal budget and each require different planning, financing, and management approaches. Of course, budget data can be structured in many ways. We believe modern data processing techniques should permit the budget to be reformatted in a variety of ways to serve a variety of purposes. But we think this structure would have a special value. By looking at the budget from these seven policy perspectives, it is easier to deal with the national needs, the Federal Government's roles, and the means for financing more comprehensively, ultimately achieving increased control of the budget. This cannot be done program by program, nor can it be done effectively using the current budget functions, although each of those structures has value for other purposes.

Consistent use of the budget
authority concepts in practice

The 1967 President's Commission on Budget Concepts recognized the importance of realism, comparability, and consistency in measuring budgetary resources and spending levels. Budget authority was defined in the 1974 Act. Through several opinions we developed the following expanded definition:

"* * * the fundamental objective of the Congressional Budget Act of 1974 was to establish a process through which the Congress could systematically consider the total Federal budget and determine priorities for the allocation of budget resources. We believe this process achieves its maximum effectiveness when the Budget represents as complete as possible a picture of the financial activities of Federal agencies. We further believe it is vital to maximizing the effectiveness of the process that Federal financial resources be measured as accurately as possible because priorities are actually established through decisions on the conferring of this authority. From this standpoint, therefore, the concept of 'budget authority' should (a) encompass all actions which confer authority to spend money, (b) reflect as accurately as possible the amount of such authority which is conferred and (c) be recognized at the point at which control over the spending of the money passes from the Congress to the administering agency."

This concept has been applied case-by-case as problems are raised. No across-the-board analysis has been made, however. There are areas of uncertainty and apparent inconsistency, including the use of full funding, the use and reporting of receipts and collections, and the use

of accrual accounting methods in budgeting. We believe that three measurement areas deserve special attention:

--First, there are unresolved issues pertaining to the budget authority concept and its application. It is, of course, most important to have meaningful, consistent, and well understood budget authority recordings given the fact budget authority is the key financial resource controlled by the Congress and executive branch in their budget-setting actions. Unfortunately, there is confusion about budget authority given the maze of varying applications.

For example, there is no general agreement on which multi-year programs should be "fully funded." I believe that where proper planning and good management exist, the full funding approach can facilitate greater program stability, more equitable comparisons of programs and the "up front" disclosure of total costs. We have developed some criteria for the application to full funding. It is clear, however, that more work is needed to identify the programs where full funding should be applied.

It is also clear, however, that serious problems can arise if full funding is provided in the absence of good planning and management. Cost overruns, program delays and so on may not come to light promptly without the visibility

of regular funding decisions. An alternative which provides some of the benefits of full funding would be more extensive use of multi-year authorizations.

Another confusing budget authority matter is the fact that budget authority recordings do not always represent total new obligational authority even in one-year programs. There are many programs, including public enterprise revolving fund and emergency programs, which have budget authority recordings that express far less than estimated or actual new obligational authority because of current conventions. In public enterprise revolving funds, for example, the recordings do not encompass the obligational authority that is generated by program business-type collections. I think that under such varying practices among budget accounts the budget authority concept is less meaningful, and the practices add to the general confusion about the budget.

--A second matter, closely related to the first is the continuing use of offsetting business-type revenue to reduce reported budget totals. For example, the offsetting practice reduced estimated on-budget and off-budget outlays for fiscal year 1981 by about \$102 billion. We believe that this practice significantly understates outlay totals, and

we favor reporting the amounts on a gross basis. I also believe this would be a step toward simplifying budget totals.

--Third, we need to look again at the concepts used to express dollar levels of program activity. Both the Hoover Commission and the Commission on Budget Concepts endorsed cost-based budgeting and the reporting of receipts and expenditures on an accrual basis. We have had only partial implementation of these recommendations, with attendant confusion. For example, although some Federal agencies have taken steps to adopt modern accrual accounting systems, and the President's Budget Appendix now reports "costs" for many activities, budget decisions and controls continue to be on "obligations" rather than costs.

The problems with budget estimates

Many aspects of the Federal budget process frustrate its participants. One is the volatility of the budget numbers or estimates that appear in the President's budget and the budget resolutions. Not only is the derivation of these numbers complex, but the estimates often only approximate actual amounts. Seldom do the major participants agree on these estimates. Today we would like to focus on the formulation of these estimates, the major reasons for mis-estimates, and some of the proposed reforms.

Large parts of the budget are determined by economic and social conditions in the U.S. and, to some extent, abroad. Thus, before budget estimates can be formulated, assumptions must be made about the outlook for these factors during the budget period. While errors in the estimates can arise from technical mistakes, the large ones are much more likely to flow from mistaken assumptions about how the economy will behave.

Economic forecasting is, of course, a difficult business. But, accurate forecasts are invaluable since much of the variance among budget estimates is due to differences in the perceived future condition of the economy. However, since assumptions about future events must be made and the future can diverge from current expectations, it should not come as a surprise that forecasts are often off the mark.

In preparing a forecast, assumptions must be made about such difficult matters as the monetary policy that the Federal Reserve will pursue over the period in question. The usual practice is to feed these assumptions into an econometric model to project what the economy will be like in upcoming fiscal years. The reliability of the resulting forecast depends on the accuracy of the policy assumptions and the extent to which future behavior conforms to that

described by the models' many predicting equations. In addition, the forecasts are usually tempered by human judgment.

Slight variations in the actual performance of the economy, compared to the forecast, can have large implications for the budget. For example,

--A one percentage point increase above the projected rate of unemployment will cut revenues by about \$12 billion in one fiscal year and increase expenditures by \$5 billion.

--A one percentage point increase in the inflation rate adds about \$5 billion in revenues and \$1.3 billion to expenditures in the first year.

--A one percentage point increase in interest rates adds about \$1 billion in revenues in the first year and about \$2.3 billion to expenditures.

The budget estimates also include assumptions about anticipated legislative and administrative actions. When these turn out to be incorrect, they can effect both revenue and expenditure estimates. For example, the timing of the passage of the 1981 3-year tax cut legislation was later than expected, thereby causing the final tax receipts to differ from what had been estimated.

Errors can also arise from such factors as abnormal weather conditions and natural disasters. A severe drought, for example, may have an adverse effect on the farming industry, reducing Federal tax revenues. It may also cause Federal expenditures for disaster relief or crop insurance to rise above the estimated level.

Because the forecast is, in part, an extrapolation of past events, some account can be made for such things as abnormal weather conditions. However, occasionally a disaster, such as the eruption of Mt. St. Helens will occur, falling well outside the range of expected events.

Another reason for inaccuracies in revenue and expenditure estimates is unforeseen international events. The Arab oil embargo of 1973 was something few could have predicted, and it certainly had a dramatic effect on U.S. revenues and expenditures.

Finally, in the complex process of developing budget estimates, it is always possible simply to make a mistake. While this obviously happens from time to time, we do not believe it to be a major problem. Errors of this sort appear to be relatively small.

From this review of the sources of error in budget estimates, it seems evident to us that the appropriate focus

of attention is the set of economic assumptions that underly the estimates. In doing so, however, one must recognize that although it is difficult to quantify the political impact on estimates, it nevertheless is there in the form of the personal judgment involved in adjusting the initial forecasts of the computer models. It is not uncommon for revenues and expenditures to be optimistically estimated for political reasons. For example, a president or Congress may choose to project a lower inflation rate than others believe likely, with consequent effects on the estimates of both revenues and outlays. In addition, people may sincerely hold sharply differing views of how the economy functions and thus of how it will behave. This sort of disagreement appears to have been at the root of the debate last year over the likely effect on the economy and the budget of the 1981 tax reductions.

In recognition of the problems caused by widely divergent sets of economic assumptions, the inexact nature of the estimates, and the need for frequent revisions, combined with the political significance of the estimates, several proposals have been offered. We will briefly discuss three of these proposals.

The Penner proposal: common economic assumptions

In a paper published in August 1981, Rudolph Penner of the American Enterprise Institute suggested some technical methods for arriving at neutral economic assumptions that could be used in budget debates by the executive branch and by the Congress. Mr. Penner proposes the following procedures:

First, that all contending parties agree in December preceding the start of the fiscal year to base program decisions on a common set of forecasts and projections regarding the economy. These would be used throughout the first budget resolution.

Second, the contending parties could also project the implications of policy decisions on different sets of assumptions if they like, but at least there would be one set for consistent comparisons.

Third, a new set of assumptions could be devised for the administration's July budget revisions and the second budget resolution, based on the latest data.

The attractiveness of this approach lies in the fact that with one common set of economic assumptions, policy issues could be more clearly separated from issues arising because of different assumptions. In addition, this set of econo-

mic assumptions would be as free as possible from political manipulations.

The Gephardt proposals: Board of Revenue Estimators

In his bill, H.R. 6866, Mr. Gephardt offers a concept somewhat related to Mr. Penner's suggestion. Instead of using a common set of economic assumptions, Mr. Gephardt proposes to establish a Board of Revenue Estimators, made up of the Chairman of the Board of Governors of the Federal Reserve System, the Director of the Office of Management and Budget, and the Director of the Congressional Budget Office. It would be the duty of this board to determine the revenue estimates for the budget resolutions and for the next two fiscal years. Having a board responsible for revenue estimates will not only result in a common set of economic assumptions for revenues, but also involve the Federal Reserve in budget policy, a move gaining in popularity.

The Michel proposal: ranges for budget estimates

In his bill, H.R. 6400, Mr. Michel calls for ranges of numbers for outlays, revenues, and deficits or surpluses to appear in the budget resolutions. These ranges would remain in effect for 60 days, at which time the Budget Committees would review the numbers. If the economy had changed dramatically, the panels could recommend appropriate revi-

sions. This approach not only recognizes that budget estimates are not exact but also that the Congress needs the flexibility to make revisions to the budget in response to changes in the economy. It can be argued by some that adjustment to the budget too frequently may be counterproductive. Nevertheless, we believe that the recognition of this need for flexibility is a positive step.

These proposals have merit. If successful, they could help eliminate an important source of confusion in the debate over the budget. But none are fool-proof. For example, the participants may have as much difficulty agreeing on a set of common assumptions in December as they now do in March. Also, one should recognize that involving the Federal Reserve in a consensus forecast implicitly asks them to agree on a prediction of the future course of interest rates. I suspect the Federal Reserve would be very reluctant to do this because it would further complicate the task of implementing an effective monetary policy. The idea of using ranges in the budget resolution seems to have promise, but the 60-day period for review is too short. We would prefer that such review take place on an as-needed basis.

On the whole, we applaud the effort to develop a way of coming into agreement on economic assumptions. If these efforts are successful, it would be an important step forward for the budget process. Thus, it may well be worth experimenting with the Penner approach. While we remain a little skeptical, it appears the most promising of the three.

Program accountability and oversight

Program accountability and oversight are two areas that have languished somewhat in the last few years, as the budget debate has tended to dominate the business of the Congress. If the Congress were to move toward longer funding periods, as we have suggested, there would be more opportunity to focus on these areas. Some of the budget reform proposals contain a set-aside period for the Congress to do oversight. This set-aside period should certainly go a long way to enabling the Congress to conduct more oversight. We would suggest that, in addition, oversight procedures or mechanisms be established, such as those proposed in H.R. 58, the Sunset Review Act of 1981. The Congress could develop oversight and program review agendas. For instance, committees could develop a tentative schedule of their over-sight activities for each Congress. Such a schedule could list programs to be reviewed, policy areas/topics to be examined, and the nature of such reviews.

These reviews could be both retrospective and prospective. Reviews can be general oversight reviews of management or program effectiveness or budget-oriented reviews to identify areas for savings. For example, GAO recently completed a budget-oriented review of DOD plans. Because military spending is projected to be about 32 percent of the total budget in 1985, up from 24 percent in 1980, we wanted to take a critical look at Defense's plans, examine actual use of these increased funds, and determine the areas where improvements were needed.

We found that between fiscal years 1980 and 1982, the Defense budget increased by approximately \$72 billion, a 50 percent increase since the 1980 budget year. Most of the increase was directed to improving readiness and sustainability, modernizing the forces, and improving the quality of life for military personnel. Our examination of this spending and the way Defense makes its spending decisions showed that corrective action is required in numerous areas. For instance,

--The Secretary of Defense needs to follow through on his pledge to improve stability in the weapon systems acquisition process by eliminating marginal

programs to fund higher priority programs at more economic levels of production.

- The Secretary of Defense needs to monitor more closely those programs receiving large funding increases to ensure that additional funding can be spent prudently.
- The Secretary and the Congress need better visibility over the way funds are used in the operations and maintenance areas. Currently the reporting to higher levels is primarily through the financial controls, such as obligation rates, rather than through reporting on what was accomplished with the funds in relation to the plan.
- The current Defense budget system needs to be improved; it is virtually silent on what was accomplished with the funds provided. In addition, defense needs to (a) better justify its requests, (b) develop a strategy for carrying out the programs, (c) clearly state their objectives and develop a measure to gauge performance, (d) report their accomplishments in relation to their established criteria, and (e) build into subsequent budget requests feedback on actual performance.

GAO can focus its work on the programs and policy areas the Congress will be addressing in its oversight process, thereby better meeting the information needs of the Congress. For example, we could provide the Congress one or more summary reports at the beginning of each Congress covering our work on major issues the Congress plans to address plus any other matters that have come to our attention that we believe the Congress should consider. We could also provide the entire Congress with separate reports on each of the major programs and policy areas. We recently completed a review of economic policy. This is discussed in the fiscal policy section near the end of my statement.

In the area of program accountability, the Congress may want to consider other steps including using a procedure patterned after the Department of Defense SAR (Selected Acquisition Reports) system for major capital investments throughout the government.

The Defense SAR system provides useful information on the status and progress of selected major weapons systems. Through this system, which has been in existence for over a decade, some visibility on weapon system cost and cost growth, as well as changes to schedule and technical perfor-

mance data and reasons for such changes, are provided to congressional committees. Just as important, the SAR system provides categories recording specific causes of cost growth. This type of data, accumulated over a period of years on a wide variety of systems, has provided a valuable insight into such growth.

We believe that although the SAR system provides useful information, it can be improved. These improvements were outlined in testimony before the Senate Committee on Governmental Affairs on April 22 of this year. The focal point of our testimony at that time was the proposed use of the SAR system for major civil acquisitions, as envisioned in S. 2397. We stated that such a system would provide the Congress and top agency management with oversight data on the progress and direction of projects and allow them to readily identify problem areas and their causes. We feel that the SAR system should be an integral part of the congressional oversight process and budget execution, particularly in view of the need for better information on capital investments, including development of longer range plans and the evaluation of agency performance in light of these plans.

Simplifying congressional procedures

Many have argued that the current budget process is too cumbersome and repetitive and, therefore, is in need of simplifying, whether or not we change to a longer fiscal period. I will discuss 4 ways that have been proposed to simplify the process:

- a single binding budget resolution,
- an omnibus appropriations bill,
- withholding "budget-busting" bills from enrollment,
and
- reconciliation any time after passage of the budget resolution.

The single binding budget resolution is attractive because it eliminates the repetition of the second and, at times, third budget resolutions. Another simplifying approach is having a first resolution with a provision to make the first binding if the second is not passed by a certain date (as is now in effect for the Fiscal Year 1983 budget).

The omnibus appropriations bill would accomplish two things. It would eliminate the repetition of passing 13 appropriations bills and it would tend to strengthen the

discipline in the process. That it failed to work once before (for the 1950 appropriations) is certainly basis for concern, but the idea is worth further consideration. On the other hand, retaining the 13 separate appropriations bills does have the advantage of continuing the more specialized and detailed attention given to parts of the budget by the Congress as a whole. Another alternative for even greater integration would be a single consolidated budget bill, embracing revenue actions and the debt limit, as well as appropriations, such as Mr. Obey has suggested. This would provide further assurance of consistency among various aspects of the budget.

The third way, withholding bills from enrollment, allows the Congress to see the cumulative effect of spending bills before completing action on the budget and eliminates the vulnerability of the last bill scheduled for floor action. It is a mechanism that has already proved fairly effective in allowing the Congress to see the results of their actions, but it also contributes to the number of decisions required at the end of the process.

Finally, reconciliation at any time after the budget resolution is passed would add some flexibility. We believe this would be useful. Indeed, as a general principle, we

would tend to favor less rigid schedules, with fewer hurdles to overcome when creating a budget. I cannot emphasize enough the importance of simplifying the Federal budget process.

FLEXIBILITY

If changes are made to the budget process to bring greater stability and control, as I have just discussed, there will also be a need for flexibility in the process by which decisionmakers can adjust to contingencies and changing conditions. Flexibility is already built into the budget process through existing adjustment mechanisms. I wish to particularly focus on (1) the need to control the indexation of entitlements through the budget process and (2) possible changes to the impoundment process. I will also address the broader question of the effect budget decisions have on the exercise of our fiscal policy.

Adjustment mechanisms

The budget process should allow greater flexibility for the Congress and the Executive to make adjustments to policy and program levels during the budget cycle. Adjustment mechanisms are useful in an annual and even more so in a biennial budget.

A good budget system must allow for changes. During the course of the budget cycle conditions change. This often creates the need for a change in direction of policy and programs.

Some adjustment procedures are already available. For instance, procedures for changing the budget resolution and legislative veto can aid in adjusting policy, and procedures such as supplementals, rescissions, deferrals, transfers, reprogrammings, and automatic adjustments for technical reasons can aid in adjusting programs.

Though these adjustment mechanisms do offer greater flexibility, and can be useful tools during the budget cycle, if the adjustment process becomes simply a vehicle for reopening decisions, the advantages it affords will be lost.

Reopening decisions too frequently undermines stability. To avoid or discourage this, there should be specific procedures and someone responsible for managing the adjustment process, such as the appropriations committees. In considering this issue, however, we urge that the adjustment process be limited to matters that cannot await the next budget cycle.

I wish to now offer some thoughts regarding two adjustment mechanisms in particular--indexing entitlements and impounding funds.

Indexing entitlements

Allowing the Congress and the President flexibility in setting cost-of-living adjustments for indexed entitlements through the budget process would ultimately achieve increased control over a major portion of the budget. This view is based on the following considerations.

1. Explicitly indexed programs now account for about one third of the budget. To exclude from consideration the cost-of-living adjustments unnecessarily limits the options available to the Congress as it seeks ways to constrain the budget.
2. The indexation of entitlement programs has been a major factor in the growth of that portion of the budget that is uncontrollable in the short run. Adjustments to indexation are, we believe, indispensable if the Congress and the President are to regain permanently an increased measure of short-run control over the budget.

One basic option available for adjusting the indexation process would be to give the President authority 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.

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 for different programs or at different levels of income of beneficiaries. The overall objective, however, should be to permit the President and the Congress each year to make decisions on indexation based on budgetary and economic considerations.

The impoundment process

Enactment of the Impoundment Control Act constituted an important step in reassertion by the Congress of greater control over the Federal budget. The Act generally requires that impoundments be reported to the Congress and gives ultimate control through endorsement or denial of reported proposals.

There are two types of impoundments, rescissions and deferrals. Proposals to rescind budget authority allow the withholding of budget authority for 45 days of continuous congressional session after the day on which the request is

first received by the Congress, during which the requisite legislation may be enacted. Deferrals allow the withholding of budget authority until rejected by either House.

However, they may not be used to rescind by withholding for the entire fiscal year budget authority provided only for that fiscal year.

Since passage of the Impoundment Control Act in 1974, GAO has been heavily involved in the operation of the Act, as it is the agency statutorily responsible for reviewing Presidential impoundments. Specifically, GAO receives from the President copies of special messages, containing one or more proposed impoundments that he has transmitted to the Congress. As promptly as practicable, we issue impoundment reports under section 1014 of the Act, 31 U.S.C. 1404, which inform the Congress of the facts surrounding the proposed impoundments, including their probable effects. We also report on the legal sufficiency of proposed deferrals. Section 1015, 31 U.S.C. 1405, authorizes the Comptroller General to report to the Congress any impoundments that the President has failed to report. We also regard section 1015 as authorizing the Comptroller General to report to the Congress when an impoundment report by the President has been misclassified, e.g., a deferral should have been

reported as a proposed rescission. Section 1016 of the Act, 31 U.S.C. 1406, authorizes the Comptroller General to sue the Executive to compel the release of impounded funds when such release is required by the Act.

In addition to our reports on special messages, we respond to congressional inquiries concerning the proper operation of the Act and issue legal opinions on issues of general application in the impoundment area. Recently, we have experienced unprecedented activity and congressional interest in the impoundment process, as the executive branch makes increasing use of its authority under the Act as a budgetary tool. We have attempted to expedite our reports, including those on the President's special messages, by informal discussions between members of our legal and audit staff, and agency and OMB officials.

Although we believe that the basic framework of the Act is sound, we suggest consideration of an alternative that preserves the balanced relationship between the executive and legislative branches, while improving operation of the Act. Under the alternative, provisions in the Impoundment Control Act concerning rescissions would be repealed and all withholdings of funds would be proposed as deferrals, with the President indicating which of the

deferred budget authorities he wished to have rescinded. Our alternative would also amend the current law (1) to require for each deferral of fiscal year funds that the President specify a date beyond which it would be impractical to obligate the funds involved and (2) to require that the funds be made available for obligation on the specified date if there has been no final legislative action on a request to have budget authority rescinded.

Our alternative retains two basic elements of the present Act: (1) rescission would result only with the concurrence of both Houses of Congress and (2) withholdings of budget authority may be defeated by either House.

Uniform treatment of all impoundments was a feature of many bills introduced prior to passage of the Impoundment Control Act. The distinction between rescissions and deferrals in the Act was the product of conference consideration of House and Senate bills with widely divergent approaches to the impoundment process.

Treating all withholdings as deferrals has several advantages over present law. It recognizes that the Congress might oppose a proposal to rescind, but support a delay in the use of the funds. Present law does not provide the Congress with this option. Administration of the Act

would be simplified by eliminating the need to distinguish between deferrals and rescissions and by eliminating the need for the Congress to respond within a fixed time.

If the basic framework of the Act is to be retained, we suggest a number of refinements to streamline and clarify its operation.

- (1) Amend the period for congressional consideration of rescission proposals to 60 calendar days.

Under section 1012(b) of the Act, 31 U.S.C. 1402(b), budget authority proposed for rescission may be withheld from obligation during the 45-day period of continuous congressional session provided for congressional action on the rescission proposal. Calculating the period in this way causes significant extensions of the proposed rescission and its withholding period when the period is interrupted by congressional recess. Furthermore, it is difficult to accurately predict when the period will expire due to the unpredictability of the congressional schedule.

We suggest that sections 1011(3) and 1012(b) of the Act, 31 U.S.C. 1401(3) and 1402(b), be amended to provide that the period during which funds can be withheld pending congressional approval of a rescission bill be calculated in terms of calendar days. This would allow all parties to the

impoundment process--Congress, the executive branch, and GAO--to determine at once the latest date for withholding funds proposed for rescission.

- (2) Allow affirmative rejection by one House of rescission proposals.

Under the present statute, the only means for the Congress to reject a rescission proposal is to allow the 45-day period to expire without congressional approval of the proposal. We believe the Act should be amended to allow the Congress to reject a proposed rescission without waiting for the statutory period to expire. This could be done by a simple resolution of either House expressing its rejection of the proposed rescission. In our view, incorporating such a feature into the Act would minimize the impact on programs of withholding funds proposed for rescission for which no rescission bill is passed.

- (3) Require the President to stipulate a date beyond which deferred fiscal year budget authority could not be prudently obligated.

Section 1013(a)(3) of the Impoundment Control Act, 31 U.S.C. 1403(a)(3), requires the President to specify in a special message the period of time during which budget authority is to be deferred. Under the present procedures, the President informs the Congress as to whether the

proposed deferral will be for the entire year or for part of the year. Without further specifying the duration of a deferral, a potential for abuse exists since at some time they may mature into de facto rescissions because of limitations on the period of availability of the budget authority.

We recommend that section 1013 be amended to require a statement specifying how long a deferral is to last in the case of a part-of-year deferral and, in the case of a deferral proposed for an entire year, whether a similar action is contemplated for the next year. In addition, the Act should provide that at the end of the specified period of a proposed deferral, the President should either release the funds or notify the Congress that the funds will be withheld for an additional period of time. Implementation of this recommendation would better inform the Congress of the precise duration and potential impact of the proposed deferrals.

- (4) Provide, where the Comptroller General reports that an improperly classified impoundment has been sent by the President, that any time limits imposed by the Act be measured from the date of the President's original proposal.

Section 1015 of the Act, 31 U.S.C. 1405, authorizes the Comptroller General to file a report to the Congress when

the President has transmitted a special message but has incorrectly classified the impoundment proposal. Although the Act does not specify a date, it is our position that any time limits under the Act commence on the day after our report is received by the Congress.

We suggest that the Act be amended to specify that the effective date is the date of the President's report. This would discourage any attempts to lengthen the withholding period by initially classifying a rescission proposal as a deferral. Such an amendment would also help to clarify that a Comptroller General's report that the President should have reported a rescission has the same effect as a special rescission message transmitted by the President.

Fiscal policy considerations

In addition to the budget process and administrative reforms being discussed in the Congress, there is another very pressing issue I would like to discuss today. That is the fact that our economy is in the midst of a severe recession; yet, we persist in sending mixed signals to the financial and business communities by simultaneously embracing a restrictive monetary policy and a stimulative fiscal policy. Many economists predict the economic uncertainty will continue. The conflict between monetary

and fiscal policies will increase, as future budget deficits overstimulate an economy already weakened by a restrictive monetary policy designed to squeeze out the recent inflationary trends.

I believe there is a growing recognition that it is the mix of fiscal, monetary, and, at times, income policies that affect economic conditions. In the final analysis, integration will depend on the Administration, the Congress, and the Federal Reserve Board agreeing on the long-range goals and policies necessary to achieve those goals.

In response to a congressional request, we consulted a wide range of senior economists and convened a panel of experts to discuss current economic conditions and the costs and benefits of policy changes. Government, business and financial leaders were consulted for their perspectives on current policy, in particular on the effect of high interest rates. Simulations were run on macroeconomic models to test several options for monetary and fiscal policy.

We shared the view that action is needed to reduce substantially the deficits projected for future years. We took no position at that time on the detailed composition of actions needed to close the future budget deficits. As a practical matter, however, we believe it will be necessary

for the Congress to constrain the growth of both entitlements and defense spending, while also generating additional revenues. Therefore, if these deficits are to be constrained to levels consistent with long-term economic growth, even greater restraint will be required in other areas, or further increases in revenues beyond those that would otherwise be necessary.

Despite concern over the size of projected budget deficits, few economists support a constitutional amendment to require a balanced budget. This reflects both a general skepticism that such an amendment would achieve its stated purpose and the concern that, if effective, the amendment would constrain inappropriately the Federal Government's ability to carry out an effective economic policy.

In general, the dominant view supports an approach to economic policy built around the following principles:

1. Policy should be based on a long-run objective of moderating inflation.
2. Unemployment should not be reduced by either expansive monetary or fiscal policy to levels where inflationary pressures are renewed. The exact magnitude of a non-inflationary unemployment rate is the subject of some debate among economists,

but it is now generally thought to be substantially above the 4 percent to 5 percent rate traditionally used as a benchmark.

3. Adjustments in policy should be gradual and moderate so as to minimize uncertainty and instability in financial markets and investments.
4. Long-run growth should be a paramount goal in policies to stimulate investment in the economy.
5. Monetary and fiscal policy should be based on a consistent and achievable set of long-run employment, price level, and economic growth goals for the economy.

In the present circumstances, these principles suggest a moderate easing of monetary policy and a concerted effort to reduce substantially the budget deficits now projected for fiscal year 1984 and beyond.

CLOSING

In conclusion, I will like to say that I am greatly encouraged by the scope and depth of the Congress' current concern for administrative reforms. In particular, the time, effort, and interest shown by the members of this Task Force in improving the budget process is very commendable. As you go through the arduous task of budget reform, keep in mind the need build into the process stability, flexibility,

control, and simplicity. If we can move to a greater use of longer-term and advanced budgeting and, in the near future, to a biennial budget; take care of the funding gaps problems, simplify the impoundment process, and eliminate as many of the hurdles in the process which provoke confrontation, much progress will have been made.

I offer whatever assistance we can provide as you continue with this work.

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