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THE CONTINUING NEED FOR BUDGET REFORM

I chose to entitle my remarks today "The Continuing Need for Budget Reform" to underscore my conviction that we can never be satisfied for long with existing budget concepts and practices. One thing clearly stands out over the last several decades--that is, the budget system's constantly changing nature needs periodic reexamination and renewal. We last looked at basic budget concepts in the mid-1960's, and then, in the 1970's, we dealt with basic institutional relationships through the Congressional Budget and Impoundment Control Act and its implementation. Such continued change makes budgeting a challenging and at times frustrating activity, as you well know.

In response to the periodic need to appraise the operations of the Federal Government, including budget concepts and procedures, there have been several high-level studies. Prominent early examples include the work of the Brownlow committee in the late 1930's, and the first and second Hoover commissions of the 1940's and 1950's. Each of these early efforts led to certain reforms and an improved coherence and analytical content in the budget, along with the establishment of a new concensus on the approach to budgeting. However, in each case, the post-reform period soon witnessed the emergence of new budgeting issues, as well as the reemergence of old issues, and the renewed research for solutions.

I think that this kind of cycle--namely, the development of consensus around a set of reformed budget concepts and practices, followed by the gradual erosion of the consensus--is inevitable. This is because budgeting lies at the heart of our political process and is subjected to the pressures of the political arena and requirements of a changing society. We all must be alert to this natural evolution of budget systems, and periodically undertake the reexaminations and reforms needed to restore the budget's overall consistency, analytical adequacy, and its acceptance by the Government's decisionmakers and the public at large.

The same is true today following recent major reforms that established the conceptual and institutional bases of current budgeting practices. It has been five years since the Congress began operating under the 1974 Congressional Budget and Impoundment Control Act, and 13 years since the underlying unified budget concept and other budget principles were set forth by the President's Commission on Budget Concepts in 1967. I believe that much of today's conceptual and institutional budgeting framework laid out for us in 1967 and 1974 is serving us well. No one seriously questions the value of a unified budget or the congressional actions to systematize the legislative budget-setting procedures.

However, there have been several developments in the wake of these changes that 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. The current strains and problems, which I will shortly discuss, present a two-pronged challenge to us. We must not only study them and devise a variety of individual solutions to the problems, but we must also be careful to adopt measures that, taken together, do not further complicate the budget process. Indeed, in my opinion, the overall need is in the opposite direction: to find ways of simplifying and streamlining our set of budget concepts and procedures.

But first, what are the recent developments that are creating strains for today's budget system?

For one thing, there has been an increase in the variety and complexity of Federal programs. The Federal budget has grown to the point where there are now about 1,300 appropriation accounts and 2,000 "programs." But more importantly, this growth has been accompanied by an increase in the range and complexity of Federal programs as new socio-economic problems have evoked new kinds of Federal responses. The dramatic increase in Federal loans and loan guarantees is a notable example. Total Federal direct loans outstanding have more than tripled since the time of the President's budget commission, going from about $47 billion in fiscal year 1967 to about $176 billion estimated for 1981. Guaranteed loans outstanding have more than doubled over the same period, increasing from about $100 billion to an estimated $253 billion. The $1.5 billion Chrysler loan guarantee program is, of course, a well known recent case. I also should mention the recently enacted legislation establishing the United States Synthetic Fuels Corporation, authorizing $20 billion for Phase I loan guarantees and other activities, plus an additional $68 billion for Phase II guarantees and other forms of assistance.

The growth of Federal credit activities has created certain budget information and control problems that need attention. Should the budget totals include budget authority for the estimated future expenses to the Government of current credit aids--for example, the estimated future interest subsidy expenses on direct loans, or default expenses on guaranteed loans? If so, how should these expenses be measured and controlled? The methodological problems are particularly acute on the Chrysler-type guarantees where there may be relatively little basis for estimating the ultimate expenses to be borne by the Government.

The current Administration took a step toward more systematic control over Federal credit activities when it included a "credit budget" package in the 1981 budget, entailing proposed appropriation act dollar limitations on aggregate and individual direct loans and loan guarantees. The Congress, for its part, has responded by including limits on total direct loans and loan guarantees in its First Concurrent Resolution on the Budget for Fiscal Year 1981.

Comprehensive controls over credit activities have long been needed, and the current credit budget approach is a step in the right direction. However, I think that we need to study further the possible implications of budget concepts embodied in the proposed credit budget. The creation of a credit budget outside of the regular budget authority and outlay totals lessens comparability among credit and non-credit programs, and adds to the confusion about the meaning of the budget's totals. It does not simplify and streamline the budget. We need to consider such alternatives as recording limitations on direct lending as budget authority amounts, and including such amounts in the regular totals of the budget. This would be a simpler and more direct way of controlling loan levels. It must be recognized, however, that this latter approach would increase the budget's totals--by $15 billion according to one estimate.

Another problem is the reemergence of budget coverage and organization issues, perennial issues addressed in one form or another by the previous major budget reform studies. The 1967 Commission viewed as its most important recommendation the adoption of a unified budget under which all federally-owned activities would be included. Since 1967, however, legislation has been enacted removing certain Federal programs from the budget's totals, or establishing new organizations as off-budget entities. The off-budget activities today include those of the Rural Electrification Administration, the Federal Financing Bank, and others.

The dollar totals of these off-budget organizations are significant. The off-budget treatment of these activities could reduce reported budget outlay totals for fiscal year 1981 by about $18 billion. This certainly lessens the meaningfulness of the budget's totals including the reported budget deficit, and is contrary to sound budget policy. I should add that this off-budget matter is frequently discussed in the press, and undoubtedly feeds public wariness and scepticism concerning Governmental institutions.

Of particular concern is the Federal Financing Bank's role in converting on-budget Federal loan guarantees into off-budget Federal direct loans. Such FFB direct loans could total about $11 billion in 1981. This raises a most serious budget control question, and reinforces the need to work to reestablish unified budget concepts and controls.

We may expect additional strains on the unified budget approach from the increasing number of proposals for special "budgets"--namely, proposals for capital, regulatory, paperwork, and tax expenditure budgets. The deteriorating or outmoded nature of much of the Nation's physical infrastructure heightens the need for adequate budget action on capital needs. The costs to society of the growing number of Federal regulations and reporting requirements have brought about proposals or initial steps for regulatory and paperwork budgets, in order to disclose the estimated costs and permit actions to limit them. Similarly, "tax expenditures," which are special tax preferences granted through legislative actions, are seen by many as appropriate for budget recognition and control.

It would be advisable to study the possible consequences of these and any other special budgets on the unity of the budget. I think it is imperative to avoid actions that could fragment or unnecessarily complicate the budget and lessen overall understanding of the budget. This could easily happen if special budgets are used for control purposes, and not simply the reporting of information as part of the budget process. Before establishing special budgets as additional vehicles for exercising budget control over Federal activities, we should consider options within the existing unified budget. We need to study ways of revising the existing structure of budget functions, accounts, etc. to provide much of the information disclosure and opportunities for budget control envisaged in some of the special budget proposals.

This takes us to a related problem we're facing today: the proliferation of budget-related categories. The budget's amounts now are categorized not only by the object class categories of travel, personnel compensation, and so forth, but also by assorted programmatic, functional, and zero-base budgeting categories. There also are proposals for new "mission" budget structures. Furthermore, the categories used by authorizing committees, which are often different from the other categories, are becoming increasingly relevant as the Congress moves toward more specific and timed authorizations.

These numerous and often dissimilar categories complicate budget reporting and actions, and make it difficult to oversee or evaluate program and budget execution. Agency accountability can be seriously weakened. In our recent work at GAO we came across a case in one agency where officials operated under authorizing legislation that used one set of program categories, but initially developed their budget in a different, cross-cutting set of ZBB categories that tied to their long-range plans. Then, in a complicated cross-walk exercise, officials restructured the material for their final budget submission. Finally, the congressional appropriations committees acted on budget account sub-categories that differed from those used in the budget.

This case illustrates a basic need: we should study ways of achieving greater simplicity and uniformity among the categories that are used in related authorization, budget, and appropriations actions. This not only would facilitate congressional understanding and review of agency programs, and increase agency accountability for meeting legislated or self-imposed goals and objectives, but it also would streamline the overall process by reducing the workload involved in cross-walking and reformatting budget material into assorted categories for various users.

This matter will assume even greater significance if the Congress adopts some form of oversight reform and establishes a schedule for reviewing and reauthorizing programs. This could be effected by general oversight reform legislation or internal congressional rule changes. In either event, it would be desirable to have standard program entities to be used as the basic reporting and accountable entities in both congressional authorizing and apropriations actions, as well as in executive branch budget actions. As more committees regularly undertake actions that directly bear upon the budget--and this seems to be the trend--it becomes increasingly important to streamline the processes and minimize the use of competing categories for information reporting and control purposes.

Strengthening the links between authorizing legislation and appropriations categories also will facilitate a clearer budget focus on what the Federal Government perceives the policy needs to be, and how it is allocating resources for them. This means that we should increasingly attempt to use authorizing legislation statements of needs, missions, and program objectives as the categories of appropriations actions. This would require some revisions of agency budget categories to bring together activities that address common agency needs and missions. GAO's recent work in developing a possible mission budget structure for the Department of Agriculture illustrates the kind of reordering that may be required.

There also are new budget measurement issues that need to be addressed. The 1967 Commission recognized the importance of realism, comparability, and consistency in measuring budgetary resources and spending levels. It is clear from work in this area, however, that significant problems exist today. Furthermore, these technical problems can be expected to grow as the variety and complexity of programs continues to increase. I will briefly describe six measurement areas we believe deserve special attention:

--First, we need to examine estimating policies and methods in order to correct the overoptimistic bias that lessens the realism of budget authority, obligations, and outlay projections. Our projections too often give the appearance that the Government can accomplish things faster and at less cost than is reasonable to expect. Matters deserving further study in this regard include policy and technical impediments to making projections represent "best estimates" rather than optimistic "targets." For example, what steps can be taken to get more realistic inflation factors built into our projections? We also should examine options for providing fuller budget disclosure on the legislative, economic, and other assumptions underlying projections, and for disclosing the ranges from which the "best estimates" were selected. Such information would give the public as well as congressional users of the budget, a greater appreciation for the nature of the budget figures.

--Second, another matter deserving attention 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 in GAO believe that this practice significantly understates outlay totals, and we favor the reporting of amounts on a gross basis. Also, I think this would be a step toward simplifying budget totals.

--Third, a related problem is the continued practice of treating sales of certificates of beneficial ownership as "asset" sales rather than borrowings. This practice, opposed by the 1967 Commission but sanctioned by statute today for some programs, further inflates offsetting receipts and stands in the way of a full disclosure of agency borrowing activities.

--Fourth, concerning agency borrowings, we find significant inconsistencies in agency practices of recording budget authority for their borrowings. In some cases, the recordings represent authorized net borrowing; in other cases the recordings are for authorized gross borrowing. To a certain extent this varying practice reflects differing statutory provisions governing agency borrowings.

However, administrative action is possible to bring about more uniform treatment, as evidenced by some recent steps taken by the Office of Managemant and Budget in this regard.

Related to agency borrowings is the question of the proper budget treatment of the retirement of Government-guaranteed debt. Our recent work on the retirement of Amtrak's debt showed the need for further study and the development of Government-wide standards to insure that the budget treatment of such retirements fully disclose key aspects of the transaction and be subject to the congressional budget process.

--Fifth, there also are other 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 that budget authority is the key financial resource amount controlled by the Congress and executive branch in their annual 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 multiyear programs should be "fully funded" in their first year. I believe that the full funding approach, which OMB now prescribes for several programs, can facilitate more equitable comparisons of programs and the "up front" disclosure of total costs, and have therefore taken steps in GAO to develop criteria for the application fo full funding. It is clear, however, that more work is needed to identify the programs where full funding should be applied.

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, where current conventions result in budget authority recordings that express far less than estimated or actual new obligational authority. 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 such varying practices among budget accounts lessen the meaningfulness of the budget authority concept, and add to the general confusion about the budget. This is another area where streamlining and simplification of budget practices is needed.

--Sixth, we need to look again at the concepts used to express dollar levels of programs activity. Both the Second Hoover Commission and the later 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 and uncertainty. For example, although Federal agencies have taken significant strides 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.

Expanding the use of costs and accrued expenditures in the budget process would require, among other things, re-thinking the existing statutory definition of budget authority, which now defines budget authority as authority to enter obligations. It is most unlikely that we could move fully to cost-based budgeting and the reporting of expenditures on an accrual basis in the budget as long as the budget process continues to operate under statutory provisions that make budget authority for obligations the focus of the budget decisions and control. However, we can and are requiring agency accounting systems to produce cost data for internal operations and decisionmaking when it is required by law or necessary for good management.

Over the past several years, the Department of Treasury and GAO with the help of other agencies have been experimenting with full accrual concepts in developing consolidated financial statements of the Federal Government. This effort is aimed at improving governmental accounting and financial reporting. One major inaccuracy noted is in the reporting of Federal assets. For instance, it was recognized that earned but unpaid Federal income taxes receivable should be included in financial reports since accrued but unpaid obligations are reported. As of September 30, 1978, accrued corporate taxes were estimated to be $7.7 billion. Methodologies have also recently been developed for estimating accrued Federal individual income taxes and excise taxes to be included in Federal consolidated statements.

Even more significant, dollar wise, is the absence of reported values for public domain lands. It is roughly estimated that the fair market value of the approximately 1 billion acres of Federally owned land would exceed $200 billion. Also, permanent improvements such as reforestation and monumentation are excluded from land values. Moreover, the outer continental shelf and proven reserves of inland oil, gas and mineral deposits are not reported.

In addition to studying these problems, the Department of Treasury and GAO are experimenting with measuring assets at their current values (current exchange prices) in consolidated report. Current values are helpful in assessing the financial viability of the Federal Government and are also helpful in assessing future resource needs of the Federal agencies.

Moving beyond measurement problems, I would like to discuss another major development that is placing strains on existing budget procedures--the growth in the "relatively uncontrollable" portion of the budget. One of the most important changes over the past 10-15 years has been the increase in the part of the budget that cannot be significantly controlled in the annual appropriations process without prior changes in the authorizing legislation. OMB figures indicate that the relatively uncontrollable part of budget outlays grew from about 59 percent in fiscal year 1967 to about 77 percent estimated for 1981. This growth largely reflects the growth of Federal entitlement programs and long-term demographic trends. About 50 percent of the proposed 1981 budget was for judicially enforceable entitlement payments.

I should add that the portion of the budget that is, from a practical point of view, relatively uncontrollable in any one year is probably even higher than the 77 percent. There are, for example, numerous operations and maintenance programs for public works, defense facilities, etc., that cannot be drastically reduced without unacceptable consequences. In this regard, we probably should consider additional or alternative classifications of programs to better bring out the gradations of programs between the strictly controllable and uncontrollable.

The growth in uncontrollables, and prospects for their continued growth, points to a critical need for the Congress and the executive branch to take budget actions with a longer time horizon in mind. In this manner, budget outcomes and priorities will increasingly reflect conscious choices made in a "strategic planning" type of process rather than being accepted as simple uncontrollable factors. Consideration should be given to enhancing multiyear planning and budget actions, and the organizational and procedural changes that may be required. The recent steps by OMB and the Budget Committees to include multiyear planning amounts in the budget documents and resolutions is a big step forward, though it is too early to say how effective this will be in determining future budget decisions.

Furthermore, as uncontrollables grow, the budget arena will have to be systematically and formally expanded to include authorizing committees and their actions. Already, these committees are playing crucial roles in the congressional budget process. Existing budget documents and processes need to be examined to see whether they are adequate for addressing budget issues that are increasingly a matter for authorizing committee concern. For example, should budget schedules and narratives be revised to provide more explicitly information on the amounts that are contingent upon new authorizing legislation? Is there a need to organize the budget to better match the statement of goals in authorizing legislation?

This need will be magnified further if the Congress implements a schedule of oversight review and reauthorizations. In short, we should ask ourselves whether the budget processes that were largely put in place in a simpler era when most of the budget was controllable through the appropriations process, are suitable in today's more complicated and broadly participative environment.

Budget cycle timing and workload pressure are also mounting and require thorough study. In my opinion, a principal objective of any streamlining of the budget process should be to reduce unnecessary timing and workload pressures, thereby permitting more orderly action on the budget as well as more focused and sustained analysis of important policy and related budget issues. This better analysis should have as its objective revised and clearer statements of objectives and an improvement in the accountability of officials for their actions.

The Congress and the executive branch have placed themselves under additional budget scheduling and workload demands in recent years. The Congress for its part, through the landmark 1974 Congressional Budget and Impoundment Control Act, increased the number of congressional participants in budgeting, and established several new scheduling and reporting requirements. The 1974 act was a major step forward in developing a systematic, overall budget process, but it is uncertain even today, six years later, how many of the new procedures will evolve and take effect. The Congress' efforts to effect "reconcilation" through the First Concurrent Budget Resolution for 1981 certainly show that the process is still undergoing important improvements with many uncertainties remaining. I think that in the near future we can expect continued and perhaps even more sharp testings of the congressional budget process as demands for increases in "real dollar" defense spending compete with other demands for increased spending, for a balanced budget, and for a tax reduction. In such an environment, it will be vitally important for the Congress to enhance its capability for setting budget priorities and authorizing and appropriating funds in a systematic and timely manner.

I should add that congressional budget-related workload also is increasing due to the use of more detailed and short-term timed authorizations and appropriations.

On the executive branch side, the installation of ZBB procedures has significantly increased paperwork, increased the amount of time spent on the mechanics of budget formulation, and reduced the time available for agency analysis and monitoring of budget execution. I've already mentioned the problem of agencies increasingly having to develop budget information in a number of dissimilar categories for various users, which adds to workload.

The combined effect of these mounting pressures is probably a reduction in the time available for needed in-depth studies and analyses. Serious attention should be given to finding ways to reduce unnecessary workload so that better budget planning, policy analysis, monitoring, and evaluation may take place--and in a more coordinated and intensive way.

Modifying ZBB procedures to restrict comprehensive ZBB treatment to selected programs in accordance with some schedule--perhaps to coincide with a congressional oversight review and reauthorization agenda--would be one way of streamlining the process. Also, the Congress should consider moving from annual authorizations and funding actions to biennial or even less frequent actions in order to streamline the process and permit time to be devoted to the critical issues. Certainly a move in this direction would be warranted for many well functioning, routine programs about which there is very little controversy. It strikes me as a misallocation of time and energy to devote as much work on these programs each year as on certain large and changing programs requiring thorough study and justification.

We need to be careful about spreading ourselves too thinly--a real danger at this time when we must deal with an increasing number of complex programs, "budget actors," and deadlines. Already, the task of putting a budget together is too frequently just a mechanical exercise divorced from planning, evaluation, and other management processes. One goal of streamlining the process should be to "close the loop" and reintegrate budget formulations and execution with these other important management and legislative processes.

<u>Continued efforts also are needed to improve budget execution in order to assure that funds are used in an orderly and planned manner during the fiscal year</u>. For instance, strengthening the apportionment process and better monitoring of spending patterns would be helpful in minimizing excessive year-end spending; but, at the same time, closer executive branch controls over spending could raise new impoundment and deferral questions. We therefore should consider whether

the impoundment and deferral reporting requirements of the 1974 budget legislation create disincentives to curtailing wasteful spending. If so, we should devise new procedures that eliminate these disincentives while safeguarding essential congressional control over spending levels.

Finally, we should examine whether the kinds of information considered in budgeting and reported in the relevant documents are the kinds that will be needed by decisionmakers in the decade of the 1980's and beyond. For example, we probably should develop more information and analyses of global and national conditions, long-term trends, and alternatives, and relate these to the specific national needs and missions of the Federal budget. I am thinking here of the kind of trend information contained in the recently released report of the Task Force on Global Resources and the Environment. This type of forward looking information, along with strengthened special analyses of cross-cutting policies--for instance, research and development--would do much to strengthen the analytical content of the budget.

I have covered in this discussion many topics directly related to the budget. I should add that improving our system of budgeting is only one way, albeit a critical one, of increasing the overall effectiveness of the Government. There are a number of other important administrative and organizational questions that our society and Government need to consider to help us chart a course for sound governance over the next several decades. For this reason, I support Chairman Bolling's proposal in H.R. 6380 for the establishment of another Hoover-type commission. However, as I have stated to Chairman Bolling and Chairman Brooks, I believe that there also is a need for a separate commission to study the kinds of budget matters I have discussed with you today. I think that special treatment of these matters is called for because of several factors: the highly technical nature of the subject area, the significant budget watershed we are now passing through, and the fact that much has already been done to identify the issues that need to be addressed.

I should add that it is important that we move ahead on certain needed budget reforms without waiting for action by a study commission. Some needed changes such as action by the Congress to return the "off-budget" Federally owned entities to the budget should be undertaken as soon as possible. Also, the Congress should act now to improve congressional controls over Federal credit programs, and require that agency sales of certificates of beneficial ownership be treated as borrowings rather than "sales of assets." There may be other areas as well where immediate action should be taken.

We now have a project underway at GAO concerning outstanding budget issues, and we are identifying issues that can be acted upon now along with those requiring further study by a commission or some study group.

Whatever the outcome of these budget matters, I am sure that the next few years will be challenging and exciting ones for those of us concerned with the budget process. I wish this association and its members well in these coming years, and have enjoyed this chance to speak to you this morning about a subject that is of such importance to us all. Thank you.