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Summary of
Statement of
Elmer B. Staats
Comptroller General of the United States
before the
Budget Process Task Force
01 Committee on the Budget H 0801 ✓
House of Representatives C2 H 3300
on
[The Federal Budget Process]

Mr. Chairman and Members of the Task Force

I have always viewed improvement of the governmental policy and management functions to be a continuous process of reform and change; we learn new and better ways of doing our jobs every day and need to share our ideas so all of us may benefit. Hearings such as this one are important to this exchange of ideas and experiences. I have been greatly encouraged by the scope and depth of the Congress' current concern for administrative reforms. My colleagues and I have had the opportunity to testify on a very wide range of these in the past few months.

Your committee is concerned with one of these very important reforms--one that affects every citizen--the

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processes by which the Federal Government sets national budget priorities. Directly interrelated is the reform of the process by which the Congress oversees and evaluates programs as one basis for changing priorities which is being actively considered by the House Rules Committee. In other ^{H 3300} forums, the Congress is also addressing grant reform; regulatory reform; and matters of fraud, abuse and management problems which also require administrative reforms.

We have prepared a very comprehensive statement which I would like to offer for the record. I will summarize our views and then my colleagues and I would be pleased to answer any questions the committee may have:

DEVELOPMENT OF THE NATIONAL BUDGET
PRIORITIES SETTING PROCESS

I want to take a few minutes to discuss the evolution of the process by which we set national budget priorities, so that the present suggestions for further reform can be discussed in a broader and longer-term context.

Evolution of the Executive
Budget Process

It was not until after World War II that the Bureau of the Budget gave much attention to looking at the budget as a whole and to the relating of revenues and expenditures in the Budget. It was also during this period that the Bureau and the President began to consider establishing overall priorities through the budget process. Although the Employment

Act of 1946 gave impetus to establishing overall priorities, it was not until the early 1950s that a more formal and systematic plan was developed within the executive branch to establish overall obligational and expenditure targets in the early stages of the budget formulation process and to allocate portions of these targets to the major agencies as a way of establishing priorities within such a target figure.

One very important consideration has always been the extent to which an increasing portion of the budget becomes relatively fixed in any one budget year. These came to be known as "fixed" costs or, as others preferred to call them, "relatively uncontrollable" items. Obviously, the extent to which program costs are fixed or uncontrollable depends upon what time period one is discussing. Certainly with respect to any one year, a large part of the budget is difficult to change. This fact emphasized the need to develop forward projections of the cost of existing programs as well as new programs being considered for submission to the Congress as proposed legislation. This fact also emphasized the need for management improvement through audit, productivity indicators, and evaluation to make those expenditures as effective as possible.

I cannot, of course, speak from firsthand observation with respect to the budget planning process since I became Comptroller General in March of 1966. However, my impression is that roughly the same procedure is followed today,

but with more extensive use of evaluation and analysis by the agencies in arriving at priorities within overall targets. Also, I understand the addition of zero-base budgeting has made the ranking by priority more comprehensive and formal and has also added substantially to the mechanical aspects of budget formulation.

Establishment of the
Congressional Budget Process

In July 1974, the Congress established its own budget process, including budget committees in each House, a set of procedures, and a timetable for each year's budget activities. In design, the process is uniquely congressional; in effect, it is quite similar to and borrowed from the priority setting process used in the executive with targets and allocations.

Today, the Congress is in its fourth year of full operation under the Budget Act process and has been successful in adhering to the discipline of the process. There has been a strong commitment by the congressional leadership, the budget committees, and the other committees and members to "making the process work" and for the most part it has. The major confrontations and strains on the process have been over very tough national policy issues that would heavily strain any process: defense vs. social program spending, Federal financing of abortion, and congressional salaries. To the extent the process does focus the Congress'

attention on the major policy issues and their budgetary impacts, the process is working. From what I've seen in the budget debates and actions and the press coverage of them, there is much more attention to the budgetary implications of policy decisions throughout the legislative process and a great deal more understanding of and interest in the budget process by all members of the Congress, the news media, and the public.

As I reflect on the cumulative effect of these various reforms in the Federal executive and legislative process for setting national budget priorities and assess our posture at the end of the 1970s, I have the impression that we have established a fairly solid and balanced institutional base. However, there are many individual supports that need to be shored up to prevent erosion and to assure that we have established a base from which we can launch further reforms.

In my detailed statement, we explore these further reforms in some depth. Now I will simply outline the main points for you.

COVERAGE OF THE FEDERAL BUDGET

There has never been a clear boundary line delineating the size and shape of the Federal Government. We addressed this matter in 1967 in the President's Commission on Budget Concepts and we recommended several general principles and

a set of rules for applying the principles. The major recommendation for budget coverage was that:

"The Budget should as a general rule, be comprehensive of the full range of Federal activities. Borderline agencies and transactions should be included in the budget unless there are exceptionally persuasive reasons for exclusion * * *"

This was followed by specific recommendations on the various types of funds and activities and how they should be handled in the new "unified budget."

With some notable exceptions these rules are used today in formulating and presenting the President's budget and the Congress follows these same practices in its actions on the budget.

But in the past decade, the nature and extent of Federal activities and involvement in the economy and in State and local government operations has expanded so significantly that the "borderline" of the Federal Government is far more difficult to define for budgetary or any other purpose. In addition, there has been very significant growth in the types of activities that are not fully reflected in the budget under the rules we adopted 12 years ago. I will mention the major items.

1. Off-budget entities. Since 1971, several Government entities have been excluded from the budget by statute. The net outlays of these off-budget entities were about \$10 billion

in fiscal year 1978. Your committee has recommended returning six of these to on-budget status, and studying the budget status of the Federal Financing Bank. Since that recommendation, one entity--the Housing for the Elderly or Handicapped Fund--has been returned to the budget. Senator Roth has introduced a bill (S. 1333), the "Honest Budgetary Act of 1979" which would return the remaining six entities, including the Federal Financing Bank to on-budget status beginning with the fiscal year 1983 budget. We hope for early congressional action on such legislation.

2. Credit programs. Loan guarantees have not been included in the budget and have not been subject to the same degree of review and control as other programs. They are explicitly excluded by the definition of budget authority in the Congressional Budget Act. In earlier congressional reports and letters to the Office of Management and Budget, we have recommended strengthening the controls over credit programs. The administration has announced that it is using new procedures involving ceilings for controlling credit programs in its formulation of the fiscal year 1981 budget and they are recommending that the Congress also adopt similar credit ceilings in its budget process. Under this approach the Congress would set overall ceilings on the authority to guarantee loans and would set specific limitations on these authorities for individual programs. Changes along these lines are needed

to more fully integrate the Government's credit activities into the "unified budget" and the decisions on national budget priorities. We want to point out, however, that there are difficulties involved in measuring the subsidy element of credit programs which have to be worked out in implementing these new procedures.

3. Offsetting receipts against outlays. When we addressed the practice of offsetting receipts against outlays in the President's Commission on Budget Concepts in 1967, we concluded that certain categories of receipts should be offset. This was a close decision at the time the Commission made its report. Since then the budget process and the nature of some of the programs has changed, therefore, I believe that conclusions should be reexamined. We now believe that the gross receipts and gross outlays of these activities are the appropriate amounts to be reported in the budget summary tables. Such full disclosure of the level of Government operations would aid in congressional control.

4. Tax expenditures. Tax expenditures ordinarily result from permanent legislation and, therefore, unlike much of the budget, are not subject to formal and regular systematic review. Recently, they have received more attention and the reporting has improved, but there still needs to be more complete integration of decisionmaking on these tax provisions into the national budget priority setting processes.

5. Pension funds. Many people are studying the nature of the pension funds, their actuarial soundness and their economic implications. I hope this will result in improvements in how we deal with this sizable and growing item in the budget and economy.

6. Regulation. Regulatory activities account for a very small portion of the Federal budget, but they have a highly important effect on the U.S. economy. So far we do not have an effective way to systematically consider regulatory activities in the setting of national budget priorities, especially the trade-off between the alternative of spending money or regulating to accomplish a governmental objective. A number of alternatives have been proposed, including a regulatory budget. We believe the focus should be on regulatory analyses designed to elicit the least costly means of achieving the regulatory goals, whatever reporting method is chosen.

There are a wide range of alternative means of meeting national needs, including direct expenditure, credit, tax, contributory trusts and regulation. In many cases combinations will prove to be most effective, especially if we can find ways to make them mutually reinforcing and not duplicative or counterproductive. Because the Federal budget is the framework in which national budget priorities to meet these needs are analyzed, debated, and set; in our opinion, it must encompass all of the Government's activities.

CONCEPTS OF "CONTROLLABILITY" OF THE BUDGET

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-term and the long-term. There is no magic formula for making this trade off. It requires constant long-range planning; monitoring of social and 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. Furthermore, 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 multiple year (but not permanent) commitments. General revenue sharing is a good illustration of this approach. And, of course, the policies and procedures in the proposed oversight reform legislation would encourage both longer-range thinking and actions as well as discourage permanent commitments.

Degrees of controllability

Presently both the Executive and the Congress use a concept of "controllability" that requires all spending to

be categorized as either controllable or uncontrollable. Both tend to use a relatively narrow view of controllability; it applies only to outlays; it refers only to the possibility of making changes in the budget year; and it assumes no change in current law. While the present concept is useful for distinguishing between spending levels that can be changed through appropriation action alone from those that require changes in authorizing legislation, it seems to be too narrow a concept of controllability. We believe the Congress should take a broader and longer-term approach, since there are varying degrees of control depending upon the nature of the basic commitment of the Government.

A variety of factors contribute to the "uncontrollability" of expenditures, and to the ability of the Congress to control outlays through the budgetary process. Aspects of controllability which are addressed in the detailed statement are: (1) entitlements, (2) indexing of the Federal expenditures, (3) contract and borrowing authority, (4) permanent appropriations, (5) full funding, (6) longer-term commitments for aid to State and local governments and for research and development, (7) prior year balances of budget authority, (8) measuring budget levels and longer-range projections, and (9) control of outlays versus control of obligations.

OTHER ADMINISTRATIVE REFORMS

In our detailed statement, we also address the following other current reform activities which your committee may wish to consider.

- Strengthening congressional oversight.
- Streamlining zero-base budgeting and using a mission approach to budgeting.
- Strengthening the executive monitoring of budget and program execution.
- Achieving legislative savings.
- Improving the intergovernmental relationships.
- Improving the special analyses of cross-cutting national concerns.

GAO RESPONSIBILITIES FOR PROGRAM INFORMATION AND IMPOUNDMENT REPORTING

You specifically asked us to address our responsibilities under Titles VIII and X of the Act. These concern particular problems that were especially critical and sensitive at the time the congressional budget process was being designed. They are information on Federal programs and executive impoundment actions. These subjects are covered in some detail in my complete statement. I will just comment here that in both cases GAO was given a positive role on behalf of the Congress and in both cases we have been working very closely with the congressional committees, the Congressional Budget Office, the Office of Management and Budget and the executive

agencies to establish reasonable and effective means for dealing with program information needs and impoundment actions.

We have made some progress under Title VIII, particularly in (1) developing an initial inventory of authorized programs and activities with linkages to budgetary information and (2) in appraising major aspects of the executive budget processes and systems.

Under Title X, we evaluate impoundments reported by the executive branch for the Congress. In addition, we report to the Congress other impoundments which we identify through audit efforts and other information provided to us. We are also granted authority to sue in certain circumstances to enforce the Act. Through our involvement in the impoundment process, we have identified aspects of the Impoundment Control Act which have given us some concern and for which we have proposed changes. We continue to believe that the basic framework of the Act is sound but adoption of the recommendation which we have suggested would streamline and clarify the statute's administration. Our proposals are discussed in my complete statement.

We continue to believe that our responsibilities under Titles VIII and X are important. They will continue to receive our strong support and involvement. We also believe there is sufficient flexibility in Title VIII of the Act to accommodate adaptation to evolving circumstances. Therefore, we do not

believe any statutory change of this Title is needed. Resolution of some of the difficulties under Title X, however, will require amendment to the law.

This concludes my summary, we would be pleased to answer any questions you may have.

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I have always viewed improvement of the governmental policy and management functions to be a continuous process of reform and change; we learn new and better ways of doing our jobs everyday and need to share our ideas so all of us may benefit. Hearings such as this one are important to this exchange of ideas and experiences. I have been greatly encouraged by the scope and depth of the Congress' current concern for administrative reforms. My colleagues and I have had the opportunity to testify on a very wide range of these in the past few months.

Your Committee is concerned with one of these very important reforms--one that affects every citizen--the processes by which the Federal Government sets national

budget priorities. Directly interrelated is the reform of the process by which the Federal Government evaluates programs as one basis for changing priorities, which is being actively considered by the House Rules Committee. In other forums, the Congress is also addressing grant reform; regulatory reform; and matters of fraud, abuse and management problems which also require administrative reforms.

I will briefly review some of the key actions that have shaped the present Federal process for setting national budget priorities and discuss the nature of further improvements that are being or could be considered.

DEVELOPMENT OF THE NATIONAL BUDGET PRIORITIES SETTING PROCESS

I want to take a few minutes to discuss the evolution of the process by which we set national budget priorities, so that the present suggestions for further reform can be discussed in a broader and longer-term context.

Evolution of the Executive Budget Process

It was not until after World War II that the Bureau of the Budget gave much attention to looking at the budget as a whole and to the relating of revenues and expenditures in the Budget. It was also during this period that the Bureau and the President began to consider establishing overall priorities through the budget process. Although the Employment Act of 1946 gave impetus to establishing overall priorities, it was

not until the early 1950s that a more formal and systematic plan was developed within the executive branch to establish overall obligational and expenditure targets in the early stages of the budget formulation process and to allocate portions of these targets to the major agencies as a way of establishing priorities within such a target figure.

One very important consideration has always been the extent to which an increasing portion of the budget had become relatively fixed in any one budget year. These came to be known as "fixed" costs or, as others preferred to call them, "relatively uncontrollable" items. Obviously, the extent to which program costs are fixed or uncontrollable depends upon what time period one is discussing. Certainly, with respect to any one year a large part of the budget is difficult to change. This fact emphasized the need to develop forward projections of the cost of existing programs as well as new programs being considered for submission to the Congress as proposed legislation. This fact also emphasized the need for management improvement through audit, productivity indicators, and evaluation to make those expenditures as effective as possible.

Another relevant point is that the initial agency target figures established by the President have been regarded as tentative. They were extremely useful in raising program and policy issues. These issues were then discussed by the

President with his key advisers--the Cabinet, the Council of Economic Advisers, and the National Security Council, after it was established in the late 1940s. Once the overall target figure was established, the President requested the Budget Director to prepare an analysis and a tentative recommendation with respect to specific targets for each of the major agencies. These targets were then discussed with the agency heads, resulting in a preliminary target or ceiling on both obligational authority and expenditures for the upcoming budget.

It was understood, of course, that while the target figure was serious and meaningful, it was subject to change in the light of changing circumstances between the establishment of the target figure and the formal submission of the President's budget. The target figures also served another highly important purpose. Agencies were told that they could submit a budget request in excess of the target figure but they were also to submit a list of priorities within the target figure. In other words, submissions above the target figure, while possibly desirable and of high priority, were nevertheless supposed to be of lower priority than those within the target figure itself. This was another way of providing a discipline in establishing program priorities.

I cannot, of course, speak from firsthand observation with respect to the budget planning process since I became

Comptroller General in March of 1966. However, my impression is that roughly the same procedure is followed today, but with more extensive use of evaluation and analysis by the agencies in arriving at priorities within overall targets. Also, I understand the addition of zero-base budgeting has made the ranking by priority more comprehensive and formal and has also added substantially to the mechanical aspects of budget formulation.

Establishment of the Congressional Budget Process

In the early 1970s, the Congress was stirred to action by (1) a series of major Presidential impoundments of funds for programs the Congress wanted carried out, (2) the realization that a large portion of the budget was no longer subject to appropriation action and control, and (3) the powerful act of frequently raising the debt ceiling without being able to relate the increases to any particular congressional revenue or expenditure decisions.

In the fall of 1972 Congress established a Joint Study Committee on Budget Controls to study and make recommendations on the need to address the budget totals, the need to allocate the totals among committees and programs, and the organizational and procedural arrangements to make it work. The solutions had to be tailored to the Congress--to a deliberative body which operates principally through committees and where

decisions are effectively made through votes in contrast to decisions which are made by the President usually on the advice of a few key advisers.

The 93rd Congress addressed this matter squarely, first by the Joint Study Committee and then by each House. They considered a wide range of alternative approaches and in July 1974, enacted the Congressional Budget and Impoundment Control Act of 1974 (Public Law 93-344). The Congress established budget committees in each House, a set of procedures and a timetable for each year's budget activities. In design, the process is uniquely congressional; in effect, it is quite similar to and borrowed from the priority setting process used in the executive with targets and allocations.

Now, in each session, all of the committees review the President's budget proposals for the next fiscal year and report their views to the House or Senate budget committee. The budget committees, considering the overall economic situation and the views of the committees and the President, recommend to the House and the Senate overall revenue, spending and debt targets, and targets for each of the budget functions. These recommended levels are in the form of a joint resolution which is acted on by each House then brought into agreement between the House and the Senate through the normal legislative conference process. As Congress acts on spending bills for individual departments and agencies,

score is kept against the targets. Any bill that would take Congress over one of its targets is subject to special parliamentary procedures; thus, Congress can go over a target but it can only do so knowingly. In September, the Congress reviews the spending actions it has taken and sets firm ceilings on the budget totals and each of the budget functions in another concurrent resolution; which together with the individual departments and agencies spending acts comprise the Federal budget for the next fiscal year.

In the Congressional Budget Act of 1974, the Congress also strengthened its analytic support services. It created the Congressional Budget Office to assist in assessing the general economic conditions, to propose alternative courses of action, and to keep score on congressional action against its targets. The Congress also assigned additional responsibilities to the Comptroller General to identify ways of improving the reporting and use of budget, fiscal and program information in governmental decisionmaking and of improving the supporting information systems and analysis services, and to continue to strengthen and emphasize its leadership role in the evaluation of Federal programs.

Today, the Congress is in its fourth year of full operation under the Budget Act process and has been successful in adhering to its discipline. There has been a strong commitment by the Congressional leadership, the budget committees, and the other committees and members to "making

the process work" and for the most part it has. The major confrontations and strains on the process have been over very tough national policy issues that would heavily strain any process: defense vs. social program spending, Federal financing of abortion, and congressional salaries. To the extent the process does focus the Congress' attention on the major policy issues and their budgetary impacts, the process is working. From what I've seen in the budget debates and actions and the press coverage of these, there is much more attention to the budgetary implications of policy decisions throughout the legislative process and a great deal more understanding of and interest in the budget process by all members of the Congress, the news media, and the public.

As I reflect on the cumulative effect of these various reforms in the Federal executive and legislative processes for setting national budget priorities and assess our posture at the end of the 1970s, I have the impression that we have established a fairly solid and balanced institutional base. However, there are many individual supports that need to be shored up to prevent erosion and to assure that we have established a base from which we can launch further reforms. I now turn to some of these areas that I believe need shoring up.

In summary we are making three points.

1. Coverage of the budget is not complete. There are some types of Federal programs and activities that

are not included or clearly disclosed in the budget figures and are not subject to the full discipline of the budget process. These include off budget entities, certain credit programs, offsetting receipts and tax expenditures. The full economic implications of pension funds and regulation are not completely understood nor dealt with in the budget process.

2. The degree of controllability varies among programs. Although it is useful to identify those programs whose outlays cannot be changed in the budget year without a change in authorizing legislation (the programs generally referred to as "uncontrollable"); we believe the Congress should take a broader and longer-term perspective in which case there are varying degrees of control involving (1) interest payments, (2) entitlements, (3) special funding arrangements, and (4) a wide range of financing methods through the appropriations process. In addition, indexing of payments under many programs has added another element to uncontrollability. The common feature of all these facets of "controllability" is 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-term and the long-term. There is no magic formula for making this trade off. Furthermore, the trade-offs have

to be made on a program-by-program basis where you are dealing with specific groups of people, specific sectors of the economy, and specific problems. These individual program decisions should be made in the context of a budget policy of encouraging multiple year (but not permanent) commitments; general revenue sharing is a good illustration of this approach.

3. Congressional as well as executive control over budget levels and priorities can be strengthened significantly by strengthening other aspects of the Government's administrative processes, including (1) strengthening congressional oversight, (2) streamlining zero-base budgeting, (3) strengthening the executive monitoring of budget and program execution, (4) achieving legislative savings, (5) improving the intergovernmental relationships, and (6) improving the special analyses of cross-cutting national concerns.

COVERAGE OF THE FEDERAL BUDGET

There has never been a clear boundary line delineating the size and shape of the Federal Government. We addressed this matter in 1967 in the President's Commission on Budget Concepts and we recommended several general principles and a set of rules for applying the principles. The major recommendation for budget coverage was that:

"The Budget should as a general rule, be comprehensive of the full range of Federal activities. Borderline agencies and transactions should be included in the budget unless there are exceptionally persuasive reasons for exclusion * * *"

This was followed by specific recommendations on the various types of funds and activities and how they should be handled in the new "unified budget."

With some notable exceptions these rules are used today in formulating and presenting the President's budget and the Congress follows these same practices in its actions on the budget.

But in the past decade, the nature and extent of Federal activities and involvement in the economy and in State and local government operations has expanded so significantly that the "borderline" of the Federal Government is far more difficult to define for budgetary or any other purpose. In addition, there has been very significant growth in the types of activities that are not fully reflected in the budget under the rules we adopted 12 years ago. I will mention the major items.

Off-budget entities

Since 1971, several Government entities have been excluded from the budget by statute. The net outlays of these off-budget entities were \$10.3 billion in fiscal year 1978. There are presently six:

- Rural Electrification and Telephone Revolving Fund
- Rural Telephone Bank
- Pension Benefit Guarantee Corporation
- Federal Financing Bank

--Postal Service Fund

--United States Railway Association

Exclusion of these five financing activities and the Postal Service from the budget not only understates the budget totals, but removes their activities from the full discipline of the budget process, including the new congressional budget process. In addition, the budget priorities setting debates are distorted because some functions have part of their activities financed outside of the debate. We are particularly concerned about the Federal Financing Bank because its off-budget status, combined with its ability to in effect convert Federal loan guarantees into direct loans, have resulted in a cumulative understatement of outlays in the range of \$30 billion by the end of fiscal year 1978. In our May 9, 1977, letter to the House Budget Committee (PAD-77-55) and in "Government Transactions With the Federal Financing Bank Should be Included in the Budget" (PAD-77-70, Aug. 3, 1977), we have recommended that these entities be returned to budget status.

With regard to the Federal Financing Bank, we pointed out the following:

"In addition to our general concern with the off-budget status of Federal programs, we are also concerned about the special budgetary problems posed by the off-budget Federal Financing Bank. We believe that good budgetary control is weakened by Federal Financing Bank purchase of guaranteed loans of on- and off-budget agencies. The purchase of guaranteed loans by the Federal Financing Bank changes the nature of these Federal credit

programs to direct Government loans from loan guarantees. During fiscal year 1976, the Federal Financing Bank provided \$6.1 billion for loans guaranteed by on- and off-budget agencies. Estimates for this activity in fiscal year 1977 and fiscal year 1978 are \$8.7 billion and \$6.0 billion, respectively.

"We have several concerns with this arrangement. First, it is a questionable practice to substitute direct loans for another form of credit assistance whose function it is to fill some other purpose. A second and more obvious concern has to do with loss of controllability over a relatively large amount of direct loan activity. That is, because of the Federal Financing Bank's purchase of guaranteed loans, a large volume of direct loans which would normally be reported at face value in the budget are being transferred to off-budget status. Thus, they are excluded from the resource allocation and control processes established by the Congressional Budget Act of 1974."

Senator Roth has introduced a bill (S. 1333), the "Honest Budgetary Act of 1979" which would return the six entities to on-budget status beginning with the fiscal year 1983 budget.

Credit programs

The Government guarantee and insurance of loans made to individuals, businesses, State and local governments, and foreign governments has increased significantly as a method of Federal assistance or participation. The net guaranteed and insured loans outstanding were \$193 billion on September 30, 1978, and are expected to be about \$239 billion on September 30, 1980. These loans constitute contingent liabilities and result in budget outlays in the case of default. However, loan guarantees have not been included in

the budget and have not been subject to the same degree of review and control as other programs. They are explicitly excluded by the definition of budget authority in the Congressional Budget Act. In earlier congressional reports and letters to the Office of Management and Budget, we have recommended strengthening the controls because (1) the Government guarantees result in the allocation of economic resources toward these Government-supported activities at more favorable terms than they would get otherwise, (2) the extent of loan guarantee activity is now significant, and (3) there is a growing practice of using the off-budget Federal Financing Bank to buy newly issued guaranteed loans and thereby convert them into direct Federal loans outside the budget. The administration has announced that it is using new procedures involving ceilings for controlling credit programs in its formulation of the fiscal year 1981 budget and they are recommending that the Congress also adopt similar credit ceilings in its budget process. Under this approach Congress would set overall ceilings on the authority to guarantee loans and would set specific limitations on these authorities for individual programs. Changes along these lines are needed to more fully intergrate the Government's credit activities into the "unified budget" and the decisions on national budget priorities.

Measuring the subsidy element of credit programs

We want to point out, however, that there are difficulties involved in measuring the subsidy element of credit programs.

For example, the Federal Government subsidizes interest costs directly and indirectly. In some programs, the subsidy is very significant--on the order of 6 percent. We are not sure of the full extent of these subsidies, but we do believe the economic and budgetary implications are significant and we suggest that some way be developed to more fully disclose these subsidies in the budget reporting and decisionmaking process. At the present time, the subsidy element in federally guaranteed, as well as direct loan programs, is not included as an expenditure in the budget. Rather, losses and administrative expenses are included as expenditures as they occur. For purposes of planning and control, it would be more desirable, as the Commission on Budget Concepts recognized, to have the costs of these programs recognized in the budget at the time the authority is provided, rather than at some later time when the Congress no longer has any choice about funding them.

Measurement of the subsidy element in Federal credit programs presents some conceptual problems. There are, for example, difficulties in estimating the value of the subsidy to the borrower and the cost of the subsidy to the Government. Theoretically, the value of the subsidy to the borrower would be useful for macro-economic analysis. But the cost of the subsidy seems more appropriate from a resource allocation point of view.

There are additional difficulties. Estimation of the cost of the subsidy to the government involves estimation of

the capitalized value of expected losses from defaulted loans. Successful accomplishment of this procedure will depend upon our ability to overcome some severe problems. For example, FHA expected losses would be fairly easy to measure based upon the historical default experience of the program and/or data on the market clearing mortgage rate in conventional loan markets. Similar treatment of programs such as the Lockheed emergency loan or the proposed energy program is considerably more difficult. For these programs, there is little information on default experience and, in some cases, there is no reasonable interest rate at which activities of this sort could obtain financing.

The only existing estimate of the interest rate subsidies implicit in Federal credit programs is contained in Special Analysis E of the Federal Budget. We have some reservations about the assumptions regarding interest rates and the discounting factor employed in that analysis.

We recently published an exposure draft of a methodology for estimating costs and subsidies from Federal credit assistance programs (PAD-79-5, July 17, 1979), which we believe you would find useful.

Other approaches

In its consideration of the proposed credit program controls, the Congress may wish to look into other possible alternatives, such as:

- Counting the authority to guarantee loans as budget authority and treat it as being the same as authority

to make a grant or authority to purchase goods and services. Apart from the fact that this would require amending the Congressional Budget Act, it involves a serious conceptual problem. The costs associated with guarantee programs are not the same as those of, say, a grant program. Treating them in identical fashion would seriously distort the budget totals.

--Appropriating a percentage of the guarantee amount as a "reserve for default" which would be counted as budget authority.

--Treating the subsidy element (not the full amount of the guarantee) as budget authority. Whether or not this approach is practicable is not yet clear because of the measurement problems. However, if this problem can be overcome, we believe that it would be useful for congressional control of loan guarantee programs. It could be used along with the separate limitation on the gross amounts of guarantees.

Reuse of borrowing authority

Several of the major Federal lending programs acquire their funds by borrowing from the U.S. Treasury, such as the Export-Import Bank, which borrows money from various sources, including the U.S. Treasury, and make loans to finance exports. Some of these programs operate under statutory authorizations that permit officials to use and reuse (for an indefinite number of cycles) their borrowing authority in order to finance

programs. This multiple use, or "roll-over," of borrowing authority has resulted in gross borrowings by agencies that greatly exceed their borrowing authority recorded in the budget. Over fiscal years 1932-78, Government-wide recorded authorizations for borrowings from the Treasury totaled about \$195 billion, while total actual borrowings came to about \$400 billion--more than twice the amount of recorded authorizations. This is a classic case of "backdoor" financing.

We believe that agency borrowings and new lending activities should be considered by the Congress as well as the executive, in the budget process. The administration and the Congress need to address this matter in the current review of controls over credit programs.

Offsetting receipts

When we addressed the practice of offsetting receipts against outlays in the President's Commission on Budget Concepts in 1967, we concluded that certain categories of receipts should be offset. They are:

- Receipts of Government enterprise's and enterprise funds
- Interest, dividends, and royalties
- Sales of Government property
- Repayment of loans and advances
- Fees of various kinds
- Refunds and recoveries of earlier outlays

It was a close decision at the time the Commission made its report. Since then the budget process and the nature of some of the programs has changed, therefore, I believe that conclusion should be reexamined. GAO has reviewed the budget practices for revolving funds, including those that finance public enterprises, such as Rural Housing Insurance Fund, Export-Import Bank, Commodity Credit Corporation, and the Tennessee Valley Authority. We concluded that the gross receipts and gross outlays of these activities should be reported in the budget. Such full disclosure of the level of these Government operations would aid in congressional control.

For the Congress to decide on budget totals and make priority allocations among functions under the budget process, it must have complete information on the total (i.e. gross) levels of Federal activities. Agencies selling goods and services outside the Government should report their collections and receipts as Federal revenue. Current practice, however, classifies these collections and receipts as offsets to expenditures. We believe there are ways to reflect programs on a gross basis and allow receipts from non-Federal sources to become part of the budget authority and outlay ceilings set under provisions of the Congressional Budget Act. Such a change would have added about \$88 billion to both the revenue and outlay sides of the budget for fiscal year 1978; the deficit figure would not be changed.

Tax expenditures

The Federal Government forgoes collection of taxes through a wide range of tax provisions, such as exclusions, exemptions and deductions from gross income; special credits; preferential tax rates; and deferral of tax liability. Tax expenditures ordinarily result from permanent legislation and, therefore, unlike much of the budget, are not subject to formal and regular systematic review. In the past few years, they have received more attention and the reporting has improved. But in addition, there still needs to be more complete integration of decisionmaking on these tax provisions into the national budget priority setting processes. The extent to which policy and program trade-offs among tax, credit and expenditure approaches are being made is quite clear in energy as well as environmental policy areas. We would like to see this reality reflected in the budget documents and decisions.

Pension funds

Another particularly troublesome aspect of our economy today is the role of pension funds--social security, Government-employees funds, and private funds. They are significant to the majority of our citizens who contribute and are counting on adequate retirement income. They are a major cost to Government and industry that must be covered by taxes and selling prices. They are major sources of capital for financing the governmental and industrial borrowing. The actuarial soundness of some funds has been questioned. Many people

are studying the nature of these funds and their economic implications. I hope out of this we can make improvements in the way we deal with this sizable and growing item in the budget and economy.

Regulation

Federal regulatory activities take many forms. In addition to the traditional concept of regulation of industries, such as power, transportation, and communications, we have "regulation" in the form of safety standards, hiring and promotion practices, and disclosure of information. We have identified these in a report "Federal Regulatory Programs and Activities" (PAD-78-33, Mar. 16, 1978). These regulatory activities account for a very small portion of the Federal budget, but they have a highly important effect on the U.S. economy. So far we do not have an effective way to systematically consider regulatory activities in the setting of national budget priorities, especially the trade-off in the alternative of spending money or regulating to accomplish a governmental objective.

A regulatory budget has been proposed. In concept, a regulatory budget would place a ceiling on the aggregate costs which each regulatory agency could impose on society, and would encourage these agencies to carefully select the least costly forms of regulation.

In its ideal form, the regulatory budget concept holds a certain appeal, however, at the present time it has several serious operational problems. No undisputed way has yet

been developed to identify, much less measure, all of the costs of regulation. For example, it may well be impossible to quantify the effects of regulation on the state of competition within individual industries, the competitiveness of U.S. firms in world markets, levels of employment, inflation, innovation, and productivity. Moreover, by focusing on regulatory costs, the regulatory budget tends to overlook regulatory benefits, or the costs of not regulating. Benefits, while perhaps easier to identify than costs, have a tendency to be more difficult to measure.

The most costly regulations may in fact provide the greatest benefits, so the proper basis for regulatory decision-making should be the net costs or benefits of regulation. Hopefully, for any regulatory policy adopted, social benefits should exceed social costs. To require the computation of regulatory costs or benefits in a formal regulatory budget, however, is not the most promising approach since it is doubtful that any generally agreeable figures for costs or benefits can be calculated.

In general, we believe that the idea of the regulatory budget is, in part, a response to the fact that new regulatory laws include no restrictions on the level of social costs which their regulations may impose. While we see problems with operationalizing a regulatory budget, one alternative might be to have committee reports that accompany regulatory bills include an indication of the upper bound on regulatory costs which Congress feels should be imposed on society in

pursuit of the bill's regulatory goals. We also feel the current effort to improve regulation with regulatory analysis designed to elicit the least costly means of achieving regulatory goals is a promising approach.

There are a wide range of alternative means of meeting national needs, including direct expenditure, credit, tax, contributory trusts, and regulation. In many cases combinations will prove to be most effective especially if we can find ways to make them mutually reinforcing and not duplicative or counter productive. Because the Federal budget is the framework in which national budget priorities to meet these needs are analyzed, debated, and set; in our opinion, it must encompass all of the Government's activities.

In the next few years, we need to reassess many of our rules for inclusion in the unified budget--in its detailed schedules and in its totals. There are some estimates available and some are included in the President's budget documents even though they are not reflected in the primary budget schedules and totals. Thus some changes can be started now; others, such as tax and regulation, will require considerable conceptual analysis.

Another aspect of the budgetary process is controllability to which I will now turn.

CONCEPT OF "CONTROLLABILITY" OF THE BUDGET

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-term and the 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. Furthermore, 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 multiple year (but not permanent) commitments. General revenue sharing is a good illustration of this approach. And, of course, the policies and procedures in the proposed oversight reform legislation would encourage both longer-range thinking and actions as well as discourage permanent commitments.

Presently, both the Executive and the Congress use a concept of "controllability" that requires all spending to be categorized as either controllable or uncontrollable. Both tend to use an idea of "uncontrollable" that focus on (1) outlays only, (2) the budget year only, and (3) current law only. There are, however some differences in the way the Congress and Executive classify individual programs. While the present concept is

useful for distinguishing between spending levels that can be changed through appropriations actions alone from those that require changes in authorizing legislation, it seems to be too narrow a concept of controllability. We believe Congress should take a broader and longer-term approach, since there are varying degrees of control depending upon the nature of the basic commitment of the Government.

The OMB concept of "relatively uncontrollable outlays in the budget year under current law" resulted in the following breakdown of outlays for fiscal year 1978.

	<u>\$ Billions</u>	<u>Percent</u>
Open-ended programs and fixed costs:		
Payments to individuals	203.8	
Net interest	35.4	
General revenue sharing	6.8	
Farm price support	5.5	
Other	<u>10.0</u>	
Subtotal	<u>261.6</u>	<u>58</u>
Outlays from prior years contracts and obligations	<u>72.3</u>	<u>16</u>
Total uncontrollable	<u>333.9</u>	<u>74</u>
Controllable	121.9	27
Adjustment	<u>-5.0</u>	<u>-1</u>
Total outlays	\$450.8 =====	100 ===

These OMB figures are the ones that most people use when discussing controllability.

One breakdown that we believe would provide a more useful basis for appraising relative controllability over a longer-time period is:

1. Interest on the public debt-gross, including interest to trust funds.
2. Entitlements funded by contributions or special taxes, including Federal Old Age and Survivors Insurance.
3. Entitlements funded from general funds.
4. Programs with Special funding, including
 - a. Permanent contract or borrowing authority, such as farm price supports and subsidized housing
 - b. Trust funds with use set by appropriations action, such as the highway trust fund
 - c. Shared revenue programs
5. Programs without special funding.

A variety of factors contribute to the "uncontrollability" of expenditures, and the ability of the Congress to control outlays through the budgetary process. Included are (1) entitlements, (2) indexing of Federal expenditures, (3) contract and borrowing authority, (4) permanent appropriations, (5) full funding, (6) longer-term commitments to State and local governments and for research and development, (7) prior year balances of budget authority, (8) measuring budget levels and long-range projection, and (9) control of outlays vs. control of obligations.

I will next discuss each of these major "uncontrollable" elements of on-budget programs.

Entitlements

Entitlements, for the most part, involve support of individuals who are retired, sick, poor, and/or veterans. These programs are financed by a combination of contributions (withheld), special taxes, and general fund payments (usually into a trust fund from which payments are made). Some are carried out by State and local governments, with Federal financing. Entitlements may have permanent appropriations (e.g., payments to the Civil Service Retirement Account) or independent sources of revenue (e.g. Social Security), and thus bypass much of the budgetary process. Others require annual appropriations (e.g., the special supplemental food program for women, infants, and children (WIC), Assistance Payments, Medicaid). In either case, the degree of control over expenditure is negligible. Whether subject to the budgetary process or not, entitlements are largely beyond budgetary control unless the Congress changes the authorizing legislation which defines eligibility for benefits and their amounts. Entitlements constitute the single largest category of "uncontrollable" accounts in the Federal budget.

Placing entitlements under direct short-term budgetary control would inject a degree of funding uncertainty which might raise serious questions as to the financial integrity of the programs. Entitlements financed by contributions and special taxes can only be addressed from a very long-term perspective and only through changes in the substantive legislation. It is very difficult to "change the rules in the

middle of the game" for those people who have already adjusted their personal lives to certain expected payments when they retire or become ill. Therefore, any significant change must be made with sufficient lead time to allow people to change their personal spending and saving's patterns; this may require a decade or more.

The Congress can gain budgetary control over general revenue entitlements which require appropriations by placing an authorization ceiling, or "cap," on each program. This has been used on Social Services, Food Stamps, and WIC. The main advantage that we see is that such a ceiling forces review and action on the funding levels for these programs in advance and again if the ceiling is about to be reached. We would expect that the Congress would increase the ceilings in most cases, but it would do so after a formal consideration of the changes in circumstances from what was originally expected, and it would do so by formal action.

Control could be even further strengthened by making this spending authority effective "only to such extent or in such amounts as are provided in appropriations acts;" this would bring the program fully under the appropriations process. This approach, as well as the use of caps, should be applied on a program-by-program basis.

Indexing of Federal Expenditures

A large and growing proportion of the Federal budget is indexed to inflation. The indexing of Federal expenditures

has been a useful practice. It has maintained the real value of benefits provided by Federal programs. Indexing, however, automatically increases expenditures and makes it difficult to reduce substantially the growth in total Federal spending, since there are no checks on programs which are indexed. Often, indexed programs, such as Social Security and Civil Service Retirement, bypass, in whole or in part, the budgetary process, thus increasing expenditures without formal budgetary action.

A temporary cap on indexed Federal expenditures is one possible budgetary control and anti-inflation measure. Other available options and their probable consequences need also to be explored. We believe, and have recommended, for example, that the cost-of-living adjustment provisions for Federal retirees should be revised to include annual adjustments rather than the semi-annual adjustments now provided by law. We have also recommended repeal of the provisions that allow new Federal retirees to receive higher starting annuities and initial adjustments based on increases in the cost-of-living that occurred before they retired. Such changes would make these provisions more rational and less costly.

We have also pointed out that a piecemeal approach to solving the problem of inflation is not as desirable as an overall program. We believe a successful anti-inflation program will require that many steps, including some modification in Federal indexing, be taken.

Contract and borrowing authorities

Under the provisions of Section 401(a) of the Congressional Budget Act new authorizations of contract and borrowing authorities are brought under the appropriations process. Such new legislative authorizations include (1) the contract authorities for certain housing programs and construction grants for waste treatment facilities and (2) the availability of new borrowing authority of the Commodity Credit Corporation.

However, there is still outstanding very large amounts of contract and borrowing authority that was granted prior to January 19, 1976, the effective date of Section 401(a). As of September 30, 1978, the Treasury reports outstanding authority granted prior to January 19, 1976, of \$164.5 billion contract authority and over \$84 billion borrowing authority. However, indefinite borrowing authority is not fully reflected in this amount.

In future years some of this carryover balance of contract authority will lapse or be rescinded, but most of it will require the appropriation of large sums of liquidating cash.

The borrowing authority is even more troublesome. Unless Congress acts to prevent it at least some of this borrowing authority can be reused indefinitely without reauthorization and thus never brought under the appropriations process. We believe the Congress and the executive should consider some alternative methods of bringing the programs financed by this borrowing authority under the full budget process.

Permanent appropriations

The major permanent appropriation is for interest on the public debt which was \$49 billion in fiscal year 1978. Although the vast majority of this spending is driven by the amount of the debt and fiscal policy factors, there are aspects of debt management that should be reviewed as part of the regular budget process.

Many entitlement programs are funded through permanent appropriations. These include Federal old age and survivors insurance, Federal hospital insurance and Civil Service retirement and disability. The other permanent appropriations include funding for (1) refunds, payments and claims of the Internal Revenue Service, (2) the Bureau of Land Management, (3) the U.S. Customs Service, and (4) some contract and borrowing authority. Generally, we believe these should also be subject to periodic review and reconsideration, although the nature of the alternative funding arrangement should be determined on a program-by-program basis.

Full funding

A program or project is considered to be fully funded if the budget authority requested and made available is for the total cost of that program to be initiated in the budget year.

The full funding concept has a significant impact on congressional decisionmaking and control. The concept entails the provision of funds at the outset for the total estimated

cost of a given item. This gives Congress and the public knowledge of the full dimensions and costs of any item when it is first presented for funding. We believe this knowledge facilitates congressional decisionmaking with respect to funding priorities. Programs compete on a more equitable basis under the full funding concept since it emphasizes the full Federal investment involved in each new start. Incrementally funded multiyear programs enjoy an advantage in competing for dollars in that only a portion of their total cost is requested each year. The fact remains, however, that once a commitment is made, the Federal Government may find it difficult to terminate the project. Therefore, full funding would increase Congress' initial control and oversight over total spending and outlays in future years. We feel that this is one of the primary objectives of the Budget Control Act of 1974.

On the other hand, providing budget authority for the full program costs in 1 year would require a higher budget authority ceiling in the concurrent resolutions on the budget than would currently be required by providing budget authority for partial costs for the same programs under incremental funding. In short, the political realities of implementing the full funding concept Government-wide may be difficult to accept.

We recognize that full funding can change Congress' short-run control over outlays. We believe that if full

funding is further implemented in the Federal Government, the short run control over outlays could be exercised by more effective monitoring of program execution, including oversight directed at the total obligation authority for a program, not just the new budget authority requested.

Long-term commitments for aid to
State and local governments and for
research and development

We have strongly supported the need for longer-range planning, funding, and commitments by the Federal Government to grantees, including state and local governments and researchers. While longer-term funding tends to reduce short-term Federal budget flexibility, it would inject a much needed measure of certainty as to the availability of funds for intergovernmental aid programs and R&D programs. We also believe it would help the Congress in its oversight and decisionmaking on budget priorities by disclosing the total cost of long-term aid and research programs and projects. There are a number of funding methods available to provide longer-term funding and reduce uncertainty to recipients. Generally we have favored use of the funding method that best fits the particular program, for example:

--Projects, such as water and sewer grants, can be fully funded as discussed earlier.

--Federal aid for programs run by state and local governments, such as aid for education programs, can be funded by an advance appropriation, which allows

the funds to be committed, although not obligated, a year in advance. S. 878 and S. 904 which are grant reform bills include provisions that would encourage the wider use of advance appropriation. These bills are being considered by the Senate Committee on Governmental Affairs. We recently provided our views on them to the committee.

--Research and development, such as grants for university research or intergovernmental pilot and developmental projects can be authorized and funded on a multiple year basis, such as biennially. H.R. 4490, which would establish a biennial research and development authorization, is being considered by the House Science and Technology Committee. We have provided our views on this subject to that committee.

--Administrative operations, such as the administration of the Food Stamp program, are relatively stable from year-to-year and are therefore candidates for multiple year funding, say biennially.

We believe there is sufficient authority and precedent for the President and the Congress to use any of these funding methods depending upon the type of program. Congress may wish to establish a process for expanding the use of longer-term funding, such as requiring the executive branch to review the funding methods being used for domestic assistance

and R&D programs and to propose alternative methods that would involve longer-term planning, budgeting and commitment.

Prior year balances of budget authority

The use of longer-term funding methods increases the unexpended balance of budget authority carried over from year to year. Thus Congress should give greater attention to the more significant balances carried over in its analyses and decisions on funding levels--functional as well as individual program and account. The Congress might consider methods of setting budgetary targets and ceilings on total funds available for obligation. We conducted comprehensive studies of unobligated balances for the House Budget Committee which further explained our views (PAD-78-34, Jan. 13, 1978, and PAD-78-48, April 1978).

Measuring budget levels and long-range projections

In the past few years, a great deal more attention has been given to estimates of budget levels beyond the next year. For the most part, these are estimates of the budget outlay levels needed to carry on the present or proposed policies and programs assuming certain rates of economic growth, employment, and price changes. Such projections are regularly made by the Office of Management and Budget, the Congressional Budget Office, and others. Congressional committees report the 5-year budget impact of some of the legislation they recommend. The executive agencies are

required to include 5-year estimates of budget levels and program workload and/or accomplishment levels in their budget submissions to the Office of Management and Budget. In addition, the executive branch has adopted a 3-year planning period for its budget priorities review and decisions.

I strongly encourage these efforts to take a longer term perspective and, as we gain experience, I would like to see more attention directed to even longer periods--10, 20, and more years--and to ranges of costs and possible accomplishments.

Today our attention should continue to be focused on improving our estimating processes. We have a large number of organizations involved and thus quite a wide range of methods and assumptions being used in making estimates. We have been looking into two aspects of this problem: (1) the measurement of budget authority granted by the Congress and (2) the agencies estimates of the rate of program execution, usually in terms of obligations and outlays.

Through a series of decisions on the proper measure of budget authority for particular programs, we have been evolving a concept of budget authority that is consistent with objectives of the Congressional Budget Act of 1974. We have held that:

" * * * 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 maximize 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."

In applying this concept, we have emphasized the need to include in the budget the full cost of the authority requested. For example, in the case of the subsidized housing programs of the Department of Housing and Urban Development the authority that is requested is to enter agreements to subsidize rents for a long term, up to 40 years in some instances. Accordingly, the fiscal year 1979 budget includes a budget authority request of about \$25 billion representing the full cost over the full period of these agreements. In contrast, a similar program operated by the Department of Agriculture is not presented on a comparable basis. Since these programs must compete for budget authority, inconsistent methods of estimating and reporting budget authority can distort the budget priority decisions or at least the understanding of those decisions by general readers of the budget documents. We should strive to minimize the inconsistencies and to reflect as accurately as we can the estimated full cost to carry out the programs and activities that Congress authorizes.

We therefore, have consistently maintained that budget authority, to have optimum meaning and usefulness as a concept and tool in the congressional budgetary process, should express the maximum potential obligations which may be incurred under authority being made available. Such a broad concept of budget authority provides the best assurance that budget totals and individual schedules provide a full disclosure of the possible financial consequences of budgetary decisions being requested by the President and considered by the Congress. The Congress cannot effectively exercise budgetary control on budget totals if it does not have complete and accurate information on the new obligational authority being made available to executive branch agencies.

The second estimating problem we have been working on is the reliability of the agencies estimates of program execution. For several years before the present strong effort to hold down non-defense spending, the Federal Government has had consistent shortfalls in outlays; these were widely publicized. We have made several studies of the agencies estimating practices, including some special studies focused on the unused balances of budget authority at the end of each year and the reasons for these balances. We, of course, heard a wide range of explanations for the shortfall phenomenon, but there were two general observations I believe are significant. First, there is a general tendency on the part of all parties

involved in a program to be over optimistic about how fast the objectives can be accomplished, whether they be weapon systems, hospitals, cures of a disease, or more jobs. The program manager, the Secretary, the budget examiner, the President, the authorizing committees, and the appropriations subcommittees all want to hear how fast the job will be done. The cumulative effect is overoptimism about execution, which shows up eventually as outlay shortfalls and higher than expected carryover balances. This overoptimism and shortfalls can occur at the very time the Government is trying to stimulate the economy, thus working against the basic economic policy.

Our second general observation from this work is that today less attention is being paid to monitoring program execution by budget officials than used to be done 10 or more years ago. We have increased the attention of budget professionals on policy issues and longer range implications of our policies which is quite appropriate. But this seems to have been done at the expense of the regular monitoring of current program execution. We have recommended that the Congress and the executive give greater attention to the comparison of original estimates with actual performance and to the analysis of notable deviations. We should be able to learn from our own misestimates and make better projections next time.

As we expand the coverage of our budgets and extend the planning, budgeting, and projecting periods, we make the job of estimating far more difficult. We know that, but we also recognize that decisions will be made, decisions with good estimates or without them. Congress and the executive need to be given the best estimates that can be developed. It is necessary to use a single point estimate for programs in the budget and in legislation, but whenever possible in supporting material the estimates should be expressed and presented in terms of ranges based on different assumptions or on alternative strategies, and the basis for the various assumptions should be clearly stated.

Control of outlays vs. control of obligations

Congress exercises control through legislation which establishes the authority for the executive agencies to incur obligations--to commit the Federal Government to make payments for authorized purposes. Congress has a variety of means for granting the authority to incur obligations. Traditionally, the subsequent payment of cash to liquidate the obligations has been an execution action, part of carrying out the mission with the funding authority provided. From time to time in the past, the Congress did set temporary ceilings on total outlays for economic policy reasons. With the implementation of the congressional budget process, the Congress has begun to focus on the level of outlays as a regular part of the process,

although the outlays "ceilings" are not binding on the executive. However, Congress has relatively little control over the actual timing of the outlays both in the aggregate and for individual programs.

It may be that the additional attention that has been given to outlay levels in the past few years has shifted some attention away from the obligation levels which are more controllable and which do in turn control outlay levels, but not the precise timing of the outlays. 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.

CONGRESSIONAL OVERSIGHT REFORM

As I mentioned at the opening of this statement, congressional oversight reform is directly interrelated with the Congress strengthening its budgetary processes; they are fully compatible and reinforcing.

We have been working closely with the committees of both the Senate and the House on oversight reform legislation and we are very pleased that it is being actively addressed in both bodies.

We have stated that improving or reforming oversight involves improving Congress' capability both to find out how

well or poorly laws are working and to act through legisla-
tion on the basis of what it has learned. "Reforming" over-
sight implies that Congress change its processes so that it
can more effectively

- Acquire knowledge about the operation and results
of laws and programs,
- Interpret such knowledge, that is, judge the
adequacy and effectiveness of existing laws
and programs, and
- Respond through legislation, if necessary, to
effect needed improvements.

To accomplish this reform, Congress will need to (1) pro-
vide itself (and others) with realistic standards for
judging programs, (2) provide for the collection and re-
porting of information on programs and their results, and
(3) provide itself (and others) with the capability to
reconcile the one with the other.

We believe there are six critical elements that must
be addressed in the reform legislation.

1. Workable review process

A basic requirement of oversight reform legislation
is a workable review process. On the one hand, the re-
view process established by the legislation must be
sufficiently disciplined to assure that information and
analysis on programs is developed and presented to the

Congress so that it can act responsibly on legislation to continue, modify or terminate programs. On the other hand, the review process must be sufficiently flexible to permit the Congress to focus its limited review resources, particularly the limited time of its Members, where review efforts are likely to be most productive.

Considering the potentially large review workload that will be required under a systematic review process, we believe that executive agencies must assume the primary responsibility for collecting program information and performing the required analyses. The congressional support agencies, and in particular our office, will also need to be called upon to assist the committees in carrying out their review efforts. Depending on the intensity and depth of the review effort and the way in which the committees choose to implement the process, the staff resources required to support the process may be substantial in the executive agencies, the committees, GAO, and the other congressional support agencies.

2. Statements of objectives and evaluation requirements

Better oversight should begin at the front end of the legislative process. The oversight reform legislation should encourage the Congress, when authorizing new programs or reauthorizing existing programs, to state its objectives and expectations for such programs as clearly as is feasible, and to include statutory requirements which are as specific as possible for the systematic evaluation of, and reporting on,

the programs by the administering departments or agencies, so that information and analysis necessary to oversee the programs will be developed and provided to the Congress.

Statements of program objectives and expected results can serve as future review benchmarks, as standards for evaluating the performance of programs. Ideally such statements should be included in legislation, but this is not always practical, for a variety of reasons. Certainly such statements should be included in committee reports. In cases of major changes to objectives as a result of floor or conference action, a revised statement of objectives should be developed by the conference committee and made part of the conference report. Frequently committees also will need to follow up with the agencies to translate the statements of objectives into the specific criteria and measures needed to permit comparison of the objectives with actual program results. Periodic brief reports on program performance using such criteria and measures would be developed and submitted by the agencies in accordance with the statutory requirements for evaluation and reporting. These reports would be useful in congressional monitoring and in the selection of programs for further review, and many agency evaluation reports should be directly useful in committee reviews.

3. Comprehensive coverage of the review process

The coverage of the review process established by oversight reform legislation should be as near to universal as

possible. All types of Federal programs/activities should be covered to the extent possible, including direct expenditures, self-financing activities, regulatory programs, tax expenditures, and subsidy programs and activities.

4. Expanded coverage of the reauthorization process

A major objective of some oversight reform proposals, particularly the sunset bills, is to expand the coverage of the periodic reauthorization process. In developing oversight reform legislation, the Congress must address the question: What programs not now subject to reauthorization should be made subject to reauthorization and how should this be accomplished? Currently, about one-third of the Federal budget is reauthorized periodically. We believe the oversight reform legislation should include some mechanism for allowing Congress to expand the coverage of the reauthorization process.

5. A review agenda or schedule with flexibility

A review schedule or agenda setting mechanism needs to be included in the oversight reform legislation so that the Congress can assure maintenance of a proper balance between the achievement of three objectives:

1. Assuring that all programs are reviewed periodically;
2. Assuring that the review workload on committees does not exceed committee capabilities and is distributed over time; and

3. Assuring that interrelated programs, including programs with similar objectives, are grouped together for review.

Clearly, all three of these objectives cannot be completely achieved by any rigid schedule. What is important is that the oversight reform legislation contain procedures for maintaining an appropriate balance between review coverage, workload distribution and reviewing interrelated programs together. This could be accomplished by a process for developing and adopting oversight agenda-setting resolutions near the start of each Congress.

6. Program Inventory

An inventory of Federal programs would greatly assist the Congress in making oversight reform work smoothly and effectively. This inventory would provide the necessary substructure for both the reviews of broad policy subjects and the systematic review of individual programs and activities. It would provide the Congress a systematic, comprehensive, and authoritative identification of the specific entities which are subject to the review and reauthorization requirements.

In the case of reforming the congressional oversight process, I believe that H.R. 5858, the proposed "Sunset Review Act of 1979," would create the kind of mechanisms and procedures necessary for bringing about improved congressional oversight. This bill represents, in our view, an improvement

over earlier sunset bills. It is consistent with our ideas and we hope that it is acted upon favorably.

STREAMLINING ZERO-BASE BUDGETING AND
USING A MISSION APPROACH TO BUDGETING

We recently completed an assessment of zero-base budgeting as a tool for analysis and decisionmaking (PAD-79-45, Sept. 25, 1979). We found that managers using this concept

- examine current objectives, operations, and costs;
- consider other ways of carrying out their program or activities; and
- rank different programs or activities by order of importance to their organization.

We also recently completed a mission budgeting model for the Department of Agriculture to test the feasibility of the mission budgeting approach (PAD-80-8, Nov. 16, 1979). We reported that it provides a different and potentially beneficial framework for congressional analysis of budget proposals and that Congress may wish to experiment with the mission budget concept to determine if its benefits can be achieved in practice.

We also found that often both private and public sectors hastily applied a rigid, mechanical zero-base budgeting process. This led to problems which resulted in:

- Expectations and results differing at different management levels.
- Duplication of effort.

--Useless information.

--Lack of incentives to cut waste.

--Frustrations created by having few visible results to show for the resources committed.

The experiences of successful organizations show that zero-base budgeting does not belong solely in the budget cycle and it is not a strict process mechanism. Rather, zero-base budgeting concepts should be incorporated into an organization's planning, budgeting, and reassessment processes so as to strengthen and streamline all of these analyses and decisionmaking functions.

Implementing zero-base budgeting concepts into the Federal budget process has added useful information on managers' priorities, but it has also increased the workload of preparing the budget. Zero-base budgeting's first 2 years have expanded the workload of the Federal budget process, but generated limited optimism for the system in the agencies GAO studied. There is a long way to go before its benefits can be fully realized.

For zero-base budgeting to be effective, the Federal budget process should be streamlined in several ways. Zero-base budgeting concepts should be incorporated into the planning, budgeting and reassessment functions. Non-essential information reporting requirements should be eliminated. The rules should be clear to everyone and incentives should be created so managers will want to participate actively. The now separate Federal budget

presentations which support the executive and legislative information needs should be linked. Some of these include zero-base budgeting information; some do not.

Linking the information should make it more useful to various bodies, because they would all be using more consistently structured information. Making budget presentations more comparable should have the added benefit of reducing the duplicate work required of agencies that now prepare budget data in several forms for different review groups.

The Federal budget process plays a major role in Government decisionmaking. Consequently, it is important that the zero-base budgeting process be streamlined to fit individual needs. Our recommendations include:

- Identifying the essential information needs of an agency, the Office of Management and Budget, the President, and the Congress that can be reasonably provided by zero-base budgeting and eliminating other reporting requirements.
- Phasing the planning, budgeting, and reassessment activities and providing firm links between the phases.
- Achieving agreement between OMB and the agencies during the spring on what programs/activities will receive comprehensive zero-base budgeting treatment

during the upcoming zero-base budget cycle. Developing comprehensive information for policy and program review only on those agreed upon programs/activities. Developing the minimum information necessary on all other programs/activities for comprehensive ranking.

- Incorporating flexibility into the process so that agencies find zero-base budgeting advantageous in formulating operational plans.
- Unifying or linking the zero-base budgeting program/activity lists with the President's, the agencies', and authorizations and appropriations committee' lists to the maximum extent practicable and requiring agencies to promptly design their accounting systems to provide data necessary to support the adopted zero-base budgeting structure.
- We also believe OMB should recognize that success requires, (1) clearly defined rules for zero-base budgeting, (2) zero-base budgeting design responsibility at a sufficiently high level to bring about change, and (3) incentives established for managers to view zero-base budgeting as an opportunity to win. Consideration should be given to incentives such as (1) returning to a manager's program (for congressionally approved activities) part of a budget cut which was recommended by him or her and

accepted, (2) releasing a program/activity from indepth budget review every year, and (3) using a manager's performance in identifying and achieving through zero-base budgeting the best possible and least wasteful way of doing business as one of the indicators used in complying with the Civil Services Reform Act mandate to link pay to performance.

The ultimate success of zero-base budgeting in the Federal Government will depend on efforts to streamline the process to fit the present and future needs of the agencies, OMB, the President, and the Congress.

The mission budgeting approach, could be very useful to the agencies and committees in defining their programs and activities and the interrelationships as a foundation for streamlining their systems.

STRENGTHENING THE EXECUTIVE'S MONITORING
OF BUDGET AND PROGRAM EXECUTION

The executive has been charged with monitoring budget execution, including preventing overobligations and promoting the most effective and economical use of budgetary resources. He is required to apportion funds over the year, and is authorized to establish reserves to accomplish these purposes.

From a brief assessment of the budget execution process as being operated today, we have concluded two things. First, deficiency appropriations are not a major problem in the Federal Government today. Second, there is a low priority on using the apportionment process for ensuring an effective and economical use of funds. The apportionment process is a good management tool which is not being used to its full potential. There are a variety of reasons for this situation, including the priorities and staffing levels of the Office of Management and Budget. At this time we are exploring some alternative approaches to strengthening the budget execution process.

LEGISLATIVE SAVINGS

Legislative savings proposals are now an important and integral part of the budgetary process, and have resulted in significant savings. Of the \$2.5 billion in collections and other measurable savings attributable to our work in fiscal year 1978, \$580 million involved legislative actions by the Congress. These amounts were \$5.7 billion and \$1.2 billion, respectively, in fiscal year 1977. In earlier testimony before this committee, we identified fifteen of the most significant legislative savings proposals we have made in the past year.

While we know that the Office of Management and Budget views our reports as a source of ideas on how to reduce agency

requests, and that the Congress often makes budgetary adjustments based on our findings, we sense a need for a more systematic approach. We feel a need for more selective distribution of the information we have developed; a need to tailor the information provided each committee to its particular needs. We are studying various ways of arraying the results of our work to improve its visibility and accessibility to individual committees. We will be reviewing all these matters in the coming months to enhance the utility of our work in the budgetary process.

Of the fifteen legislative savings proposals listed below, nine deal with potential near-term reductions in the costs of programs and activities. The other six offer opportunities to reduce the budget in other ways, including increasing revenues. Let me briefly characterize each recommendation, all of which are described in greater detail in our earlier testimony:

- There is a need to considerably tighten the payment compensation benefits to injured Federal employees.
- Actions are needed to improve pay-setting procedures for Federal white- and blue-collar employees.
- The Davis-Bacon Act is no longer needed and impossible to administer fairly; its repeal would result in large construction cost savings.
- Competitive procurement of Medicaid supplies and

- laboratory services offers large savings opportunities.
- Interagency sharing of Federal medical resources would reduce costs and improve effectiveness.
 - Costly veterans benefits are being granted to persons failing to complete initial enlistments.
 - Minor and necessary changes in the calculation of certain social security benefits would result in large savings.
 - Consolidation and rationalization of Federal food assistance programs is needed.
 - Cost-of-living adjustments for Federal retirees are unnecessarily costly.
 - Major wastewater treatment cost savings could be achieved if the Administrator of the Environmental Protection Agency was given certain discretionary authorities.
 - Improved management would avoid significant shortfalls in foreign military sales revenues.
 - Federal charges for uranium enrichment services are much too low.
 - Authorizing the withholding of tax refunds could reduce Federal debt losses.
 - Statutory performance standards are needed for the Medicaid Management Information System.

--There is a need to create a self-sustaining national trust fund by assessing fees on the disposal of hazardous wastes.

IMPROVING THE INTERGOVERNMENTAL RELATIONSHIPS

As mentioned earlier, the Senate Committee on Governmental Affairs is considering Senate bill 878, the "Federal Assistance Reform Act" and Senate bill 904, the "Federal Assistance Reform and Small Community Act of 1979." Both bills would extend and amend the laws relating to intergovernmental cooperation.

The issues addressed by the proposed legislation are of great interest to the General Accounting Office. For the past few years, we have devoted considerable attention to the Federal grant and assistance system and its impact on the State and local sector.

Interrelationships among Federal, State and local governments have become increasingly complex as Federal funds going to State and local governments have grown to more than \$80 billion annually. Federal funds now account for about 24 percent of total State and local expenditures, compared with 10 percent in 1955. Collectively, the assistance system has become an array of often conflicting activities and initiatives which place major strains on the intergovernmental management system.

Management problems plaguing our intergovernmental system have been documented extensively by innumerable studies. Unfortunately, the documentation of problems has proven much easier than the identification of acceptable or easy solutions.

The important role of Federal funds in the public sector and the implications for future roles and costs are forcing Federal, State and local officials to become more concerned with Federal assistance programs. These concerns have led to increased efforts to rationalize the grant system, make grant requirements more uniform, provide longer-term funding, and provide relief from administrative and reporting workload.

We have also pointed out that while Federal grant reform initiatives are clearly needed to improve the workings of our intergovernmental system, enhancing State and local capacity to implement grant programs is equally important. Indeed, due to the close interdependence of our levels of governments, the Federal Government has vital interest in improving the productivity and management capacity of State and local governments.

In a recent report we recommended an enhanced Federal role in assisting States and localities to improve their productivity, including an expanded Federal seed money grant program for management improvement efforts. Our report indicated that a Federal seed money program could serve as a

catalyst in helping State and local governments initiate new productivity programs or expand existing ones.

We are encouraged that an identical Intergovernmental Productivity Improvement bill has been introduced in both the Senate and House (S. 1155 and H.R. 2735). This legislation would amend the Intergovernmental Personnel Act to provide additional limited Federal assistance for State and local productivity improvement projects that would otherwise not be started. I strongly support this bill and have urged the Congress to consider it as part of its grant reform efforts.

IMPROVING THE SPECIAL ANALYSES OF
CROSS-CUTTING NATIONAL CONCERNS

The Federal budget is presented to the Congress by both (1) the budget functional classification used for describing the budget in terms of national needs and for the congressional budget resolutions and (2) the agency and appropriation account classification used for appropriation and fund control. But there are some national concerns that cross both the national needs categories and the executive organization structure.

To address these recurring cross-cutting analytic needs, the President published special analyses of the budget on the following subjects:

- Federal aid to State and local governments
- Civil employment in the executive branch
- Civil rights activities
- Environment
- Research and development
- Federal transactions in the national income accounts
- Investment, operating and other budget outlays
- Borrowing, debt, and investment
- Federal credit programs
- Tax expenditures

We have recommended improvements in the special analyses, particularly the research and development analyses.

In addition, we believe there is a need for better information on the nation's physical infrastructure, especially the portions of it that the Federal Government has a major responsibility for maintaining such as the nation's transportation systems, the rivers and harbors, the national park system, the postal facilities, the veterans hospitals, as well as the facilities and weapons of the defense establishment. We are also concerned about the infrastructure of the major cities, especially the older cities, and the major industries, especially the older industries such as steel and automotive. We are exploring this subject at the present time. In the Senate, Senator Hart has proposed Senate Resolution 80 which is intended to express "the sense of the Senate that the congressional and executive budget should prominently

and accurately distinguish Federal spending for investment-type programs from spending for current purposes." We do believe there is a need for some form of special analyses of the budget for investment and possibly rehabilitation of the nation's physical infrastructure.

FISCAL AND BUDGETARY INFORMATION

You asked us specifically to address the implementation of Title VIII, including our relationship with the Congressional Budget Office and changes needed to distinguish between GAO and CBO responsibilities. We certainly welcome the opportunity to discuss this matter today and to continue to work with your committee and others to strengthen congressional information and reporting functions to meet current and future congressional information needs. As you know, we have been working closely with the Rules Committee on the proposed Sunset Review Act (H.R. 5858) which contains the program inventory and program reporting requirements to support congressional oversight, which are an integral part of the information needs and systems covered by Title VIII.

Today, I would like to describe the general intent of the legislation we now refer to as "Title VIII," and what actions we have taken.

General intent to improve the Government's budget and fiscal information systems

The idea and language of Title VIII originated with the Joint Committee on the Organization of the Congress in the mid-1960s. At that time the executive branch was

implementing Program Planning and Budgeting (PPB) and Representative Jack Brooks, a member of the Joint Committee, developed language that would provide for congressional participation in the design, implementation and use of information from the systems. Congressman Brooks recognized that the supporting systems would have to be automated and that achieving agreement on terms, definitions, classifications and even codes would be critical to making the PPB type of systems function effectively to meet the needs of both the Executive and the Congress. Recognition of the significance of these emerging systems problems was based on the very practical experience of those people engaged in very large scale information systems in Government and private industry in the early 1960s.

Today, the issues involved in making the Government's fiscal, budgetary and program information systems as responsive, effective, and efficient as possible still involve the same objectives as intended by Title VIII.

- Standardizing the systems; although most recently we have been using the terms "streamlining" and "simplify."
- Standardizing the terms, definitions, classifications and codes; although in the past few years the focus has been on refinement, redefinition and reclassifications. The major developmental work has involved the definition of program and activity entities for oversight and linking them to the existing budget classifications.

--Providing for congressional access and use of Federal budget, fiscal and program-related data and information.

Actions taken to improve the Government's budget and fiscal information systems

In the executive branch, the fundamental principles of PPB were incorporated to varying degrees in agency and OMB budget processes, but the label "PPB" was dropped and greater emphasis was given to other techniques for supporting governmental budget decisionmaking.

In the Congress, the requirement eventually became part of Title II of the Legislative Reorganization Act of 1970, specifically sections 201, 202 and 203, with OMB in the leadership role. That title also included the closely related requirements for increased emphasis on program evaluation in section 204 with GAO in the leadership role.

In the early 1970s, there was no longer the same level of executive commitment to program budgeting systems and, therefore, the executive did not want to attempt a comprehensive approach to implementing sections 201, 202, and 203. GAO worked with the committees and developed a comprehensive statement of information needs which we published in 1972. The details underlying these needs were furnished to the OMB and they did act on some individual reporting problems. But by that time the focus had shifted to design of the new congressional budget process, so many of the specific

requirements became incorporated into the act, such as the scorekeeping requirements, tax expenditure information, and 5-year budget projections.

In 1974, the Congress also chose to shift the leadership role for the standardizing of terms, definitions, classifications and codes (sec. 202) and for congressional access and use (sec. 203) from OMB to GAO, but to leave the leadership for standardizing the systems with OMB. It was felt then and we still agree that this arrangement is workable and fully consistent with our role in accounting systems and auditing under the Budget and Accounting Act, 1921, and other statutes. It is specified as a cooperative activity with GAO leadership; the other participants being OMB, Treasury and CBO. We have used a variety of approaches to carrying out our duties and we have had varying degrees of success so far. As required in Title VIII, we furnish the Congress a report on our progress by each September 1 and I refer you to these reports for the details, here I will summarize our activities and progress.

1. Standardizing terms and definitions.

With excellent participation by OMB, Treasury and CBO, we have developed and published a glossary of terms used in the budget process. Over 12,000 of the last edition have been distributed in the Federal Government and to many State and local governments. We have also worked closely with the

congressional committees, including the House Budget Committee, on the revision of terms, such as the revision of "reappropriations."

2. Standardizing the program and budget classifications.

As we expected, making any changes in the classification structures in use is extremely difficult to bring about. The major classification structures are:

- Budget functions and subfunctions.
- Appropriation accounts.
- Budget activities.
- Special cross-cutting national concerns.
- Authorized programs and activities.

We initially made an analysis of budget functions and subfunctions and recommended a revised structure, particularly at the subfunction level. The budget committees did not accept our recommendations; therefore, OMB has retained the same basic structure although it has been improved significantly by adding the national needs statements and, because it is now used in decisionmaking, there has been considerable clarification of the scope and content of each function. We have suggested further refinements that we believe should be considered.

Early in the implementation of the congressional budget process, we also recommended the adoption of a further breakdown of the subfunctions into about 250 major program

categories to be used for reporting to and analysis by the budget committees; we felt this intermediate classification would provide an analytic structure below the functions that budget committees could use in their analysis and other committees could use in reporting to them which would avoid the need for considering individual programs and activities. The budget committees did not accept this suggestion. However, we understand that the committees and CBO are now developing a structure along these lines. We still believe there is some utility in the approach, especially since it would help raise the focus of debate to a policy and/or major program level.

We have not made any overall analysis of the appropriation account structure. We do believe that revision of some of the accounts is needed, especially to split a few of the accounts that fund several major programs and to consolidate many very small accounts.

The budget activities are the subdivisions of the appropriation accounts that are used in the Appendix to the President's budget and in the agency justifications to the appropriations committees. There is no set criteria for what should constitute a budget activity; it has been left to the agencies, the appropriations subcommittees and the OMB budget examiners to use any structure they wish. Therefore, some are program-oriented, some organizational, and some financial. We have reviewed a number of these and have

recommended changes, usually to a program orientation, to the appropriations subcommittees and agencies. Such revisions usually take several years to accomplish, since frequently accounting and other management systems need to be revised by the agencies to support the new structure.

There are always a number of cross-cutting national concerns that require a special analyses of the budget. When I was in OMB, I was instrumental in establishing the Special Analyses series that are still published as a supplement to the President's budget. As I mentioned earlier in this statement, we are continuing to make studies and recommendations for strengthening these analyses.

We have given the greatest attention and effort to the identification and classification of individual authorized programs and activities. We emphasized this work for several reasons. First, we were influenced by the basic program orientation of work that preceded our own direct involvement and our own concerns and interest in strengthening program accountability. Secondly, in our initial work with the congressional committees in 1970 through 1972, we established the clear need for a more systematic means of identifying the authorized programs and activities that the Congress had created and a more systematic means of linking these authorized entities to the budget so it would be possible to identify their funding levels.

This gap became even more real when the authorizing committees had to first prepare their Views and Estimates reports and they had neither the staff experienced in the details of the budget process, nor the budget data readily available classified by authorized programs and activities. Furthermore, most of the committees did not have definitive lists of the programs and activities under their jurisdiction. We have not been able to convince the budget community, that they should expand their systems to include such program level information.

At the request of several committees, we have worked with the agencies and committees to develop the basic inventory of programs and activities under their jurisdiction with the cross-references to the budgetary information. We have also helped them obtain some basic financial data from the agencies on each program for their use in reviewing the President's budget requests for their programs and preparing their views and estimates reports. This ad hoc arrangement exists today. But, as I mentioned earlier the requirement for an inventory of Federal programs for congressional oversight is now reflected in the proposed sunset legislation. We have strongly supported this legislation, including the requirement to establish the inventory of authorized programs and activities which we have initiated.

3. Appraising the Federal budgetary, fiscal and program-related systems

Under Section 201 of the Legislative Reorganization Act of 1970 and other legislation, the executive has the leadership role for the development and operation of financial systems.

Under this and other legislation, GAO sets standards and appraises the systems and the financial practices, giving particular emphasis to the Congress' needs for information. This appraisal work has been done at the request of committees, including this Task Force, and on our own initiative. The earlier part of my statement concerning the budget process is based primarily on this appraisal work.

4. Strengthening congressional access and use to budget, fiscal and program information

As required by section 203, we have established and maintain an inventory and directory of the major sources of budget, fiscal and program-related information. We maintain the inventory on the Library of Congress' SCORPIO system for use by congressional analysts and we publish it in directory form periodically. An updated version of the inventory will be released early next year at which time we will conduct a series of orientation meetings for congressional users.

Areas that could be changed

As I indicated earlier, the fundamental purposes of Title VIII remain unchanged, but as I have also indicated the terminology we use today and the degrees of emphasis have changed. We recognize that this is true with other parts of the Act also. We believe there is sufficient flexibility in the Act to accommodate adaptation to such evolving circumstances. Therefore, we do not believe statutory change is needed.

THE IMPOUNDMENT CONTROL ACT

Your Committee has expressed concern over certain aspects of the Impoundment Control Act, 31 U.S.C. 1400 et seq. GAO has commented on these issues and recommended changes to the Act in the past. We believe that the basic framework of the Act is sound but the adoption of our past recommendations would streamline and clarify the administration of the statute. Most of our recommendations were discussed in detail in our June 3, 1977, report to the Congress on the first two years of operation of the Impoundment Control Act and by GAO's General Counsel in his statement before this Committee on June 29, 1978. I would like to take this opportunity to further discuss recommendations we have made which relate to the specific areas you have identified.

Presidential reporting

Section 1012 of the Act provides that the President is to transmit a "special message" to Congress requesting a rescission of budget authority in certain instances. Rescissions are to be transmitted when the President determines that a program will not require all or part of any budget authority, or that such budget authority should be rescinded for fiscal policy or other reasons. These reasons include the termination of authorized projects or whenever all or part of budget authority provided for only one fiscal

year (one-year money) is to be reserved from obligation for such fiscal year. The request must include the amount of budget authority involved; the appropriation account or agency affected; the reasons for the requested rescission; the fiscal, economic, and budgetary effects; and all other related material. Unless both Houses of Congress act favorably on the full amount of such a request within 45 days (of continuous session), the budget authority for which the rescission was requested must be made available for obligation.

We have expressed concern over the implementation of section 1012 as it relates to the release of impounded funds when the Congress has failed to pass a rescission bill. First, calculating the period during which a rescission proposal may stand without Congressional action in terms of days of continuous session causes significant extensions of proposed rescissions which are contrary to the wishes of the Congress as evidenced by their ultimate rejection. Second, the only means for Congress to reject a rescission request under the present statute is to wait for the 45-day period of continuous session to run.

We have recommended two changes in the statute which together would alleviate these concerns. First, we suggest that the period during which funds can be withheld pending Congressional approval of a rescission bill be calculated in terms of calendar days. This change would establish a

fixed period which would enable all parties to the impoundment process to determine immediately the latest date on which withholdings pending rescission approval must cease. Second, we are in favor of amending the Act to allow Congress to express its disapproval of proposed rescissions without having to wait for the statutory period to expire. This could be done by a simple resolution of either House expressing its rejection of the proposed rescission. The waiting period would then stop and the funds would have to be made available for obligation. Of course, Congress would still have the option of merely allowing the waiting period to expire upon which the funds would have to be released.

Non-Presidential rescission reports

Another problem arises affecting the waiting period when the President's rescission proposal is sent to the Congress after the Comptroller General has already reported the rescission under section 1015(a). Similar problems arise when the Comptroller General reclassifies a proposed deferral as a rescission under section 1015(b) in conjunction with other sections of the Act. The Act is unclear as to the effective date of a GAO-reported rescission for purposes of when the waiting period under section 1012 begins--when the Comptroller General reports the matter to the Congress or when the President later reports. The Act is also unclear as to the effective date of a reclassification as well as the means by which the Comptroller General

may reclassify an impoundment. Presently, we are required to use several sections of the Act together rather than just using one section.

We have proposed two amendments to section 1015 to alleviate these problems. First, to avoid the confusion resulting from the required interplay of section 1015(b) and other sections of the Act used to reclassify an impoundment, section 1015(b) of the Act should be amended. The amendment should state expressly that when the Comptroller General reports that an improperly classified impoundment has been sent by the President, his report converts the matter to the proper classification and nullifies the original message. Second, section 1015 should be amended to make clear that the effective date for calculating the rescission review period will be the date of the Comptroller General's message. This would clarify the effective date of a GAO-reported rescission, discourage any attempts to lengthen the period in which funds would be impounded by initially classifying a rescission as a deferral, and guarantee that the waiting period during which the funds will be impounded while awaiting congressional review will be that set forth in section 1012.

Some have questioned whether the deferral of funds may be proposed after prior deferrals or rescissions are rejected by the Congress. Arguably, section 1012(b) pertaining to rescissions and section 1013(b) pertaining to

deferrals preclude such a subsequent deferral since those sections require that the money that was the subject of the rejected impoundment shall be made available for obligation. However, the statute does not directly address this question. Our position has been that principles of sound administrative and financial practices should be followed and, therefore, the President should not be precluded from submitting a new deferral upon the rejection of a prior deferral or rescission in all cases. We propose the addition of a new section which would allow such a new deferral if it furthers good administrative and financial practices and is based on circumstances or conditions different than those on which the prior deferral or rescission was considered. In no event, however, should the President be allowed to defer after having been turned down on an impoundment based on the same grounds.

Definition of rescission

Although there generally has been little dispute over what is meant by a rescission proposal for purposes of the matters previously discussed, there are other reasons to specifically define what is involved in a rescission proposal. Of particular concern is the treatment of "de facto rescissions"--deferral proposals which have the effect of a rescission because they result in lapsed funds. These are not now expressly covered by the Act. Accordingly, we

would suggest that section 1011 be amended to include a definition of rescission proposal which makes clear that it includes every type of executive action or inaction that effectively precludes the obligation or expenditure of budget authority and would cause such budget authority to lapse if continued.

Rescission review period

We have also been asked to comment on the need to synchronize the rescission review period with the period established in section 1017(b) for a motion to discharge a rescission bill or impoundment resolution which has not been reported from committee at the end of 25 calendar days of continuous session of the Congress. Throughout our involvement in the impoundment control process, we have been asked from time to time to comment on the procedures by which the Congress involves its committees in the impoundment process. It has been the policy of our Office to refrain from any involvement in this area whenever possible. Determinations as to how the Congress can best handle its internal procedures are matters properly for the consideration of the Congress.

Lapsing of budget authority

When the Congress has completed its review process and an impoundment has not been approved by the Congress either by allowing the waiting period to run in the case of a

proposed rescission or by the passage of an impoundment resolution disapproving a proposed deferral, the subject budget authority must be made available for obligation under sections 1012(b) and 1013(b) of the Act. If the budget authority is not then made available for obligation, section 1016 empowers the Comptroller General to file suit to compel the release of such budget authority. At present the Act's intent could be thwarted if money rejected for deferral or rescission lapses before we can get a final court order releasing the funds. Accordingly, section 1016 should be amended to provide that budget authority that is required to be released and for which the Comptroller General has instituted suit will not lapse during the lawsuit.

Program termination or curtailment

You have also expressed concern over certain problems which might arise in connection with Executive branch decisions to terminate or curtail Federal programs or activities. Termination and curtailment are not adequately addressed by the Impoundment Control Act. In cases such as the B-1 Bomber and Minuteman III Missile Production Programs, the termination of the program prior to the submission of a rescission proposal under the Impoundment Control Act presented the Congress with what amounted to a fait accompli. When a program is already curtailed, it could be very difficult, if not impossible, to resume the program within the

original time and cost plans if the rescission proposal is not approved. Hence, the remedy of requiring that the impounded funds be made available may be undesirable and limits the type of meaningful congressional review intended by the Act. Furthermore, if the entire amount of budget authority affected by a program curtailment is to be expended for other authorized purposes, a rescission proposal does not appear to be required by the Act since all available budget authority will in fact be executed. The Impoundment Control Act does not apply to program curtailment or termination decisions as such, but only deals with budgetary impacts.

We have previously responded to these concerns by suggesting a possible legislative approach to permit an expedited congressional review of proposed curtailments. Our proposal provides a review procedure under which Congress could disapprove proposed curtailments within 14 days after they are submitted. The President would be required to notify the Congress of a decision to curtail those programs which Congress had made expressly subject to the congressional review procedure of the proposed legislation. The President could begin implementing the curtailment only after the expiration of the 14-day review period in which Congress failed to pass a concurrent resolution disapproving the curtailment decision. Under this approach, the review

procedure would not be self-executing but would apply only to those programs which the Congress has identified as subject to the procedure in other statutes. This procedure would afford Congress the opportunity to take action at the decision stage. It would also provide a mechanism to review curtailment decisions which may not involve impoundments covered by the Impoundment Control Act.

A SUMMARY OVERVIEW

It is our belief that the budgetary process is inextricably linked to improved congressional oversight and administrative reform. We believe that Congress, the Executive, and ultimately the Nation must strive to:

- (1) think, debate, and act with a much longer time horizon in mind, recognizing that the full implications of policies will often not be felt for several years or even decades;
- (2) focus more of its analysis, debate and actions on broad policy areas and groups of interrelated programs;
- (3) make a greater effort to analyze the effects of policy changes before they are enacted; along the lines indicated in Senate Rule 29.5;
- (4) be more specific and realistic when establishing goals and expectations for policies, programs, and administrative reforms;
- (5) provide administrators the authority and resources needed to make the realization of such goals and

- expectations plausible, or revise them to fit the available resources or degree of authority granted;
- (6) establish evaluation and reporting procedures which provide policy officials clear statements by the administrators on the performance of the programs and activities for which they are accountable;
 - (7) take prompt action to make changes when needed.

This concludes my prepared statement. We would be pleased to answer any questions you may have.