

131304

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548



131304

FOR RELEASE ON DELIVERY
EXPECTED AT 10:00 A.M.
JUNE 18, 1986

TESTIMONY OF

CHARLES A. BOWSER

COMPTROLLER GENERAL OF THE UNITED STATES

BEFORE THE

COMMITTEE ON GOVERNMENT OPERATIONS

HOUSE OF REPRESENTATIVES

ON

THE BALANCED BUDGET AND EMERGENCY DEFICIT

CONTROL ACT OF 1985

Mr. Chairman and Members of the Committee:

I am pleased to appear before the Committee again on the Balanced Budget and Emergency Deficit Control Act of 1985. Once before, in October 1985, I testified before you on this subject. That was before enactment of the bill. At that time I expressed concerns about the bill, and also noted that it would be difficult to anticipate the effects of the bill, if enacted, upon the capacity of the government to deliver services and other benefits.

037039 131304

While some questions have been resolved in the first year of the Act's implementation, many questions still remain. This is because the first year's events were limited in important ways, making 1986 a somewhat incomplete model of what we may expect. Let me address 1986 procedural and programmatic matters, and discuss what may happen for fiscal year 1987.

PROCEDURAL MATTERS

We think that the procedures worked rather smoothly for 1986. There were four major reporting dates for fiscal year 1986:

- On January 15, 1986, the directors of OMB and CBO provided their joint report on economic assumptions and proposed sequester amounts.
- Six days later, on January 21, I responded with my report to the President and the Congress.
- On February 1, the President issued his sequester order.
- On March 31, 1986, I issued my compliance report to the President and the Congress.

For fiscal year 1987 and the remaining fiscal years the procedure currently envisaged will involve two stages. The initial set of OMB, CBO, and GAO reports will be:

- On August 20, 1986, the initial OMB/CBO report.
- On August 25, the initial GAO report.
- And on September 2, the initial sequester order of the President.

The second series of reports will entail:

--On October 6, 1986, a revised OMB/CBO report.

--On October 10, a revised GAO report.

--On October 15, a final sequester order by the President.

--And finally, on November 15, 1986, the GAO compliance report.

The "fall-back" procedure

If the Act's regular reporting procedures were to be invalidated, the following substitute steps would take place:

--Upon invalidation, there would automatically be established a Temporary Joint Committee on Deficit Reduction, composed of the entire membership of the Budget committees of the House of Representatives and the Senate.

--The August and October 1986 joint OMB/CBO reports would be transmitted to this joint committee rather than to the Comptroller General.

--No later than 5 days after receiving a joint OMB/CBO report, the Joint Committee would report to each house of the Congress a joint resolution setting forth the contents of the OMB/CBO report.

--Within 5 days of receiving the joint resolution, each house would take a final vote on passage of the joint resolution.

--If the joint resolution passes, it would then be transmitted to the President for signature. Enactment would lead to the sequesters set forth in the joint resolution.

Uncertainties for 1987

Whichever set of procedures are used for 1987 several uncertainties will be present which did not exist in 1986. When OMB, CBO, and GAO made their reports for 1986, most agencies had received their regular appropriations for the year. This simplified the task of calculating the base of available budgetary resources.

Looking ahead to the reports for 1987, there is the distinct likelihood that many of the regular appropriations bills will not have been enacted prior to the reports. The Act anticipates such a possibility. It provides that, in such an eventuality, and in the absence of full-year continuing resolutions, the calculations for the August and October reports will be based upon the prior year's appropriations in the case of regularly-appropriated accounts, or current law in the case of entitlement and other accounts.

Calculations based upon prior year appropriations, current law, or continuing resolutions could produce larger or smaller sequesters than would be warranted later upon the enactment of regular legislation for 1987.

Another uncertainty is created by the absence of a sequester cap for 1987. The \$11.7 billion cap for 1986 resulted in the relatively small budget cuts of 4.3 percent of non-defense accounts, and 4.9 percent for defense accounts. The cap also had the effect of minimizing the importance of alternative economic assumptions for fiscal year 1986. We carefully examined the

economic assumptions proposed by OMB and CBO. However, we concluded that, because of the cap, any reasonable economic assumptions that we might adopt would not affect the required reductions for 1986. Therefore, we did not develop an independent set of economic assumptions.

This will change for fiscal year 1987. With no statutory limit on the sequester total, varying the economic assumptions would almost certainly alter the size of any sequester. We therefore may expect much more debate and controversy in the next cycle about which assumptions are the most realistic.

In short the conclusions of the OMB, CBO, and GAC reports will be more unpredictable than was the case in 1986. I should add that this uncertainty would be compounded if a major tax structure revision is enacted.

PROGRAMMATIC EFFECTS

You asked us, Mr. Chairman, to address the effects of the Act upon governmental programs in fiscal year 1986, and the possible effects in fiscal year 1987. We have not performed detailed audit work on this subject, and therefore I can only offer my impressions. These are based upon what we sense is happening in the government, and some conversations my staff have had with officials in several agencies.

The experience in fiscal year 1986

By and large, it appears that the agencies were able to cope with the 1986 cuts with a minimum of disruption in services and benefits provided to the public. I would characterize the

agencies' actions as "belt-tightening." As we did at GAO, they undertook to postpone procurements, restrict travel and training, initiate hiring freezes, and pursue other economies in administrative and program operations. Some agencies plan to furlough employees for short periods, unless additional funding is provided.

For the most part, the actions restricting program operations were marginal, entailing only slightly reduced levels of services and benefits. Typically, actions were taken to slow down or reduce somewhat the approvals of grants-in-aid and loans. Cost-sharing formulas were revised. In personnel-intensive operations, service levels were somewhat reduced as hiring freezes and various administrative economies led to lessened field activities--that is, fewer inspections, less technical assistance, etc. Some user fees also were increased.

Possible effects in fiscal year 1987

Turning to possibilities for 1987, I think that the effects of a second cycle of cutbacks could be more serious. It is hard to make predictions at this time because we cannot say what the budget base will be from which the cutbacks will be made, or the amount of the cutbacks.

However, agency officials tell us that another round of cuts reducing budget levels 7 to 8 percent below the post-sequester 1986 levels would significantly affect programs. At these cutback levels, some agencies would find it difficult to avoid furloughs or even RIFS. Grants and loans would continue to be

reduced, and, in the opinion of most officials, the required reduction in service levels would definitely be felt.

The decline in service levels would have the most obvious impact in the safety, security, and fiscal areas that have been hard-pressed in recent years by workload requirements. Among others, it appears that this might include the operations of the Immigration and Naturalization Service, the Customs Service, the Federal Aviation Administration, the Federal Prison System, the Drug Enforcement Administration, the Coast Guard, and the Internal Revenue Service.

CONCLUSION

In conclusion, Mr. Chairman, I hope the procedures for 1987, though more complicated in many ways, can be handled as well as they were for 1986. In predicting the effects of another round of cuts on federal programs and the delivery of services and benefits to the public, we really will have to wait until we know the size of any sequester that may be required.

This concludes my prepared remarks Mr. Chairman and Members of the Committee. I would be glad to answer your questions.