

Statement of
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Mr. Chairmen and Members of the Committees:

I appreciate this opportunity to set forth my views on long-range planning in the federal government.

I see planning as a means of improving the rationality of decision making by setting out the actions -- in some cases future actions -- one should take to reach some goal or set of goals. This does not mean that planning restricts the options of decision makers. Planning is not an activity where a rigid plan is developed and then slavishly followed regardless of changing circumstances. Rather it is an iterative process in which present and future actions are

continually updated as circumstances change. Because of this, planning expands rather than limits the options of decision makers by giving them the opportunity to see the larger-sized margins that exist in the future. This expanded view of future options does not imply a fast commitment to any single course of action.

An example from the new congressional budget process is helpful in illustrating this point. The Congressional Budget Act requires that the Congressional Budget Office (CBO) undertake a study of the possibilities in the area of advanced budgeting. There is a feeling among decision makers that making budgetary decisions today for several years in the future -- let us say in the form of a five-year budget -- will limit their freedom of action. This feeling is frequently found among legislators, like yourselves, who must face the electorate every two years and thus do not want the actions of past Congresses to limit their freedom of action.

Yet those of you who have been active in past budgetary debates are aware of the extreme difficulty involved in an attempt to reorder priorities in a single year under the present budgetary framework. Present options are severely limited by past decisions. But by making tentative decisions for the out years, decision makers can increase their ability to implement their priorities. Because these out year

decisions are tentative, future sets of decision makers who might wish to implement differing priorities, or even the same set of decision makers reacting to changing circumstances are free to do so as the five-year budget is periodically reviewed and revised.

Like planning, the new congressional budget process is aimed at improving the rationality of decision making. In its role as an analytic arm to this new process, the Congressional Budget Office undertakes analyses that seek to raise the level of budget decision-making rationality by keeping track of the present budget effect flowing from past decisions, by explaining the future impact of current budgetary alternatives, and by outlining how projections of future events affect present options.

Before one rationally decides where one wants to go, one has to know where one is. CBO helps in this effort by scoring actual congressional action against the target of the First and the ceilings of the Second Concurrent Resolutions on the Budget, by tracking the spend-out rates of ongoing programs, by estimating the amount of revenue that will be collected in the ongoing and next fiscal year, and by providing the authorizing committees with a cross-walk from the appropriations accounts to their statutory jurisdictions. While not planning as such, these efforts do lay some of the necessary informational and analytic groundwork for a more rational decision-making process.

More closely allied to formalistic planning are CBO's efforts in the fields of short and mid-term forecasting. Periodically CBO issues reports that contain our projection of economic activity for the next six to nine quarters. In addition, the Congressional Budget Act contains a number of provisions that require CBO to project five years into the future the budgetary implications of current choices. For example, as soon as practicable after the beginning of each fiscal year, CBO issues a projection of the budget authority, outlays, revenues, tax expenditures, and resulting surplus or deficit that would occur if the programs in the previous fiscal year's budget were extended for five years. In a similar vein, five-year cost projections are issued by CBO for all bills providing new budget authority or new or increased tax expenditures. Also, to the extent practicable, five-year cost estimates are prepared for all public bills or resolutions that are reported out of committee.

If long-range forecasting begins after the fifth year, the time span of these projections means that CBO's forecasting work falls into the short and medium ranges. For us, the demarkation line between short and medium-range forecasting is determined by that point -- usually six to nine quarters into the future -- beyond which we feel that standard econometric models of the economy lack precision necessary for making budget estimates. A high degree of precision is necessary because of the extreme sensitivity of revenue

collection to economic conditions and the increasing tendency to tie federal expenditures to the inflation and/or unemployment rates, either through indexing or other self-triggering mechanisms. This means that when we prepare a five-year budget projection, only the first year is based on our best projection of the economy. Beyond that point -- in the medium range -- we simply assume one or more economic growth paths.

There are occasions, of course, when in order to answer a question, the analyst is required to go beyond a five-year horizon. In the case of CBO's work, this is particularly true for the natural resources, energy, and environment areas where present options are constrained by projections of long-term future trends; and where, because of the time required to develop and implement new technologies, the impact of current decisions only becomes apparent many years into the future.

For example, when CBO was asked by the House and Senate Budget Committees to look into the options for financing energy development, our analysts had to assess the Energy Research and Development Administration's (ERDA) projections for nuclear generating needs and uranium enrichment capacities to the year 2000. CBO's analysts then costed out three different ownership options for new uranium enrichment facilities. In a companion paper, which will soon be

released, the budget costs and other criteria for judging five energy research and development strategies are set out for a ten-year period.

Our experience in supporting Congress' efforts to make its budgetary decision-making process more rational have led us to some conclusions that should be helpful to your deliberations.

First, it has reinforced our notion of how far we have yet to go before we can really say that we are doing a good job with near- and medium-range projections and analyses. The fact is that even though most decisions can be made with data from a five-year time frame, we still are not doing the type of job that is required within that time frame in order to provide the necessary information for rational decision making.

Our ability to estimate ongoing and project future expenditures and other costs and benefits of federal programs is still limited. The situation in terms of the evaluation of programs is even less optimistic. Thus, with so much work still needed in the near and medium ranges, it would seem best to concentrate on improving our capabilities in these time frames and then move our horizon further into the out years as we are able to do a competent job in the short and middle ranges.

Second, serving the Congress has precluded any attempt on our part to make recommendations or set goals. We have

found it necessary to confine our analysis to laying out the implications of a given set of policy options on a number of dimensions. Under such a relationship the Congressman, as the decision maker, then chooses the dimension that he feels reflects his set of goals.

Third, our experience in developing a good relationship between our analysts and the decision makers of Capitol Hill can be a useful model for relationships between the planner and the decision maker. It is an often stated maxim that you can not have successful planning without successful implementation. In fact, planning when separated from implementation is a limited exercise.

This point was echoed by the planners who attended your seminar on "Long-Range Planning in the Private Sector" last December. The summary of the meeting states:

"They repeatedly emphasized that the planners should be the doers; and the doers, the planners . . . Emphasis placed on this point by seminar participants . . . leaves little doubt that planning without the active and willing involvement of a firm's decision-making managers is a useless activity not worth the time, trouble, or money."

But as you are well aware, the decision makers of the federal government are rarely elected or hired to be technical

planners and thus the condition where the doer is the planner and the planner the doer is the exception, not the rule.

What does this mean for the success of planning? A major point from CBO's experience in trying to communicate technical results to Members of Congress is that clear presentation is at least as important to the analysis as is technical quality. The utility of the information that planning can generate is lost if it can not be understood by the decision maker. While the truth of this statement might seem self-evident, it is sad to see the poor written quality of the average piece of analysis.

Further, to make the output of planning useful to the decision maker, it should be presented in a form that is readily adaptable to the existing decision-making structure. For example, since Congressmen deal in terms of legislation, we have found that analysis that is not applicable to legislative decision making will simply be ignored. This argues against sweeping "comprehensive" analysis or planning and for an incremental strategy of using the methodologies associated with planning techniques to inform the decision maker of the degree to which options for a given decision will affect the options in other policy areas.

For example, as against creating a comprehensive plan for transportation in America, a more useful activity would be to inform the decision maker of how a given option for one

transportation mode will affect the economic viability of the other modes.

Finally, I should like to turn to two points: First, the danger that analysis or planning will become either irrelevant or counterproductive because the analyst or planner did not consider important factors, and, second, the fact that the utility of planning varies with the subject area.

Analysis and planning all too frequently are conducted with too narrow a focus. This frequently occurs with planning that requires a high degree of scientific expertise. Such planning can be conducted so narrowly that important economic and political factors are not considered. The results of such planning at best are ignored by decision makers as being irrelevant to the problem at hand or, at worst, end in disaster if an attempt is made to implement them.

It is a truism that given unlimited high quality data and extremely advanced techniques, planning would be advantageous in all policy areas. However, such a perfect world does not exist. In fact, we tend to use different criteria for determining the success of planning in different policy areas. Thus, as long as a nuclear war does not occur, strategic defense planning can be said to be a success. But in other areas planning is only judged to be a success if something positive happens; for example, the achievement of energy independence. Moreover, because of the ultimate importance of strategic

defense planning, we have made a decision to tolerate a much higher level of program redundancy than is the case for other program areas.

In some cases, because of our limited abilities, long-range planning can at best be a waste of time or at worst can lead decision makers to adopt a policy which will be counterproductive. A frequently cited example is long-range planning for the manpower area. There is no real need to act today based on a projection that in the year 2000 we will need five times the number of engineers than is currently expected. In the first place, given the present state of the art, the margin of error for such an estimate is quite large. In addition, the time horizon is quite long. But most important, preliminary decisions in this area can be corrected with relative ease.

On the other hand, even imprecise planning can be helpful in a situation in which today's decisions will only begin to have an impact on the policy area ten to twenty years from now. Because of the long time required for the construction of various energy facilities and the even longer time required to develop a commercial capacity to deliver new forms of energy, decision making on options for energy policy can be improved through greater planning efforts.

Because planning is not equally productive in all situations, it is important that the analyst not oversell the utility of the output of his or her work. We all know that the

utility of planning and forecasting varies with the quality of the available data and methodologies. But the sophisticated analyst also realizes that, since decision makers require a higher degree of confidence in some situations than others, standards will vary with the projected use of the analysis. For example, very long-run commercial projections of the economy, even though inexact, may be useful to firms amortizing new investments over relatively long time periods. But CBO's economic forecasts are intended primarily to help the Congress evaluate short-run fiscal impacts of the budget and therefore present only the first six to nine quarters of such data.

In closing, I should like to state once again that the object of planning -- as with other forms of policy analysis -- is to give the decision maker an opportunity to make a more rational decision by increasing the level of information and by focusing the decision point in the out years, and thus provide greater freedom of choice.

Thank you very much.