INFORMED BUDGETEER: WELCOME TO THE 106th!

SENATE BUDGET COMMITTEE MEMBERSHIP 106TH CONGRESS

- The Senate Republican Conference met on January 7th and re-elected Senator Pete V. Domenici as Chairman of the Senate Budget Committee for the 106th Congress.

- The membership for the Comittee remains unchanged from 105th Congress:

Pete V. Domenici , Chairman

Charles Grassley, Iowa	Frank Lautenberg, New Jersey- Ranking Member
Don Nickles, Oklahoma	Fritz Hollings, South Carolina
Phil Gramm, Texas	Kent Conrad, North Dakota
Christopher Bond, Missouri	Paul Sarbanes, Maryland
Slade Gorton, Washington	Barbara Boxer, California
Judd Gregg, New Hampshire	Patty Murray, Washington
Olympia Snowe, Maine	Ron Wyden, Oregon
Spencer Abraham, Michigan	Russell Feingold, Wisconsin
Bill Frist, Tennessee	Tim Johnson, South Dakota
Rod Grams, Minnesota	Richard Durbin, Illinois
Gordon Smith, Oregon	

HOW TIGHT ARE MY CAPS! FINAL SEQUESTRATION REPORTS

- The Balanced Budget and Emergency Deficit Control Act requires both OMB and CBO to issue three reports throughout the year displaying the latest status of the discretionary and pay-as-you-go scorecards. CBO and OMB issued their final sequester reports for FY1999 after the end of the most recent session of Congress on October 30 and December 10, 1998 respectively.

Comparison of OMB and CBO Discretionary Caps
($ in Billions)

	OMB		CBO	
Fiscal Year	BA	OT	BA	OT
1998				
Defense	272	269	272	269
Nondefense	256	286	256	286
Crime	6	5	6	5
TOTAL	533	560	533	560
1999				
Defense	276	270	280	272
Nondefense	284	274	287	274
Crime	6	5	6	5
Highways	--	22	--	22
Mass Transit	--	4	--	4
TOTAL	566	576	573	578
2000				
Defense/ Nondef.	532	536	532	539
Crime	5	6	5	6
Highways	--	24	--	24
Mass Transit	--	5	--	5
TOTAL	536	571	536	574

SOURCE: CBO & OMB

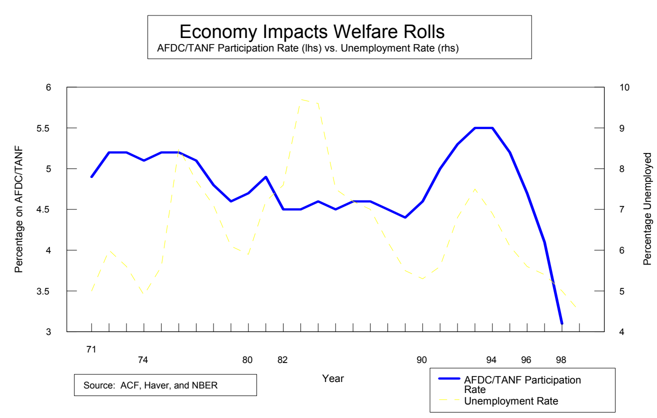
- Of interest from these reports are the latest calculations of the discretionary spending limits and how they compare to enacted appropriations. The main difference is that, although both OMB and CBO adjusted the FY1999 caps upwards for certain enacted items (such as funding for IMF and emergencies), CBO estimated that FY1999 appropriations still exceeded the caps on outlays by a total of $2.2 billion for defense, $0.7 billion for nondefense, and $3 million for transit. OMB stated that no sequester was necessary for FY1999 because it estimated that outlays for FY1999 fell below the caps.

- Aside from the OMB and CBO differences, the table above suggests other issues that will arise with the caps for FY2000. For example, for FY2000 there is no longer a separate defense and nondefense cap. Instead, spending is combined into one general category to be allocated in the appropriations process by the Congress and the Administration. In addition, the caps for this pot of spending fall dramatically from FY1999 to FY2000 (because the FY1999 had been adjusted for IMF and emergencies). For the crime category, FY2000 is the last year there is a separate cap under current law.

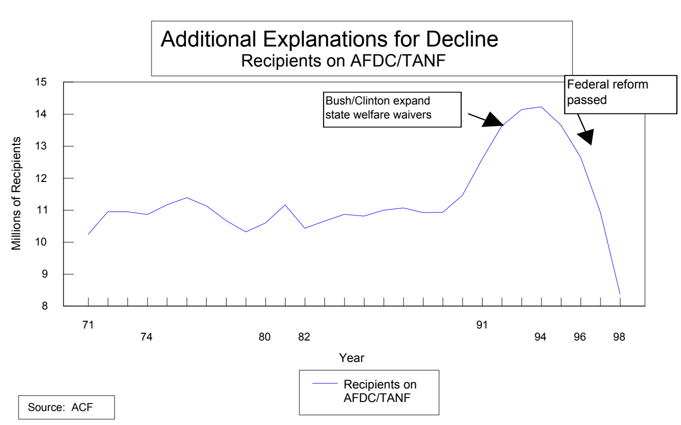
WELFARE REFORM SUCCEEDS IN A STRONG ECONOMY

- Since 1994 welfare caseloads have dropped a dramatic 40 percent. Policy reforms have undoubtably transformed a rigid welfare structure into a flexible system that encourages work. The exceptionally-strong economy has also played a critical supporting role by providing the perfect environment for transition.

- The following chart demonstrates how the AFDC/TANF participation rate has moved in line with the economy over the last decade. This strong correlation is a break from the distant past; neither the 1974 nor the 1982 recession impacted rolls perceptively.



- The next chart shows the substantial expansion of state welfare waivers helped to reverse an upward trend in the rolls. The chart below also suggests that the passage of the Personal Responsibility and Work Opportunity Reconciliation Act in 1996 accelerated the new downward trend in welfare recipients.



- A 1997 study by the Council of Economic Advisors confirms that policy reform and the strong economy were productive partners. Over the 1993-1996 period, the CEA found that the economic expansion accounted for 44 percent of the decline in welfare rolls, while state waivers explained 31 percent of the reduction. With the extra impact of federal reform starting in mid-1996, it appears that policy reform and the economy deserve equal credit.

- This impressive drop in welfare recipients combined with the TANF block grant has given states access to considerably-more resources for low-income family assistance programs. According to a GAO study, states had about $4.7 billion more in 1997 under TANF than they would have had under AFDC. Because this surplus will undoubtably shrink when the economy weakens, states must use these extra funds wisely. Absent a major recession though, it is unlikely that welfare rolls will return all the way back to the historically-high levels of 1993 and 1994.

ECONOMICS

RECEDING ECONOMIC PESSIMISM

- In the wake of last August's Russian debt default, most economists had looked for the US economy to slow markedly at the end of 1998 and into 1999. However, this has yet to materialize. Real GDP grew at a 3.7 percent pace in the third quarter, with 3+ percent growth expected in the fourth quarter as well.

- Economists still expect a mild slowdown this year to 2.4 percent, however, it is interesting to note that Blue Chip forecasters have a more positive view of 1999's average growth rate today than they did before last August's crisis.

- What accounts for this turnaround? Thus far, the global financial market crisis has had a more limited net effect on the US economy than initially expected -- while the US' manufacturing and commodity sectors remain weak, this has been more than offset by strength in consumer spending and the service sector.

- The economy's resilience is linked to the self-correcting nature of long-term interest rates -- as US export prospects and hence the overall growth outlook dimmed in the aftermath of Russia's default, Treasury bond yields dropped sharply. This drop energized interest rate sensitive sectors of the economy and prevented any generalized slowdown.

- In addition, US equity markets made a faster than expected recovery in the wake of easing by the Federal Reserve. Indeed, the Dow hit a new record high earlier this month, eliminating economists' fears that last fall's equity market plunge would generate negative wealth effects whereby lower stock market values would make consumers feel poorer and cause them to scale back their purchases.

- Going forward, the economy is not without its worries — the low savings rate and burgeoning current account deficit are of particular concern. However, there is nothing on the immediate horizon to suggest that the current expansion (which is now the longest peacetime expansion on record) will come to a quick end. As such, recent favorable trends in revenue and outlay growth look set to continue this year.

CALENDAR

BUDGET COMMITTEE HEARING SCHEDULE

All hearings will be held in Dirksen 608 at 10:00 am unless otherwise noted. Additional hearings may be scheduled.

January 19: **Social Security in the 21st Century;** Witnesses include: Jagadeesh Gokhale, Ph.D., Federal Reserve Bank of Cleveland; Andrew Samwick, Ph.D., Professor of Economics, Dartmouth College; Don Kebodeaux, First Financial Capital Corporation; Henry Aaron, Senior Fellow, Brookings Institution; Gary Burtless, Senior Fellow, Brookings Institution.
January 20: **Tax Policy in the New Millenium;** Witnesses include: Mark A. Bloomfield, Esq. President, American Council for Capital Formation; Dr. Lawrence Lindsey, Resident Scholar, American Enterprise Institute; William Gale, Senior Fellow, Brookings Institution.
January 22: **Social Security in the 21st Century Part 2;** Witnesses include: Sam Beard, Founder, Economic Security 2000; Elizabeth O'Connor, Board Member, Third Millenium; David Smith, Director of Public Policy. *Note hearing to begin at 9:30am.
January 25: **The National Defense Budget: Are We on the Right Course?;** Witness include: Dr. James R. Schlesinger, Chairman, MITRE; Robert Zoellick, President, Center for Strategic International Studies; Dr. Lawrence Korb, Council on Foreign Relations.
January 27: **Budget Process Reform;** Witnesses: To be determined. *Note hearing will begin at 9:30am in SD 106.
January 28: **The United States Long-Term Fiscal Outlook;** Witness: The Honorable Alan Greenspan, Chairman, Board of Governors of the Federal Reserve System.
January 29: **CBO Economic and Budget Outlook;** Witness: Dr. June O'Neill, Director Congressional Budget Office.
February 2: **The President's Fiscal Year 2000 Budget Proposal;** Witness: Jack Lew, Director, Office of Management and Budget.
February 3: **The President's Fiscal Year 2000 Budget Proposal;** Witness: Robert Rubin, Secretary, Department of the Treasury (tentative).
February 9: **The President's Fiscal Year 2000 Budget Proposal;** Witness: Madeline Albright, Secretary of State (tentative).
February 10: **The President's Fiscal Year 2000 Budget Proposal;** Witness: William Cohen, Secretary of Defense; General Henry H. Shelton, Chairman, Joint Chiefs of Staff (tentative).

KEY BUDGET DATES

January 28: Congressional Budget Office releases their 1999 Economic and Budget Outlook FY2000-200. Release at close of business.
February 1: President Clinton releases FY 2000 Budget Proposal. Senate Budget Committee releases Instant Analysis of President's FY 2000 Budget Proposal.

✎EDITOR'S NOTE: There are two new SBC publications available: Tax Expenditures; Compendium of Background Materials on Individual Provisions, Senate Print 105-70 and The Congressional Budget Process, Senate Print 105-67. Both are available through our web site and the SBC publications office, please contact Alex Green at 202-224-0855 or via email: ALEX_GREEN@budget.senate.gov.