INFORMED BUDGETEER

APPROPRIATIONS OPENING DAY

FY 2001 Supplemental[a]
(BA, $ in Billions)

Subcommittee	Pres. Request	House Passed[b]	Senate Report	Pres. v. Senate	House v. Senate
Defense					
CJS	0	0	0.084	-0.084	-0.084
Defense	5.458	5.467	5.451	0.007	0.016
Energy	0.291	0.288	0.291	0	-0.003
Mil-Con	0.093	0.091	0.093	-0.001	-0.002
TOTAL	**5.841**	**5.846**	**5.919**	**-0.078**	**0.073**
Nondefense					
Ag	0.055	0	-0.010	0.065	0.010
CJS	0	0	-0.110	0.110	0.110
Energy	0.079	0.216	0.079	0	0.137
Foreign Ops	-0.020	0	0.092	-0.112	-0.092
Interior	0.050	0.207	0.050	0	0.157
Labor-HHS	0.150	0.461	0.250	-0.100	0.211
Leg. Branch	0.080	0.080	0.016	0.064	0.064
Trans.	0.092	0.062	0.082	0.010	-0.020
Treasury	0.176	0.116	0.176	0	-0.060
VA-HUD	0.040	-0.443	0	0.040	-0.443
TOTAL	**0.703**	**0.699**	**0.625**	**0.078**	**0.074**
SUP TOTAL	**6.544**	**6.545**	**6.544**	**0**	**0.001**

SOURCE: Senate Budget Committee
a/ These supplementals also each include $590 million in mandatory funding for veterans disability and compensation payments and $347 million in mandatory funding for the Montgomery GI Bill and related benefits.
b/ The House passed supplemental includes some emergency funding. Net emergency spending in the bill equals $84 million in BA in 2001. The emergency total includes a rescission of $389 million from FEMA.

- Last week, while the House passed its supplemental, Senator Byrd reported his first bill as the reinstalled Chairman of the Senate Appropriations Committee with gross appropriations of $7.5 billion

- This bill meets the President's request for an FY 2001 supplemental appropriations bill fitting within discretionary spending caps. Including rescissions, the Senate supplemental nets to $6.5 billion in BA for discretionary spending, and $1 billion for mandatory veterans benefits and services.

- At Senator Byrd's request, the bill includes no spending designated as "emergency," and there are no new specific projects approved for members. Senator Byrd and Senator Stevens intend to oppose the addition of such items to the bill on the Senate floor unless they are offset.

Comparison of 2000 and 2001 Discretionary Spending Levels
($ in Billions)

	2000 Actual	2001 Estimate[a]	% Change
Total Discretionary BA	**584.363**	**635.105**	**8.7**
Defense	300.767	311.106	3.4
Nondefense	283.596	323.999	14.2
Total Discretionary OT	**614.838**	**642.599**	**4.5**
Defense	294.964	301.438	2.2
Nondefense	319.874	341.161	6.7
Plus President's Supplemental			
Supplemental BA	**0.000**	**6.544**	
Defense	0.000	5.841	
Nondefense	0.000	0.703	
Supplemental OT	**0.000**	**1.232**	
Defense	0.000	0.966	
Nondefense	0.000	0.266	
Total Disc. + Supp. BA	**584.363**	**641.649**	**9.8**
Defense	300.767	316.947	5.4
Nondefense	283.596	324.702	14.5
Total Disc. + Supp. OT	**614.838**	**643.831**	**4.7**
Defense	294.964	302.404	2.5
Nondefense	319.874	341.427	6.7

SOURCE: Senate Budget Committee, based on CBO estimates.
a/ The 2001 estimate is from CBO's May 2001 baseline.

- Whichever version of the supplemental is ultimately enacted, observant budgeteers will note that discretionary appropriations in 2001 will amount to a healthy 9.8% increase over the 2000 level. As the table shows, within this increase, nondefense BA will experience 14.5% growth--though most of this has already occurred as most of the supplemental is for defense items.

- Enactment of the supplemental will add more than a % point increase to the growth of discretionary spending between 2000 and 2001, from 8.7% to 9.8%.

- The Senate bill provides a net of $5.9 billion for defense-related programs. For both DOD and DOE defense programs, the bill totals $6.7 billion with offsets of $792 million. For non-defense discretionary spending, the Senate bill totals a net of $625 million. Total non-defense spending of $1.1 billion is offset by rescissions of $438 million. The Senate drops the House rescission of $389 million in FEMA disaster relief funding.

- The Senate matches the President's request for $116 million to process and mail the tax rebate checks. It accelerates into FY 2001 $100 million of the $200 million recently requested by the President for an AIDS relief initiative in Africa. The Senate matches House recommendations for Low-income Home Energy Assistance Program (LIHEAP) funding ($300 million) and Education for the Disadvantaged ($161 million).

OUR VIEW OF REMAINING REVENUE ROOM

- A budget resolution sets a floor for the level of revenues. Under the current budget resolution (H.Con.Res. 83), this floor is enforced for 2001, 2002, 2002-2006, and 2002-2011 through the section 311 (a)(2)(B) Budget Act point of order.

- If a bill or amendment would cause the level of revenues to fall below the floor for any of the applicable time periods, a point of order would lie against the bill or amendment. The point of order could be waived by 60 votes.

- The 2002 Budget Resolution set the revenue floor low enough to accommodate the reconciliation tax cut as well as other assumed "outside of reconciliation" revenue loss provisions; namely, a reduction in SEC fees, legislation to permit the Federal Reserve to pay interest on reserve deposits, and a one year extension of tax provisions expiring in 2001.

- Therefore, post-reconciliation enactment and post-enactment of the Fallen Hero Survivor Benefit Fairness Act (a bill with small revenue impact), the *Bulletin* estimates that the budget resolution revenue floor can accommodate no additional revenue loss in 2001, up to $3.279 billion in 2002, $12.754 billion over 2002-2006, and $18.651 billion over 2002-2011.

- Informed budgeteers know that, while the "outside of reconciliation" revenue loss estimates were based on certain policy assumptions, section 311 (a)(2)(B) enforces the level of revenues only. Enforcement of the budget aggregates does not look to the policy which creates the revenue loss.

- This means that only some of the proposed policies vying to "soak up" the remaining revenue room will be able to be considered without facing a point of order. For example, the Patients Bill of Rights as brought to the Senate floor would lose $15.705 billion in revenue over 2002-2011. If it is cleared for the President's signature before the Congress attempts to pass the other revenue policies assumed in the budget resolution or, say, other revenue-loss provisions attached to the minimum wage or bankruptcy reform bills, then some of those latter bills would face a point of order

- Note that 311 (a)(2)(B) is a strict <u>revenue floor</u> test. For example, if an amendment reduced revenues by $20 billion over the 2002-2011 period, yet offset the revenue loss with a $20 billion reduction in direct spending, it would still violate 311 (a)(2)(B) even though the surplus would be unaffected.

TRADE KEY BACKDROP TO FARM BILL

- The 1996 FAIR Act (the Farm Bill) is set to expire in at the end of FY 2002. This year's budget resolution establishes a reserve fund totaling $66.15 billion (see 5-21-01 *Bulletin*) to be available for the next Farm Bill. As debate proceeds over the direction of such legislation, trade opportunities will be considered.

- Trade is vital to American agriculture producers, though they face significant obstacles. The average global tariff on agricultural products is 62 percent while the average tariff for agricultural products entering the United States is 12 percent.

- Despite this tariff imbalance and other export drags, including a weaker world economy and a strong dollar, nearly one out of every three farmed acres in the US makes it into the export market. The US trade surplus for FY 2001 is expected to increase by $2.5 billion over FY 2000 to $14.5 billion. Increased shipments of high-value products (such as hides and poultry-meat) appear to account for this increase. The trade balance will also benefit from slower import growth.

- Markets in Asia and Mexico will remain a source of strength for US exporters this year. Asian demand for high value products will drive exports $0.8 billion higher from a year ago. Strong demand from China and South East Asia should also boost US aggregate sales of soybeans to a record 26.8 million metric tons. However, the total dollar amount of soybean exports will remain virtually unchanged at $5.1 billion as prices are expected to fall due to record harvests by farmers in Argentina and Brazil.

- In contrast, US sales to European markets are expected to fall by almost $0.2 billion due to a depreciating Euro and ongoing concerns about food safety, which makes imports more expensive for consumers. In Mexico, our bilateral trade balance improves due to increased corn exports. Yet this is not enough to offset the impact of stiffer competition from corn producers in China, Brazil and Argentina, forcing the USDA to revise its forecast for US corn exports down from 52.0 to 47.5 million metric tons, a decline of 8.7%.

- Several important global trade negotiations are ongoing in 2001. Earlier this year leaders met in Canada to discuss the Free Trade Agreement of the Americas. Later this year the next round of World Trade Organization (WTO) negotiations will take place in Doha, Qatar. Also, Trade Promotion Authority (TPA) remains one of the Administration's top policy goals. Negotiations also will continue with China over its possible entry into the WTO later this year.

- The recent successful outcome of the Sino-US Asia Pacific Economic Council (APEC) June talks, led by US Trade Representative Zoellick, will prove to be key for both the agriculture community and for China's entry into the WTO. Occupying either the top or second spot in several types of plant and animal production, China feeds the most populous nation. By agreeing to discontinue export subsidies and capping domestic farm support at 8.5%, China will benefit from sourcing food from potentially less expensive suppliers as the portion of protein consumed in their diet continues to grow.

ECONOMICS

A PENNY SAVED IS A PENNY EARNED

- On June 7, the President signed a tax cut into law that reduced marginal rates and increased the child tax credit but also increased the contribution limits on IRAs and 401(k)s. Although many economists expect the tax cut to stimulate near-term economic growth, what impact will expanded IRAs and 401(k)s have on savings? While no consensus has been reached, there is empirical evidence suggesting retirement programs do enhance saving.

- In April 2000, CBO issued a report, entitled *An Economic Analysis of the Taxpayer Relief Act of 1997*. CBO's analysis references three academic papers from the Journal of Economic Perspectives in 1996, which examined the impact of IRAs and 401(k)s on saving. Two of the papers concluded that saving incentives had a positive impact, while a third argued that incentives offered little or no improvement to saving.

- Starting with the skeptics, Engen, Gale and Scholz contend in their paper, entitled *The Illusory Effects of Saving Incentives on Saving*, that individuals who contributed to retirement plans would have saved anyway, even in the absence of such incentives because they have stronger tastes for saving than non-contributors. Individuals with IRAs and 401(k)s also accumulated more debt than non-contributors, possibly offsetting any impact that incentives might have had on saving. However, the results of this study were criticized for being too sensitive to the individuals included and excluded from the sample.

- Research conducted by Poterba, Venti and Wise argue that most of the contributions made to retirement programs were new saving. They observed that individuals who contributed to a retirement plan increased their saving over time and relative to both non-contributors and individuals in their same cohort. In addition, all of the within-group comparisons, with one exception, indicated that other financial assets did not decline as IRA and 401(k) assets increased.

- While agreeing that saving incentives increase saving, Hubbard and Skinner conclude that most 401(k) and about one quarter of IRA contributions are new saving. Their estimates differ from Poterba, Venti and Wise because they do not agree that all of the contributions to IRAs would not have been made without the incentives. They do agree that most of the savings in 401(k)s are new because so few young and low-income contributors possess other financial assets or home equity.

CALENDAR

Unless otherwise noted, all hearings will be held in Dirksen 608 at 10:00 a.m. Additional hearings and witnesses will be scheduled.

June 27: "Reassessing the Economic Outlook"; Witnesses: Dr. Martin N. Bailey, Institute for International Economics; Dr. William C. Dudley, Goldman Sachs; Brian Wesbury of Griffin, Kubic, Stephens & Thompson, Inc.

June 28: "How Big is the Remaining Surplus?" Witnesses: Robert Greenstein, Center on Budget and Policy Priorities; Robert Bixby, Concord Coalition; Carol Cox Wait, Committee for a Responsible Federal Budget.

July 10: SBC staff brief by CBO and OMB. TOPIC: Historical Emergency Spending. 10AM; SD-608.

July 19: SBC staff brief by NIH. Dr. Ruth Kirschstein (Acting Dir.). TOPIC: NIH budget. 10:30 AM; SD-608.

O **Editor's Note:** The remaining *Bulletin* staff wishes good luck and congratulations to Amy Call, recently departed Editor of the *Bulletin* and Senate Budget Committee Deputy Communications Director for the past six years. Amy is now Deputy Associate Director of Communications at the Office of Management and Budget. Another budget committee staffer done good! Congratulations to Amy on her recent engagement as well!