

Informed Budgeteer

2001: THE BEST OF TIMES, THE WORST OF TIMES?

- The Administration and CBO forecasts for the 2001 budget surplus are \$284 billion and \$281 billion, respectively. These forecasts fit right into the midrange of private estimates.
- A survey of the nation's top economic and Wall Street consulting firms reveals a range of surplus estimates between \$250-\$362 billion, with an average of \$289 billion. These estimates are for the unified budget surplus; the social security surplus represents about \$150 billion of these estimates.
- Both the Administration and CBO surplus estimates assume an economic slowdown in 2001, as do many of the private estimates. Only Morgan Stanley Dean Witter forecasts a recession in 2001.

Private Firms' Latest Estimates of 2001 Surplus (\$ in Billions)	
Conference Board	362
Macroeconomic Advisors	323
Bank One	320
JP Morgan	298
Wells Fargo & Co.	285
Daiwa	280
Goldman Sachs	275
UBS Warbug	275
DRI	265
Merrill Lynch*	250
Morgan Stanley Dean Witter**	250
Average	289
OMB Baseline	284
CBO Baseline	281

*Assumes \$5-6 billion in tax cuts and \$24 billion in higher outlays in 2001 than Administration. **Assumes recession in 2001.

EMERGENCY FUNDING ADDS UP

- The Congressional Budget Office recently updated historical data on emergency funding in appropriations bills for the past ten years. CBO finds that Congress has appropriated \$197.6 billion in total emergency funding resulting in an estimated \$141.2 billion in outlays to date.
- Just over 95% of these emergency appropriations (\$188.2 billion) were designated by both the Congress and the President as emergency spending. Only 5% (\$9.3 billion) were contingent emergency appropriations approved by the Congress and released only upon the President agreeing to the emergency designation.
- Nearly 63% of all emergency spending occurred in three years – 1991, 1999, and 2000. The highest year for emergency spending over the 1991 to 2001 period was 1991 with the appropriation of \$45.8 billion in total, all associated with the Persian Gulf War. These costs were largely repaid by U.S. allies after the war.
- Emergency spending in the intervening years was largely focused on natural disasters, including the 1993 Midwest floods (\$4.2 billion); 1994 Los Angeles earthquake and additional Midwest flood aid (\$11.1 billion); and beginning in 1995, defense readiness and various defense deployments in Bosnia and Kosovo.
- Federal emergency spending again hit all-time highs in 1999 and 2000 with \$34.2 billion provided in 1999 and \$44.3 billion approved in 2000. Military readiness, Kosovo, anti-terrorism, and Y2K preparedness became “emergency” requirements for the federal government in 1999. Farm aid, more defense funding, anti-drug funding - - Plan Columbia, and firefighting and related expenses predominated in 2000.
- This apparent hemorrhage of “emergency” spending in these two years was associated with identified requirements, but also congressional willingness to approve spending beyond that allowed in the statutory spending caps established in the Balanced Budget

Act of 1997. Spending designated as an emergency requirement by

both the Congress and the President is not scored (counted) against the discretionary spending caps.

- The 1997 spending caps assumed the federal budget would not show a surplus until FY 2002. With that unified surplus first realized in 1998, the restrained statutory spending caps were overtaken by a positive balance sheet for the federal government, and by pent-up demands for additional discretionary program spending.

VIEWS & ESTIMATES

- Under the Congressional Budget Act of 1974, Congressional committees are required, within 6 weeks of the President's budget submission, to review that budget and submit to the Budget Committees their “views & estimates” on appropriate spending or revenue levels for programs within their jurisdiction. The following summarizes letters received by Chairman Domenici and Senator Conrad:
 - **AGRICULTURE:** The Committee notes the agricultural sector's recent dependence on supplemental (emergency) government assistance to maintain net farm income. They also state the importance of programs geared toward “market-based” environmentalism, renewable fuels, good nutrition, infrastructure projects and basic science. They also support proposed tax changes that will help drive producers' bottom line and they recognize the importance of foreign markets as well as the need to reduce trade-distorting barriers and subsidies. Lastly, they point out the difficulty in allocating the necessary funds to provide the Agriculture Committee with the means to craft both short term and long term policy answers. No specific dollar levels were included in the letter.
 - **ARMED SERVICES:** Chairman Warner endorses the President's \$14.2 billion increase over 2001 defense spending as “a positive first step,” but states that there must be an increase of \$8.5 billion above the President's request. The Chairman notes that there are additional funding shortfalls in the Defense Health Program but that this amount (\$2.2 billion) is not included in his request. The Chairman endorses legislation, known as “concurrent receipt” to allow disabled veterans to receive both veterans benefits and earned military retirement pay with no offset. The \$3.8 billion cost of this legislation in 2002 is also not included in the Chairman's \$8.5 billion figure.
 - Ranking Member Levin, in a separate letter, notes shortfalls in the defense health program, flying hours, housing, “transformation,” compensation, and other quality of life programs. He also recommends that the Budget Resolution provide an allocation for mandatory spending to the Committee to permit “full funding” for “concurrent receipt” and for the “transferability of benefits under the Montgomery G.I. Bill to family members.” He also recommends providing \$80 to \$100 billion over the next ten years for these requests. While the costs of these recommendations were not included, the “concurrent receipt” legislation, which is also supported by the Chairman in his letter, would consume \$54 billion of the Ranking Member's recommended ten year addition.
 - **BANKING:** The Committee requests that the Budget Committee assume enactment of several pieces of legislation in the budget resolution, including S. 143 which would reduce the securities fees imposed by the Securities and Exchange Commission (SEC) that exceed their operating costs by about \$14 billion over 10 years.

Regarding the President's budget, the Committee opposes charging a fee to state-chartered banks to cover the costs of the FDIC and the Federal Reserve for conducting safety and soundness examinations of those banks. The Committee supports the Administration's effort to reform natural disaster and emergencies funding, to improve national economic statistics, and to fully fund the TEA-21 mass transit “guarantees.”

- **ENERGY:** The Committee states that it may revisit proposals to dedicate a portion of receipts for oil and gas development on the Outer Continental Shelf to the Land and Water Conservation Fund, coastal impact assistance, and federal programs providing assistance to states and localities. In addition, the Committee would like to see PILT fully funded and plans to complete work on a comprehensive energy policy.

- **ENVIRONMENT:** The Committee applauds the President's request for full funding of the Clean Water State Revolving Loan Fund (SRF). The Committee supports the President's request for \$3.7 billion for EPA's operating account. They strongly encourage adequate funding levels for the safe drinking water Rural Water Technical Assistance program and encourage support of the Brownfields Revitalization Act of 2001.

Transportation: The Committee is pleased that the highway category is funded at the level "guaranteed" by TEA 21 in 2002. The Committee also strongly supports the elimination of unauthorized earmarks in the President's budget. The Committee does not support transferring highway funds to the New Freedom Initiative. Finally, the Committee is opposed to any extension of the spending caps beyond FY 2003 that could prejudice the reauthorization of TEA 21.

Army Corps of Engineers: The Committee is concerned that the Administration's \$600 million reduction to the civil works program of the Army Corps of Engineers may leave projects underfunded.

FEMA: The Committee is pleased that the President has indicated full funding for FEMA's core operations and believes that FEMA should receive adequate funding for the new pre-disaster mitigation program authorized in the *Disaster Mitigation Act of 2000*.

- **FINANCE: Revenues:** The Committee intends to consider legislation providing tax relief to individuals through marginal rate reductions, marriage penalty relief, payroll tax relief for low-income families with children, estate tax relief, expanded deductions for charitable giving, retirement incentives and pension reform.

Spending: Chairman Grassley and Ranking Member Baucus believe that Medicare modernization must be a top priority. The program must ensure that seniors have access to 21st century medicine, including a prescription drug benefit. Also, Medicare must be made fiscally sustainable in both the short and long term and the financial condition of the program must be made more transparent.

Chairman Grassley and Ranking Member Baucus think it unlikely that the Finance Committee will take up additional provider reimbursement relief this year. Without a clear understanding of the full effects of the provider relief legislation passed to date, they believe it is important to be cautious in considering any further relief.

SSBG: Chairman Grassley and Ranking Member Baucus would like to see the Social Services Block Grant funding restored to \$2.38 billion, as agreed to in the 1996 welfare law.

Uninsured: The Committee believes that tax credits provide working individuals the opportunity to purchase the health coverage they need. The Committee also believes that additional efforts are required to enroll eligible individuals into existing federal programs like Medicaid and SCHIP.

- **FOREIGN RELATIONS:** Chairman Helms notes the \$1.2 billion increase in the President's request for International Affairs but states his reservations, which include the need for reforming foreign aid through privatization, folding the Agency for International Development into the Department of State, a cut in the size of the foreign aid bureaucracy, financial support for the internal opposition

in Cuba, and increased funding for international broadcasting under Radio Marti, Radio Free Asia, and Radio Free Europe/Radio Liberty.

The Ranking Member Biden urges a delay in considering the budget resolution until a "more detailed budget" for International Affairs is available. He notes that although the International Affairs request is above 2001 spending in real terms, spending has fallen "7.6% below the annual average ... for the last two decades."

- **GOVERNMENT AFFAIRS:** The Committee supports the President's call for making government more results-oriented and for linking budget and management decisions to performance. The Committee supports the President's government reform initiatives which include the implementation of biennial budgeting and appropriations. The Committee also asks for sufficient resources to ensure that the federal government will be competitive in recruiting and retaining a quality workforce.

Ranking Member Lieberman supports many of the President's government reform measures and his call for increased financial accountability. He believes the President's initial investment for the first year of the proposed e-government fund is too low. Though the Ranking Member is pleased with the President's support of biennial budgeting and appropriations, he does not support automatic continuing resolution legislation.

- **HEALTH, EDUCATION, LABOR and PENSIONS:** Ranking Member Kennedy endorses at least \$816 billion in new spending within the Committee's jurisdiction, including: \$250 billion to education programs, including mandatory full funding for IDEA; \$350 billion for a prescription drug benefit; \$200 billion to expand health insurance coverage via programs and/or refundable tax credits; increasing funding for DoL programs; \$16 billion to improve Unemployment Insurance and \$3.4 billion per year for LIHEAP. In addition, he endorses a 25-cents per pack increase in the tobacco tax.

- **INDIAN AFFAIRS:** The Committee continues to be concerned about the unmet needs of Native American and Alaskan Native communities. The Committee cites the growing backlog in Indian school facility construction but is pleased to support the Administration's request for new school facilities construction in FY 2002. The committee expresses concern over the Indian Health Service (IHS) funding level. The Committee also cites the need for funding in Native communities for housing, crime and drug prevention and enforcement, economic development, transportation and environmental protection and enforcement.

- **JUDICIARY:** Ranking Member Leahy supports full funding for all Violence Against Women Act programs, full funding for 50,000 more COPS, and increased funding for Crime Identification Act program and Bulletproof/Stabproof Vests. He seeks full funding for drug courts and for erasing the state DNA backlog, and added funds for a new computer crime enforcement grant and for juvenile drug courts. He also seeks unspecified funding for gun enforcement and prosecution and seeks full funding of the programs found in the Drug Abuse Education, Prevention, and Treatment Act.

Leahy also advocates large increases to the Civil Rights Division of the Department of Justice. The letter also expressed support for increased funding for border patrol agents, this funding should provide appropriate amounts for training and monitoring the agents on respect for civil rights.

- **VETERAN'S AFFAIRS:** Ranking Member Rockefeller states that the President's discretionary increase for FY 2002 is insufficient. He recommends an increase in the Veterans Health Administration by at least \$1.8 billion to cover the costs of two new program expansions – long-term care and emergency services. The Ranking Member also

recommends an increase of \$86 million for the Veterans Benefit Administration (VBA) to hire additional claims processors. These additional employees will replace those currently expected to retire over the next several years and will also handle the increasing workload brought on by last year's amendments to the Montgomery GI bill and the "duty to assist" legislation designed to reduce the average claims processing time (200 days) at the VBA.