INFORMED BUDGETEER:

@ End of 106th Congress Countdown @
Calendar Days to Sine Die: October 6
(From July 17)

Total Days	82
Less:	
Scheduled Non-Leg. Periods (41 days)	41
Fridays & Mondays before/after Non-Leg. Periods (3)	38
Remaining Saturdays & Sundays (10)	28
Mondays & Fridays in Leg. Periods (10) ; =	18
Memo: Days to Beginning of FY 2001	15

2000 ENACTED SUPPLEMENTAL APPROPRIATIONS

- Last Thursday, the President signed the FY2001 Military Construction appropriation bill into law. Divisions B and C of that legislation contain $15.1 billion in supplemental BA for 2000 and $13.8 billion in supplemental outlays. Of that total, $7.0 billion in BA and $6.0 billion in outlays are for defense expenditures and the remaining $8.1 billion in BA and $7.8 billion in outlays are for nondefense expenditures.

- Included in the supplemental for FY2000 is funding for national security matters, including Kosovo, natural disaster assistance, funding for a counternarcotics effort in Columbia, funding to repair the damage caused by forest fires in Los Alamos, New Mexico, and the repeal of various timing shifts and delayed obligations enacted last fall and in the Balanced Budget Act of 1997.

- The timing shifts and delayed obligations enacted last fall and then repealed in Title V, Division B, include a civilian and military pay shift, as well as delays in health and social services funding and a shift in the timing of foreign aid to Egypt. Title I, Division B includes a prompt payment and a progress payment shift to Department of Defense contractors, also enacted last fall. The shifts enacted in the Balanced Budget Act of 1997 include an SSI benefit shift and a veterans compensation and pension benefits shift.

2000 Enacted Supplemental Appropriations*
($ in millions)

		2000	2001	2002-2005
Division B, P.L. 106-246				
Title I, Kosovo & Natl Security	BA	7,405	- -	- -
	OT	2,589	2,729	2,029
Title II, Natural Disaster, other	BA	1,811	44	- -
	OT	601	586	477
Title III, Counternarcotics	BA	1,320	- -	- -
	OT	65	443	756
Title V, Timing Shifts	BA	3,941	-3,946	- -
	OT	10,512	-10,512	0
Division C, P.L. 106-246				
Titles I & II, Cerro Grande Fire	BA	661	- -	- -
	OT	32	249	367
TOTAL	BA	15,138	-3,902	- -
	OT	13,799	-6,505	3,629
MEMO:				
Defense	BA	7,038	- -	- -
	OT	5,978	-897	1,929
Nondefense	BA	8,100	-3,902	- -
	OT	7,821	-5,608	1,700

SOURCE: CBO/SBC; *The 2000 Supplemental funds were enacted on the 2001 military construction appropriation.

- Real new resources provided for FY2000 in the supplemental, net of timing shifts, total $11.1 billion in BA and $2.6 billion in outlays. The level of BA in the enacted supplemental is almost $2 billion less than the House-passed supplemental and $2.5 billion greater than the supplemental appropriations included in the Senate bills. Overall supplemental spending for defense was decreased from the House level and increased from the Senate level. Total nondefense spending in the enacted supplemental is in the same ball park as included in the House and Senate bills.

2000 Supplemental Appropriations[A]
($ in millions)

		Senate[B]	House	Enacted[C]
Defense	BA	4,707	9,205	7,038
	OT	1,032	2,123	1,148
Nondefense	BA	3,939	3,650	4,154
	OT	1,573	1,010	1,439
Total	BA	8,646	12,855	11,192
	OT	2,605	3,133	2,587

SOURCE: SBC/CBO; [A]With the exception of the shift in funding for Egypt, these figures do not include any of the timing shifts in Title V, Division B of the military construction appropriation or the prompt and progress payment timing shifts in Title I. [B]Supplemental appropriations for FY 2000 were included in the Military Construction, the Foreign Operations and the Agriculture spending bills in the Senate. [C]The 2000 supplemental funds were enacted on the 2001 military construction appropriation.

RAILROAD RETIREMENT REVISITED

- The *Bulletin* discussed the depression-era anomaly that is the Railroad Retirement system in the February 28, 2000 issue. That piece noted the level of subsidies that the railroad pension fund receives from the federal government through an unusual diversion of income taxes.

- The Railroad Retirement system has two basic parts. The first part is a Social Security equivalent benefit, which is almost identical to Social Security benefits paid by the Social Security Administration and is financed by the same payroll tax as Social Security. Equivalent Social Security benefits are paid from a special trust fund account maintained by the Railroad Retirement Board.

- The second part is an industry defined-benefit pension plan, financed by contributions from the employers and workers. When a retiree gets a benefit under this second part, he or she must pay income taxes on that benefit just like other retirees do when they receive private industry pensions.

- However, since 1984, the railroad industry has received a special subsidy that no other private industry gets. The income taxes paid on rail industry pensions come into the general fund of the Treasury and then are transferred back into the rail industry pensions fund, sometimes called the Railroad Retirement Account. In fiscal year 2000, this general fund transfer to the rail industry pension fund will total $265 million.

- At the end of FY1999, the rail industry pension trust fund held reserves of $15.3 billion. **But the cumulative subsidy from the taxpayers represents $6.6 billion, or 43 percent of the total reserves in the fund.**

FSC'S THREATENED

- Foreign Sales Corporations (FSC's) are generally American-owned companies that are incorporated abroad. An FSC permits domestic corporations to route and export their goods through corporations outside the U.S. FSC's benefit their American-owned parents through a tax exemption on portions of earnings derived from foreign traded income, and a 100% deduction on dividends paid to share holders. These noted benefits allow U.S. companies such as General Electric, Microsoft, Boeing, and Ford to reduce their tax bills between 15% and 30%.

- According to IRS Statistics of Income Bulletin, Spring 2000, four industry groupings accounted for just over half of all FSC tax returns filed for 1996. Classified by the gross receipts of FSC's and related suppliers, the four largest industry groups are: non-electrical machinery ($52.3 billion); transportation equipment ($51.9 billion); electrical machinery, equipment, and supplies ($43.7 billion); and chemicals and allied products ($32 billion).

- FSC's generated $32.8 billion in total income in 1996. Of that $32.8 billion, $20.9 billion was exempt from U.S. taxation, and $12 billion was subject to U.S. income tax. After deductions and other adjustments, the FSC tax base for 1996 was reduced to $4.9 billion. Total income tax liability for all FSC's was $1.7 billion, or 35% of the tax base.

- After claims by the European Union (EU) that FSC's violated article 3.1(a) of the Subsidies and Countervailing Measures (SCM) Agreement, a WTO panel ruled on October 8, 1999 that FSC's did constitute illegal subsidies under the SCM Agreement. Article 3.1(a) of the agreement states that tax exemptions are not permitted if they are contingent upon export performance.

- In response to the WTO ruling, the Clinton Administration presented a proposal to bring the U.S. into compliance. May 29, 2000, the EU rejected the Administration's fix which would reduce the tax rate for both exports and foreign sales, because the tax exemptions, while smaller, would still be based on export performance. The EU has given the U.S. until Oct. 1st to rectify the situation or face sanctions up to $25 billion.

- In an effort to bring the international tax code into compliance with the WTO, the Administration, Congress, Treasury, and the private sector are working to resolve the issue before the Oct 1st deadline. Ways and Means Trade Subcommittee Chair Phil Crane of Illinois has been working with Rep Bill Archer, Chairman of the House Ways and Means Committee on legislation that would replace the income tax code with a business consumption tax. Progress has been slow as the ominous Oct 1st deadline nears.

ECONOMICS

RIPPLE EFFECTS OF SHRINKING DEBT

- In recent months, there have been many calls to eliminate the US publicly held debt. While this sounds marvelous, there has been surprisingly little attention paid to the ramifications of such a policy for financial markets, monetary policy and ordinary savers.

- One example relates to the Federal Reserve. It must continually expand its asset holdings in order to inject an increasing amount of money into the economy over time. In the past, the Fed has confined its asset purchases largely to US Treasury securities. (It now holds $500 billion worth or roughly 13 percent of all publicly held Treasuries). However, given the declining stock of Treasuries, the Federal Reserve is having to rethink its strategy.

- It announced in the March FOMC minutes that it was undertaking a study to evaluate what the most attractive alternatives to Treasuries might be. Conceivably, these could include corporate debt, agency paper, and/or other securities.

- In the interim, the New York Fed announced that it is altering its Treasury purchase patterns so as to avoid crowding out other investors. It intends to hold no more than 35 percent of any one Treasury bill issue. This limit will fall as one moves out the maturity spectrum, eventually reaching 15 percent for Treasury issues with maturities of 10 years or more.

- While the Federal Reserve has not hit up against its limit for coupon holdings, it stated that it has already bumped up against its limit for bill holdings. As such, it will need to focus more of its purchases on shorter maturity notes going forward. In order to prevent an unwanted lengthening of the average maturity of its portfolio, the Fed will need to scale back its purchases of long-dated Treasuries as well.

- The declining stock of Treasuries does not pose a risk for Federal Reserve operations – it can expand its balance sheet through the purchase of any type of asset. However, Treasuries are clearly a preferred investment since they do not entail credit risk, nor do they subject the Fed to charges of favoritism based on whatever private asset they choose to buy.

- The Fed's experience is an early warning that we need to be thinking of the ramifications of eliminating the US publicly held debt. Other questions will need to be considered – What will financial markets use to hedge interest rate exposure? What will small savers purchase if there are no savings bonds?

EDITOR'S NOTE: The following table was run in the June 30 *Bulletin*, with a small error, the subtotal uses of surpluses in the midsession review is $1,281 billion- not 281. Sorry for any confusion- the corrected version follows.

Uses of Surplus in President's Proposals, 2001-2010
(10-year totals, $ in billions)

	February	Midsession	Difference
Unified surplus inflated baseline	2919	4193	1274
Policy Proposals:			
Reserve for America's Future[A]	0	500	500
Prescription Drugs	133	224	91
Other Health	56	130	74
Spending Changes	14	31	17
Net Tax Cut	133	140	7
Additional Interest costs	64	256	192
Subtotal: uses	400	1281	- -
Debt Reduction[B]	2519	2912	393
Use of Additional Surplus:			
More Spending		69%	
More Tax Cuts		0%	
More Debt Reduction		31%	

[A]President's Midsession Review suggests this reserve would be available for "key national priorities" such as increased spending or targeted tax cuts. This summary assumes it would be devoted to spending. [B]Amount of unified surplus (post policy) used for debt reduction.

The *Bulletin* contributors wish to congratulate their very own editor and fearless marathoner, Amy Call, who completed the San Francisco Chronicle Marathon on July 9 with a time of 4:15:28, placing 58th in her age division (or 249th out of 843 total women entrants). Not too shabby for a first-time marathoner!

Amazingly, we were even able to follow Amy's progress last Sunday via a computer chip tied to her shoe, which posted on the Web (**www.chroniclemarathon.com)** her progress at certain intervals during the race. (Is the new economy cool, or what?) We have watched Amy train very hard for this goal; however, although we admire her dedication and accomplishment, and are even inspired, the rest of us will probably just cheer her on in her next marathon. Way to go, Amy!