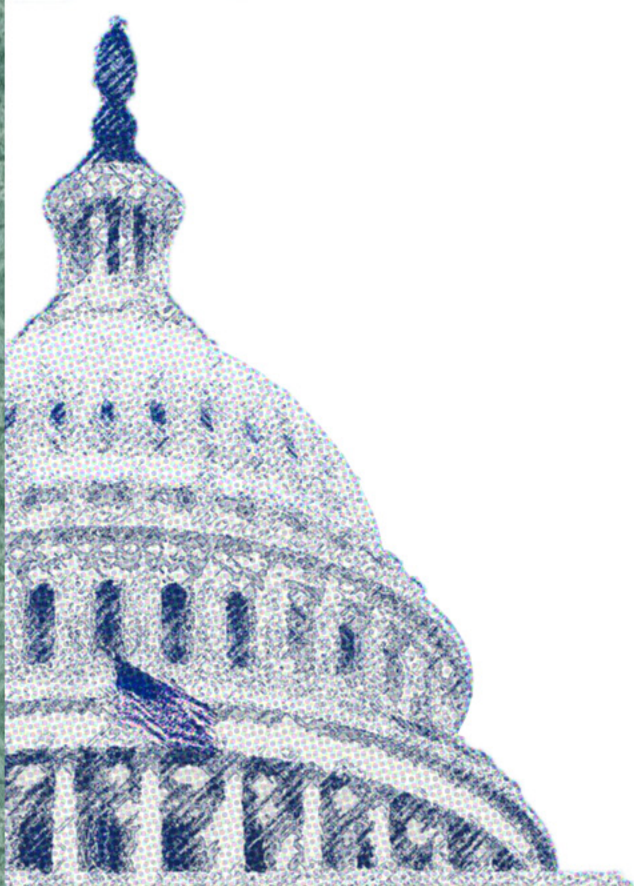
111th Congress
1st Session

August Recess Packet



August 6, 2009
Prepared by the
U. S. Senate Budget Committee
Republican Staff

JUDD GREGG
NEW HAMPSHIRE

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BUDGET, *Ranking Member*

APPROPRIATIONS

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August 6, 2009

Dear Republican Colleague:

As we wrap up our legislative business to return home for the August recess, it is important that we continue to discuss the majority party's plan to reform the nation's health care system, especially the plan's impact on the country's fiscal outlook.

The President has repeatedly said that health care reform must be fully offset and has pledged that it will not add to the deficit. However, Congressional Budget Office (CBO) estimates of the House Tri-Committee bill and the Senate HELP Committee bill indicate that both would result in hundreds of billions in additional deficits.

In fact, the Budget Committee minority staff estimates that once these proposals are fully implemented, they would each cost more than $2 trillion over ten years. In recent testimony before the Budget Committee, CBO Director Elmendorf confirmed that the current health care reform legislation "significantly expands the federal responsibility for health care costs." That will worsen the nation's long-term fiscal outlook, the exact opposite of what the Administration has said it will do.

Health care reform is not the only area where the majority continues to drive up spending without the necessary offsets. The Democratic Congress – which now wants Pay-Go to become law – has exploited loopholes to sweep $883 billion of Pay-Go violations under the rug over the past several years. The Administration's statutory Pay-Go proposal, which was approved by the House on July 22, would continue to exempt emergency spending from Pay-Go rules; would only apply to tax cuts or new mandatory spending; would do nothing to control discretionary spending growth; and would do nothing to reduce the trillions of dollars in public debt that will result from the President's budget. CBO's analysis of the legislation noted that its "enactment could lead to larger future deficits."

This packet includes information on the true long-term costs of the Democrats' health care reform proposals, as well as the facts on the House-passed Pay-Go. It also includes updates on the FY 2010 Terminations and Reductions proposed by the President; the President's student loan proposal that will save $33 billion less than originally thought; the current status of FY10 Appropriations bills; the current status of federal stimulus spending; and an economic round-up.

Please contact my staff at 202-224-6011 if you need any additional information.

Sincerely

Judd

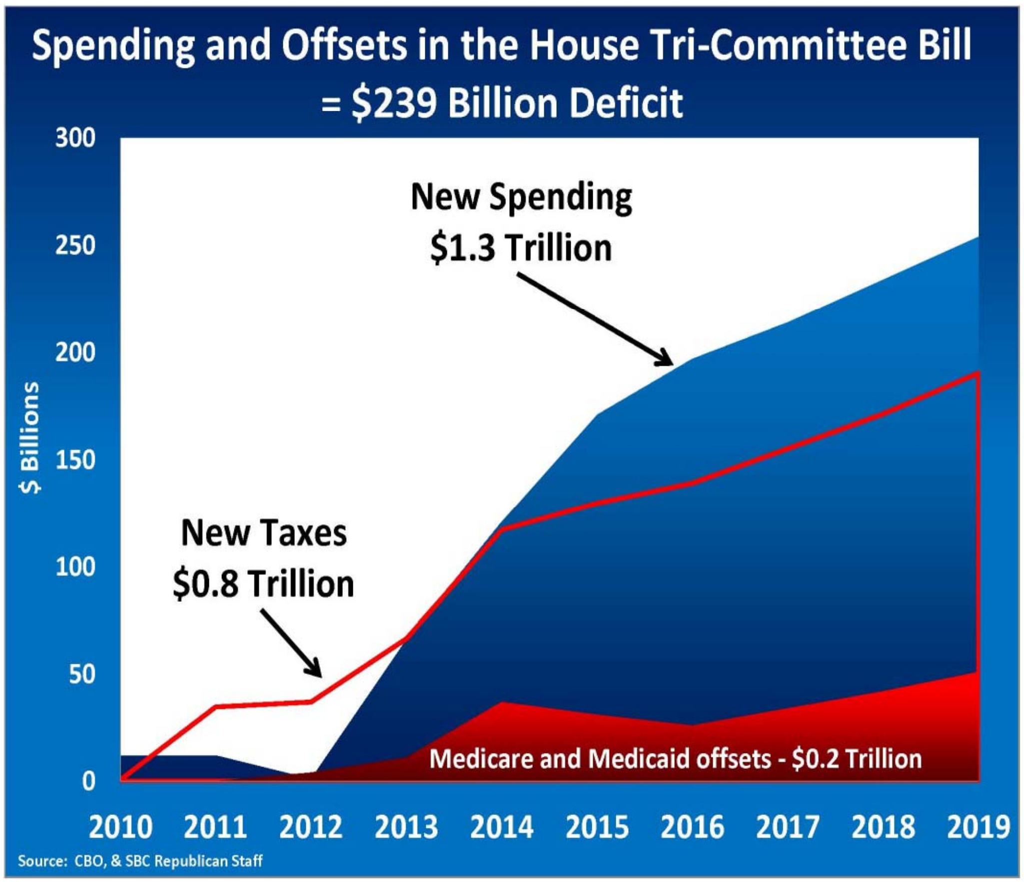
Judd Gregg

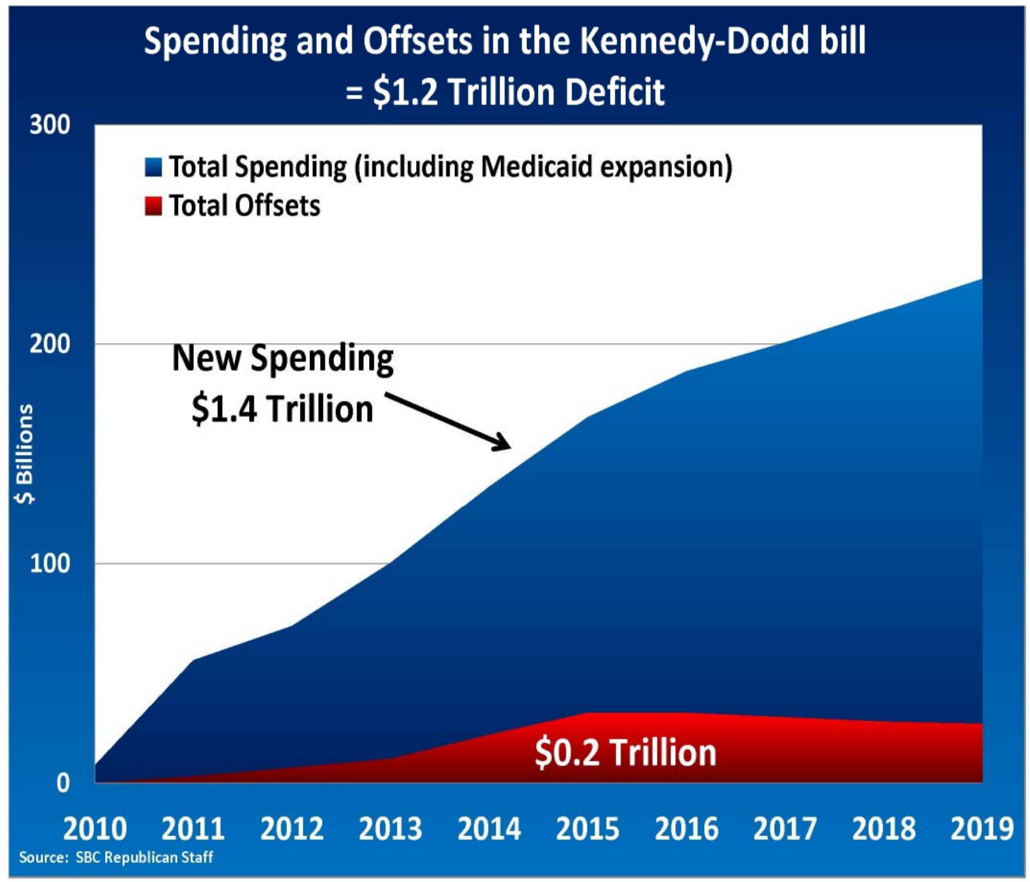
Health Care Fact Check

Are reform bills offset over 10 years?

- The President has said repeatedly that health care reform must be offset. On July 22 President Obama said, "I've also pledged that health insurance reform will not add to our deficit over the next decade, and I mean it."

- The charts below depict the CBO scores of the introduced House Tri-Committee bill and the introduced Senate HELP Committee bill—both include hundreds of billions in additional deficits.





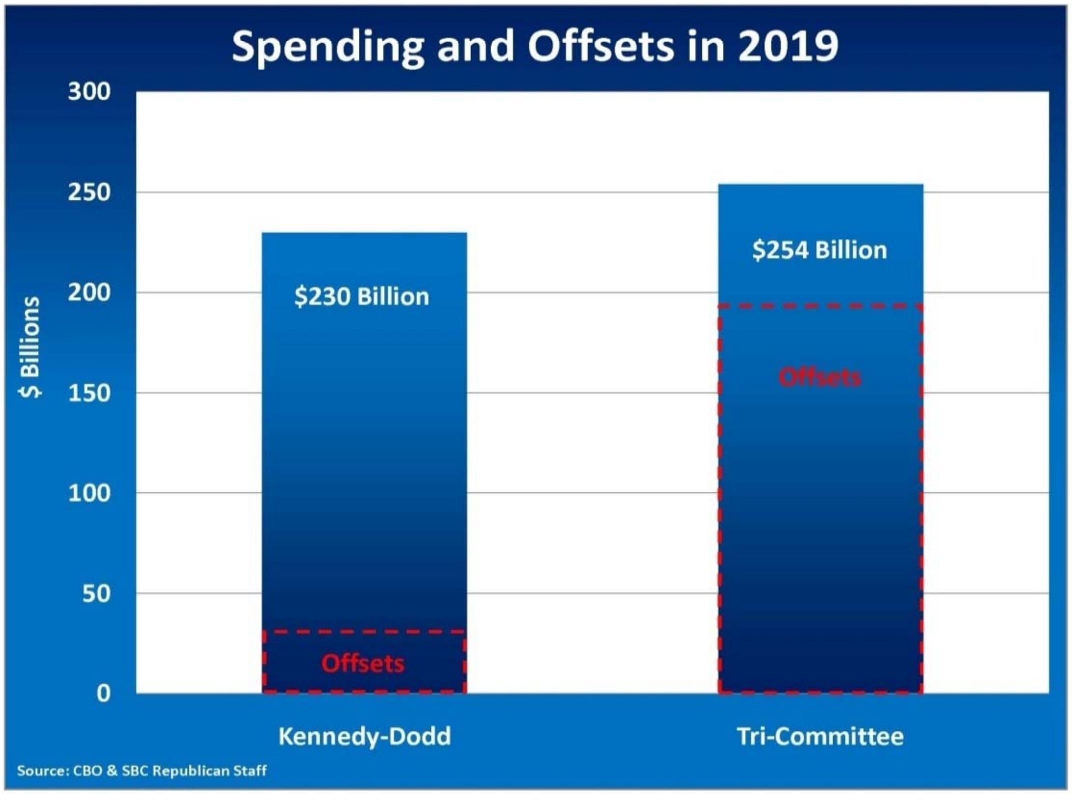
Health Care Fact Check

Are reform bills offset in the 10th year?

- Whether a bill increases the deficit over 10 years is only one part of evaluating its fiscal impact. Another test is whether the new spending and offsets in the bill match each other in the 10th year. Such a 10th-year test provides a preview of whether spending exceeds offsets in the 2nd decade.

- OMB Director Peter Orszag acknowledged this in his blog on June 17: "As I've written here before, the Administration is committed to the principle that health care reform must be deficit neutral over the next decade (as well as being deficit neutral in the tenth year alone)."

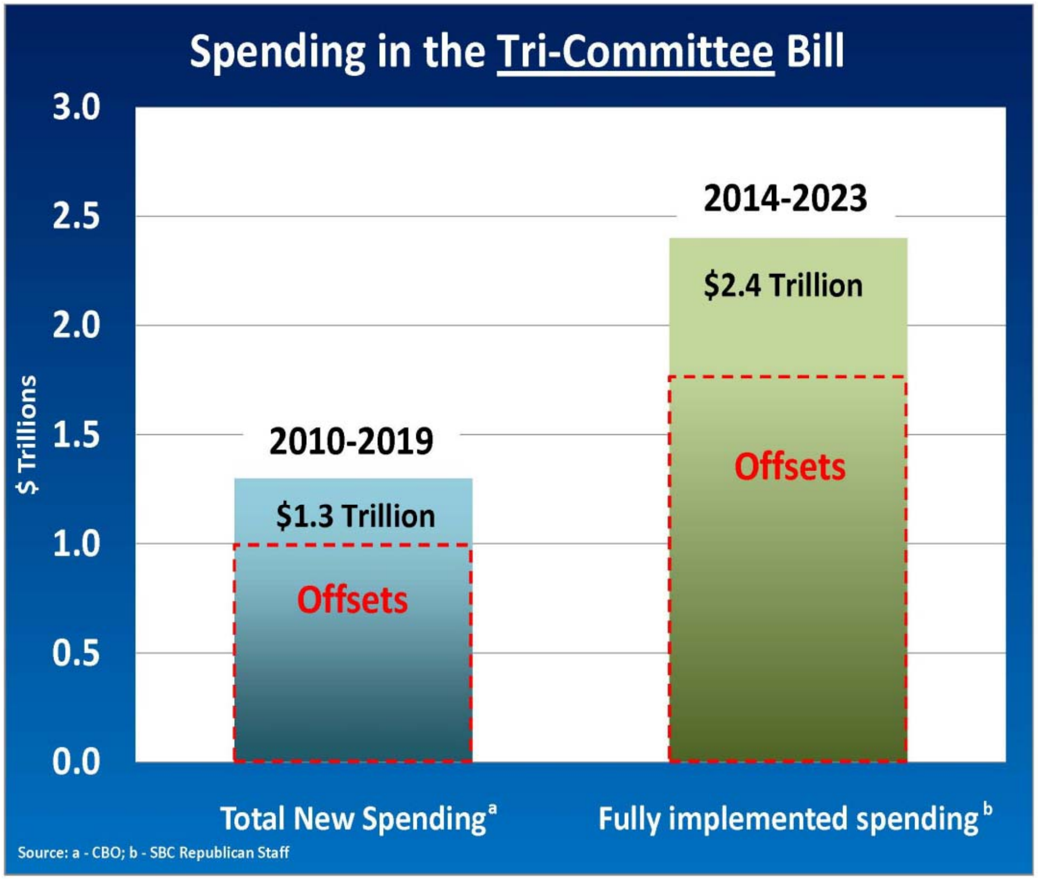
- The chart below illustrates that neither the House Tri-Committee bill nor the HELP Committee bill are fully offset in 2019.

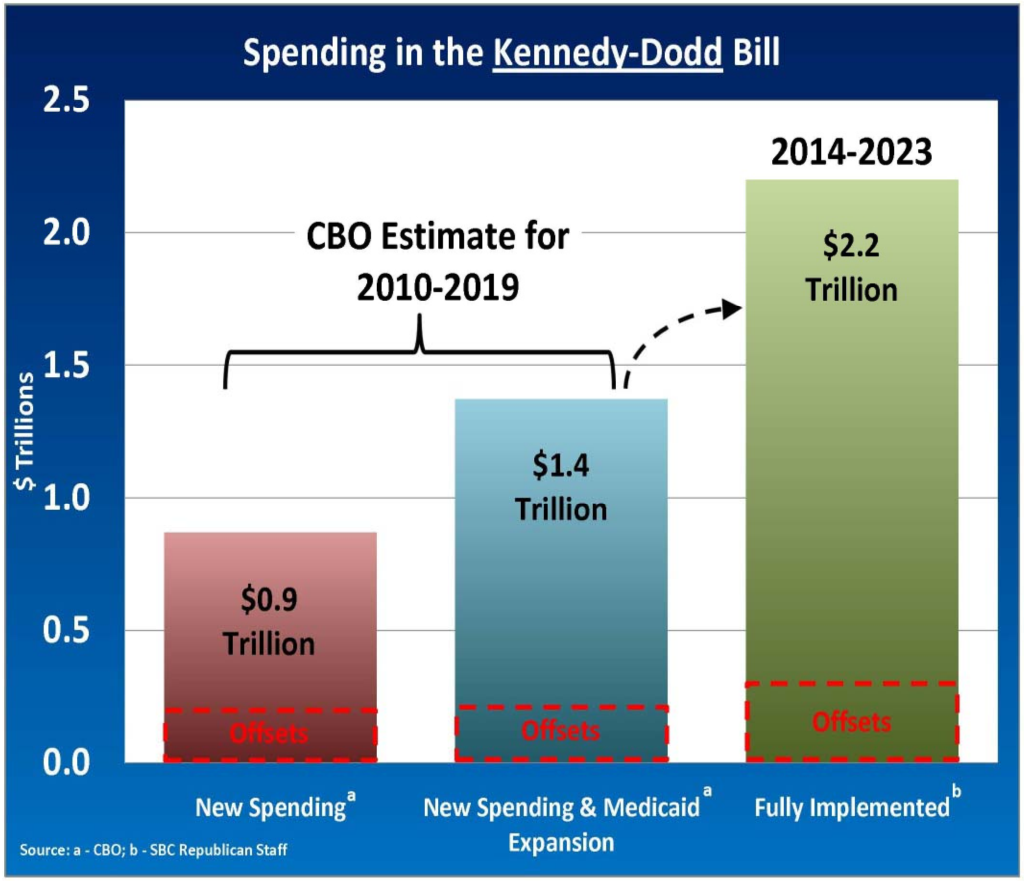


Health Care Fact Check

How much will it really cost?

- The CBO score provides an estimate of the cost of a bill over the first 10 years.
- However, because the health reform bills aren't fully implemented until the fourth year, the CBO estimate significantly underestimates the cost of the bill once it is fully implemented.
- The charts below depict the cost of the bills within the first 10 years AND the much larger cost of the bills over their first 10 years of full implementation.

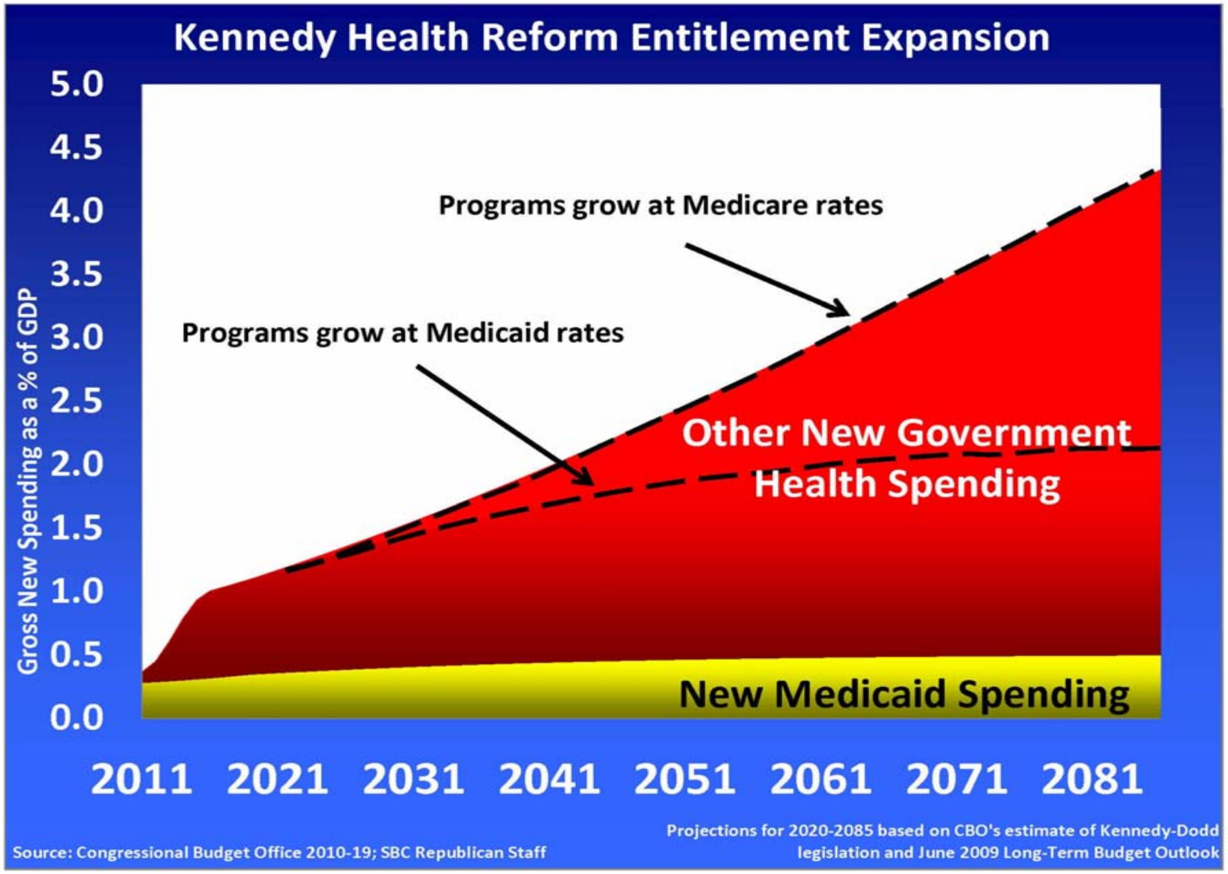




Health Care Fact Check

Long term cost control?

- The Administration has insisted that health care reform is essential to getting our nation's fiscal problems under control.
- On June 15, President Obama said, "Make no mistake: the cost of our health care is a threat to our economy. It is an escalating burden on our families and businesses. It is a ticking time-bomb for the federal budget. And it is unsustainable for the United States of America."
- The chart below illustrates that, rather than reducing long-term health care costs, the Senate's health reform bill thus far adds to the federal government's burden.



Health Care Fact Check

What does CBO say?

From CBO Director Elmendorf's testimony on health care reform before the Senate Budget Committee, July 16, 2009:

- " And on the contrary, the legislation significantly expands the federal responsibility for health care costs."
- "The changes we have looked at so far do not represent the sort of fundamental change on the order of magnitude that would be necessary to offset the direct increase in federal health costs included in the insurance coverage proposals."

CBO also noted in a July 26 letter to Congressman Dave Camp that the House Tri-Committee bill would "probably generate substantial increases in federal budget deficits during the decade beyond the current 10-year budget window."

The table below provides estimates of spending and offsets of the Tri-Committee bill over 20 years based on CBO's long-term projections of growth rates for the various components.

Estimates of Tri-Committee bill ($ billions)

	2010-19	2014-23	2020-2029	2010-2029
Net Cost of Coverage	1042	1943	3145	4187
Tax Increase	-583	-847	-1141	-1724
Medicare/Medicaid non-coverage provisions	-220	-467	-792	-1011
Totals	239	629	1212	1451

NOTE:

Estimates for 2010-2019 from CBO and JCT

Estimates for 2020-2029 are based on 8% growth rate for coverage and Medicare/Medicaid provisions and 5% growth rate for income taxes

Health Care Fact Check

If You Like The Coverage You Have, Are You Sure You Can Keep It???

"If you have health insurance, the reform we're proposing will provide you with more security and more stability. It will keep government out of health care decisions, giving you the option to keep your insurance if you're happy with it."

President Obama, July 22, 2009

Under the Senate HELP Committee's Affordable Health Choices Act:

- In testimony before the Senate HELP Committee, CBO stated that "millions" of Americans who receive their insurance from their employer would lose that coverage under the Kennedy-Dodd bill because some employers would either not be able to afford to offer it or would choose not to offer it.

Under the House Tri-Committee America's Affordable Health Choices Act:

- According to CBO, nearly 3 million people who would be covered by their employer's plan (or a plan offered to a family member) under current law would switch to coverage in the exchanges because their employer's offer would be deemed unaffordable and they would therefore be eligible to receive subsidies in the exchanges.
- According to CBO, about 3 million who would be covered by their employer's plan under current law would no longer have an employer's offer of coverage under the bill. Firms that would choose not to offer coverage as a result of the bill would tend to be smaller employers and those that predominantly employ lower-wage workers.

Background on H.R. 2920,
PAYGO Legislation Passed by the House on July 22

- On June 9, 2009, President Obama submitted to Congress a legislative proposal for reviving a statutory pay-as-you-go (PAYGO) system.

- On June 17, 2009, the President's bill was introduced in the House of Representatives by Majority Leader Steny Hoyer as HR 2920, the Statutory Pay-As-You-Go Act of 2009. The bill passed the House July 22 2009 with a vote of 265 ayes and 166 noes. On July 23rd, HR 2920 was received in the Senate and referred to the Budget Committee.

- On July 14, 2009, the Congressional Budget Office released an analysis of HR 2920. CBO noted that the text of HR 2920 as introduced was "virtually identical to the proposal recently advanced by the Administration." After reviewing the bill, CBO concluded: " Combined with the Congress's existing pay-as-you-go rules, a statutory sequestration mechanism such as the one proposed under HR 2920 could enhance overall budget enforcement. **However, if the system envisioned in HR 2920 was used in place of the current Congressional rules or a more stringent statutory PAYGO system, the legislation's enactment could lead to larger future deficits.** In addition, HR 2920 would shift a significant amount of control over the budget process from Congress to the executive branch."

- HR 2920 would establish new statutory pay-as-you-go requirements on legislation containing changes to mandatory spending or revenues, and authorizes the Administration to enforce them through a sequestration mechanism . Although similar to the statutory PAYGO system in place between 1990 and 2002, the bill contains important differences. These differences include:

    - It would require OMB to maintain 5 and 10 year PAYGO scorecards to determine whether a sequester would be needed; however the process for maintaining the ledger would differ from prior statutory PAYGO. Rather than recording the yearly effects of a score for a particular piece of legislation, OMB would develop estimates of the *average* annual impact of legislation over a 10-year period consisting of the upcoming budget year and 9 subsequent years, and record that amount on the PAYGO ledger for each year. If legislation resulted in current year effects on the deficit, those effects would be included in the total before computing the average annual impact. **Using this average cost scoring method, legislation that has high estimated costs in the early years with revenue increases in later years could be averaged to lower the apparent cost each year.**

    - It exempts certain legislation from PAYGO requirements. Exempted policies include extension of Medicare's Sustainable Growth Rate "doc fix;" extension of estate and gift tax policy in effect during 2009; extension of relief from the Alternative Minimum Tax; and extension of portions of the income tax cuts enacted in 2001 and 2003 benefitting low and middle-income households which are scheduled to expire under current law. CBO notes that **these exceptions**

would permit Congress to enact legislation that would increase deficits in the vicinity of $3 trillion over the period 2010-2019 without triggering a sequester.

- **The House bill modifies the Administration's proposal and makes extension of certain higher-income tax cuts enacted in 2001 and 2003 subject to PAYGO.** The provisions made subject to PAYGO include extension of the 35% income tax bracket and portions of the 33% bracket that apply to persons whose taxable income is greater than $200,000 for an individual and $250,000 for a couple, **and provisions relating to tax rates on capital gains and dividends.**

- Under the Budget Enforcement Act of 1990 (BEA), which first established statutory PAYGO requirements and expired in 2002, dozens of mandatory programs were exempt from sequestration. H.R. 2920 includes all of the exempt mandatory spending programs under BEA and adds mandatory programs passed since 2002, such as the Troubled Asset Relief Program (TARP) and the State Children's Health Insurance Program (SCHIP), to the exempt-from-sequestration list, as well as all programs enacted or increased under ARRA. Under the bill, more than 100 mandatory spending programs are exempt from statutory PAYGO sequester. CBO's analysis of the bill concludes: "***As a result, any feasible sequestration would not generate enough reductions in spending to offset the costs of major new spending or revenue initiatives***."

- **The House bill requires that CBO rather than OMB provide scoring of bills subject to being entered onto the PAYGO ledger.** CBO scores for bills subject to PAYGO are to be printed in the Congressional Record prior to final votes on legislation, and included by reference in the enrolled version of the legislation presented to the President for signature. OMB then is directed to use the scores referenced in the enrolled bill when calculating entries on the PAYGO scorecards. **This provision is an effort to ensure that CBO cost estimates remain the standard for scoring bills subject to PAYGO while also complying with the Supreme Court's decision in *Bowsher v. Synar*.** The bill also directs CBO to ignore the effects of timing shifts in scoring legislation.

➢ Unlike the BEA in 1990, HR 2920 does not contain discretionary spending caps or a mechanism for enforcing compliance with discretionary spending limits established elsewhere through any form of sequestration. This leaves 40 percent of annual federal spending without any control except for annual limits set in the budget resolution.

➢ In summarizing its analysis of HR 2920, CBO concluded that while some features of the bill, such as the statutory sequestration mechanism, could enhance overall budget enforcement, other features, such as the exemptions for legislation to extend certain current tax and spending policies, could lead to greater spending or lower revenues in the coming decade than would occur under the existing PAYGO provisions of House and Senate rules.

FY 2010 Terminations and Reductions Update

Earlier this year, President Obama continued an initiative started in the second-term of the Bush Administration by releasing an independent volume of proposed terminations and reductions along with its budget. When held up for comparison, the Obama Administration's attempt to deal with discretionary spending proved to be a poor carbon copy of the last administration's attempts.

- The Obama Administration proposed $12 billion in savings through the termination of 57 programs and the reduction of 18 programs for FY 2010. By comparison, the previous administration proposed $18 billion in savings through the termination of 103 and reduction of 48 programs for FY 2009. In the span of one fiscal year, the Obama Administration cut the number of termination proposals nearly in half and managed only one-third of the previous number of reduction proposals.

- As evident by the table below, this Administration's attempt at fiscal responsibility doesn't hold up to past efforts. On average, the last administration's budget offered 39 more terminations, 33 more reductions and $3 billion in more savings than the Obama Administration.

- Whereas the previous administration included proposals to reduce Department of Defense programs in a separate effort, this Administration uses defense budget cuts to generate 75 percent of their overall termination and reduction savings ($9 billion). Factoring out these defense savings shows that the Obama Administration's non-defense discretionary (NDD) savings represent an 80 percent ($15 billion) decrease from savings proposed in FY 2009.

Discretionary	FY 2006 (Bush) NDD	FY 2007 (Bush) NDD	FY 2008 (Bush) NDD	FY 2009 (Bush) NDD	FY 2010 (Obama) NDD	FY 2010 (Obama) Defense
Terminations (#)	99	91	91	103	48	9
Reductions (#)	55	50	50	48	11	7
Total (#)	154	141	141	151	59	16
Savings ($b)	$15	$15	$12	$18	$3	$9

FY 2010 APPROPRIATION ACTION

- Of the 11 appropriation bills reported out of the Senate Appropriations Committee so far, the Democratic-controlled Senate has rejected two-thirds of the President's termination proposals. Of the 48 non-defense discretionary terminations, only 16 terminations have been approved.

- These terminations approved by the Senate Appropriations Committee would result in $577 million in savings, which is 25% of the $2.3 billion savings the President requested in his proposals.

- Of the 11 non-defense discretionary reductions requested by the President, the Senate Appropriations Committee has rejected five and accepted one only partially. The remaining five proposals were reduced in accordance with the President's request.

- So far this year, the Democratic-controlled Senate has voted to reject Republican amendments to follow through on the President's termination proposals six times.

The following tables track the status of the President's proposed terminations and reductions.

Proposed Discretionary Terminations

($ millions)

Appropriations Bill	Program	Potential Savings	New Idea?	Results: Committee	Results: Floor Action	FY 2010 Funding
Agriculture	High Energy Cost Grant	18	Bush	Termination Rejected	Termination Vote Fails; 41-55	18
Agriculture	Public Broadcasting Grants	5	Bush	Termination Rejected	Termination Vote Fails; 37-60	5
Agriculture	Resource Conservation and Development Program	51	Bush	Funding Shifted Under New Heading	-	51
Agriculture	Rural Empowerment Zones and Enterprise Communities Grants	8	New	Terminated	-	0
Agriculture	Watershed and Flood Prevention Program	24	Bush	Termination Rejected	Termination Vote Fails;27-70	24
CJS	Public Telecom Facilities	18	Bush	Termination Rejected	-	20
CJS	State Criminal Alien Assistance Program	400	Bush	Funding Reduced	-	228
Defense	C-17 Strategic Airlift Aircraft	-91	New	-	-	-
Defense	Combat Search and Rescue (CSAR-X)	144	New	-	-	-
Defense	F-22 Raptor Fighter Aircraft	2,907	New	-	-	-
Defense	Future Combat Systems Manned Ground Vehicles	633	New	-	-	-
Defense	Joint Strike Fighter Alternate Engine	465	Bush	-	-	-
Defense	Multiple Kill Vehicle Program	283	New	-	-	-
Defense	Next Generation Bomber	0	New	-	-	-
Defense	Presidential Helicopter (VH-71)	750	New	-	-	-
Defense	Transformational Satellite	768	New	-	-	-
Energy	Environmental Infrastructure Construction	180	New	Termination Rejected	-	**
Energy	Los Alamos Neutron Science Center Refurbishment	19	New	Funding Increased	-	30
Energy	Nuclear Hydrogen Activities	8	New	Terminated	-	0
Energy	Nuclear Power 2010	158	New	Funding Reduced	-	120
Energy	Oil Research and Development Program	5	Bush	Funding Under New Account	-	25
Energy	Reliable Replacement Warhead	0	New	Terminated	-	0
Energy	Yucca Mountain Repository	91	New	Terminated	-	0
Financial	Christopher Columbus Fellowship Prog	1	Bush	Termination Rejected	-	1
Financial	Harry S Truman Scholarship Foundation	1	New	Funding Increased	-	1
Homeland	Emergency Operations Centers Grant Program	35	New	Funding Reduced	Termination Vote Fails; 36-59*	20
Homeland	Inter-City Bus Security Grant Program	12	New	Funding Reduced/Shifted to New Account	Termination Vote Fails; 47-51	6
Homeland	Loran-C	35	Bush	Funding Continues Pending Future Actions	Termination Vote Fails; 37-61	18
Homeland	Trucking Security Program	8	New	Terminated	-	0
Interior	Economic Action Program	5	New	Termination Rejected	-	5
Interior	California Diesel Emissions Reduction Grants	15	New	Funding Reduced	-	10
Interior	Homeland Security Grants	5	New	Terminated	-	0
Interior	Local Government Climate Change Grants	10	New	Terminated	-	0
Interior	Water Infrastructure Earmarks	145	Bush	Termination Rejected	-	150
LHHSE	Academies for American History and Civics	2	Bush	Terminated	-	0
LHHSE	Character Education Program	12	Bush	Termination Rejected	-	12
LHHSE	Civic Education	33	Bush	Termination Rejected	-	33
LHHSE	Close-Up Fellowship	2	Bush	Termination Rejected	-	2
LHHSE	Even Start	66	Bush	Terminated	-	0
LHHSE	Foundations for Learning	1	Bush	Terminated		0
LHHSE	Javits gifted and Talented Education Program	7	Bush	Termination Rejected	-	7
LHHSE	National Institute for Literacy	6	New	Terminated	-	0
LHHSE	Ready to Teach	11	Bush	Termination Rejected	-	11
LHHSE	Safe and Drug-Free Schools and Communities State Grants	295	Bush	Terminated	-	0
LHHSE	Student Mentoring Program	47	Bush	Terminated	-	0
LHHSE	Anthrax Vaccine Research	8	New	Funding Reduced	-	4
LHHSE	Delta Health Initiative	26	New	Funding Increased	-	40
LHHSE	Denali Commission	20	New	Funding Reduced	-	10
LHHSE	Health Care Facilities and Construction	310	New	Funding Reduced	-	157
LHHSE	Rural Community Facilities	10	Bush	Termination Rejected	-	10
LHHSE	Denali Job Training	3	Bush	Terminated	-	0
LHHSE	Work Incentive Grants	17	Bush	Terminated	-	0
THUD	Brownfields Economic Development	10	Bush	Terminated	-	0
THUD	Corridor H Appalachian Developmnt Highway	10	New	Funding Reduced	-	4
THUD	Denali Access	6	New	Funding Reduced	-	1
THUD	Rail Line Relocation Grants	25	Bush	Termination Rejected	-	25
THUD	Surface Transportation Priorities	161	New	Funding Increased	-	165

TOTAL PROPOSED SAVINGS FROM TERMINATIONS **8,204**

*This termination vote dealt with one of the earmarks funded through the EOC account.

**This termination targets environmental infrastructure earmarks, the bill continues funding various earmarks of this type.

Proposed Discretionary Reductions

($ millions)

Appropriations Bill	Program	FY2009 Enacted	FY 2010 Request	Potential Savings	New Idea?	Committee	FY 2010 Funding
Agriculture	Agricultural Research Service Buildings and Facilities	47	-50	97	New	Rejected	47
Agriculture	FDA Construction Earmark for Natural Products Research	16	12	4	New	Rejected	*
Defense	Airborne Laser Program	401	187	214	New	-	-
Defense	Aircraft Carrier Build Schedule	1,211	484	727	New	-	-
Defense	Government Relaince on Contracted Service Support	20,100	19,200	900	New	-	-
Defense	Ground-Based Midcourse Defense	1,507	983	524	New	-	-
Defense	LPD-17 and Mobile Landing Platform Trannsport Ships	930	1,177	-247	New	-	-
Defense	Navy CG (X) Cruiser	142	150	-8	New	-	-
Defense	Recruiting and Retention Adjustments to Maintain End-Strength	7,039	6,246	793	New	-	-
Energy	Low-Performing Corps Construction Projects	244	0	244	New	Rejected	**
Financial Services	Election Assistance Commission Grants	106	52	54	New	Reduced	52
Interior	Targeted Funding for Alaska Native Villages Infrastructure	19	10	9	New	Partial Reduction	15
Interior	Abandoned Mine Lands Discretionary Grants	20	7	13	New	Reduced	6
LHHSE	Real Choice Change Systems Grants	5	3	2	Bush	Reduced	3
LHSSE	Office of Labor-Management Standards	45	41	4	New	Reduced	41
State For Ops	Voice of America	3	1	2	New	Rejected (Increased)	***
State For Ops	African Development Foundation Program	33	30	3	New	Reduced	30
State For Ops	East_West Center Assistance	21	12	9	New	Rejected (Increased)	24
TOTAL PROPOSED SAVINGS FROM REDUCTIONS				**3,344**			

* The President proposed disallowing the continued funding of a $4 million earmark, the Committee rejected and funded the earmark.
** The President proposed eliminating $244 million worth of earmark projects, the General Construction account which holds this projects was increased by $160 million to $1.9 billion
*** The bill was silent on the particular program termination but the overall program was increased by $3 million for a total of $204 million.
NOTE: No votes have been taken regarding these proposed reductions.

Student Loan Update: A Budget Perspective

- The President's FY 2010 budget proposes to eliminate the federal government's guaranteed student loan program, the Federal Family Education Loan program (FFEL), and begin originating all new federal student loans through the Direct Loan program (DL) by July 1, 2010.

- The federal government operates two competing student loan programs: the Direct Loan program that provides loans from the Treasury to students and the Federal Family Education Loan Program that provides federal guarantees and incentives to private lenders to provide loans to students. Under current law, the FFEL program will provide almost 12 million loans in FY 2010 for a total of $65 billion in new loan volume. Direct Loans will provide nearly 5 million loans for a total of $25 billion in new loan volume. CBO estimates that the FFEL program will be responsible for 70 percent of all new federal student loans over the next ten year period. **The President's proposal, by eliminating the FFEL program, will nearly quadruple the amount of student loan volume originated by the federal government.**

- Under the current budget resolution, S Con Res 13, the Senate HELP Committee has been given reconciliation instructions to produce legislation saving $1 billion over the FY 2009-2014 period, and it is expected that if the HELP Committee acts on the instruction, it will include the President's student loan proposal.

- As required under the Federal Credit Reform Act (FCRA), CBO scored the President's proposal under standard credit estimating procedures and found that the proposal would generate savings of $87 billion over the ten year period, excluding discretionary administrative costs of $7 billion.

- In response to several recent high-profile pieces of credit legislation being scored with an adjustment for market risk (TARP, federal conservatorship of Fannie Mae and Freddie Mac, IMF), Senator Gregg asked CBO to re-estimate the President's student loan proposal with this same adjustment to provide the Senate an estimate that reflects the true cost of the proposal to taxpayers. In response to this request, CBO found that **when the President's student loan proposal is scored with an adjustment for market risk, the savings are about $47 billion over the ten year period—a net $33 billion less than CBO's estimate under the standard credit reform treatment.**

- CBO's new market risk adjusted estimate, although not the estimate that will be used for evaluating legislation, should call into question claims of "offset" spending in any legislation that contains the President's proposal.

- In a sign of possible things to come, the House Committee on Education and Labor reported the Student Aid and Fiscal Responsibility Act (including the President's student loan proposal) which CBO estimated under standard credit procedures would save a net $7.8 billion over the 2009-2019 period. What t**his really means is that the bill would spend $32 billion more on new and expanded entitlement programs than the real economic savings (adjusting for market risk) that CBO estimates will accrue to the federal government from the President's proposal.**

Current Status of FY 2010 Appropriations Legislation

(in billions)

Subcommittee		PRESIDENT'S REQUEST 1/	SENATE Senate Status	302(b)	Senate bill	Senate vs. President	Senate vs. House	HOUSE House Status	302(b)	House bill
Agriculture 2/	BA	22.811	Passed Floor	23.050	23.050	0.239	0.150	Passed Floor	22.900	22.900
	OT	24.735	8/4/2009	24.886	24.886	0.151	0.200	266-160	24.883	24.686
Commerce, Justice, Science	BA	64.612	Full Committee	64.800	64.926	0.314	0.513	Passed Floor	64.415	64.413
	OT	71.182	6/25/2009	71.101	71.205	0.023	0.544	259-157	70.736	70.661
Defense 3/	BA	640.103	Subcommittee	508.050	3/	NA	NA	Passed Floor	636.293	636.293
	OT	620.960	7/16/2009	579.418	3/	NA	NA	400-30	648.367	647.932
Energy & Water	BA	34.394	Passed Floor	33.750	33.750	-0.644	0.452	Passed Floor	33.300	33.298
	OT	42.477	85-9	43.201	43.201	0.724	0.474	320-97	42.771	42.727
Financial Services	BA	24.306	Full Committee	23.510	24.400	0.094	0.250	Passed Floor	24.150	24.150
	OT	25.793	7/9/2009	25.049	25.857	0.064	0.207	219-208	25.653	25.650
Homeland Security	BA	42.838	Passed Floor	42.927	42.927	0.089	0.310	Passed Floor	42.625	42.617
	OT	46.298	84-6	46.703	46.700	0.402	0.379	389-37	46.345	46.321
Interior, Environment	BA	32.325	Full Committee	32.100	32.100	-0.225	-0.200	Passed Floor	32.300	32.300
	OT	34.238	6/25/2009	34.278	34.273	0.035	0.085	254-173	34.188	34.188
Labor, HHS, Education 4/	BA	119.429	Full Committee	160.354	163.100	43.671	-0.300	Passed Floor	163.400	163.400
	OT	188.608	7/30/2009	217.248	218.831	30.223	0.044	264-153	218.909	218.787
Legislative Branch 5/	BA	5.157	Passed Floor	4.622	4.612	-0.545	-0.013	Passed Floor	4.700	4.625
	OT	4.912	67-25	4.615	4.605	-0.307	-0.131	232-178	4.805	4.736
Military Construction, VA	BA	80.620	Full Committee	76.706	78.105	-2.515	0.200	Passed Floor	77.905	77.905
	OT	79.816	7/7/2009	77.555	77.703	-2.113	0.045	415-3	77.665	77.658
State, Foreign Operations	BA	52.043	Full Committee	48.700	48.685	-3.358	-0.158	Passed Floor	48.843	48.843
	OT	45.620	7/9/2009	47.736	47.723	2.103	0.260	318-106	47.487	47.463
Transportation, HUD 6/	BA	103.919	Full Committee	67.700	67.700	-36.219	-1.121	Passed Floor	68.821	68.821
	OT	119.553	7/30/2009	134.469	134.461	14.908	-0.124	256-168	135.243	134.585
Full Committee Allowance	BA			0					0	
	OT			0					0.566	
TOTAL	BA	1222.557		1086.269	583.355	NA	NA		1219.652	1219.565
	OT	1304.192		1306.259	729.445	NA	NA		1377.618	1375.394

1/ CBO's reestimate of the President's request

2/ Score for Senate bill reflects the reported version. Score for the bill as passed by the Senate is pending.

3/ Senate Appropriations Committee has not yet reported a bill.

4/ President's request total is lower because it reflects his proposal to convert Pell grants from discretionary to mandatory spending, which was not adopted by the committees.

5/ House bill total includes addition of Senate-only items from the Senate-passed bill.

6/ President's request for budget authority is significantly higher than Congressional action because the President proposed scoring transportation obligation limitations as discretionary BA, a proposal that Congress has not adopted.

Source: SBC Republican staff based on CBO estimates

August 5, 2009

Status of Federal Stimulus Spending Under PL 111-5 as of August 6, 2009

(in millions)

Agency	Total BA	Obligated	Expended	% Obligated	% Expended
Department of Agriculture	27,649	4,239	3,213	15%	12%
Department of Commerce	7,936	1,069	479	13%	6%
Department of Defense (military)	7,435	1,725	58	23%	1%
Department of Health & Human Services	140,304	41,796	25,856	30%	18%
Department of the Interior	3,005	338	20	11%	1%
Department of Justice	4,002	3,112	687	78%	17%
Department of Labor	70,152	23,869	13,865	34%	20%
Department of State	564	70	13	12%	2%
Department of the Treasury	72,979	1,473	77	2%	0%
Social Security Administration	15,087	13,113	13,101	87%	87%
Department of Education	98,238	55,125	12,397	56%	13%
Department of Energy	45,225	9,025	282	20%	1%
Environmental Protection Agency	7,220	5,943	42	82%	1%
Department of Transportation	48,120	23,359	1,147	49%	2%
General Services Administration	5,857	1,376	40	23%	1%
Department of Homeland Security	2,755	695	62	25%	2%
Department of Housing & Urban Development	13,625	7,420	988	54%	7%
National Aeronautics & Space Administration	1,002	94	-	9%	0%
Department of Veterans' Affairs	1,408	577	469	41%	33%
Army Corps of Engineers -- Civil Works	4,600	907	109	20%	2%
National Science Foundation	3,002	1,245	17	41%	1%
Other Agencies (a)	1,225	600	213	49%	17%
TOTAL (b)	**581,390**	**197,170**	**73,135**	**34%**	**13%**

NOTES

(a) Other Agencies total BA is a gross number which excludes savings credited to the Federal share of Federal employee health insurance premiums associated with health information technology policies contained in PL 111-5.

(b) Total Budget Authority (BA) does not include $211.8 billion in reduced revenue resulting from PL 111-5.

Source: SBC Republican Staff, CBO, Recovery Transparency and Accountability Board (Recovery.gov)

Background & Talking Points on the Economy

Overview

- The economy is no longer in freefall, but we're facing a painful "jobless recovery" characterized by relatively slow economic growth (although some quarters will be stronger than others). Many economists foresee a "mediocre recovery" with equal emphasis on both words.

  - According to the International Monetary Fund's research, recessions associated with financial crises tend to be more severe and tend to last longer than economic downturns associated with other shocks. Moreover, during the recovery phase of the business cycle, consumer spending typically grows more slowly, and private investment continues to decline longer after the recession ends.

  - What is the Obama Administration doing to promote investment and job creation? The policy agenda in Washington is dominated by job- and growth-killing proposals: cap-and-trade, surtaxes, business mandates, and higher income tax rates.

  - As Congress tackles financial regulatory reform, health reform, and a handful of other high priority issues, we must not lose sight of the principles (rule of law and the protection of private property, a reliance on markets, limited but effective government, sound money, openness to international trade) that made the U.S. the wealthiest, most productive country the world has ever seen.

Gross Domestic Product

- The July "Blue Chip consensus" estimates that the economy will shrink (on a year-over-year basis) 2.6% this year in real terms. The economy is expected to grow 2% next year.

- On July 31, the Commerce Department released the results of its long-planned, comprehensive revision of its GDP estimates. We learned that the current economic downturn has been far deeper than previous published estimates indicated.

  - According to the Commerce Department, "From the fourth quarter of 2007 to the first quarter of 2009, real GDP decreased 2.8 percent at an average annual rate; in the previously published estimates, it had decreased 1.8 percent."

  - The economy has contracted for five of the six most recent quarters. Also, for the first time on record (we have quarterly data going back to 1947), the economy has contracted for four consecutive quarters.

- We also learned on July 31 that the economy contracted far more slowly in the second quarter (April-June 2009 is the most recent quarter for which data are available) than during the previous two quarters. However, even this slower rate of contraction (-1.0% at an annual rate) is comparable to the worst quarters of the previous recession (-1.3% in Q1 2001 and -1.1% in Q3 2001).

- Although the economy shrank more slowly (-1% at an annual rate) in the second quarter, the economy contracted at an annual rate of 3.5% in the second quarter if you exclude net trade and growth in government gross consumption and investment. Why is that important? It's important because it indicates that private consumption and investment are more feeble than the headlines suggest.

- Although the first official estimate for how the economy fared in the current quarter (July through September) will not be released until late October, we will likely learn at that time that the actually economy <u>grew</u>.

<u>What Are the Drivers of Future Economic Growth?</u>

- <u>Personal consumption expenditures</u> account for approximately 70% of GDP. Small changes in the growth rates of personal consumption expenditures can have a substantial impact on overall GDP growth. Personal consumption expenditures have contracted for four of the past six quarters. What can we expect going forward? Personal consumption will grow when consumers have both the willingness and the means to consume. Because worried consumers are less likely to spend, consumer confidence is key. Ongoing job losses and a high level of unemployment sap confidence and deny consumers the means to consume. Moreover, having lost wealth in real estate and the stock market, consumers may continue to spend less as they seek to rebuild their wealth by saving more of their income.

- <u>Investment</u> has contracted for seven consecutive quarters. Although it accounts for a far smaller share of GDP (about 10%) than personal consumption, it is prone to volatile surges and falls. Recent quarters have been no different. In fact, gross private domestic investment — consisting of business fixed investment (equipment, software, structures), residential investment, and business inventories—contracted at an annual rate of more than 50% in the first quarter and at an annual rate of more than 20% in the second quarter.

    - Business fixed investment has contracted for four consecutive quarters. Looking forward, the question is: "Why invest now?" With national capacity utilization rate at an all-time low (68%), businesses have little incentive to expand capacity. Moreover, the Obama Administration's public policy agenda (health insurance mandates, surtaxes, cap-and-trade, rising tax rates) is decidedly anti-growth.

    - Residential investment (i.e., new construction and renovation of single-family homes, apartment complexes, etc.) has fallen for 14 consecutive quarters. This downward pressure on GDP growth is expected to subside in the near future.

    - Business inventories have fallen dramatically in recent quarters. This has pulled down the GDP growth rate, but because industrial production will need to increase to meet increases in consumer demand, it sets the stage for future growth.

- <u>Trade</u>. Before the economic and financial meltdown late last year, strong export growth had boosted United State's GDP growth rate, largely offsetting the negative impact of falling residential investment. Since then, however, trade has boosted GDP, but only because U.S. imports have fallen faster than exports. Clearly, that is not a sustainable source of growth. International trade is stabilizing as U.S. and foreign economies stabilize. To the extent the U.S. recovers earlier and stronger than our trading partners, we can expect U.S. imports to grow faster than exports—acting as a brake on GDP growth.

- Government consumption and investment (roughly 20% of GDP) has had a generally positive impact on the official GDP statistics. Federal gross consumption and investment grew at an annual rate of 10.9% in the second quarter; state and local consumption and investment grew more slowly, but overall government consumption and investment boosted the GDP growth rate considerably.

The Recession

- When will the U.S. recession end? Nearly 77% of the economists surveyed for the July "Blue Chip" report say the National Bureau of Economic Research (NBER), the official arbiter of the business cycle, will eventually determine that the recession ended in second or third quarter of 2009. More than 94% of the economists surveyed said the recession will eventually be declared to have ended this year.

- Once the recession ends, it may be some time before it becomes apparent:

  - The NBER did not determine and announce until December 1992 that the 1990-91 recession had ended in March 1991—1 year and 9 months earlier! Similarly, it took the NBER 1 year and 8 months to determine and announce the end of the 2001 recession.

  - Although the 1990-91 recession ended in March 1991, the unemployment rate did not peak until June 1992. Similarly, although the 2001 recession ended in November 2001, the unemployment rate did not peak until June 2003.

Employment & Unemployment
(watch for new data on Friday, Aug. 7)

- Long after the recession has ended, the U.S. will be left with a high level of unemployment. As of June, the national unemployment rate stood at 9.5%. However, unemployment rates vary considerably at the state-level. Thirteen states are saddled with double-digit unemployment rates. At 15.2%, Michigan has the highest unemployment rate in the nation. At 4.2%, North Dakota has the lowest.

- The July "Blue Chip consensus" estimates that the national unemployment rate will peak at 10.3% in late 2009 or early 2010. The unemployment rate is expected to remain near 10% throughout next year.

- National employment, as measured by the Labor Department's Establishment Survey, peaked in December 2007 and has fallen by nearly 6.5 million.