COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

Memo to: Board and Members
From: Carol Wait
Date: May 10, 2001

Subject: FY 2002 Conference Report—Corrected Copy

This week, the House and Senate passed the conference report on H. Con. Res 83, Concurrent Resolution on the Budget for FY 2002. The resolution generally reflects the President's budget presentation. The numbers add up on the face of the budget but the spending and revenue levels could prove to be impossible to enforce. Spending could exceed or revenues could fall below the levels in the resolution. That could threaten the surplus and encourage the use of gimmicks to avoid the discipline the budget is meant to enforce. All of this would further undermine confidence in the budget process and the credibility of the only legislative tool that has effectively disciplined federal spending in the past.

We are concerned because we believe that this resolution could repeat the mistakes of the last three years, in which political leaders of both parties disregarded budget limits. Budget resolutions cannot be viewed simply as documents necessary to expedite passage of spending and revenue bills. A responsible budget sets priorities *and* enforces those priorities. If the President and Congress continue to set unrealistic limits and/or bust the budget, they will fatally wound the budget process.

The Resolution assumes $1.39 trillion in tax relief 2002-11—

- Reconciliation instructions to House Ways and Means and Senate Finance Committees directing them to report legislation to reduce receipts by $1.25 trillion over ten years and permitting $100 billion increased outlays in 2001-2002. Budget scorekeeping treats refunds unrelated to individual liabilities under the Internal Revenue Code as outlays.

- In addition, the resolution contemplates $140 million/10 years in (unreconciled) revenue reductions for extenders and the out-year impacts of the cyclical tax cut/refund.

220 ½ E Street, N.E.*Washington, DC 20002*Tel. (202) 547-4484*Fax (202) 547-4476*CRFB @ aol.com

It assumes 5% (nominal) growth in discretionary budget authority 2001-2002.

- 4.7% for Defense. The resolution is the same as the CBO re-estimate of the President's budget for Defense. That includes no room for any new spending request that surely will follow the Rumsfeld review at DOD.

- 5.3% for Non-defense. This is $6.2 billion more than the President requested for FY 2002—and about sixty percent of the growth rate over the last three years.

- Discretionary spending increased an average of 4.7% 1991-96, 4.6% 1996-2000. CBO projects the increase will be 7.2% 1000-2001.

The table below compares the resolution, the CBO baseline and the President's Budget.

	2001	2002	2003	2004	2005	2006	2002-06	2002-11
Revenues								
CBO Baseline	2135	2236	2343	2453	2570	2689	12,291	27,886
President	2137	2192	2258	2339	2438	2529	11,756	
Conference	2135	2171	2267	2369	2473	2551	11,829	26,603
Discretionary Outlays								
CBO Baseline	645	681	708	728	748	764	3,628	7,739
President	649	692	712	728	755	770	3,660	7,816
Conference	647	683	707	726	746	762	3,624	7,722
Mandatory Outlays								
CBO Baseline	1004	1062	1111	1185	1271	1327	5,956	13,916
President	1001	1067	1129	1184	1270	1326	5,976	13,991
Conference	1094	1082	1138	1217	1307	1368	6,113	14,376
Net Interest								
CBO Baseline*	205	179	163	142	116	90	690	622
President	206	188	175	162	145	127	796	1130
Conference	207	287	175	161	142	126	790	1120
Total Outlays								
CBO Baseline	1853	1923	1984	2056	2137	2184	10,284	22,277
President	1856	1961	2016	2077	2169	2224	10,447	22,938
Conference	1948	1952	2021	2103	2196	2256	10,528	23,218
Total Surplus								
CBO Baseline	281	313	359	397	433	505	2,007	5,610
President	281	231	242	262	269	305	1,309	3,432
Conference	186	219	246	266	277	295	1,302	3,384

The conference report looks much like the President's budget. But there are differences.

1. In FY 2002, total revenues, outlays and surpluses are below the President—mandatory spending is higher but discretionary is lower. Much of the new spending contemplated by the budget is in education. Most discretionary education programs are "forward funded". Thus, we would expect to see outlays go up in future years. But discretionary outlays in the conference agreement are below the levels in the President's budget every year through 2006.

   Sometime later this year Congress will pass, and the President will sign into law, new discretionary spending caps for FY 2002 and perhaps future years as well. The last congress and President Clinton agreed to a one-year cap adjustment in the FY 2001 Foreign Ops appropriations bill. CBO estimates that the FY 2002 cap is $576 billion. The budget resolution provides for an upward adjustment to avoid the point of order against consideration of bills consistent with the budget. But actually changing the cap will require passage of legislation.

   Congress and the President also must decide how to accommodate the mandatory spending increases and tax cuts in all versions of the budget without triggering a PAYGO sequester.

   When Congress and the Administration sit down to negotiate new spending limits, there almost certainly will be another serous fight about the level of discretionary spending and how much of the surplus should be available to finance new mandatory spending without triggering a PAYGO sequester.

2. The conference report contains over $400 billion in reserve funds to be made available in the event that specific committees report—

   - Medicare reform and prescription drug coverage;
   - Repeal of the 15% reduction in home health payments;
   - Subsidies for parents of children with special needs to buy-in to Medicaid coverage for those children;
   - Authorization or reauthorization of farm subsidies; and
   - Health insurance purchases for the uninsured.

   None of those bills is supposed to reduce on-budget surpluses below the level of Medicare HI surpluses. More good surprises, i.e., upward revisions in projected budget surpluses almost certainly would be required to pass and fund all of the above policies without violating that proscription.

3. The House Ways and Means Committee already has reported legislation to reduce revenues $444 billion over five years and $1.483 trillion over ten years—somewhat more than the budget resolution provides.

   Even so, Ways and Means has not acted to redress the Alternative Minimum Tax (AMT) problem—which could claw back as much as 30% of the benefit of rate reductions, marriage penalty relief and the child credit for many taxpayers. And Ways and Means has yet to consider a business or corporate bill.

Reconciliation Bills are to be reported from the House Ways and Means Committee and the Senate Finance Committee by May 18. The instructions direct the committees to report legislation to reduce receipts by $1.25 trillion over ten years. They permit—but do not require—the committees to report rebate legislation in the reconciliation bill.

No other committee is directed to report reconciliation legislation.

The President and Republicans in Congress clearly hope and expect to enact tax cut legislation before the July 4 recess.

Conclusion

We are concerned about the threat to the budget process if Congress and the President are unwilling or unable to live within the spending and tax limits contained in the conference report.

We are also concerned that the longer-term budget outlook is for disappearing surpluses and emerging very large deficits as the baby boom generation retires. Transition provisions in Social Security and Medicare reform almost certainly will cost money compared to current law. But reform is absolutely necessary to make both of these enormously popular programs affordable for future taxpayers. This budget does not leave much of the on-budget surplus “on the table” to pay transition costs, even if Congress and the President successfully enforce the conference agreement.

Having said all that, Congress passed their budget on time this year. And we hope that they will honor it as they proceed to consider specific spending and tax legislation.