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Memo to: Board and Members
From: Carol Cox Wait
Date: August 1, 2002

Subject: Budget Issue Update—Summer Recess
The Year of the Budget Nightmare

Budget Games

Bill Frenzel, our Republican Co-Chairman, has this to say about the games people play: “If we would expend half as much energy and brainpower in passing a budget and sticking to it as we do in figuring out how to pander to all our spending and tax cutting constituencies, the numbers would be in the black as far as the eye can see.”

The supplemental that Congress just passed includes \$5.1 billion in “contingency funds”. If the President agrees, the contingency funds would be designated “emergency” appropriations. The “contingencies” include money for 13 Departments and agencies. These funds were not included in the President’s supplemental request. The President might like to have some of the money before October 1st but he cannot pick and choose. The way the bill is written, he must designate all the contingency items emergencies or none of them. If he does not agree to the emergency designation, the money will not be available for expenditure under this bill.

Most of the so-called “contingencies” were included in the President’s FY 2003 request. They belong in 2003. This is a blatant attempt to move the money into 2002 and make room for an additional \$5 billion in FY 2003 appropriations. The President should just say no.

The End of Budget Enforcement

Hypothetical headline mid to late October, “Senate Passes \$1.4 Trillion Dollar Prescription Drug/Tax Cut Bill”. The Budget Enforcement Act (BEA) (budget caps and PAYGO rules enacted in 1990 and extended in 1993 and 1997) expires September 30, and with it the 60-vote points of order in the Senate. Come October, the Senate could pass a bill that combines the Democrats’ \$800+ billion prescription drug bill with the President’s \$550 billion in additional tax cuts. There would be no 60-vote point of order.

Any Senator could filibuster. But the filibuster would be reported very differently than a Budget Act point of order. Filibusters tend to be reported as obstructionist tactics. Budget Act points of order tend to be reported as fiscally responsible actions. Some Senators might try to trim the cost of the package. Proponents almost certainly would be willing to add extra goodies to attract votes. If this seems entirely implausible to you, review the "Budget Outlook" on the following pages. We fear that it is all too believable, a nightmare for anyone concerned with responsible budgets.

Current Budget Outlook

Rules don't work well all the time. Almost everyone abuses some speed limit some time. Does that argue for repeal of all speed limits? Congresses and Administrations have used large surpluses, war and recession as excuses to bust through budget caps and avoid pay-as-you-go (PAYGO) discipline. (PAYGO is supposed to force trade-offs for tax cuts or new entitlements if such legislation would increase the deficit.) Some would say that, since the rules don't work there is no real need to extend them.

The House passed a budget and they have done a pretty good job enforcing it with regard to appropriations bills. But the House Budget Committee has not tried to block tax cuts or direct spending legislation. And the House has yet to face pressures that will arise from higher Senate Spending levels and differences over priorities between and among the two bodies and the Administration.

The Senate has not passed a budget. But Appropriations Chairman Byrd and Ranking Minority Member Stevens have announced their intention to keep the 13 regular bills in line with targets consistent with the Budget Committee-reported resolution. They even suggested that both will oppose any amendments that do not include offsets. The Senate targets are \$9.8 billion higher than the House and \$11.1 billion higher than the President. And there surely will be another supplemental appropriations bill next year.

The Senate targets assume \$2.4 billion more than the House or the President in advances from FY 2002 appropriations. Appropriations grew almost 11% per year over the last two years and about 6% per year for the two previous years.

Who is kidding whom? As the tables on the next page illustrate, both Houses of Congress are busy passing bills to increase spending and cut taxes. The Administration supports some spending increases and most of the tax cuts. The budget is in deficit. Cutting taxes *and* increasing spending will not solve that problem. Decision-makers must make some hard choices. They should start by reaching some agreement on discretionary spending caps and limits for new tax/direct spending legislation.

**Table 1--Revenue Bills Passed in the House of Representatives this year
fiscal years--\$ in millions**

	2001	2002	2003	2004	2005	2006	Total 2003-06
H.R. 6 Marriage Penalty		-9,900	-14,100	-21,500	-30,600	-40,400	-116,500
H.R. 7 Faith Based Charities		-368	-816	-900	-1,182	-1,193	-4,459
H.R. 8 Estate Taxes ^{a)}		-4	-7,029	-9,100	-11,324	-13,114	-40,571
H. R. 586 Foster Care*		-18	-29	-37	-45	-53	-182
H.R. 622 Adoption*		-47	-174	-224	-254	-275	-974
H.R. 3009 Andean Free Trade*		-41	-47	-50	-53	-57	-248
H.R. 3090 Stimulus*		-42,526	-39,335	-29,048	-3,548	16,042	-98,356
H.R. 3129 Border Security *		-4	-4	-4	-4	-4	-20
H.R. 3210 Terrorism Insurance ^{b))}			-100	-200	-500	-600	-1,400
H.R. 4626 Marriage Penalty and Welfare to Work			-257	-486	-161	-2	-906
H.R. 4946 Long-Term Care ^{c)}			-106	-250	-329	-359	-1,044
Total		-52,908	-61,997	-61,799	-48,000	39,956	-264,660

Sources: Congressional Budget Office, Joint Tax Committee, and *Thomas* (Congressional web site)

- a) Also would increase direct spending by \$12 billion over five years
- b) Also would increase direct spending by \$8 billion over five years
- b) Also would increase direct spending by \$26 million over five years

**Table 2—Appropriations for FY 1998-FY 2003
Budget Authority--\$ in Millions—(totals may not add due to rounding)**

Subcommittee	Enacted					FY 2003			
	1998	1999	2000	2001	2002	Pres	House	Senate	S ± H
Agriculture	14,094	14,649	14,982	16,442	17,336	17,051	17,601	17,980	379
CJS	31,276	35,717	38,793	39,436	43,550	40,729	40,303	43,475	3,172
Defense	250,682	265,702	278,844	307,628	335,097	356,595	354,447	355,139	692
DC	823	705	453	469	651	379	517	517	0
Energy-Water	20,938	21,781	21,550	24,201	25,677	25,149	26,027	26,300	273
Foreign Ops	13,058	15,700	16,266	15,705	17,055	16,100	16,350	16,350	0
Interior ^c	13,976	14,361	15,359	19,053	19,252	18,953	19,730	19,326	-404
Labor-HHS ^c	81,281	84,872	101,391	110,057	127,750	130,900	129,902	134,288	4,386
Leg. Branch	2,279	2,582	2,490	3,088	3,254	3,412	3,413	3,413	0
Mil-Con	9,292	8,997	8,650	9,106	10,633	9,541	10,083	10,622	539
Transportation ^d	14,933	13,874	14,385	18,968	24,151	19,851	20,856	21,100	244
Treasury Postal	12,713	14,652	13,719	16,399	18,999	17,960	18,501	18,501	0
VA-HUD	66,570	69,959	71,718	83,254	96,408	92,518	91,811	92,934	1,123
Subtotal						749,138	749,541	759,945	10,404
Unallocated ^e						10,000	11,000	10,344	-656
Total	529.6	563.6	598.6	663.8	736.0	759,138	760,541	770,289	9,748
<i>Emergencies^c</i>						---	---	2,200	2,200

Source: Congressional Budget Office and Senate Budget Committee Republican Staff

^a President's budget reflects amendments submitted by the President on March 14 and July 3.

^b In addition to the figures shown here, Sen. Byrd's proposed Senate allocation also includes \$25.4 billion in advance appropriations, \$2.244 billion more than the advances from the FY 2002 appropriations bills.

^c Emergencies are included in each subcommittee's allocation total.

^d Includes mass transit budget authority of \$1.445 billion in 2003 for President, House, and Senate.

^e The House includes a \$1 billion special education reserve fund; if released, it would be allocated to the Labor-HHS subcommittee.

The tables above do not include the Railroad Retirement bill that passed last December estimated to cost \$7 billion over ten years, and much more for decades to come. Neither do they include the Farm bill—the cost of which is expected to exceed \$85 billion over ten years. And, of course, these numbers do not include prescription drugs estimated to add somewhere between \$200 billion and \$800 billion over ten years to the cost of a Medicare program that will go broke just beyond the window for these cost estimates. Finally, we have no numbers for the Trade Promotion Authority legislation which everyone agrees will cost substantial sums—though most also agree that it will should be a boost to the economy generally.

Last year nearly all budget forecasters predicted very large surpluses over the next decade. This year the budget is in deficit. As the economy recovers, CBO, OMB, the Blue Chip and almost everyone else will predict a return to surpluses.

Modest economic growth should make budget balance an achievable goal by 2005—even if we continue to spend at current levels for the War and Homeland Security.

The loudest opponents of new tax cuts often are the loudest supporters of big spending increases and new programs—and vice versa. A major stumbling block on the way to new budget process rules is that almost everybody wants some new spending and/or tax cuts and fears that their favorite ox will be gored.

Congress Must Adopt or Extend their Budget Rules

Congress should adopt achievable budget targets, e.g., budget balance within two years. We would very much like to see Social Security surpluses “saved” but that is not an achievable short-term objective.

Congress should extend PAYGO—agree whether there will be new tax cuts and/or direct spending programs, and just how much money should be available for such purposes.

They should set new discretionary caps at levels Congress and the Administration are prepared to enforce—and not use bogus “emergencies”, timing shifts, etc. to stay within them.

Budget rules are important because without them the budget situation likely will deteriorate further and make it harder to deal with the serious challenges that will arise as the baby boom generation retires.

It is time for our leaders to act responsibly and amend and extend the BEA or adopt new rules. The rules now on the books expire in 60 days.