

## TIME FOR A NEW BUDGET

### Drowning in debt

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Congress and the president have made responding to Hurricane Katrina the highest priority of the federal government. The tremendous costs involved call for a grand rethinking of the nation's priorities. Given that we are only in the fourth week of the new fiscal year, and the current budget is already basically dead, the first step should be to pass a brand new budget.

The budget that the Congress passed this past spring, which covers the five years beginning in fiscal year 2006, was dangerously close to becoming derailed even before Katrina hit. That budget has since careened off track. It didn't provide sufficient funds for the war in Iraq; it didn't include the full costs of the bloated highway and energy bills; it failed to account for necessary spending on veterans' health care; and it certainly didn't anticipate the staggering costs of hurricane damage to the Gulf Coast.

In the five months since it passed, costs for defense, transportation, energy, agriculture, veterans' health care and disaster relief have all exceeded the budget's limits. Next year's deficit is on track to be between \$400 billion and \$500 billion rather than the \$382 billion assumed in the budget resolution - and that includes a \$70 billion bonus from higher-than-expected-tax receipts. Spending for Katrina alone will surpass the annual budgets of most government agencies.

And while a temporary event, the fallout from Katrina will have an impact on the federal budget for years to come. The costs of rebuilding flood-damaged areas will stretch out for several years. In addition, just as spending for homeland-security programs has been increased substantially since 9/11, we can expect higher spending for flood control, emergency preparedness and other programs whose importance was highlighted by Katrina.

Total new costs from spending legislation not in the budget resolution will likely be in excess of \$150 billion. Failing to account for the changes leaves the country flying blind with no meaningful fiscal plan.

Formally revising the budget at this point would not be unprecedented. A few decades back, it was standard procedure. Congress would pass a nonbinding budget in the beginning of the year as a general blueprint for the following years' tax and spending policies. As the year came to a close, members would pass a second budget with updated economic forecasts and spending and revenue levels consistent with any new legislation.

The option for a second budget resolution is still available today, though the circumstances necessitating it have not blown in until now. An updated budget would require that, at the very least, Congress and the president provide an honest acknowledgement of the federal government's deteriorating fiscal picture by making transparent the true costs of all the new spending in the pipeline. It would also require that the members of Congress take into account the likely economic effects of Katrina.

More important, a new budget would give the president and Congress the opportunity to lay down priorities in the new post-disaster environment, show how they would pay for them and serve as a reality check on the plan to cut the federal budget deficit in half by 2009. As the president's own budget states, "The budget needs to measure costs accurately...These costs need to be fully included in the budget up front, when the spending decision is made, so that executive and

congressional decision-makers have the information and the incentive to take the total costs into account for setting priorities."

Clearly, the new budget would reflect unanticipated spending for disaster relief and the overruns in other areas of the budget. To offset these costs, the president and Congress might consider rescinding the thousands of earmarked grants and tax breaks in the recently passed pork-laden transportation and energy bills; increasing the levels of savings in other areas of the budget; means-testing the new prescription-drug program slated to begin in 2006; and holding off on some of or all of the \$100 billion in tax cuts Congress is set to consider soon. There is also the option of creating a temporary "Katrina surtax" to help pay for the specific disaster-related costs over the coming years. All in all, in a \$2.6 trillion budget, finding additional savings should not be overly burdensome.

Even if it is politically implausible to enact offsets for all of the costs of Katrina relief immediately, a new budget would allow for proper debate about how much to pay for and through what means, while continuing to cover the costs of needed relief. It would also be a good opportunity to build "disaster funds," or rainy-day funds, into the budget. Though we don't know when or where the next disaster will strike, we know that it will. A dedicated reserve fund requiring that Congress set aside money reflecting the average costs of past years' disasters would help avoid the huge unbudgeted costs we are facing.

The budgetary impact of Katrina is significant. In the storm's aftermath, there will be a great deal of re-examination of emergency-preparedness systems, government programs and oversight procedures to identify what changes are in order. We should do the same with our budget.

Given the already unhealthy financial position of the federal government, these budget overruns and unanticipated new expenses should lead to greater restraint in the rest of the budget. The devastated region of the country is not the only thing that needs rebuilding. Now the nation's budget roadmap does, as well.

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