COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

MEMO TO: BOARD AND MEMBERS
FROM: CAROL COX WAIT
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SUBJECT: BUDGET ISSUE UPDATE
SUMMER SUMMARY AUGUST 2000

Congress is in recess for the summer. The political parties are holding conventions. Everybody is gearing up for an election that could change control of the White House, the House and the Senate.

In this highly charged political atmosphere, three issues will dominate debates between the time Congress returns and October 6 when they are due to adjourn: Surpluses; spending; and tax cuts.

Economic growth has slowed but surpluses keep rolling in.

Most economists believe that the economy has enough steam to reach 4% growth for the second half of the year—notwithstanding second quarter growth roughly half the pace over the prior three years.

Last month, the Congressional Budget Office released their summer update. OMB released their Mid-Session review in June. Both show huge increases in projected surpluses. CBO's ten-year unified budget surplus is about $400 billion higher than OMB's estimate in the Mid-Session Review.

- Assuming that discretionary spending is frozen at the level enacted for 2000, CBO's ten-year surplus projections rose *more than $1.5 trillion.*

- Assuming that discretionary spending grows with inflation after 2000, CBO's new ten-year surplus estimates increased *nearly $1.4 trillion.*

So much money—so little time!

With surplus projections exploding this way discretionary spending increases could be much greater than the rate of inflation. What else can Congress do to show they care about folks back home? The President almost certainly will not sign into law any broad-based tax cuts.

Congress has completed action on only two appropriations bills: Defense and Military Construction. Conferees reached agreement on the Legislative Branch bill on July 27, but neither body has passed that report. That bill includes appropriations for HUD, and some provisions of the FY 2001 Treasury Postal Service bill, as well as repeal of the excise tax on telephone and other communications services. Neither body has voted on the conference agreement.

The Agriculture, Foreign Operations, Interior, Labor-HHS-Education, and Transportation bills are in conference. Commerce-State-Justice, Energy and Water, Treasury, and VA-HUD have passed the House. Neither body has acted on the DC Appropriations Bill.

The status of appropriations leaves lots of room to add money. In calendar 1998 and 1999, one bill became the vehicle for action on everything left hanging at the end of the year. In both years, the omnibus bill became a giant Christmas tree including all sorts of ornaments for all sorts of things that were not funded in any version of any bill earlier in the year. This occurred notwithstanding discretionary spending caps enacted as part of the 1997 Balanced Budget Act. The so-called "emergency spending" exception to the caps provided legal justification for amounts in excess of the caps—that is amounts that could not be disguised by creative accounting or hidden by blue smoke and mirrors.

It is hard to conclude that this year will be any different. In our perfect world, Congress and the President would first vote to increase the discretionary caps, then keep spending within whatever new caps they adopted. That would be far better than the scofflaw behavior that honors the caps in one breath and busts them in the next vote. Unfortunately, we don't expect a forthright debate and vote on new caps. Rather we anticipate a replay of recent history. In that event, the best we can hope is that they finish work quickly and get out of town without serious permanent damage to fiscal responsible budgets and budget process. That would assume no large new entitlements and no sweeping tax cuts.

The President almost certainly will veto any large tax cuts.

The Administration opposes most general tax cuts. They support "targeted" tax cuts for low and middle-income filers who use the money for government-defined, socially responsible purposes, e.g., retirement saving, college education, home purchase, etc. The President vetoed the marriage tax relief bill and he has vowed to veto the inheritance tax repeal bill that has passed Congress. Congress is not likely to modify either bill to persuade the President to sign them. Those are the two biggest tax cuts likely to land on the President's desk this year. CBO cost estimates (2001-2010): for the marriage tax bill $172.6 billion, and for the "death tax" bill $104.7 billion.

One large tax cut could be signed into law. That is repeal of all or part of the tax on Social Security benefits. Republicans in Congress have proposed to repeal the incremental increase in taxes on Social Security enacted as part of the 1993 deficit reduction measure (on which Vice President Gore cast the deciding vote). The Republicans call this "the Gore tax". Repeal could reduce revenues as much as $100 billion over ten years. Needless to say repeal is very popular with seniors. But it would be terrible public policy.

Counting Social Security benefits as income for tax purposes is an equity issue. It treats Social Security benefits like private pension income at tax time. It helps to ensure that retirees who receive smaller Social Security checks and rely more on private pensions and investment income are not disadvantaged compared to those who get a larger proportion of income from Social Security.

Pushing for repeal is the worst kind of pandering in an election year. So far, most Democrats have resisted the siren song of this particular silliness. If Republicans continue to press for repeal of "the Gore tax", however, Democrats may respond by proposing to repeal all taxes on all Social Security benefits. This could get completely out of hand, and we would hate to see either version enacted.

To be plain, repeal amounts to a Social Security benefit increase. And when you look at it that way, the Republican proposal may be seen as a response to Administration and Congressional Democrats' proposals to expand Social Security, Medicare and Medicaid. But Social Security and Medicare as we know them are unsustainable. Adding to benefit costs, without also enacting real program reforms, will only make the problem worse. Both sides should cool it! If they cannot agree on limited measures to meet the most pressing needs of low income elderly citizens (for example) they should leave these issues for the next Congress and the new President who it is to be hoped will enact any new benefits in the context of broader reforms.

Patients' Bill of Rights, Prescription Drugs and other Headline-Grabbers.

We are skeptical that Congress and President Clinton can reach agreement on much more than spending money between now and the election. And we devoutly hope that Congress will adjourn sine die long before the election. We could be wrong, but we do not look for final action on either of these issues this year.

We do expect another budget-busting agriculture bill this year and the fires in the West undoubtedly will provide an excuse for another round of "emergency" spending.

But we do not expect any heavy lifting on policy.

Budget Process Reform

We are hosting a series of small dinners with Members of Congress and others to discuss budget process reform issues. The Committee published a report on process reform in May. Governor Bush has endorsed many of our most important recommendations. We have written the Gore campaign to encourage the Vice President to do likewise. Most existing budget enforcement rules expire next year. Even if that were not the case, existing rules often do not make sense in the current surplus environment. Further, the existing system could complicate systemic reforms in Social Security, Medicare and/or tax policy. We are working to help identify issues and approaches to reform, and to build consensus around a policy-neutral process to make budgets more universal and transparent and increase public officials' accountability for decisions on fiscal policy issues.

Recent Publications available from the Committee office

Building a Better Future: The Graying of America—Volume II, $15.00
Chart Book—CD-ROM, $25.00
Federal Budget Process Recommendations for Reform, $5.00

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