COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

Memo to: Board and Members
From: Carol Wait and Susan Tanaka
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Subject: Budget Issue Update

Happy Fiscal New Year!

Final Treasury numbers are not in yet, but we can celebrate the first budget surplus in 29 years![1] CBO projects unified budget surpluses of $63 billion in FY 1998,which ended yesterday (the Administration estimates $70 billion), and $80 billion in FY 1999. The $63 billion (or whatever the actual number turns out to be) is real and a *fait accompli*. The $80 billion projected for 1999 could disappear almost as fast as you can say “Save Social Security First.”

Chaffing at the Bit: Some Much Money, So Little Time

The 1997 Balanced Budget Act (BBA) is proving downright inconvenient for the Administration and Congressional majorities—albeit for somewhat different reasons.

Congress—Last Saturday, the House passed a tax cut that would reduce revenues about $80 billion over five years below the levels contained in the agreement. The Senate may find it harder to pass a large tax cut. They would need a 60 vote majority to circumvent budget enforcement rules, but the Senate Republican leadership is anxious to pass something similar to the House bill.

The Administration wants to spend about $23 billion above the amounts contained in the agreement for FY 1999:

- $14.1 billion for so-called “emergencies”[2]. This does not include Hurricane George, nor of course any other disaster that may occur this year.

- Moreover, the Administration may agree with congressional efforts to add $4 billion in “emergency” funding for defense readiness (for pay raises, benefits and equipment that didn’t fit into the $251 billion FY 1999 Defense Appropriations bill, which is awaiting the President’s signature).

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- And you can anticipate pressure to include "emergency" funding for medical research, education, etc., to balance any additional defense spending

- Finally, the President's budget calls for $8.9 billion in new budget authority ($11.8 billion projected outlays) above the FY 1999 caps for non-defense discretionary programs.

How do these initiatives violate the letter and the spirit of last year's budget agreement? Let us count the ways.

1. **Pay-as-you-go rules** require that tax cuts be offset by revenue increases or cuts in entitlement spending; but the House proposes to "pay for" the tax cut from projected budget surpluses.

2. **Discretionary spending caps** are nominal dollar limits. If appropriations exceed the caps, sequestration is supposed to impose automatic cuts to keep actual budget authority and outlays within the statutory limit each year. Thus any increase in discretionary spending is supposed to be offset by cuts in some other discretionary program or account.

   The President could propose to increase the caps. But the Administration knows Congress is unlikely to vote to raise the caps.

   Instead, the President proposes to offset discretionary increases with mandatory spending reductions or tax increases. Current budget rules do not allow for tax increases to offset discretionary spending. Mandatory changes have been used to offset discretionary increases, though this contravenes at least the spirit of existing budget rules.

   If Congress goes along, the Administration would increase the caps through a "technical adjustment" after the fact and without a vote. The Administration hopes this strategy will enlist Congressional appropriators as allies, and provide more money for the President's initiatives, without asking Congress to go on record explicitly to "bust the budget" and/or change the BBA.

   But, where are the offsets? Administration's proposed offsets evaporated earlier this year. Mandatory savings were used to "pay for" increased spending in the transportation bill (which the President signed into law in June); Presidential proposals for new/increased taxes. i.e., tobacco and superfund, and user fees will not be enacted this year, and the Administration has not identified any new offsets.

3. **Budget rules include special provisions for emergency spending**: discretionary caps can be adjusted upward (without an explicit vote) and paygo rules can be waived.

What constitutes an emergency?

The dictionary definition of emergency is "a sudden, urgent, unforeseen occurrence requiring immediate action."[3]

The BEA rules were intended to accommodate unanticipated needs for events such as war and natural disasters. In fact "emergency" spending is anything that Congress and the President agree is an emergency.

In practice, "emergency" has come to mean anything the President and Congress are determined to fund, can't squeeze in under the caps, and are not willing to offset by cuts in other programs. This makes the emergency provision *the* major loophole in budget enforcement rules.

In a era of surpluses, Congress seems sorely tempted to join the President and go on an "emergency" spending spree.

The President's emergency request includes funding for items that could easily be included in the 1999 appropriations bills. For example:

Money to address Y2K computer problems:

Peacekeeping operations in Bosnia (a perennial emergency need even though we've been there for years); and

Embassy fortification and security upgrades to protect against terrorist threats (which a report warned years ago were needed).

Presidential budget requests for disaster relief have become a bad joke.

The President's Budget for FY 1998 discloses average annual disaster spending over the last five years is $2.6 billion; but

The budget request is for $308 billion in regular appropriations;

The President also asks for $2.2 billion in "emergency" funding that won't count against the caps.

Does this look like the kind of "unforeseen" event safety clause budget rules were crafted to address? Or, is it deliberate underfunding with full knowledge that Congress could look heartless if it refuses emergency funding for major disasters?

On September 17, White House Chief of Staff Erskine Bowles wrote to House Ways and Means Committee Chairman Bill Archer.

He reiterated "that the President's commitment to saving Social Security First is unwavering."

Then the letter threatened to veto legislation "that changes the budget rules and drains the surplus…" prior to a bipartisan agreement on Social Security.

Administration proposes to use the surplus for increased spending, so this must mean that the Administration's real objection is that Congress wants to change the rules.

The President's proposals would exploit the emergency loophole and "pay for" proposed discretionary spending increases with (unspecified) mandatory offsets Thus they, too, would bend if not break existing budget rules. Looks to us like legal hairsplitting.

It would appear that the both the Administration and Congress care more about their spending and tax initiatives than they do about offsets or budget rules. That certainly is their prerogative. They are elected officials. But why not be candid about it? They could increase the budget and stop playing the "Save Social Security" card; or, if these really are top priorities, make room for them by eliminating lower priorities.

The bottom line: everybody is dying to spend the surplus.

The Administration says we should "seize this opportunity to save Social Security", then proposes to increase spending. Congressional Republicans say their tax cut proposals would devote 90 percent of the surpluses to Social Security. But the surplus is entirely attributable to Social Security through 2004. The Republicans use a ten-year window to arrive at their 90-10 calculation..

The facts are:

- We are talking about projected surpluses due mostly to very strong economic performance. A weakening economy and a falling stock market could cause projected surpluses could to shrink—even disappear.

- The Congressional Budget Office and Office of Management and Budget both project that the government will run operating deficits until about 2003. In 2004 CBO projects operating budget balance. In 2005, the CBO projections show an operating surplus.

- Any net tax cuts or expenditure increases would widen the operating deficit and delay the date when the operating budget could be in balance.

Many Republicans fear that absent tax cuts now, any surpluses will go to increase federal spending. Many Democrats fear another round of tax cuts will preclude spending increases for programs such as education, job training, and environmental protection. Everyone wants to be first to get a foot in the door.

In the Wings: Inexorable Pressure on Both Spending and Revenues

- It is no secret, changing demographics will put inexorable pressure on existing entitlements for the elderly, beginning with Social Security and Medicare—the two most popular programs in government.

- Tax reform almost certainly will be a major issue in the 2000 Presidential election. Even revenue-neutral tax reform could cause significant revenue losses (or unanticipated and unwelcome tax increases for some) in the transition phase.

- There is building pressure for significant increases in both defense and non-defense discretionary spending.

We reiterate: projected budget surpluses are by no means certain. Even if they were, they are temporary and insufficient to fund these demands, much less to meet any needs yet to be identified

Gridlock: Citizens' Best Friend

Gridlock continues to look like the most salutary possible outcome of this year's budget debates.

If the Administration and Congress were to compromise, the most likely deal would trade off tax cuts for spending increases. Proposals already on the table would eat up a third of the projected 1999 surplus. Policy makers cut the same sort of deal last year, but they also committed to balance the budget. This year, there is no guiding consensus objective. That raises the risk of an expedient compromise.

There may be strategies to cut taxes, address looming entitlement problems, and increase discretionary spending that are fiscally responsible in both the short- and long-term; but there is no chance such policies will be enacted this year. An expedient deal this year would diminish the pool of resources available to develop coherent longer-term policies and could whet the appetites of both tax cutters and proponents of increased spending in the short-term.

Thus, gridlock continues to be a very attractive outcome.

Budget Process Reform

Existing budget rules are designed to enforce the balanced budget agreement. The overriding objective is to preclude actions that could create or enlarge budget deficits. Those rules make it difficult for Congress or the Administration to spend budget surpluses.

If projections of budget surpluses hold up into next year, Congress and the Administration almost certainly will attempt to craft a new agreement—to permit some tax cuts and expenditure increases compared to the 1997 agreement. Any time they craft a new fiscal policy framework, Congress and the Administration tend to rewrite the budget rules to enforce the new agreement. Thus either in rules debates in the new Congress or as part of budget deliberations, we believe it highly likely that budget process reform will be an important item on the Congressional agenda next year.

There is continuing interest in budget process reform, even in the absence of the pressures described above. The Committee for a Responsible Federal Budget has worked for years with a bipartisan group of House members to develop a proposal to convert the budget to a joint resolution, cap mandatory as well as discretionary spending, close the so-called emergency spending loophole, and otherwise streamline the process and make it more accountable. We will continue to work Members in both parties, in both Houses of Congress, and with the Administration, toward constructive reforms.

Scorekeeping Issues and Social Security Reform

At the request of the staff of the House Ways and Means Committee, Subcommittee on Social Security, we are working on a publication about budget, economic and scorekeeping issues that will arise in debates around Social Security Reform.

We had planned to publish that report in October. After consulting with subcommittee staff and others, we delayed the date to the first of December. Everyone agrees that will be timely, and it gives us more time to try to simplify some very complicated issues and make the whole product more readable.

Building a Better Future: An Exercise in Hard Choices

The Boston Exercise will be Saturday October 17, at the ARCO Forum at the JFK School of Government, Harvard University. The final four events probably will not occur until after the first of the year.

Endnotes

[1] CBO August Update estimates: FY 98 Social Security surplus $105 billion, operating (non-Social Security) deficit $42 billion, unified budget surplus $63 billion; FY 99 Social Security surplus $117 billion, operating deficit $37 billion, unified budget surplus $80 billion.

The FY 69 unified budget surplus was $3 billion, the operating deficit that year was $0.5 billion.

The last time the operating budget was in balance was in FY 1960.

[2] These amounts do not include emergency supplemental spending enacted in 1997 and earlier this year that already has added $8.4 billion to the BEA caps for 1998 and 1999. Most of the $14.1 billion was in the form of FY 98 emergency requests. If enacted, however, these amounts would count against 1999 appropriations and spend in FY 99 and beyond.

[3] *The Random House Dictionary*, 1978 edition.