COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

Memo to: Board and Members
From: Carol Cox Wait
Date: December 4, 2002

Subject: WRAP-UP--107TH CONGRESS

On the Budget Front

The second session of the 107th Congress witnessed the virtual collapse of the budget process. The House passed a budget, but the Senate never did pass a budget--so there was no Congressional Budget Resolution. Indeed, the Senate passed only three appropriations bills: Defense, Legislative Branch and Military Construction. The House passed only two more: Interior and Treasury/Postal. The House and Senate reached conference agreements on Defense and Mil Con and both were signed into law in October. All other discretionary programs, projects and activities are funded through a continuing resolution due to expire January 11.

We understand that Senator Stevens (who will chair the Appropriations Committee in the new congress) has agreed to hold FY 2003 appropriations to $750.447 billion--the President's target and the basis for House-passed bills. That is $10-$16 billion below Senate-reported levels, depending on how you count new advance appropriations. Since most of us assumed that the final level would be somewhere between the House and Senate levels, that actually may save taxpayers some money.

Homeland Security

The lame duck session did pass legislation to create a new Department to Homeland Security and a terrorism insurance bill. The new Department may not increase outlays over the long-term but the start-up almost certainly will increase costs. The insurance also will cost money, though nobody can really estimate how much as nobody knows what terrorists will do next--much less what it will cost.

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The Budget Outlook

War and/or slow growth could force Congress and the White House to confront some very hard choices next year. A double-dip recession could make the choices even more difficult, though that looks less likely today than it did a couple of months ago. Short-term deficit likely will grow, especially if Congress and the Administration enact a new economic stimulus package.

We are not fans of fiscal stimulus. Such bills almost always increase spending and/or reduce revenues at the wrong point in the economic cycle. They often exacerbate structural budget challenges. With unemployment going down and the economy growing steadily, if more slowly than we could wish, the case for further stimulus seems very weak to us. An extension of unemployment benefits for those in areas that continue to suffer high jobless rates should be sufficient to alleviate the most pressing problems due to the economic downturn. Unless things get much worse, Congress and the Administration would do well to focus on the medium- and longer-term challenges facing the country.

In the short term, defense and homeland security will continue to put upward pressure on outlays whether or not there is a shooting war in Iraq. Once again, medical costs are rising more rapidly than inflation generally--and much faster than the economy is growing. In the near-term that makes passage of prescription drug legislation more difficult, because it will cost more. Over the longer-term, it could complicate Medicare reform. Sooner or later, someone must face up to the problems that will arise as the baby boom generation retires. Those pressures will begin to surface in 2006, when Social Security Trust Fund Surpluses begin to decline.

Budget Process

The Budget Enforcement Act rules that imposed caps for discretionary spending and pay-as-you-go requirements for new direct spending and revenue legislation expired September 30. The Senate extended the 60-vote point of order for paygo legislation for one year. But the country needs new statutory budget rules.

Republican control of both House of Congress and the White House presents both opportunities and challenges on the budget process front. On the one hand, there will be pressure for further tax cuts. And only time will tell whether there is any appetite for offsetting expenditure reduction. On the other hand, this could be a chance to test the efficacy of a joint budget resolution. Congress and the President should be able to agree on a fiscal policy plan. If they write that plan into law--including discretionary spending and paygo limits--and if they agree to be bound by it until and unless they pass a budget amendment or a new budget, the result could dramatically improve transparency and accountability.

Firm enforceable limits could frame budget issues in a way that might force trade-offs among priorities. That is especially important now as the President and Congress must be clear about the cost and implications of proposed policies--now and in the future. There is not objectively right spending or tax level, but over a reasonable period of time the two must balance out. Short-term deficits are not likely to threaten our fundamental economic well being. But current service projections of existing spending and tax policies would produce deficits so large that almost everyone agrees they pose a real threat. We must avoid making things worse in the long-term.

New budget rules, improved transparency and accountability could help to promote budget balance, perhaps even surpluses, as the economy recovers from recession. And a return to budget balance, better yet surpluses may be the most constructive thing Congress and the White House can do in the near-term to help make our longer-term problems more manageable.