

INFORMED BUDGETEER

TAKE ONE: FY 2002 302(B) ALLOCATIONS

House Compared to Senate 302(b) Allocations For Fiscal Year 2002*				
(BA, \$ in Billions)				
		House	Senate	Difference
		Approved	Proposed	House v. Senate
		302(b)	302(b)	
Agriculture	BA	15.519	16.092	-0.573
	OT	15.831	16.041	-0.210
Commerce, Justice, State	BA	38.541	38.760	-0.291
	OT	39.000	39.187	-0.187
Defense	BA	300.292	298.568	1.724
	OT	294.026	291.692	2.334
District of Columbia	BA	0.382	0.392	-0.010
	OT	0.401	0.412	-0.011
Energy & Water	BA	23.704	25.129	-1.425
	OT	23.959	24.980	-1.021
Foreign Operations	BA	15.168	15.524	-0.356
	OT	15.099	15.188	-0.089
Interior	BA	18.941	18.527	0.414
	OT	17.768	17.656	0.112
Labor, HHS	BA	119.758	119.000	0.758
	OT	106.238	107.513	-1.275
Legislative Branch	BA	2.908	3.055	-0.147
	OT	2.855	2.968	-0.113
Military Construction	BA	10.155	9.649	0.506
	OT	9.448	9.284	0.164
Transportation**	BA	14.893	15.579	-0.686
	OT	53.840	52.868	0.972
Treasury, Postal	BA	16.880	16.972	-0.092
	OT	16.134	16.196	-0.062
VA-HUD	BA	84.159	84.053	0.106
	OT	88.177	88.791	-0.614
TOTAL	BA	661.300	661.300	0.000
	OT	682.776	682.776	0.000

SOURCE: Senate Budget Committee; *Amounts exclude the funds for continuing disability reviews and adoption assistance payments in the Labor, HHS bill and earned income tax credit compliance in the Treasury Postal bill because they are subject to adjustment under section 314 of the Congressional Budget Act of 1974, as amended. **The figures for Transportation do not include \$1.348 billion in mass transit BA.

- Senator Byrd has released his tentative Subcommittee 302(b) allocations, which are slated to be approved when the Senate Appropriations Committee meets on June 21 to mark up the supplemental bill.
- Both House and Senate Appropriation Committees are allocating discretionary spending at the cap level that is envisioned in the Budget Resolution – \$661.3 billion in budget authority (BA). The current statutory limit for FY 2002 remains at \$548.7 billion in BA (according to OMB's sequestration preview report), which is \$112.6 billion below the \$661.3 billion level.
- Section 203 of the Budget Resolution provides that the Chairman of the Senate Budget Committee shall allocate to the Appropriations Committee the full \$661.3 billion in BA and \$682.8 billion in outlays when a bill or joint resolution increasing the statutory caps to these levels is signed into law.
- Until then, the Appropriations Committee can only spend up to the statutory cap level of \$548.7 billion in BA because the Budget Resolution has allocated only that amount. If a new spending cap is not enacted, spending above that level would be subject to a Budget Act 60-vote point of order. (The House, unlike the Senate, is not restricted by law from providing an appropriations allocation that is higher than the statutory cap.)
- As in previous years, the major difference in the House and Senate 302(b) allocations are for the defense-related subcommittees. The House retains \$1.7 billion more than the Senate for the Defense Subcommittee, while the Senate shifts \$1.9 billion in defense

spending to the Energy-Water Subcommittee for the Department of Energy atomic energy defense programs.

- The Senate also provides approximately \$300 million in defense funding to the Transportation Subcommittee for the defense-related mission of the Coast Guard, while the House shifts additional funding to the Military Construction Subcommittee.
- The Labor-HHS, Interior, and VA-HUD Subcommittees receive higher funding in the House 302(b) allocations. The Senate allocation spreads funding more broadly among the subcommittees.
- This is just the opening round for the appropriations process, but the most important one as the bills are initially drafted to these levels. As the bills are marked up and are passed by each chamber, both Appropriations Committees will adjust these allocations (reallocate) to utilize the full \$661.3 billion in discretionary spending authority to complete the 13 bills.

TAKE TWO: WINNERS AND LOSERS

Comparison of Senate 302(b)s, CBO May Baseline for 2001, and CBO Reestimate of President's 2002 Budget ^a					
(BA, \$ in Billions)					
	Enacted	Senate	Pres.	%	Sen -
	2001 ^b	302(b) ^c	Budget	Chg	Pres.
			t ^d	Senat	Budget
				v. '01	
Ag	15.8	16.1	15.4	2.1	0.7
CJS	38.3	38.8	37.9	1.2	0.8
Defense	287.4	298.6	301.0	3.9	-2.4
DC	0.4	0.4	0.3	-11.9	0.1
Energy	23.6	25.1	22.5	6.6	2.7
Foreign Ops	14.9	15.5	15.2	4.3	0.4
Interior	18.9	18.5	18.1	-2.0	0.4
Labor, HHS	108.8	119.0	115.9	9.3	3.1
Leg. Branch	2.6	3.1	3.0	15.3	0.1
Mil-Con	9.0	9.6	9.6	7.7	0.0
Trans. ^e	17.0	15.6	14.9	-8.4	0.7
Treas.,	15.7	17.0	16.5	8.4	0.5
Postal	80.9	84.1	83.4	3.9	0.7
VA-HUD	<u>N/A</u>	<u>N/A</u>	<u>5.3</u>	<u>N/A</u>	<u>-5.3</u>
Unallocated	633.2	661.3	658.9	4.4	2.4
TOTAL					

SOURCE: Senate Budget Committee

a/Amounts exclude for continuing disability reviews (\$450 million in BA in 2001 and \$433 million in BA in the President's Budget) and adoption assistance payments (\$20 million) in the Labor, HHS bill and earned income tax credit compliance (\$145 million in BA in 2001 and \$146 million in the President's Budget) in the Treasury, Postal Bill because they are subject to adjustment under section 314 of the Congressional Budget Act of 1974, as amended.

b/ The 2001 figures include \$5.401 billion in BA from emergencies that were enacted in the 2001 appropriation bills.

c/ Senator Byrd's draft 302(b) allocation.

d/ CBO's reestimate of the President's Budget.

e/ The figures for the Transportation Subcommittee do not include \$1.255 billion in mass transit BA in 2001 and \$1.348 billion in mass transit BA in 2002.

- How do Chairman Byrd's draft FY 2002 subcommittee BA allocations compare to what has been enacted to date for FY 2001 for those subcommittees? How do they compare to what the President's FY 2002 budget request was?
- For FY 2001, BA enacted to date totals \$633.2 billion (remember Congress is now considering adding \$6.5 billion to this figure in the supplemental bill). Comparing this level to the \$661.3 billion allocated for FY 2002 yields an increase of \$28.1 billion or 4.4%.
- However, just for the record, the \$633.2 billion FY 2001 figure includes \$5.4 billion in emergency appropriations, and since negotiations over the recent budget resolution did not change budgeting procedures for emergencies next year (meaning that the \$661.3 billion figure will surely be adjusted upward during 2002 for unbudgeted emergencies), an apples-to-apples comparison today would suggest that the increase between 2001 and 2002 is really at least \$33.5 billion, or a 5.4% increase.

- Over three-quarters of the \$28.1 billion increase in appropriations between 2001 and 2002, goes to two subcommittees – any surprise? – Defense and Labor-HHS. Defense increases by \$11.2 billion or 40% of the total planned increase, slightly less than Defense’s overall share of discretionary spending in 2001 of 45.4%. Labor-HHS sees an increase of nearly \$10.2 billion or 36% of the planned increase, even though Labor-HHS represents only 17% of all discretionary spending in 2001.
- Chairman Byrd’s subcommittee allocations, when compared to the President’s official budget request, shows a decrease in planned defense spending – down \$2.4 billion – but remember the FY 2002 Budget Resolution assumes once the President’s strategic review is completed and submitted, the FY 2002 overall allocation could increase. This reduction is “reallocated” to two winners: Labor-HHS, with an increase of \$3.1 billion, and Energy-Water, with an increase of \$2.7 billion over the President’s request.
- The biggest winner relative to 2001, proportionately measured, is the Legislative Branch allocation, increasing from \$2.6 billion to \$3.1 billion or 15.3%.

MEDICARE DRUG BENEFIT FITS WITHIN BUDGET RESOLUTION

- On June 8, the CBO released new estimates of the cost of a prescription drug benefit for Medicare. CBO re-scored four proposals from the 106th Congress using their new drug spending baseline and other updated estimating methods. CBO’s reestimates of the four proposals - the Clinton Mid-Session Review, the Robb Amendment to H.R. 4577, Breaux-Frist II, and H.R. 4680 as passed by the House - were 12% to 31% higher than CBO’s estimates of these same proposals last year. The new 10-year cost estimates range from \$157 billion for the House-passed bill to \$425 billion for the Clinton plan. (All proposals are projected to begin benefits in 2004).
- Although these increases in cost estimates are significant, they are far less than had been anticipated. While CBO’s baseline for prescription drug spending has increased by 33% over last year, its estimates of cost management factors and interactions with other programs helped to suppress the increase in the price tag for the four proposals.
- Two plans - Breaux-Frist II and the House-passed plan - scored well below the \$300 billion included in the FY 2002 Budget Resolution for Medicare reform and a prescription drug benefit. Thus the funding included in this year’s budget provides more than sufficient resources to both enact a meaningful prescription drug benefit and undertake the reforms necessary to keep Medicare fiscally sustainable over the long term.

Differences in 10-Year Direct Spending Estimates of Medicare Prescription Drug Proposals				
(\$ billions)				
	Clinton MSR	Robb Amdmt	Breaux-Frist II	H.R. 4680
This year’s 10-year estimate*	425	318	176	157
Last year’s 10-year estimate**	<u>338</u>	<u>244</u>	<u>150</u>	<u>140</u>
Difference	88	75	26	17
Percent Difference	26%	31%	18%	12%

Source: Congressional Budget Office

Note: Details may not add due to rounding

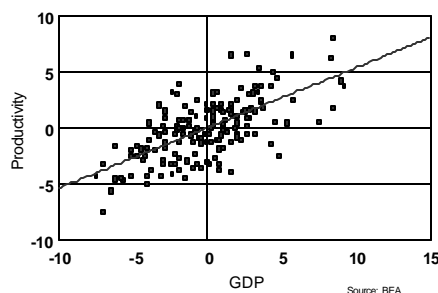
* For FY2002-2011, with the new benefit beginning in 2004

** For FY2001-2010. The benefit proposed in the Clinton Mid-Session Review would have begun in 2002. Benefits proposed in the other three bills would have started in 2003.

ECONOMICS
Productivity Puzzle

- Non-farm productivity growth, which averaged 2.9% per year from 1996 through 2000, fell at a rate of 1.2% in the first quarter compared to the fourth quarter, the worst showing since 1993.
- Is this the end of the productivity boom? Has the first quarter proven that CBO’s assumption of 2.7% productivity growth for 2002-2011 is a castle made of sand, doomed to be washed away in a return to the slow productivity growth of 1974-1995?
- Hardly. No one can yet say for sure how much of the productivity boom of 1995-2000 was structural (and therefore likely to persist) and how much was cyclical (and therefore likely to have been temporary). What we do know for sure is that one quarter of data is not a trend. Productivity growth is a volatile statistic. Since the start of the 1990-

GDP and Productivity
(change in y/y growth rates)



9 1 recession, productivity growth has been about 75% more volatile than real GDP growth (as measured by the standard deviation of each

statistic divided by its mean).

- It is not unusual for productivity growth to decline or even go negative during economic slowdowns as businesses become less concerned about maximizing output for each worker-hour. The US had negative productivity growth during the 1990-91 recession, the 1981-82 recession, part of the 1980 recession, and much of the 1973-75 recession. Productivity growth also went negative during slow parts of the 1960s expansion, when productivity averaged more than 3 percent growth per year.
- The following scatter chart shows changes in the growth rate of productivity versus changes in the real GDP growth rate since 1960. The bigger the increase in GDP growth, the bigger the increase in productivity growth, and vice-versa.

- In the past year (through the first quarter) the year-to-year GDP growth rate declined by 2.8 percentage points. The statistical relationship in the scatter plot suggests the corresponding drop in year-to-year productivity growth should have been 1.5 percentage points, which is greater than the actual 1.3 percentage point decline. In other words, all of the drop in the productivity growth rate in the past year can be attributed to the cyclical downturn rather than a decline in the underlying trend.
- Federal Reserve Board Governor Laurence Meyer, who was appointed by President Clinton, recently noted that productivity tends to move in alternating cycles of rapid growth and sluggish growth, with each cycle lasting about 20 to 25 years. At present, we are only five years into a rapid productivity growth cycle, implying many more years of high productivity growth to come.

CALENDAR

June 21 - Tentative SBC staff brief by OMB. TOPIC: Agriculture trade policy and agriculture budget implications. 2:30 PM; SD-608.

June 25 - SBC staff brief by CBO. TOPIC: Mandates. 2:00 PM; SD-608.

June 27 - SBC staff brief by NIH. Dr. Ruth Kirschstein (Acting Dir.). TOPIC: NIH budget doubling. 9:30 AM; SD-608.