INFORMED BUDGETEER:

SUPPLEMENTAL SPENDING FOR 2000

- Congress is hoping to pass a supplemental spending package for 2000 and send it to the President for his signature before members leave town for the 4th of July recess. The vehicle for the additional 2000 spending will be the conference report on the FY2001 Military Construction appropriation bill that has passed both House and Senate.

- In light of this, *The Bulletin* thought it might be useful to review what has been agreed to thus far concerning supplemental spending for 2000. The Budget Resolution for 2001assumed additional emergency appropriations in 2000 totaling $5.1 billion in BA ($2.7 billion for defense and $2.4 billion for nondefense) and $8.6 billion in outlays ($5.6 billion for defense and $3.0 billion for nondefense). The supplemental spending in the Resolution closely mirrors the President's request in his 2001 budget.

Supplemental Appropriations for 2000
($ in millions)

		Budget Resolution	Senate Passed/ Reported*	House Passed
Defense	BA	2,689	4,707	9,205
	OT	5,602	5,862	6,953
Nondefense	BA	2,430	3,643	3,354
	OT	2,995	3,719	3,156
Total	BA	5,119	8,350	12,559
	OT	8,597	9,581	10,109
Total (less timing shift)	BA	5,415	8,646	12,855
	OT	1,606	2,605	3,133

SOURCE: SBC, using CBO Scoring. *Supplemental appropriations for 2000 are included in the Military Construction, the Foreign Operations and the Agriculture spending bills. Additional appropriations totaling approximately $350 million in BA were included last week in the Senate passed Foreign Operations bill. They are not included in this figure because CBO had not yet scored their costs as of publication.

- Of the 2000 supplemental appropriations assumed in the Budget Resolution, $5.4 billion in BA and $1.6 billion in outlays is for additional spending in 2000. The remaining -$296 million in BA and $7.0 billion in outlays is to reverse the various spending shifts that were passed in last fall's omnibus appropriation bill.

- Before Congress had completed the Budget Resolution for 2001, the House passed a supplemental appropriations bill (H.R. 3908) for 2000 on March 30. This bill included $12.6 billion in BA ($9.2 billion for defense and $3.4 billion for nondefense) and $10.1 billion in outlays ($7.0 billion for defense and $3.2 billion for nondefense) for 2000. As in the Budget Resolution, the supplemental appropriation passed in the House included the BA and outlays necessary to reverse the spending shifts passed last fall.

- The House passed supplemental is greater than the supplemental appropriations assumed for in the Budget Resolution by $7.4 billion in BA and $1.5 billion in outlays. Almost 90% of the difference is for defense items.

- The Senate included supplemental spending for 2000 in the Military Construction, the Foreign Operations, and the Agriculture appropriations bills. To date, the Foreign Operations and the Military Construction bills have been passed by the full Senate and the Agriculture bill has been reported by the Appropriations committee.

- The sum of the supplemental appropriations in 2000 in these bills totals $8.4 billion in BA ($4.7 billion for defense and $3.6 billion for nondefense) and $9.6 billion in outlays ($5.9 billion for defense and $3.7 billion for nondefense). As with the House passed supplemental and the Budget Resolution, the Senate supplemental includes the reversal of the spending shifts enacted last year.

- The supplemental appropriations agreed to thus far in the Senate are greater than those assumed for in the Budget Resolution by $3.2 billion in BA and $1 billion in outlays. About two thirds of that difference is for defense items.

- Although the Senate supplemental appropriations are larger than those provided for in the Budget Resolution, they are smaller than the House passed appropriation by $4.2 billion in BA and $0.5 billion in outlays. The House agreed to $4.5 billion in BA and $1.1 billion in outlays more than the Senate for defense items and $0.2 billion in BA and $0.6 billion in outlays less than the Senate for nondefense items.

THE FY 2000 SURPLUS

- In the wake of rapid YTD revenue growth, analysts have been revising up their forecasts for the FY2000 surplus. In March, CBO estimated the FY 2000 budget would be in surplus $179.4 billion. The non-social security surplus was estimated to be $26.4 billion this year.

- However, restimating this year's surplus is a trickier endeavor than usual due to legislative actions taken since CBO's March update. Some of these spending decisions will be reflected in CBO's summer baseline, others will not. Most are not yet reflected in actual spending totals in the Monthly Treasury Statement (MTS).

- All told, policy changes will boost FY2000 spending by nearly $20 billion relative to CBO's March baseline – a non-trivial amount. The following table provides a brief overview of these provisions:

Legislative Actions Reducing FY 2000 Surplus
($ in Billions)

	Size $	Enacted	To be in new CBO baseline	In actual spending totals as of May
SS earning test	3.4	4/2000	Yes	Partially
Farmers pymnt	5.5	6/2000	Yes	No
Timing shifts	7.0	- - -	No	No
Emergencies*	2.6	- - -	No	No
TOTAL	**18.5**	- - -	- - -	- - -

*Expected Emergencies.

- The SS earnings test repeal was passed this spring and will boost SS benefits for some working retirees by a total of $3.4 billion in FY2000 (this is slightly less than the original cost estimate). Half of this went out in May in retroactive payments – the remainder will be spread evenly over June-September 2000. Since this change has already been signed into law, it will be reflected in CBO's summer baseline. This provision was assumed in the FY 2001 Budget Resolution.

- The President recently approved a $5.5 billion payment to farmers that will go out between Sept 1- Sept 30, 2000. Since this payment has been signed into law, this outlay will be reflected in CBO's summer update. However, it won't be reflected in the MTS until the of end FY2000. Again, the Budget Resolution provided for this level of spending.

- The Budget Resolution allowed the appropriators to "reverse" some of the timing shifts that were done last year. This means that $7.0 billion in outlays that CBO assumed would occur in 2001, will now go out in 2000. Although it is a given that the appropriators will include these provisions in their FY2001 bills (the shifts open up more spending room in 2001!), CBO can not reflect them in their summer baseline, since they have not yet been signed into law. They won't hit the MTS until the end of FY2000.

- At present, roughly $2.6 billion in FY2000 emergency spending requests have been attached to several of the appropriations bills that are working their way through the Senate. Here again, since these funds have not been signed into law yet, CBO will not reflect them in their summer baseline. They will not hit the MTS until the end of FY2000.

SUSPEND THE RULES AND CHANGE THE PROCESS

- On June 20, under suspension of the rules, the House passed two bills that affect the budget process. The first was H.R. 4601, the Debt Reduction Reconciliation Act of 2000, which passed by a vote of 419-5. The report on H.R. 4601 says that this bill provides for reconciliation pursuant to section 213(c) of the 2001 Budget Resolution. However, it is not clear whether H.R. 4601 satisfied the requirements of section 213(c) to qualify it as a reconciliation bill. But it doesn't matter at this point - the bill was considered under suspension in the House, and when and if it is taken up in the Senate, it will not be a reconciliation bill because there were no debt reduction reconciliation instructions for the Senate in the Budget Resolution for FY 2000.

- CBO concisely described the bill in its cost estimate: If CBO, in its summer update, projects an increase in the 2000 on-budget surplus, the bill would appropriate the increase to an off-budget account, leaving the on-budget surplus at the level assumed in the budget resolution and increasing the off-budget surplus--but the total federal surplus would not be affected by the bill. The bill also decreases the amount of the statutory debt ceiling by the amount of the 2000 surplus reestimate.

- Good budgeteers know that any increase in the on-budget surplus, if not used for additional spending or for reductions in taxes, will eventually be used to reduce the federal debt. This bill, therefore, would help reduce the public debt only to the extent that, by reducing the reported on-budget surplus, it inhibits the use of some of that surplus for spending increases or tax reductions in 2000.

- For Congressional scorekeeping purposes, CBO would record payments from the general fund of the Treasury to the off-budget account as direct spending. This means that current level, committee allocations and the Senate paygo scorecard would reflect an increase in 2000 budget authority and outlays. The bill exempts the direct spending effects of the bill from statutory paygo, so enactment of the legislation would not worsen the prospects for a paygo sequester.

- The House also passed H.R. 3859, the Social Security and Medicare Safe Deposit Box Act of 2000, by a vote of 420-2. The bill creates new Budget Act supermajority points of order against considering budget resolutions that contain on-budget surpluses lower than the amount of the projected HI trust fund surplus.

- H.R. 3859 also creates new points of order against considering subsequent legislation that would cause the on-budget surplus to be lower than the projected HI surplus, and prohibits the President's budget from projecting surpluses lower than the HI surplus, unless that legislation or President's budget includes Medicare reform.

- For the record, the CBO March baseline projected a $24.5 billion HI trust fund surplus for 2001, a $30.7 billion surplus for 2002, and a $29.5 billion surplus for 2003. The baseline projects the HI trust fund surplus to decline $13.6 billion by 2010.

SENATE CONSIDERATION OF MEDICARE PRESCRIPTION DRUG LEGISLATION

- The budget resolution adopted in April includes a reserve fund for considering a bill to provide coverage for prescription drugs to Medicare beneficiaries in the Senate.

- This reserve fund could accommodate legislation under two scenarios: If a prescription drug bill reported by the Finance Committee does not improve the solvency of the Medicare program, the reserve fund allows up to $20 billion to be spent over the period 2001 to 2005. If a prescription drug bill reported by the Finance Committee does improve the solvency of the Medicare program, the reserve fund can accomodate up to $40 billion over five years in new spending.

- The House is likely to consider a bill which spends $40 billion over the period 2001 to 2005 and more than $150 billion over ten years on prescription drug coverage. The bill, however, does not attempt to improve the long-term solvency of Medicare, and so it would not qualify for additional funds under the Senate reserve fund.

GORE'S "RISKY SCHEME": WHAT HAPPENED TO "SAVING SOCIAL SECURITY FIRST?"

- In 1999, President Clinton announced a policy of "saving Social Security first". Last week, Vice President Al Gore proposed a new entitlement program to redistribute income – but proposed nothing that would save Social Security.

- The Vice President's Social Security "plan" essentially boils down to one idea: **between 2011and 2054, he wants to transfer $45 trillion in Government IOUs to Social Security in lieu of real reform and claim he has fixed the long-term problem.**

- These transfers – from one government pocket to another – could be $1 or $100 trillion, and the budget surpluses would be the same. In fact, Gore could make these transfers to Social Security and then still spend the surpluses on more government programs.

- These transfers simply add to the bookkeeping balances of the trust funds without changing anything fundamentally about the program or the economy. Without this proposal, Social Security's cash income will fall short of cash outgo beginning in 2015. How long does the Gore plan delay this day of reckoning? It doesn't.

- In similar legislation the Clinton-Gore Administration sent to Congress, the transfers to Social Security would occur beginning in 2011 regardless of the size of the budget surpluses over the next ten years – and even if the budget were in deficit.

- So what's the real effect of this proposal? A massive income tax increase on our children and grandchildren, who will be asked to pay for these IOUs. Senator Bob Kerrey said the proposed legislation "has a great deal of pain in [the] plan – a hidden pain in the form of income tax increases that will be borne by future generations of Americans."

- CBO, GAO, and many economists have all reached the same conclusion about this proposal: it doesn't save Social Security and is more likely to derail reform than promote it. Gore compounds this problem by proposing unfinanced benefit expansions that will cost anywhere from $100 billion to $400 billion over the next ten years and increase Social Security's actuarial deficit by as much as one-third.

- The problems confronting Social Security are immense. By 2050, the <u>annual</u> cash deficit in the trust fund will be about $375 billion (in constant 2000 dollars). To keep the program solvent without reform would ultimately require increasing the payroll tax rate to 18%, a 45% tax rate increase.

- Instead of going back to the drawing board on Social Security to address the looming shortfall, the Vice President has chosen to focus on “Retirement Savings Plus”. But Americans already have IRAs, Roth IRAs, 401(k) plans, employer pensions, and other savings vehicles. In the words of President Clinton, shouldn’t we “save Social Security first”?