# INFORMED BUDGETEER

## CBO'S NEW BUDGET PROJECTIONS

- On July 15, CBO released its annual Summer Update of budget projections. The widely reported increase in projected budget surpluses is largely due to a reestimate of future income taxes precipitated by the larger-than-expected influx of revenues that occurred between the time CBO issued its last set of projections (March) and now.

- The table below provides a thumbnail sketch of the sources of the reestimate. There is essentially no change in the estimates for the off-budget programs of Social Security and the Postal Service, so all the changes are in the on-budget projections.

- Over the next 10 years, revenues are expected to be $500 billion more than previously estimated, because CBO estimates that the additional revenues of $45 billion that occurred in 1998 will continue at that level into the future.

- In addition, outlays are now expected to be about $500 billion lower over the next 10 years because of the dampening effect that a lower inflation assumption has on benefit programs, federal interest costs, and discretionary spending after 2002. (Such decreases in outlays are roughly offset by the corresponding reductions in revenues resulting from the lower inflation assumptions, which are in turn compensated for by increased revenues resulting from certain technical re-estimates.)

- The result of these reestimates is to eliminate the net on-budget deficit of $900 billion that CBO estimated in March for the next 10 years. Now, the on-budget deficits that will still prevail over the next few years will be almost exactly offset by the on-budget surpluses that will occur near the end of the 10-year period.

**CBO BUDGET PROJECTION**
Ten -Year Totals 1999- 2008
($ in trillions)

| | March | July | Difference |
|---|---|---|---|
| Outlays | | | |
| On-budget | 16.4 | 15.9 | -0.5 |
| Off- budget[A] | 3.9 | 3.8 | * |
| Revenues | | | |
| On-budget | 15.5 | 16.0 | 0.5 |
| Off- budget | 5.4 | 5.4 | * |
| Deficit(-)/Surplus (+) | | | |
| On-budget | -0.8 | * | 0.9 |
| Off-Budget | 1.5 | 1.5 | * |
| Unified budget | 0.7 | 1.5 | 0.9 |

[A]By law, Social Security and the Postal Service are classified as off- budget. * Less than $50 billion. NOTE: Totals may not add due to rounding.

## CBO'S NEW ECONOMIC FORECASTS

- The CBO also released new economic forecasts as part of its Summer Update. Relative to last January's forecast, CBO now looks for slightly stronger real GDP growth and somewhat lower inflation and interest rates over the 1998-2003 period.

- CBO does forecast some slowdown from 1999-2001, as a natural correction to recent above-trend growth. This slowdown is expected to result from a deterioration of the real US trade balance and a slowdown in investment. However, by the end of the budget window, CBO has the economy growing in line with its long-run potential.

- Inflation is expected to rise in 1999 and 2000, as temporary restraining factors (like the strong dollar and falling medical care prices) wane. This may prompt slight Fed tightening, which is expected to hold price pressures in check thereafter.

- After rising slightly in 1999, CBO expects interest rates will edge lower during the rest of the budget window, as the economy returns to its sustainable growth path. Lower long-term rates also reflect the beneficial effects of declining inflation volatility, which decreases the risk premia that investors demand to hold bonds.

- Overall, CBO's revised economic forecasts account for $101 billion in reestimates relative to its January forecasts. However, CBO stresses the uncertain nature of its economic projections -- a further deterioration in the Asian outlook or a stock market plunge could see GDP growth slow far more than projected. Such events could cause any one year's surplus estimate swing by as much as $100 billion!

- CBO's latest forecasts are similar to both OMB and Blue Chip, although the latter looks for slightly faster GDP growth and higher inflation and interest rates than CBO.

**CBO'S JULY 1998 ECONOMIC PROJECTIONS**
(percent)

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|
| Growth Rates | | | | | | |
| Nominal GDP | 5.0 | 4.3 | 4.1 | 4.0 | 4.6 | 4.7 |
| Real GDP | 3.3 | 2.1 | 1.8 | 1.8 | 2.4 | 2.4 |
| GDP deflator | 1.6 | 2.1 | 2.2 | 2.2 | 2.2 | 2.2 |
| CPI | 1.7 | 2.6 | 2.7 | 2.6 | 2.5 | 2.5 |
| Annual Rate | | | | | | |
| Unemployment | 4.6 | 4.7 | 5.1 | 5.5 | 5.7 | 5.7 |
| 3-month T-bill | 5.1 | 5.2 | 4.8 | 4.6 | 4.4 | 4.4 |
| 10-year Note | 5.8 | 6.1 | 5.8 | 5.6 | 5.4 | 5.4 |

## FEDERAL ESTIMATORS ARE NOT ALONE IN MISSING THE MARK

- Federal revenue estimators were not the only ones to be surprised yet again this spring by higher-than-expected tax collections.

- According to an informal survey by the Nelson A. Rockefeller Institute of Government Center for the Study of the States, for the third year in a row many states are seeing much larger final settlements on the personal income tax than they expected.

- Twelve of the 15 states in the informal survey experienced a better April than their earlier estimates had forecasted. States with particularly large April windfalls included Delaware, New Jersey, New York, Ohio and Virginia. Massachusetts did not report any surprise in April, but was stunned by extraordinary revenue growth in May.

- To add more good news, many states are seeing withholding from paychecks growing at very high rates. Some analysts think that government estimates of employment and wage growth are not keeping up with reality, and others think stock options taken as wages are a driving factor.

## WHAT GOES UP ...

- In 1995 the food stamp program topped $25 billion and projections were that the program would continue growing. Back then, CBO projected that 1998 food stamp expenditures would be about $29 billion. However, in 1996, Congress passed welfare reform that was estimated to reduce expenditures in food stamps by just under $4 billion in 1998. So with welfare reform, spending in 1998 should have been $25 billion.

- Since welfare reform, Congress has twice voted to expand food stamp benefits. In the Balanced Budget Act, Congress increased the number of exemptions from the food stamp work requirement and increased the number of work slots for recipients required to work. The BBA provisions added $300 million in 1998 and $1.5 billion over five years.

- This year in the agriculture research bill, Congress extended food stamp benefits to certain non-citizens which will add $195 million in new benefit spending in 1999. However, net spending on the food stamp program will decrease by $100 million in 1999 due to the offsets which capped food stamp administrative costs and reduced employment and training spending.

- Currently, congressional estimates are that spending for food stamps will be just over $20 billion this year. However, based on the Monthly Treasury Statement the food stamp program is on track to spend less than $20 billion in 1998. This means that in real terms food stamp expenditures have returned to the 1990 level of spending.

- Finally looking toward next year, the Senate-passed FY 1999 Agriculture Appropriations bill provides for $23.8 billion in food stamp spending for 1999 while the House provides $22.6 billion.

- Unemployment is low and welfare caseloads have dropped with it. Food stamps has played its counter-cyclical role well by increasing spending in recessions and decreasing spending in boom times.

**FOOD STAMP SPENDING**
($ in Billions)

| | 1990 | 1995 | 1998 (1995 est.) | 1998 (current est.) |
|---|---|---|---|---|
| Benefits | 15.5 | 23.8 | 27.0 | 17.8 |
| Admin | 1.1 | 1.9 | 2.2 | 2.0 |
| Total | 16.6 | 25.7 | 29.2 | 19.8 |

**ADDITIONAL FOOD STAMP FACTS**

| | 1990 | 1995 | 1998 (est.) |
|---|---|---|---|
| Participants (millions) | 21.5 | 28.0 | 19.7 |
| Households (millions) | 8.3 | 11.2 | 8.2 |
| Avg. benefits/person/month | $59 | $71 | $71 |
| Avg. benefits/household/month | $161 | $177 | $177 |
| %Household w/ income | 19.5% | 23.0% | NA |
| Avg. Monthly income | $514 | $528 | NA |

## LINE ITEM VETO & ARAB ALABAMA UPDATE

- The Administration has not formally decided to release the item vetoed funds. They will not announce the release until the President decides whether he wants to request a rescission of these amounts.

- With respect to Arab, Alabama, (see July 13, *Bulletin*) the $400,000 earmark was in report language and does not have the force of law. The Administration could spend it for another purpose in that account, though the Administration has not decided what it is going to do yet. (FYI: An Albamaian and informed budgeteer advised the *Bulletin* that the correct pronunciation for the city in question is Ay-rab, with a long A.)

## FARM INCOME FACTOIDS

- Average farm household income for 1996 -- data for the latest year available -- was $50,361. Compared to the average non-farm household income in that year -- $47,123 -- farm household income was nearly 7.0 % higher.

- However, farm related income made up only about 16% of the total farm household income in that year -- $7,906. Off-farm earnings for farm households in 1996 represented nearly $42,455.

- The latest USDA statistics reemphasize the importance employment and earnings in the general economy has become today in order to permit farm households to maintain a livelihood.

- A farm is defined officially as any establishment from which $1,000 or more of agricultural products were sold or would normally be sold during a year. Also of note, in the US an average of 1.1 farm operator households share income from a single farm operation.

**Average Income to Farm Operator Households**

| | 1992 | 1993 | 1994 | 1995 | 1996 |
|---|---|---|---|---|---|
| $ per farm | | | | | |
| Net cash farm income | 11,320 | 11,248 | 11,389 | 11,218 | 13,502 |
| Less depreciation | 5,187 | 6,219 | 6,466 | 6,795 | 6,906 |
| Less operator wages | 216 | 454 | 425 | 522 | 531 |
| Less farmland rental income | 360 | 534 | 701 | 769 | 672 |
| Less other household claim | 961 | 872 | 815 | 649 | 1,094 |
| $ per household | | | | | |
| Adjusted farm income | 4,596 | 3,168 | 2,981 | 2,484 | 4,300 |
| Plus operator wages | 216 | 454 | 425 | 522 | 531 |
| Plus farmland rental income | 360 | -- | -- | 1,053 | 1,178 |
| Total farm income | 5,172 | 3,623 | 3,407 | 4,059 | 6,009 |
| Plus farm-related earnings | 2,008 | 1,192 | 970 | 661 | 1,898 |
| Total farming activities | 7,180 | 4,815 | 4,376 | 4,720 | 7,906 |
| Plus off-farm earnings | 35,731 | 35,408 | 38,092 | 39,671 | 42,455 |
| Total household income | 42,911 | 40,223 | 42,469 | 44,392 | 50,361 |
| U.S. average household | 38,840 | 41,428 | 43,133 | 44,938 | 47,123 |
| In Percent | | | | | |
| Farm income as % US avg. | 110.5 | 97.1 | 98.5 | 98.8 | 106.9 |
| Farm activities income | 16.7 | 12.0 | 10.3 | 10.6 | 15.7 |

SOURCE: Agriculture Outlook/ June -July 1998, ERS-USDA

## CALENDAR

July 21: Senate Budget Committee Hearing; Issues Associated with Implementing Personal Savings Accounts as Part of Social Security Reform. Witnesses: James Phalen, Principal, State Street Global Advisors; Fred T. Goldberg, Jr., Skadden, Arps, Slate, Meagher & Flom; Francis X. Cavanaugh, former Executive Director of the Thrift Investment Board. Dirksen 608; 10:00am.

July 23: Senate Budget Committee Hearing; The Long- Term Economic and Budgetary Effects of Social Security Reform. Witnesses: Martin S. Feldstein, Ph.D. Professor of Economics, Harvard University, National Bureau of Economic Research, Inc.; Rudolph Penner, The Urban Institute; Henry J. Aaron, Ph.D., The Brookings Institution. Dirksen 608; 10:00am.

July 27: The Great Social Security Debate #3. Albuquerque, New Mexico, The Johnson Center, University of New Mexico, 10:00 am. Opening remarks: President William Clinton, Senators Pete V. Domenici and Jeff Bingaman, Representative Earl Pomeroy and a TBD House Republican Member.

Experts participating in discussion of Social Security Private Market Options include Ferdando Torres-Gil, UCLA; Robert Reischauer, Brookings Institute; Carolyn Weaver, AEI; Michael Boskin, Hoover Institute; Peter Diamond, MIT.