Budget Bulletin

Senate Budget Committee
Majority Staff
Pete V. Domenici - Chairman

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INFORMED BUDGETEER

CLARIFYING CBO ESTIMATES

The *Bulletin* has continuously heard budgeteers stating that CBO's July update estimate of unified budget surplus is $1.6 trillion over the "next 10 years." However in the interest of "informed budgeteers" we would like to clarify: the estimate is 1.612 trillion over the 11 year period including 1998. The 10 year figure is $1.549 trillion which rounds to $1.5 trillion over the next 10 years!

SOCIAL SECURITY POLLS

Americans' Views on Individual and Government Investment of Social Security Funds

	% favoring proposal
Individual Investment	
Workers shift some Soc. Sec. tax payments into personal retirement accounts; invested individually.	80
Workers decide how some of their Soc. Sec. contributions are invested.	71
Workers have individual accounts; invest portion of Soc. Sec. tax payments.	64
Workers invest a portion of Soc. Sec. taxes, getting more or less money depending on performance.	60
People invest some of Soc. Sec. tax payments in stock market. Benefits dependent on performance.	48
Government Investment	
Invest some Soc. Sec. revenues in stock market rather than putting them all in government bonds.	50
Government invest in stock market a portion of Soc. Sec. funds.	38
Keep system intact, but government invests 40% of Soc. Sec. revenues in stock market.	37
Invest a portion of Soc. Sec. taxes in stock market.	36
Government invest part of the money it holds in Soc. Sec. in stock market.	29

SOURCE: Eight polls conducted between January 1997 and May 1998. *America in denial: The Public's View of the Future of Social Security.* By Robert Blendon, John Benson, Molly Ann Brodie and Flint Wainess, The Brookings Review, Summer 1998.

HOW LONG DOES IT TAKE?
A REFRESHER COURSE ON THE BUDGET PROCESS

- To put the prospects of a reconciliation conference report being completed in the remaining days of the 105th Congress into perspective, the *Bulletin* will review the normal time frame this processtakes. On average, the length of time between adopting a budget resolution and passing reconciliation legislation is 130 days

- Since 1980, in years when we have done a reconciliation bill, the resolution conference report has been adopted by both houses by June 23, in all but three years. (It is also worth noting that since 1988, with the exception of 1996 & 1990, Congress has only passed reconciliation bills every other year.)

- Remember that after the resolution conference report has been adopted, each committee of jurisdiction must then mark-up the individual portions of the reconciliation bill and report back to the budget committees.

- The reconciliation bills are then marked-up by each budget committee and passed through each chamber and then conferenced, sent back to each chamber and passed again where it awaits the signature or veto of the President. Final passage of a reconciliation report has historically occurred in late October and has been delayed all the way until late December or in one case April of the following year. (April 1984- see table below)

- There have been some exceptions to this time table, and below are a few examples.

- In 1990, this process was completed in a remarkable 18 days. This however is a bit deceiving. Negotiations between the White House and Congress began in June of that year and laregly fashioned in the Andrews Air Force Base summit which worked out all the major issues allowing quick action by Congress to develop and pass the reconciliation bill.

- In 1996, the reconciliation bill was completed in 49 days. However, Congress only completed 1 of the 3 reconciliation bills called for by the budget resolution that year. That reconciliation bill only involved 2 committees.

- The most recent example is last year's Balanced Budget Act and Taxpayer Relief Act. The reconciliation bill was passed in only 56 days. This too was eased by an agreement between both parties and the White House. Additionally, the negotiations began in earnest that year in April and the initial agreement was reached in May, so again much of the groundwork already had been laid to make that possible.

- Therefore, assuming under the best of circumsatnces that the budget resolution for FY99 is adopted by July 31, there are only 61 days until the end of September (when the Congress is scheduled to adjourn for the year). Passage of a reconciliation conference report before Sine Die this year, particularly with Congress in recess for the month of August, would be quite a feat.

Resolution & Reconciliation Conference Reports Adoption/Passage Dates

Fiscal Year	Resolution Adopted	Reconciliation Passed	Days between Passage of Bills
1981	Nov. 20, 1980	Dec. 3, 1980	13
1982	May 21, 1981	July 31, 1981	71
1983	June 23, 1982	Aug. 18, 1982	56
1984	June 23, 1983	April 5, 1984	296
1986	Aug. 1, 1985	March 20, 1985	231
1987	May 15, 1986	Oct. 17, 1986	155
1988	June 25, 1987	Dec. 22, 1987	180
1990	May 18, 1989	Nov. 22, 1989	188
1991	Oct. 9, 1990	Oct. 27, 1990	18
1994	April 1, 1993	Aug. 6, 1993	127
1996	June 29, 1995	Nov. 20, 1995	244
1997	June 13, 1996	Aug. 1, 1996	49
1998	June 5, 1997	July 31, 1997	56

CREDIT UNIONS & COST ESTIMATES

- Recent *Bulletins* have reviewed in general why a cost estimate is a useful tool in the congressional budget process. Still, sometimes it's not obvious why a particular bill has a budgetary impact and whether that will affect its consideration by the Congress. H.R. 1151, The Credit Union Membership Access Act, which the Senate began debate on July 24, is a good case study.

- In February 1998, the Supreme Court ruled in *National Credit Union Administration v. First National Bank & Trust Co.* that the NCUA could not allow credit unions to accept members who are employed by unrelated groups and do not share a single common bond.

- The Federal Credit Union Act strictly limits membership in a single federal credit union to groups sharing a single common bond. Nonetheless, in 1982, the NCUA said a single credit union could serve persons employed by multiple employers, even though not all those employers share a single common bond. Banks filed suit arguing that credit unions were illegally expanding their customer base at the expense of banks' business. The court ruled that the NCUA had incorrectly interpreted the law.

- H.R. 1151 would allow federal credit unions to expand their membership by partially lifting the limitations on credit union eligibility. Credit unions could accept up to 3,000 members from unrelated groups, creating multiple common bonds.

- As a result of H.R. 1151, one would expect that more people would be likely to join credit unions, and that the size and the number of credit unions would increase more rapidly than would occur under current law.

- According to the Joint Committee on Taxation (JCT), H.R. 1151 would shift deposits from financial institutions, such as banks, that are subject to federal income taxes to credit unions, which are not subject to federal income taxes. JCT estimates that this shift would lead to federal government revenue losses of $89 million from 1998-2002, and $444 million for 2003-2007.

- Typically, such a cost assigned to bill would allow a Budget Act point of order to be raised against the bill unless it also included an offset for the additional costs. Because the Senate paygo scorecard usually carries deficits for one if not both of the five-year periods that are measured (currently, 1998-2002 and 2003-2007), bills that would add to those deficits are subject to a 60-vote point of order.

- However, the Senate paygo scorecard currently stands in surplus for both five-year periods, a rare and usually fleeting state of affairs. That means that the next bill(s) cleared by the Senate would not be subject to a point of order, even if they do not include an offset, until the surplus is consumed. After that, points of order will apply again until some legislation is passed that put savings back onto the scorecard.

- Before *Bulletin* readers rush to spend the surplus, however, the FY 1998 budget resolution established limits on spending and revenues. Current spending is essentiallyat those spending limits, meaning this pay-go surplus cannot be used for spending legislation.

ECONOMICS

<u>SECOND QUARTER SLOWDOWN</u>

- After posting remarkable 5.4 percent growth in the first quarter, some economists believe, may have contracted the economy fractionally in the second quarter. Several items are at play:

  - Unseasonably warm winter weather caused some spring purchases to be accelerated, which "poached" growth from the second quarter.

  - Inventory accumulation appears to have dropped considerably from its record first quarter pace.

  - The trade deficit widened sharply in April and May as the effects of the Asian crisis began to have a more pronounced effect on US trade. May posted a record $15.7 billion deficit.

  - The ongoing GM strike may have shaved up to 0.5 percent from second quarter growth. These ill effects should largely reverse themselves, however, once the strike is over.

- Despite the likely bleak second quarter growth headline, this is unlikely to signal an impending recession. The fundamentals underlying the economy's growth over the last year appear to remain largely intact -- low long-term interest rates, strong consumer confidence and job market conditions, rising incomes and a robust stock market.

- It was for these reasons that Federal Reserve Chairman Greenspan indicated in his recent Humphrey-Hawkins testimony that the growth outlook remains positive for the second half of 1998 and for 1999. This is also why he believes that inflation poses a greater risk to the economy at present than does the negative fall-out from the Asian crisis.

- Indeed, many private economists believe that the Asian crisis has been a positive for US economic growth up to this point, since it has produced a flood of foreign capital into US capital markets which led to sharp falls in long-term Treasury bond yields. This has fueled the interest rate sensitive sectors of the US economy whose growth has masked the decided slowdown in manufacturing that we've witnessed this year.

- The negative repercussions from Asia are likely to worsen, however, as the year progresses given the lags between order placements and shipments. Furthermore, imports from SE Asia are likely to rise once their domestic economies stabilize somewhat and their industrial production picks up.

- Although the economy's underpinnings still appear sound, some degree of caution is always warranted, given the large number of uncertainties on the horizon. Should deteriorating Asian conditions precipitate a global stock market correction, this could have considerable impact on the US growth outlook given the key role that the share market has played in propelling recent growth.

CALENDAR

Tentative Agenda: The Great Social Security Debate #3
Albuquerque, NM
Monday July 27, 1998; 10:00am -1:30pm

9:45-10:00: Welcoming remarks

10:00-10:30: Opening remarks- President William Clinton, Senators Pete V. Domenici and Jeff Bingaman and Representatives Jim Kolbe and Xavier Becerra.

10:30- 11:55: Expert Views on Social Security Private Market Options: Moderator: Gloria Borger, U.S. News & World Report, CBS News.

Overview of Social Security: Fernando Torres-Gil Assoc. Dean, Prof. of Social Welfare and Policy Studies, UCLA School of Public Policy and Social research.

Should the Social Security Trust Fund invest part of its assets in the market? Presenters: Robert Reischauer, Brookings Institution, former Director of the Congressional Budget Office; Carolyn Weaver, American Enterprise Institute;

Should workers' Social Security taxes be put into individual accounts? Michael Boskin, Hoover Institution, Stanford University; Peter Diamond, Institute Professor, Massachusetts Institute of Technology.

12:15-1:30: Town Hall Meeting; President William Clinton, Senators Pete V. Domenici and Jeff Bingaman, Representatives Jim Kolbe and Xavier Becerra, and expert panelists.