

INFORMED BUDGETEER: PRESIDENT'S 2004 BUDGET

**COMPARISON OF DISCRETIONARY RESOURCES
 IN THE PRESIDENT'S FY 2004 BUDGET
 (Budget Authority, in billions of dollars)**

	2002	2003	2004	2003-2004	
	Actual	Request	Request	Diff.	% Change
TOTAL BA	734.7	751.8	782.2	30.4	4.0%
Less Defense	360.8	382.2	399.2	17.0	4.4%
Less Homeland Security	24.2	26.8	28.2	1.5	5.5%
TOTAL, Other Domestic Discretionary BA	349.6	342.8	354.8	12.0	3.5%
Plus transportation obligation limitations	41.1	37.4	39.6	2.3	6.0%
TOTAL, Other Domestic Discretionary Budget Resources	390.7	380.2	394.4	14.2	3.7%
MEMO:					
President's \$10 billion Defense Reserve Request included in 2003 Omnibus Appropriations		10.0	--		
Revised Defense Total	360.8	392.2	399.2	7.0	1.8%
TOTAL BA	734.7	762.8	782.2	19.4	2.5%

Source: Senate Budget Committee Republican Staff; OMB

- Understanding the request for discretionary spending in the President's 2004 budget is difficult given the still-shifting funding levels being negotiated in the 2003 Omnibus appropriations bill. In setting a level of budget authority for 2004, the budget also vaguely sets out the Administration's latest definition of the "Presidentially approved spending level" for discretionary BA for 2003 as follows: \$751.8 billion, reflecting "the House passed budget resolution, adjusted for mass transit" BA of \$1.4 billion.
- The table above reflects this definition, but also illustrates the comparison between the 2004 request and the 2003 request adjusted for the \$10 billion the President had requested for additional defense activities, which the Congress had said it would not consider, but which now appears will be included in the Omnibus appropriations bill in conference this week.

PRESIDENT'S PROPOSALS FOR BUDGET PROCESS

- Most budgeteers know by now that nearly all of the budget enforcement mechanisms that had become familiar over the last 12 years expired on September 30, 2002. The President's budget proposes to reinstate statutory limits on discretionary spending for 2004 and 2005 and to extend PAYGO enforcement for the same period. The budget document provides a general outline of these, for which the President will submit "comprehensive proposals" later and "will work with the new Congress to develop."
- Discretionary spending – New limits and other constraints. The President's budget proposes to bring back discretionary spending caps at the following levels: \$782.2 billion in budget authority and \$818.8 billion in outlays for 2004 and \$813.5 billion in budget authority and \$850.0 billion in outlays for 2005. These levels reflect two cap increase adjustments that existed previously – (1) Social Security Program Integrity Activities - CDRs and (2) EITC compliance – as well as a new one for (3) the Nuclear Waste Repository at Yucca Mountain.
- One other adjustment is contemplated if Congress adopts the President's proposal to require agencies to fully fund the accrued cost of federal retirement benefits, but this adjustment is not reflected in the proposed caps or budget totals. The 2004 budget proposes similar to the 2003 request, but with a different tack, a

technical, "good government" reform that – while it would have no net effect on the bottom line surplus or deficit of the federal budget – is intended to appropriately reflect the government's full share of the cost of retirement benefits (health insurance and pensions) for federal employees within the agencies where current employees (who are future retirees) work. If Congress decides to address this issue, the caps could be adjusted by \$11.1 billion in 2004 and \$11.3 billion in 2005.

- The President's budget again endorses the approach in the current (FY 2002) budget resolution to limiting total advance appropriations to \$23.159 billion (except for programs that the President has proposed for reduction or elimination).
- PAYGO. The President's budget proposes to reinstate statutory PAYGO enforcement for 2004 and 2005 (sequesters of certain mandatory spending for mandatory spending increases or tax reductions that are not offset) that also expired at the end of 2002. The budget suggests that the list of accounts potentially subject to sequestration under both PAYGO and the discretionary spending limits be reviewed to reflect technical issues and new programs that have been enacted since 1997 (the last time the sequestration mechanisms were reviewed and extended).
- Emergency Spending. With the extension of caps and PAYGO, the President would revive the designation for both discretionary and mandatory emergency spending, and proposes to codify a definition of emergency spending with the following elements:

necessary expenditure – an essential or vital expenditure, not one that is merely useful or beneficial;
sudden – quickly coming into being, not building up over time;
urgent – pressing and compelling, requiring immediate action;
unforeseen – not predictable or seen beforehand as a coming need (an emergency that is part of an aggregate level of anticipated emergencies, particularly when normally estimated in advance would not be "unforeseen"); and
not permanent – the need is temporary in nature.

The President also proposes that the emergency designation apply only to individual spending or tax items to prevent "bundling" of provisions designated by the Congress as an emergency to force an all-or-nothing Presidential concurrence.

- The Baseline. The President's budget includes three proposals for changes to section 257 of the Budget Act, which provides the statutory direction to both CBO and OMB regarding the preparation of the baseline. One would correct for the overcompensation of baseline budgetary resources for pay raise-related costs due to the requirement to annualize pay raises. The second would repeal section 257 (c)(2) and (3), which set out two exceptions to the baseline for discretionary spending – an exception for expiring housing contracts and for social insurance administrative expenses. The third change would exclude emergency funding provided in the current year from the base of funding that is projected forward into subsequent years.
- Other Process Proposals. The President's budget once again includes a number of specific budget process changes: (1) a joint budget resolution, (2) biennial budgeting and appropriations, (3) a line-item veto, and (4) a government shutdown prevention mechanism (an automatic continuing resolution).

FOCUS ON NASA BUDGETS

- February 1st was a sad day for our nation as seven exceptional individuals were lost in the space shuttle Columbia's tragic accident. Thousands of men and women will work diligently in the coming months and years to learn the cause of the tragedy and prevent another such disaster. In the meantime, a review of budget data is of interest.
- Many have already cited the reaction to the previous disaster with the shuttle Challenger in 1986. As the table below shows (in real terms, removing the effects of inflation), NASA funding increased by more than one-third the following year.
- For the next eight years, annual NASA funding remained relatively constant - at an average of \$14.5 billion, slightly above the 1987 level. From 1996 to the current year, average annual NASA funding has been about \$13.2 billion, or about 9 percent less (reflecting a decline that began in 1992 and only recently reversed starting in 2001).
- An examination of NASA's budget for the shuttle program alone over the last 10 years reveals a decline that has flattened out over the past 5 years. How did these budget numbers come to pass? Each year, the Administration makes a request to Congress, presumably reflecting the amount that the experts within each Administration believed was necessary to appropriately fund the program. Then Congress makes appropriations that determine the funding level, with Presidential concurrence. The table shows how the amounts appropriated for the shuttle program have more or less tracked (except for 1994 and 1995) with the amounts requested. (Note that from 1994-1997, the number of shuttle flight averaged 7.5 per year, but from 1998-2001, the number of flights averaged 4.5 per year.)
- While the budgets of NASA and its shuttle program are fair game for scrutiny, the budget numbers taken independently offer little meaningful insight. The top priority at this point is for experts to determine precisely what went wrong. Only after the disaster's causes are completely understood can links be made to the budget and other decision-making processes.

NASA AND SPACE SHUTTLE FUNDING				
(in billions of constant 1996 dollars)				
Year	Total NASA	% Change	Shuttle Funding	
			Pres. Request	Enacted
1984	10.6	---		
1985	10.4	-1.8%		
1986	10.5	0.6%		
1987	14.3	36.2%		
1988	11.5	-19.6%		
1989	13.4	16.7%		
1990	14.6	8.7%		
1991	15.9	8.9%		
1992	15.7	-1.2%		
1993	15.3	-2.5%		
1994	15.3	-0.3%	4.4	4.0
1995	14.2	-7.1%	3.4	3.2
1996	13.9	-2.1%	3.2	3.2
1997	13.4	-3.3%	3.1	3.1
1998	13.2	-1.7%	2.9	2.8
1999	13.0	-1.5%	2.9	2.9
2000	12.6	-2.9%	2.8	2.8
2001	12.9	2.5%	2.9	2.8
2002	13.3	2.9%	2.9	2.9
2003*	13.2	-1.2%	3.3**	---
2004*	13.3	1.2%	3.4**	---

* Reflects President's 2003 and 2004 budget request.

** In 2004, NASA moved to full cost budgeting. The 2004 figure represents full costs, while the 2003 figure is an estimate of full costs. Numbers prior to 2003 do not reflect full costs and are therefore not comparable to figures that do not include full costs.

BUDGET QUIZ – A DEFICIT OF UNDERSTANDING

Question: The day after the President's budget was released, many headlines erroneously proclaimed the President's proposals would produce "record" deficits – the highest in US history. But how many times in just the past 60 years has the deficit been larger than the level the President projects for 2003 and 2004?

Answer: Nine times (1943, '44, '45, '83, '85, '86, '91, '92, and '93). If historical comparisons are to be made, one must consider changes in the value of the dollar as well as changes in the size of our economy, otherwise the use of the word "record" is meaningless. Why? Consider the following example that anyone who's had a job can relate to.

If a worker was earning \$40,000 annually in 1992, and in 2003 is earning \$42,000, no one would argue that person is earning a record-high salary. In reality, that worker had more buying power back in 1992 than he does today. In fact, that worker would have to be making at least \$50,000 to have comparable buying power today.

Now consider a meaningful deficit comparison, based on what a dollar was worth in a single year. In the *Historical Tables* document (p. 25) of the President's 2004 budget, the 2003 deficit is \$267 billion, lower than previous years when (in constant 1996 dollars) deficits were \$318 billion (1992), \$311 billion (1983) and \$412 billion (1945).

Extra credit: Further, if the dollars are compared to the economy as a whole, the projected 2003 and 2004 deficits are eclipsed by 22 out of the past 60 years in which the deficit/GDP ratio was greater. In the early 1990s, mid-1980s, and 1940s, deficits as a percentage of the overall economy were over 4 percent, 6 percent and as much as a whopping 30 percent, respectively. The budget deficit projected for 2003 is only 2.8 percent of the economy.

COMMITTEE CALENDAR

February 11, 10:00 AM

The President's International Affairs Budget

Witness: **The Honorable Colin L. Powell**
Secretary, Department of State

February 13, 2:30 PM

Department of Transportation Budget Proposals

Witness: **The Honorable Michael Jackson**
Deputy Secretary, Department of Transportation

A live broadcast of the hearings can be watched from our website:
<http://budget.senate.gov/republican>

EDITOR'S NOTE

The Republican Staff of the Senate Budget Committee has produced its annual analysis of the President's budget request. It is chock full of useful and easy-to-understand analysis and is now available at the Committee website, <http://budget.senate.gov/republican>