

INFORMED BUDGETEER

THERE YOU GO AGAIN

- While news of CBO’s reestimate of the President’s budget oozed out over the past week, culminating in full press accounts following CBO’s release of its analysis on March 3rd, the *Bulletin* highlights key summary information for budgeteers.
- While the President claimed that his budget would produce cumulative surpluses amounting to \$221 billion over the next five years, CBO estimates that the surpluses will be more spotty, amounting to less than half of what the President claims--\$100 billion over the 1999-2003 period.
- Perhaps even more important to note, however, is that, through the non-partisan lens of CBO, the President’s budget would spend \$43 billion more over the next five years than would be spent if no changes in current law were to occur. So much for dedicating all the surpluses to Social Security.
- Focusing on a key component of the reestimate, CBO examined the President’s attempt to increase spending on discretionary programs by claiming offsets that would try to squeeze all the increases and new programs under the caps agreed to and enacted not even a year ago. CBO concludes that while the President’s spending proposals would result in higher outlays than the budget reflects, the President has also overestimated the extent to which his proposed “offsets” actually compensate for the increases.
- In the first budget submitted after the budget agreement was reached, the President would spend \$12 billion more in 1999 than the cap set for that year--\$561 billion. Over the 1999-2002 period, the President would spend \$68 billion more than agreed to last summer for the period covered by statutory spending caps.
- At the same time that CBO analyzes the President’s budget, it revises the baseline estimates the Congress uses to prepare the budget resolution. CBO’s analysis again takes the opportunity to caution against excessive confidence in estimates of annual surpluses or deficits that could possibly be different by “upwards of \$100 billion” over the next several years. As proposals fly on how to spend the surplus, it would seem wise to keep such cautions in mind.

4, 1998. NOTES: Numbers in table may not add to totals because of rounding, a- Less than \$500 million. VA smoking- Repeal of Department of Veterans Affairs smoking decision. Na- not applicable

CHERRY BLOSSOMS - SPRING SUPPLEMENTAL

- Congress will soon take up the Administration’s request for FY 1998 supplemental appropriations to finance continuing Department of Defense operations in Bosnia and Southwest Asia (Iraq), disaster assistance associated with winter ice storms and flooding, funding for the veterans compensation COLAs (see table), and other transfers and miscellaneous supplementals proposed to be offset.
- The Administration has requested FY 1998 supplemental appropriations for continued U.S. operations in Bosnia past June 30, 1998 (\$486.9 million), for continued deployments in Iraq and Southwest Asia (\$1.4 billion), and disaster assistance totaling \$641.6 million for defense and domestic agencies.
- The defense funding request is designated as “emergency requirements” and would be provided outside the spending caps. For disaster assistance, \$390.5 million receives the “emergency” designation, and another \$254.8 million would be provided as “contingent” emergency appropriations to be spent later in the year.
- Also pending consideration is the President’s request for the International Monetary Fund (IMF) which includes \$3.5 billion for the New Arrangements to Borrow (NAB), and \$14.5 billion for the U.S. quota subscription. The NAB is an emergency lending fund, and the quota is the IMF’s regular working capital.
- The House Banking Committee approved the IMF authorization bill last Thursday by a 40-9 vote. That bill includes the full \$18.0 billion for the IMF --\$3.5 billion- NAB and \$14.5 billion- Quota.
- During a Senate Appropriations Subcommittee hearing, Chairman McConnell stated his intent to mark up only the NAB and consider the quota increase at a later date after Congress has reviewed compliance by countries which have received IMF loans. ☺

PRESIDENT’S BUDGET- EFFECT ON THE SURPLUS							
(By fiscal year, in billions of dollars)							
	1998	1999	2000	2001	2002	2003	Total
CBO Baseline	8	9	1	13	67	53	na
Revenues:							
tobacco	0	10	12	13	15	16	65
other	a	2	3	3	3	2	14
subtotal	a	12	15	17	18	18	80
Outlays:							
Discretionary	a	-12	-15	-15	-27	-22	-90
Mandatory							
tobacco	0	-3	-4	-5	-5	-5	-22
smaller	0	a	-1	-1	-1	-2	-5
classes	0	a	1	2	3	4	-10
VA smoking	1	-2	-2	-3	-2	-2	-10
other	1	-5	-6	-6	-6	-5	-28
subtotal-mand	1	-17	-20	-21	-32	-27	-118
Total outlay	1	-5	-5	-4	-14	-9	-38
Total policies	a	a	a	-1	-1	-2	-4
Debt Service	1	-5	-6	-5	-16	11	-43
Total effect	8	4	-5	8	51	42	na
surplus/deficit							

FY 1998 SUPPLEMENTAL REQUESTS	
(BA, \$ in Millions)	
Subcommittee/Agency	

SOURCE: CBO, Analysis of President’s Budgetary Proposals for FY 1999, March

AGRICULTURE:	
Disaster Assistance- Emergency	40.0
Contingency	103.0
DEFENSE:	
Bosnia- Emergency	486.9
Iraq- Emergency	1,361.4
Disaster Assistance- Emergency	122.8
Contingency	50.0
ENERGY- WATER:	
Disaster Assistance- Emergency	30.0
FOREIGN OPERATIONS:	
IMF-NAB	3.5
IMF-Quota	14.5
INTERIOR:	
Disaster Assistance- Emergency	3.7
Contingency	36.8
TRANSPORTATION:	
Disaster Assistance- Emergency	224.0
Contingency	35.0
VA-HUD:	
Veterans Compensation COLA	550.0
MAJOR 1998 SUPPLEMENTALS:	
Emergency	2,238.8
Contingency	254.8
IMF	18,000.0
Mandatory	550.0

FY 1999 BUDGET AMENDMENTS

- In addition to the FY 1998 supplemental requests, the Administration has submitted significant proposals affecting FY 1999.
- The President has asked for another \$1.9 billion in FY 1999 to finance continued operations in Bosnia. The Administration proposes that these appropriations be funded beyond the defense spending caps by also designating these funds as “emergency” requirements.
- Also pending is the renewed Administration request for funding to address U.S. arrearage payments to the United Nations, now requested as advance appropriations for FY 1999 (\$475 million) and for FY 2000 (\$446 million). These funds were not approved in the 1998 Commerce-Justice-State Appropriations bill last year after being linked with the population control/family planning language (“Mexico City” policy).

THE COST OF DEPLOYMENTS

- As Congress considers the latest supplemental appropriations requests for Bosnia and Southwest Asia (Iraq), a valid question is how much these deployments have cost?
- Total Department of Defense costs for Bosnia since the initial U.S. deployment in 1995 and through June 1998 has been \$6.4 billion. Another \$1.3 billion has been provided for “nation building” activities through the international affairs (150) function. The grand total for Bosnia through the end of FY 1999 (which assumes enactment of the Administration’s request) is about \$10.1 billion according to the General Accounting Office.
- For Iraq, since the end of the Persian Gulf War in February 1991, total costs to the United States through 1997 for deployments to and U.N. peacekeeping activities in the Persian Gulf, amount to \$3.9 billion according to the Congressional Research Service of the Library of Congress. With regular 1998 appropriations of \$700 million, and the proposed 1998 supplemental, these deployments would cost

about \$6 billion.

- Total costs for both Bosnia and Iraq will thus approach \$16.1 billion if Congress approves the Administration’s latest funding requests.

VIEWS AND ESTIMATES LETTER - FUNCTION 500

- As part of the budget process committees are required to transmit to the Budget Committee within 6 weeks of the President’s budget submission expressing their “views and estimates” on appropriate spending or revenue levels for programs within their jurisdiction. The Labor Committee completed this exercise. The following is a summary of the views and estimates letter from the minority members of the committee.
- **Minority** views and estimates emphasize the need to maintain both the direct and guaranteed loan programs but yet still reduce the cost of borrowing for students. The Minority points to the recent Treasury Report on the scheduled student loan interest rate change as proof that it is possible to reduce student costs yet still maintain both loan programs. The letter fails to endorse the recent Administration proposal on student loan interest rates.
- The letter also urges the Budget Committee to adopt a reserve fund which will make funds available to the appropriations committee based on a comprehensive tobacco settlement and that the Labor Committee should have jurisdiction in writing public health and education provisions related to the settlement.
- Additionally, the minority suggests that the discretionary allocation to the Labor Committee be increased to accommodate increases in a number of Education programs including Goals 2000, Title I, Individuals with Disabilities Education Act, Pell Grants, and new Presidential initiatives. The letter suggests that the Budget Committee make priority investments in job training and worker protection programs.
- The minority also seeks increased investments in health care services, research and public health initiatives. For example, they seek increased investment in the National Institutes of Health, Ryan White CARE Act, Substance Abuse and Mental Health Services Administration, and the Centers for Disease Control.
- Their only specific dollar request involves the Low-Income Home Energy Assistance Program, where they seek \$1.319 billion in funding for fiscal year 1999 and an additional \$300 million emergency set aside. The letter does not suggest areas where programs could be consolidated, reduced, or eliminated.

ECONOMICS

ECONOMIC OVERVIEW

- The headline news on the economy remains positive. The economy has added more than 300,000 jobs in each of the last four months, with the unemployment rate now at 4.6 percent -- its lowest point in this expansion.
- Tight labor market conditions have also boosted wages, with average hourly earnings now rising at a 4.1 percent pace.
- The housing market has been particularly strong, given the sharp drop in mortgage rates since last September -- the 30 year mortgage rate has fallen from 7.5 percent to roughly 7 percent. January new home sales rose 10 percent, although some of this

marks a correction from a weak December.

- Housing market strength is the silver lining of the Asian financial crisis -- although Asia's direct trade effects are negative, it has also led to lower US long-term rates due to declining inflation expectations and safe-haven purchases of US Treasuries.
- However, much of the impact of the Asian crisis is yet to be felt. Manufacturing employment fell slightly in February, which could be a harbinger of further Asian-related weakness. Overall, the US trade deficit is expected to rise to \$160-200 billion in 1998, while the Blue Chip consensus expects 1998 GDP growth to be shaved by roughly 0.5 percentage points.

CALENDAR

March 11: Senate Budget Committee mark-up of FY1999 Budget Resolution. Dirksen 608, 2:00pm. (Tentative)

March 12: Senate Budget Committee mark-up of FY1999 Budget Resolution. Dirksen 608, 10:00am. (Tentative)