INFORMED BUDGETEER

REVISED 302(b) ALLOCATIONS
IT'S APPROPRIATIONS SEASON!

- The Senate Appropriations Committee has done its third revision to the 1999 302(b) Subcommittee allocations. Another allocation may be in the works for next week when up to four bills may be marked up -- Commerce-Justice-State and Interior are scheduled, and Treasury-General Government and Transportation may be scheduled.

- The 302(a) spending allocation to the Appropriations Committee was "deemed" in the Senate through S. Res. 209 when the Senate Budget Resolution was passed on April 2, so the absence of final action on a 1999 Budget Resolution is not holding up Senate action on the annual appropriations bills.

- On June 19, the House adopted, 231 to 178, a rule on the Military Construction Appropriations bill which establishes the overall 302(a) allocation to the Appropriations Committee in the absence of a final budget resolution.

- The House Appropriations Committee can now move its 1999 bills under the 302(b) Subcommittee allocations (see table) it approved on June 16. The allocation reflects the adjustments to the spending caps included in TEA21, including those in the technical corrections bill which has passed the House, and other technical adjustments, which explains the difference between the total Senate and House allocations.

HOUSE & SENATE 302(B) ALLOCATIONS
($ in Millions)

		Senate	House
Agriculture	BA	13,715	13,587
	OT	14,080	14,002
Commerce	BA	32,159	32,456
	OT	30,839	31,185
Defense	BA	250,317	250,526
	OT	244,969	244,992
District of Columbia	BA	482	491
	OT	468	484
Energy & Water	BA	20,977	20,739
	OT	20,720	20,514
Foreign Operations	BA	12,600	12,475
	OT	12,400	12,525
Interior	BA	13,350	13,370
	OT	13,800	14,029
Labor-HHS- Education	BA	82,319	81,552
	OT	80,236	80,221
Legislative Branch	BA	2,399	2,360
	OT	2,294	2,340
Military Construction	BA	8,484	8,235
	OT	9,120	9,100
Transportation	BA	13,065	11,939
	OT	39,500	39,933
Treasury, General Government	BA	12,967	13,200
	OT	11.929	12,424
VA, HUD	BA	69,986	71,031
	OT	80,780	80,528
Total Discretionary	BA	532,820	531,961
	OT	561,135	562,277

HERE'S WHERE WE LEFT OFF ON TOBACCO: COSTS AND BUDGET ACT POINTS OF ORDER

- The Senate began consideration of S. 1415 on May 18, 1998. On Wednesday June 17, the bill fell on a Budget Act point of order (discussed below). While the bill was under consideration, the Senate adopted seven amendments:

McCain - authorize additional resources for treatment of tobacco-related illnesses for Veterans

Durbin - strengthen look back provisions regarding underage tobacco use

Coverdell - authorize additional resources to combat illegal drugs

Gramm - provide marriage penalty relief and full deduction for self-employed health insurance

Kerry - require states to use ½ of restricted state money for child care block grants

Gorton - limit attorneys' fees

Reed - disallow deduction for tobacco advertising to children

- The McCain and Coverdell amendments are authorizations of appropriations, although it is not clear if the funds authorized by Coverdell were to come out of the tobacco settlement or from the existing discretionary caps; and the authorizations do not affect direct spending or revenues. The Kerry and Gorton amendments are measures that do not affect federal spending or revenues.

- The Joint Committee on Taxation determined that the tobacco companies would comply with the restrictions on advertising and marketing in S. 1415, and therefore concluded that the Reed amendment would have no revenue effect. The Gramm and Durbin amendments did impact revenues and their effects are shown in the table.

SCORING OF S. 1415: INCLUDING AMENDMENTS ADOPTED AS OF 6/15/98
(fiscal years, $ in Billions)

	1998-2002	2003-2007	1998-2007
Revenues (net):			
Industry payments	51.7	71.5	123.2
Look-back assessments	--	8.7	8.7
Amendments agreed to:			
Durbin look back	0.2	9.2	9.4
Gramm-marrige penalty	-11.9	-26.8	-38.7
Gramm-health ins.	-4.2	-3.2	-7.3
Reed-ad deductibility	--	--	--
Total Revenues (net)	35.8	59.4	95.4
Direct Spending Outlay			
State litigation account	20.0	28.0	48.0
Farmers assistance	8.0	10.0	18.0
Compensation-vending	3.0	--	3.0
Other direct spending	4.0	5.0	9.0
Amendments agreed to[A]	A	A	A
Total Direct Spending	35.0	43.0	78.0
Total Paygo Effect	0.8	16.4	17.4

[A]CBO has not yet determined the direct spending impact, if any, of the Gramm, Durbin or Reed Amendments. SOURCE: Joint Committee on Taxation and CBO.

- The Gramm amendment reduced revenues by a total of $16.1 billion over the 1998-2002 period, and by $46 billion over ten years. The Durbin look-back amendment increased revenues by $9.4 billion over ten years.

- CBO has not determined the direct spending impact, if any, of the Gramm, Durbin or Reed amendments. The table reflects the direct spending estimates of the unamended measure.

- A 302(f) point of order was raised against the underlying bill on June 17, 1998. This point of order prohibits consideration of legislation which provides spending in excess of a committee's (in this case, the Commerce Committee) allocation. This point of order applied both prior to and after adoption of amendments, but was raised after the fourth attempt at cloture failed.

- The motion to waive the point of order failed on a 53-46 vote (takes 60 votes to waive 302(f)), and as called for by Section 312 (f), S. 1415 was recommitted to the Commerce Committee.

- When the Senate suspended consideration of S. 1415, the bill was estimated to reduce the pay-go scorecard by $0.8 billion over the 1998-2002 period and $17.4 billion over 1998-2007. (Not including the direct spending effects of the Gramm, Durbin and Reed Amendments.)

- However, Section 401(e) of the Commerce Committee substitute included language that this "pay-go" effect would be used to fund "exclusively" discretionary spending authorized in the bill and such spending would not count against last year's agreed to spending caps. Result: another Budget Act point of order -- Section 306, and another 60 votes needed to waive.

BACK TO THE BASICS: WHAT IS A COST ESTIMATE?

- Recently, India and Pakistan have been in world news because of their competing nuclear tests. Who would have thought that they would also make news in the budget world?

- How? After the tests, the President had no choice under current law but to impose trade sanctions. Because such sanctions will prevent previously anticipated sales of agricultural products under the export credit guarantee program, Senators Gorton and Murray last week attached an amendment to the Agriculture appropriations bill during full committee consideration. The amendment would exempt agricultural export programs from the sanctions and would allow those sales to go forward, so CBO estimated an increase in federal spending of $24 million in 1999--the amount of the credit subsidy related to the sales--which produced howls of protest from some quarters.

- This mini-drama offers an opportunity to review the role and rationale of cost estimates for legislation under the Congressional Budget Act. Why does Congress ask CBO to do cost estimates for authorization and appropriation bills anyway? The answer is so that the Congress knows the budgetary impact of whatever it's voting on--that is, how will the legislation change what the government spends?

- To answer that, you'd want to know "change what the government spends" compared to what? Well, compared to what the government would spend without the legislation being enacted. Budgeteers call this current law spending. What does current law cost?

- The cost of current law changes every day as the executive branch goes about implementing it. But twice a year, CBO takes a big snapshot by estimating budgetary effects of current law as it is being implemented by the executive branch to the best of CBO's knowledge--this is the baseline. And to the extent that each program continues to be implemented according to the assumptions that were in place about how current law works at the time of the baseline, then it makes sense to do cost estimates relative to the baseline, which is equivalent to current law.

- However, sometimes current law, or implementation of current law, changes from what was assumed in the baseline. Then, wouldn't you want to have the most up-to-date measure of current law so that you'd know the latest, real impact of the legislation?

- Because of the confusion over CBO's estimate of the Gorton/Murray amendment, Senator Domenici asked CBO to explain its cost estimate procedures at work in this instance. On June 17, CBO responded that it "takes into account not only any changes in law since its last baseline projections but also **significant discrete events that alter the application of law when failure to do so would result in a clearly erroneous estimate**." The imposition of sanctions is one such significant discrete event.

- This practice is long-lived and has many precedents. For example, CBO writes that "when the level of an upcoming statutory cost-of -living adjustment for a federal benefit program is announced subsequent to publication of a baseline, CBO uses the announced level in estimating the cost of proposed legislation that would alter the COLA."

- CBO's longstanding practice is to estimate just the impact of legislation. To the extent economic or administrative actions alter the cost of programs, CBO holds the legislative process harmless for these effects. Congress is neither penalized nor rewarded for these events. But the Gorton/Murray amendment would legislate a change in law and that is precisely the kind of action CBO was created to estimate.

ECONOMICS

ASIAN EVENTS HIGHLIGHT US RISK

- Last week saw a tumultuous slide in the yen and all global equity markets, which was followed by a sharp recovery in both after the US and Japan jointly intervened to support the yen.

- Prior to the intervention, the yen had weakened sharply in recent weeks from 130 yen per dollar to 146 yen per dollar. The yen's plunge frightened global equity investors since it was hurting the export competitiveness of other Asian nations. This could potentially have led to another round of devaluations in Asia, with resultant strains on the global financial system.

- Seeking to head off the latter scenario, the US and Japan bought yen and sold dollars last week in an effort to break the adverse market psychology. While such action was effective in the short-term, it is unlikely to yield a permanent solution.

- Intervention is only effective if the participating central banks allow their domestic money market rates to reflect the intervention (ie "unsterilized" intervention). For example, the Bank of Japan's yen purchases decrease yen liquidity in the money markets, lead to natural upward pressure on Japanese short-term interest rates and thus offer support for the currency.

- However given Japan's bleak economic situation, it makes no sense for their interest rates to rise. As such, the Bank of Japan injected money into its market last Thursday, thus offsetting the effects of the intervention and ensuring little change in its domestic interest rates.

- Thus, last week's intervention will have no lasting impact, unless it is followed by substantive policy changes that alter the market's outlook on the yen. In the interim, global equity markets will remain vulnerable to further currency swings. Given the strong role that the US equity market has played in propelling strong US GDP growth and tax revenues over the several years, the current backdrop suggests caution over relying on too rosy an US economic outlook ahead.

✯ BUDGET NOTE ✯

In March, the Agriculture Department approved salsa as a vegetable in the USDA's school lunch program. If the salsa contains a certain amount of "vegetable matter and minor amounts of spices or flavorings" then it will receive credit as a vegetable in a reimbursable meal. Schools must serve at least one-eighth of a cup as a minimum serving. (Only a few aging analysts will understand why the Budget Bulletin has taken note of this USDA decision!)