Senate Budget Committee Republican Staff

BUDGET BULLETIN

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INFORMED BUDGETEER

MANTRA OF TRANSPORTATION FREE LUNCH SPEEDS SAFETEA ON ITS WAY

- Right before adjourning for last week's recess, the Senate passed a six-year transportation reauthorization bill (SAFETEA), as summarized in the following table (which corrects a similar table in the previous *Bulletin* for the amount the President requested for highways).

TRANSPORTATION BILL COMPARISONS
CONTRACT AUTHORITY TOTALS FOR 2004 – 2009
($ BILLIONS)

Committee/Title	2004 Conference Budget Res.	Senate Transportation Bill	Pres. 2005 Budget
EPW – Highways	231	255	206
Banking – Transit	37	46	36
Commerce – Safety	4	7	6
Total	272	308	248

Source: Senate Budget Committee

- Though the bill exceeds the amount Congress had budgeted for highways and transit by a total of $36 billion, the Senate waived (by a 72-24 vote) the budget point of order that was raised. (This did not stop one member from arguing that SAFETEA was drafted "within the budget framework [the Senate] adopted last year"; if it was, then there would have been no point of order. But no one challenged whether the point of order applied; they just moved to waive.) From the floor debate, it appeared that many of those voting to waive (that is, to ignore the fact the bill would spend so much more than planned) were in the same breath echoing the mantra of assurances by the bill's drafters that it somehow would not increase the deficit.

- One supporter argued: "SAFETEA would not raise the federal gasoline tax or increase the federal deficit one penny. The measure maintains budgetary protections, ensuring that all Highway Trust Fund revenues would be spent on transportation, not diverted to other programs. SAFETEA would stimulate the U.S. economy by generating nearly $100 billion more in output of goods and services and more than 2.7 million jobs by 2009."

- Let's take it a sentence at a time. It's true that the bill would not charge highway users for the full cost of the highway benefits being promised – SAFETEA would not, in fact, raise the gas tax. That must mean that someone else other than drivers will be paying for much of the increase in highway spending. For the sponsors' substitute, CBO estimated that it would increase the deficit by spending a net of $33 billion (over the next six years) more than the revenues that would be collected under current law – a lot more than "one penny." An amendment providing for an additional $4 billion in general fund revenues, accepted near the end of consideration, means the bill would increase the deficit increase by $29 billion instead. All else being equal, to finance the spending contemplated in the bill, the Treasury would have to borrow $29 billion, to be paid back by future taxpayers, who may or may not be road users.

- The second sentence suggests that the bill would thwart those who try to spend Highway trust fund money on something else, as if that were a real or imminent concern. The idea of TEA-21 was that all the "user fee" gas taxes paid into the Highway trust fund over 1998-2003 would be spent only on the purposes of the trust fund. And since its successor SAFETEA would be spending $29 billion more than it would bring in to the whole federal government (including new revenues collected into the general fund), it appears there is little danger that the amounts in the trust fund will be "diverted" in the appropriations process.

- It is true that SAFETEA attempts to again create fire walls in the appropriations process for highways and transit to maintain "budgetary protections," but it does so by amending a dead letter in the law that renders the attempt unenforceable, so it does not remotely "maintain" or "ensure" anything. [See Nov. 12, 2003 *Bulletin*]

- Finally, consider the claim that SAFETEA is a jobs bill unlike any other, arguing it would generate "more in output of goods and services and more . . . jobs." More than what? The answer matters. Roads may be a good investment in certain limited instances, but other investments would be even better. In a 1998 survey of studies of the value of federal investments in infrastructure (meaning highways and transit) CBO found:

> The results of most of the available studies suggest that the supply of projects with high economic returns is limited, and *increases in infrastructure investment would not improve the rate of economic growth significantly, if at all.* [emphasis added] Moreover, an increase in federal spending on infrastructure [may not even] yield a dollar-for-dollar increase in actual investment, because some portion of it would probably displace spending by state and local governments. Such displacement would reduce the net effect of the federal increase.
>
> Federal spending could even impede worthwhile investments, by encouraging states and localities to seek federal dollars and defer spending their own funds. State and local governments have strong incentives to invest in infrastructure, even in the absence of federal assistance, since the majority of benefits accrue to local residents. Moreover, some studies have found that state and local governments have delayed infrastructure investments in anticipation of subsequent federal funding.

NEEDED: THE RIGHT DIAGNOSIS

- With the release of the President's budget request and the 2005 budget resolution scheduled for markup and floor action next month in both the House and Senate, recent concerns about spending and the deficit have centered on historical experience with discretionary (annually appropriated) spending and what its level should be going forward.

- While such disproportionate focus on discretionary spending is somewhat misdirected (as it accounts for only 39 percent of all federal spending in 2004), the President's budget even more narrowly curtails the range of policy options. Arguing that any recent spikes in spending (along with its resulting deficits) were necessitated by 9/11 and the war, the President's budget assumes that the federal government will spend whatever is necessary to provide for the national defense and homeland security. As a result, the only policy lever remaining for controlling the deficit is all other discretionary spending (mostly non-defense), which would be limited to a 0.5% increase (in nominal terms) in the 2005 request.

- It is useful most of the time, to have outside observers analyzing Congressional budget decisions. However, helpfully pointing out to non-budgeteers that there is a difference between budget authority and outlays, some have selected exactly the wrong measure for assigning responsibility for recent spending decisions. Such analyses decry the double-digit annual growth in discretionary outlays in 2002 and 2003 and claim that the 2004 Omnibus appropriations bill will "hike" total discretionary outlays by 9 percent in 2004 (including defense and homeland security). That's a pretty good trick for a year in which budget authority increased by only 3 percent over 2003. Where do all the other outlays come from? As budgeteers know, they are the "outlays prior" that resulted from appropriation decisions agreed to by Congress and the President in 2003, 2002, 2001 and years previous.

- Obviously, except when attempting payday shifts or other timing gimmicks, Congress does not control when the Treasury issues checks for government obligations (outlays). Congress' spending decisions can be directly measured only by budget authority. The following table shows that after two years of negligible real growth in total discretionary spending, the average annual real rate of growth over the 1995-2001 period was 2.8 percent (nondefense was 3.7 percent). For those worried about the "size" of the government, these real changes year over year reflect exactly how much the federal government's reach is growing through the appropriations process. The nearly 11 percent increase just from 2000 to 2001 partly reflects the $20 billion supplemental enacted immediately after 9/11 (signed by President Bush), and the outlay effects of those appropriation decisions are still in evidence this year. Leaving off 2001, the average annual real rate of growth was only 1.3 percent (from 1995-2000).

DISCRETIONARY APPROPRIATIONS, 1995 – 2001
(BA in billions of constant FY2000 dollars)

	Total	Change from previous year	Defense a/	Change from previous year	Non-Defense	Change from previous year
1995	549	--	288	--	261	--
1996	537	-2.2%	284	-1.5%	253	-3.1%
1997	537	0.1%	280	-1.5%	258	1.8%
1998	551	2.5%	283	1.2%	268	3.9%
1999 b/	578	4.8%	295	4.3%	283	5.6%
2000	585	1.3%	301	1.9%	284	0.5%
2001	649	10.9%	324	7.8%	324	14.2%
Avg. Annual Real Growth Rate (1995-2001)		**2.8%**		**2.0%**		**3.7%**

Source: SBC Republican Staff, based on OMB Historical Tables
a/ Function 050
b/ excludes appropriation for IMF

- The next table shows more recent history, for which the data series are often rearranged to reflect the importance of homeland security after 9/11. (Because a consistent series for homeland security reaches back only to 2001, the President's budget provides the following data, with defense in this case defined not as function 050, but as defense military only – function 051, and "Other" consisting of the rest of defense and all of nondefense, except homeland security.)

DISCRETIONARY APPROPRIATIONS, 2001 – 2005 a/
(BA in billions of constant FY2000 dollars)

	2001	2002	2003	2004	Pres. Request 2005	Avg. Annual Real Growth 2001-2004	Pres. Req. vs. 2004
Defense b/	**310**	**332**	**419**	**427**	**365**	**11.3%**	**-14.5%**
Defense, not including supplementals	*296*	*315*	*344*	*347*	*365*	*5.4%*	*5.2%*
Change from previous year		*6.4%*	*9.2%*	*0.8%*			
Other c/	**326**	**351**	**353**	**355**	**351**	**2.8%**	**-1.1%**
Change from previous year		7.7%	0.6%	0.6%			
Homeland Sec.	**13**	**24**	**28**	**26**	**27**	**26.8%**	**3.8%**
TOTAL	**649**	**706**	**799**	**808**	**743**	**7.6%**	**-8.0%**
Change from previous year		8.8%	13.2%	1.1%			

Source: SBC Republican Staff
a/ Includes all supplementals, unless noted
b/ Defense military only – functions 051
c/ Includes international affairs

- Nondefense spending, or "Other", continued to expand from 2001-2004, but at a 2.8 percent average annual rate, almost a full percentage point slower than most of the same set of programs did over 1995-2001. The President's budget suggests these programs will actually be reduced by 1.1 percent in 2005. While such a reduction is not unprecedented, the likes of it have not been seen since 1996, when full-year appropriations were not enacted until April, after several government shutdowns and after the fiscal year was more than half over.

BUDGET QUIZ

Question: Some have correctly pointed out that the President's 2005 budget requests essentially the same nominal amount for all of non-defense discretionary spending in 2009 as for 2005. That means, if the President had his way, any increase he has proposed for 2005 (in the case of most accounts) would be taken away in subsequent years compared to a baseline that freezes programs in place at their real 2004 level. Have presidential budgets ever done this before?

Answer: Plenty of times; this is nothing new. Several of President Clinton's eight budgets did the same thing. This history suggests a certain dissonance in the development of budgets. Presidents want their deficit/surplus bottom lines to be taken seriously, not be "dead on arrival." The budget documents show account by account how much should be spent in the budget year, but only the underlying, unpublished data for subsequent years reflect the continued path of those budget year requests – up or down. Yet the outlays that flow from the levels set in those subsequent years appear as part of the deficit/surplus estimates back in the budget documents. When budget analysts try to draw conclusions about an administration's intent for those programs based on the out-year requests, OMB, on behalf of the administration in power, invariably distances itself from those requests, claiming that they are not really requests, it is a "mechanical" exercise, and that future budgets to be submitted will make the actual request when we get to each relevant budget year. If so, then should the bottom line figures for the out-years in any budget be given the same weight as for the budget year?