INFORMED BUDGETEER

FULL STEAM AHEAD: CONFERENCE

- Both the House and the Senate have passed their respective reconciliation bills, cutting taxes by $792 billion over 10 years.

- Now comes conference. The table below illustrates the similarities and differences between the two bills.

Comparison of 10-year Tax Relief - - Senate vs. House
($ in Billions)

	Senate	House
Rate Reduction	298	373
Marriage Penalty/Child Care	126	48
Individual AMT	96	64
Retirement /Pensions	69	14
Estate and Gift	63	65
Health Care	52	51
Extenders	38	20
International	16	35
Education	12	7
Tax Exempt/Charitable	10	*
Housing/Real Estate	7	5
Small Business	6	14
Corporate AMT	4	10
Miscellaneous	3	9
Capital Gains	*	60
Exclusion of Interest &Dividends	- -	20
Revenue Offsets	(9)	(5)
TOTAL Tax Relief	**792**	**791**

*Less than $500 million; SOURCE: JCT

- Both measures provide about the same amount of the relief for estate and gift taxes, health care, education, and housing and real estate.

- The Senate bill gives more relief for the marriage penalty and child care, retirement and pension provisions, the individual AMT, tax exempt and charitable organizations, and the extension of the expiring provisions.

- The House bill gives more broad-based tax relief, international tax relief, small business relief and corporate AMT relief.

- The House bill cuts capital gains taxes substantially – The Senate bill cuts capital gains for the District of Columbia only. The House bill includes a provision to exclude $200 (single) / $400 (joint) in interest and dividends from taxation – the Senate bill does not include this provision. The *Bulletin* wishes the conference the best of luck!

SURPLUSES EVERYWHERE

- The National Conference of State Legislatures' recent survey on state budget and tax actions provides the fiscal status of 44 states.

- At the end of state FY1999, aggregate state ending balances were **$33.4 billion.** This number combines general fund ending balances with rainy day fund balances, and represents 9.4% of FY 1999 general fund spending.

- Another year of robust revenue growth caused most states to deal with a familiar dilemma: what to do with excess revenues. State actions varied considerably;

  ‣ Seventeen states made deposits to their rainy day funds or other reserve funds;

  ‣ Twenty states cut taxes specifically to reduce excess revenues;

  ‣ Thirteen states targeted certain programs for extra funding increases; and

  ‣ Thirteen states channeled surplus revenues into capital construction projects.

- State legislatures in 1999 lowered taxes for the fifth consecutive year, approving a net tax reduction of $5.5 billion for FY 2000. This reduction follows cuts of $7.1 billion in 1998, $2.6 billion in 1997, $4 billion in 1996, and $3.3 billion in 1995.

- The reductions in 1995, 1996 and 1997 were approximately 1% of prior year tax collections. The 1998 cut represented 1.6% of prior year collections. The 1999 reduction is 1.2% of prior year tax collections, with several states still to report.

- **General Fiscal Condition of the States**: State finances continue to be remarkably healthy as the end of the decade approaches. States attribute their healthy finances to strong economic conditions, whose benefits have included very strong revenue performance.

- **Changes in Revenues and Appropriations for FY 2000**: Despite the robust revenue growth that has characterized the last couple of years, most states are predicting more modest growth in FY 2000.

- Many states note that multiple years of tax cuts and an expectation that the economy will eventually slow down account for the 3.7% revenue growth rate. When receipts from the tobacco settlements are thrown into the mix for those 14 states that included them, projected state revenue growth rises to 4.5%.

- On the spending side, FY 2000 general fund appropriations are budgeted to grow 5.3% over FY 1999 spending levels. This number grows to 5.9% when appropriations from tobacco money are included. Because spending growth is projected to outpace revenue growth, the aggregate state closing balance is projected to decline from 9.4% at the end of FY 1999 to 6.6% at the end of FY 2000.

- **Tax Highlights from 1999 Legislative Sessions**: Personal income tax cuts of $2.4 billion accounted for close to half (44%) of the total net reduction. Sales tax reductions exceeded $1.6 billion and included sales tax rebates in several states. Cuts in corporate and business taxes amounted to $687 million. Arizona, California and Washington all reduced motor vehicle taxes. Reductions in state property taxes, severance taxes, and other miscellaneous taxes will save taxpayers at least $600 million.

- Personal income taxes were reduced in 24 states. Minnesota led with a $786 million cut. Other states with hefty cuts include Missouri ($438 million), Ohio ($294 million) and Colorado ($221 million, with several triggers built in depending on the amount of the surplus). Rate reductions were approved in Arkansas, Colorado, Maryland, Michigan, Minnesota, Rhode Island and Vermont, while a number of other states reduced taxes by increasing exemptions. **Net reduction: $2.4 billion.**

- Fourteen states cut corporate and business taxes with Michigan and Pennsylvania leading the way with reductions of $211 million and $206 million, respectively. Rates were lowered in Connecticut, Michigan and Pennsylvania. Other states, including Arizona, California, Connecticut, Florida, Georgia, Kansas, Montana, New Mexico, North Carolina, Ohio and Texas, adopted new or expanded business tax credits. **Net reduction: $687 million.**

- Twenty-one states reduced sales and use taxes. Connecticut and Minnesota will be returning some of their surplus revenues in the form of sales tax rebates. Taxpayers in Florida and Texas will have holidays from sales taxes on clothing for several days and Vermont joins a handful of other states in exempting clothing from the sales tax. Virginia will begin phasing out the sales tax on food for home consumption and Texas exempted over-the-counter drugs. Maine reduced the sales tax rate and 16 states expanded available exemptions. Nebraska increased sales taxes by restoring the sales tax rate to its original level after a one-year rate reduction. **Net reduction: $1.6 billion.**

IS WELFARE REFORM A SUCCESS?

- Most people would unequivocally answer "yes" that welfare reform is a smashing success. After all, as shown in the following table, welfare caseloads have decreased by more than 35% since 1996. Most individuals are leaving welfare because they found a new job, and not because of federally imposed time-limits. Thus, it seems, that welfare reform is encouraging work and breaking the cycle of dependency that has plagued this government program for far too long.

Total TANF Families and Recipient

	Families	Recipients
August 1996	4,415,000	12,241,000
December 1998	2,783,000	7,613,000
Caseload Decline	-37%	-38%

- Another yardstick to measure the success of welfare reform is whether families are better or worse off under the new law. The answer to this question is more equivocal as evidence suggests that we need to be alert to monitoring the progress of the most disadvantaged families.

- For instance, from 1995-1997 income dropped for the bottom quintile of female-headed families with children. Furthermore, as the following table shows fewer poor children in recent years are receiving government benefits such as food stamps.

- Since welfare reform was not enacted until the end of 1996, factors other than welfare reform, or factors leading up to welfare reform such as state waivers, may have contributed to the drop in the percentage of poor children receiving benefits.

- The numbers raise concerns, however, that some children may not be receiving the transitional benefits for which they are eligible. Furthermore, the drop in income for very poor families suggests that increasing the well-being of these families--who are often facing several barriers to employment including ill health and little education--will continue to challenge public policy.

ECONOMICS

TAX CUTS AND THE ECONOMY

- The Administration has made some rash comments in recent days about the potential effects of Congress' budget on the US economy: it will lead to overheating, higher interest rates, and recession. Everything short of a locust swarm.

- However, Federal Reserve Chairman Greenspan threw cold water on these assertions in his recent Humphrey-Hawkins testimony.
- When asked if Congress' tax plan could inject unwanted stimulus into the economy and thus prompt a near-term Fed rate hike, the Chairman had this to say:

> I think it would be a fair analysis if the cuts were to occur immediately... [but] that's not in any of the bills I think which have been thrown into the hopper. They all have -- they are all working against the on-budget surplus which evolves rather slowly in the context of the projections that are being made. So it's sufficiently far out that I don't particularly have that concern. (Senate Banking, 7/28/99)

- So much for claims of imminent economic collapse as a result of Congress' package.

- The Chairman is correct in noting the fact that Congress' tax cuts phase in gradually -- they total less than $30 billion in the first two years, averaging less than 0.2 percent of GDP each year. They only grow in size once surpluses have mounted on a persistent basis several years from now. By this time, the economy will have invariably slowed from toady's supercharged pace and may very well need stimulus to sustain a reasonable growth rate. Thus, Congress' plan is appropriately counter-cyclical.

- In fact, the *Bulletin* is amused that the Administration has brought up the fiscal stimulus/overheating charge at all, since their budget is more subject to this criticism than ours. The President proposes to spend nearly twice as much as Congress' tax cut over the first two years -- precisely the period that most concerns the Fed.

- Over ten years the story is much the same. The President proposes to spend over $1 trillion in new programs (nearly all unrelated to Medicare or Social Security) versus $792 billion in Congressional tax cuts.

✎**EDITOR'S NOTE:** Look for another Economic Bulletin, in your mail box or on our web site, in early August.

THE WELCOME WAGON CONTINUES

- In a past issue the Bulletin announced some new additions to the Budget Committee staff. This list should round out all the new faces who will be joining the ranks of informed budgeteers.

Richard Greenough - - will be joining the Committee as a detailee from the Justice department for the remainder of the 106th Congress. Richard has been with Justice for 13 years working on grant management and received his Ph.D. from Virginia Tech.

Jennifer Winkler - - will come to us from CBO, at the end of August, where she has been for the past 3 years. She will be working with our Budget Review group and she received her MPA degree from George Washington University.

Cheryl Tucker - - currently with the Office of the Secretary of Transportation will take over as our new transportation analyst, also at the end of August. Cheryl has been at DOT for three years and has also spent time at the Environment and Public Works Committee working on TEA-21. She is a graduate of University of South Carolina and has an MBA from Penn State University.