INFORMED BUDGETEER: Happy Fiscal New Year 2001!

@ End of 106th Congress Countdown @	
Calendar Days to Sine Die: October 6 (From September 25)	
Total Days	12
Less:	
Scheduled Non-Leg. Periods (0 days)	12
Fridays & Mondays before/after Non-Leg. Periods (0)	12
Remaining Saturdays & Sundays (2)	10
Mondays & Fridays in Leg. Periods (4) ; =	6

LATEST SENATE ACTION ON APPROPRIATIONS

- Latest Senate action on the FY 2001 appropriation bills totals more than $609 billion in BA, including mass transit BA, and almost $633 billion in outlays. To date, all 13 appropriation bills have been reported out of the Appropriations committee, but only two have been enacted into law. The following table includes the Legislative Branch and the Treasury, Postal conference report that was recommitted to conference last Wednesday.

Latest Senate Action By Appropriation Subcommittee with Supplemental[a], $ in millions)

		2001
Agriculture	BA	14,878
2001 Senate Passed	OT	17,798
Commerce, Justice, State	BA	33,450
2001 Senate Reported	OT	35,217
Defense	BA	287,613
2001 Enacted	OT	276,720
District of Columbia	BA	441
2001 Senate Reported	OT	444
Energy and Water	BA	22,480
2001 Senate Passed	OT	22,669
Foreign Operations	BA	13,448
2001 Senate Passed	OT	14,687
Interior	BA	15,875
2001 Senate Passed	OT	15,721
Labor, HHS	BA	100,551
2001 Senate Passed	OT	94,039
Legislative branch	BA	2,535
2001 Conference	OT	2,548
Military Construction	BA	4,592
2001 Enacted	OT	4,435
Transportation	BA	13,273
Senate Passed w/out mass transit	OT	47,457
Treasury, Postal	BA	15,630
2001 Conference	OT	15,235
VA, HUD	BA	82,726
2001 Senate Reported	OT	86,290
Deficiencies	BA	273
	OT	-495
TOTAL	BA	607,765
	OT	632,765
TOTAL: plus mass transit BA	**BA**	**609,019**
	OT	**632,765**
TOTAL: Supplemental Spending	BA	-3,898
	OT	-2,035
Emergencies	*BA*	*3,844*
	OT	*10,044*

SOURCE: Senate Budget Committee; [A]This table assigns each of the 2000 supplemental items from the Agriculture and Military Construction to the subcommittee from which the spending for the item would traditionally occur.

- The effects of supplemental appropriations on 2001 spending total almost -$4billion in BA and more than -$2billion in outlays. These totals include supplemental spending that was enacted in the Military Construction and Defense bills and that has been passed in the Senate Agriculture and Energy and Water bills. Savings in both BA and outlays from the effects of the supplemental in 2001 result from reversing timing shifts and obligation delays (effectively shifting money from 2001 into 2000) enacted last fall and in the Balanced Budget Act of 1997.

- Of the $609 billion in total BA, almost $4 billion is in emergency BA and, of the $633 billion in total outlays, more than $10 billion is in emergency outlays. Emergency BA and outlays are included in total BA and outlays because such spending will reduce the unified budget surplus. Although the discretionary spending caps are traditionally adjusted upward by the amount of emergency spending, any spending declared as emergency will be included in the $27.5 billion in additional spending or tax cuts that can be enacted under the 90 - 10 Republican plan (see last week's *Bulletin* for a description of the 90 - 10 plan). Emergency money is in no way free money.

- CBO's July estimate of discretionary spending for 2001, assuming that discretionary spending grows at the rate of inflation after 2000 (as is assumed as the starting point for the 90 - 10 plan) is $610.6 billion in BA and $637.6 billion in outlays. To date, latest Senate action on 2001 appropriations is only $1.6 billion in BA and $4.8 billion in outlays below that level.

HOW DOES $20 BILLION TURN INTO $278 BILLION?

- The question on every budgeteer's mind these days is just how are these appropriation bills going to get done in time and then what will they add up to? You wouldn't think it should be so difficult for the President and the Congress to come to agreement on the amount, because the differences don't appear that great.

- For example, as the table above shows, appropriation bills in the Senate already amount to $609 billion in BA, within a whisker of CBO's inflated baseline level for discretionary BA of $611 for 2001. The last "official" numbers associated with the President's request seem to gel around $624 billion, although discussions begun with appropriators last week suggest the Administration's number might be creeping up. Still, that $15 billion gap is worth only a 2% argument in the discretionary pot, and represents less than 1% of all federal spending in 2001. Does it really make a difference? You might be surprised to learn that it does!

- The *Bulletin* would like to introduce its readers to another way of thinking about the impact of changes in discretionary spending. When someone proposes a tax cut, it is often described in terms of its "exploding" impact over 10 years, such as $1.3 trillion, which opponents will then paint as a reckless reduction in the surplus and in the government's ability to reduce the debt. Similarly, when a new or expanded mandatory program is proposed, one can estimate its cost over 10 years and make the same kind of observations about how much it would reduce the surplus and ability to pay off debt.

- But when someone wants to increase spending over the 2001 baseline by "only" $10-$20-$30 billion--people tend to focus only on that year, because appropriations decision are made a year at a time and not set more or less permanently like revenues and mandatory spending programs. But at that time, no one acknowledges the exploding impact those spending decisions imply for the surplus and the ability to pay off debt in subsequent years.

- It is only after the Congress adjourns and CBO incorporates the effects of the appropriation decisions (along with economic and technical changes) several months later that the outyear effects on the new surplus and debt estimates are realized. Then, this new baseline, in which the original one-year increase is assumed to persist throughout the 10-year projection period, becomes the measuring stick against which budgetary decisions are considered the next year. But because the impact of the one-year increase on the 10-year surplus is not measured until months after it was enacted, no one was held accountable for those surplus effects when those spending decisions were made.

- Therefore, for comparability to estimates of changes in revenues and mandatory programs, it would be analytically consistent to have the ability to make 10-year statements about the cost of a one-year decision for discretionary spending. CBO prepared just such an analysis, on July 26.

- CBO's analysis examined scenarios of increasing discretionary BA above CBO's inflated baseline in 2001 alone, in $10 billion increments, and showed how those increases would ratchet up future baselines and what the reduction in the surplus would be compared to the current baseline. For example, if the total BA level for 2001 were to end up at $621 billion ($10 billion over baseline), the surplus reduction would be $139 billion over the next 10 years.

- If the President insists on signing only appropriation bills that match his original request plus the additions that seem to be emerging, then a BA level of $631 billion ($20 billion over baseline) is possible, meaning that the surplus would decrease by $278 billion over 2001-2010, and that the debt would remain that much higher.

- CBO's analysis illustrates the delusional fallacy of thinking about appropriation decisions as affecting only one year. And it provides policy makers with a comparative tool that is consistent with the way they have come to think about other budgetary decisions affecting revenues, mandatory programs, the surplus, and the debt.

ROBB MEDICARE PRESCRIPTION DRUG AMENDMENT: $2100 ANNUAL MEDICARE PREMIUM IN 2010

- On June 22, Senator Robb offered a Medicare prescription drug amendment to the Labor-HHS appropriations bill (Senate Amendment #3598). The amendment failed on a vote of 53 nays to 44 yeas. The Robb amendment is a case study in how complicated and costly the prescription drug debate can become.

- The amendment would have established a new prescription drug benefit under Medicare as follows:

  - the benefit would begin in 2003;
  - beneficiaries would initially have a $250 deductible (indexed beginning in 2005 at the rate of growth in average per capita expenditures for outpatient drugs for Medicare beneficiaries);
  - a 50% coinsurance rate for costs above the deductible but below $6500 (also indexed in later years);
  - a 25% coinsurance rate for costs above $6500 but less than the out-of-pocket limit of $4000 (also indexed); and
  - full insurance coverage for spending above out-of-pocket limit.

- To cover the costs of the insurance, beneficiaries would also pay a premium equal to 50% of the insurance costs (and deducted from their Social Security checks) matched by 50% from the general fund.
- CBO has issued a cost estimate for this amendment:

  - the Robb amendment would increase total spending by $452.4 billion over ten years;

  - increase premiums from beneficiaries by $206.6 billion over ten years, for a net federal spending increase of $245.8 billion; and

  - reduce revenues by $1.3 billion over ten years, for a net reduction in the federal surplus of $247.1 billion over ten years.

CBO Cost Estimate of Robb Amendment

Premiums		2000	2010	Increase $	Increase %
Current Law Part B	Monthly	$45	$95	$49	109
	Annual	$546	$1,141	$595	109
Drug Amendment	Monthly	- -	$80	$80	- -
	Annual	- -	$960	$960	- -
Total: Part B + Drug	Monthly	$45	$175	$129	285
	Annual	$546	$2,101	$1,555	285
Social Security Avg. retiree benefit	Annual	$9,600	$12,277	$2,677	28
Premium % of SS benefit		6%	17%	58%	- -

- CBO also estimated that Medicare beneficiaries participating in the drug benefit would pay a premium of $40 per month in 2003, when the program began, and $80 per month in 2010. The amendment makes does not reform the underlying Medicare program, so beneficiaries would also pay the current part B premium, currently $45.50 per month and projected to be $95.10 per month in 2010.

- In total, therefore, a beneficiary would pay $175.10 per month in premiums to get Medicare part B and prescription drug coverage, or $2,101.20 annually in 2010. Compared to the part B premium in 2000 - - a 285% increase!

- According to CBO, the average retired worker gets a Social Security benefit of $9600 annually in 2000. Over the next ten years, the Social Security COLAs would add about 28% to the benefit, for a total of $12,277 in Social Security in 2010.

- The increase in Medicare premiums under the Robb amendment – $1,555.20 in 2010 – would eat up roughly 60% of the COLA increase in 2010.

TAX BRACKETS FOR 2001

- The Consumer Price Index for August 2000, released September 15, was the last piece of information needed to index next year's individual income tax brackets. For *Bulletin* readers who like to plan ahead, the following is CBO's approximation of the individual tax parameters for 2001.

- The personal exemption amount will increase $100, from $2,800 in 2000 to $2,900 in 2001. The standard deduction for individuals will increase $150 to $4,550 and the standard deduction for couples will jump $200 to $7,550 in 2000.

- A taxable income of $297,150 will place you in the top marginal tax bracket of 39.6% in 2001.

2001 TAX PARAMETERS

Personal Exemption $2,900

SINGLE: Rate Brackets			
Taxable Income	Rate %	Standard Deduction	
$0-$27,050	15.0	Regular	$4,550
$27,050-$65,500	28.0	Elderly/Blind	$1,100
$65,500-$136,700	31.0		
$136,700-$297,150	36.0	Exemption Phase-out	$132,900
$297,150 & Over	39.6	Itemized Phase-out	$132,900

JOINT: Rate Brackets			
Taxable Income	Rate%	Standard Deduction	
$0-$45,200	15.0	Regular	$7,550
$45,200-$109,200	28.0	Elderly/Blind (Each)	$900
$109,200-$166,400	31.0		
$166,400-$297,150	36.0	Exemption Phase-out	$199,350
$297,150 & over	39.6	Itemized Phase-out	$132,900

- The maximum Earned Income Credit (EIC) for families with one child will be $2,424 in 2001 -- $71 more than in 2000. The maximum credit for two or more children will rise by $116 in 2001, from $3,888 to $4,004.

- With one child, the EIC is completely phased out at $28,250 in 2001(compared to $27,413 in 2000). With two or more children the EIC is completely phased out at $32,092 in 2001 (compared to $31,152 in 2000).

EARNED INCOME CREDIT

Type of Return	Maximum Eligible Earning	Maximum Credit	Phase-out point
Childless	$4,570	$363	$10,700
One Child	$7,130	$2,424	$28,250
Two or more	$10,010	$4,004	$32,092