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INFORMED BUDGETEER

THE DOUBLE DIGIT INCREASE IN LABOR-HHS

- On October 11th, the House passed H.R. 3061 providing discretionary appropriations of $123.4 billion for the Departments of Labor, HHS, and Education (L-HHS). This is the largest of the nondefense appropriation bills. On the same day, the Senate Appropriations Committee reported its version of the bill, which for the second year in a row provides a double digit increase in discretionary spending. The Senate bill includes $123.4 billion in BA – the same as the House-passed bill – and $107.7 billion in discretionary outlays, an increase of 12.6% and 11.4%, respectively, over 2001. The total BA level in the bill is $396.3 billion, which includes $272.9 billion in mandatory appropriations.

Labor HHS Discretionary Spending
($ in Billions)

	2000 Enacted	2001 Enacted	2002 Reported in Senate
Labor HHS	87.1	109.6	123.4
BA	87.4	96.7	107.7
Outlays			
% Growth over previous year			
BA	2.7%	25.8%	12.6%
Outlays	9.2%	10.6%	11.4%
% Growth ‘00-‘02 (BA)	–	–	41.7%
% Average annual growth ‘00-‘02 (BA)	–	–	19.0%

Source: CBO, SBC minority staff

- Where does the money go? The largest increases have gone to HHS and the Department of Education. The Senate-reported bill provides $54.2 billion in discretionary BA for HHS in 2002. This is a 10.4% increase over the 2001 level of $49.1 billion, and a 19.1% increase over the 2000 level of $45.5 billion.

- The Senate-reported bill provides $48.5 billion in discretionary BA for Education in 2002; this level is equal to the President’s request plus an additional $4 billion. This is a 21% increase over the 2001 level of $40.1 billion, and a 65% increase over the 2000 level of $29.4 billion. (Note that these figures represent the traditional fiscal year basis; calculations based on “program level” will be different because of advance appropriations).

- Other departments and agencies funded through the L-HHS bill did not fare as well. Under the Senate-reported bill, the Department of Labor received $11.9 billion, a 2.1% increase over last year’s level. The Social Security Administration (SSA) increased from $6.5 billion in 2001 to $7.0 billion in 2002 or 7.7 %.

- The L-HHS bill enacted for 2001 increased BA by almost 26% over the 2000 level. Combined with the 12.6% increase expected in 2002, the result is that funding provided in the bill has increased an at average annual rate of 19% over the past two years. Much of the focus has been placed on the need for doubling NIH funding over 5 years. But at the current pace, we will have more than doubled the entire L-HHS bill by 2004!

FARMING THE BUDGET

- At planting time last spring, and with visions of large budget surpluses over the horizon, the Congress adopted a budget blueprint that made room for additional farm spending with the stipulation that funding for farmers did not jeopardize the Social Security and Medicare trust funds of the elderly.

- Now at harvest time this fall and after the September 11 terrorist attacks that have contributed to a dramatic deterioration in the budget surplus outlook, the House of Representatives – as if nothing has changed -- recently enacted a farm bill based on last spring’s outdated budget blueprint – resulting in $171 billion in spending over the next decade.

- The *Bulletin* provides a summary of the new additional spending by major title of the House-passed bill:

House-Passed Farm Security Act of 2001
($ in Millions)

	2002	2002-2011
Ag Baseline	**12,727**	**97,565**
Title I - Commodity Programs		
Fixed payments for covered commodities	1,287	12,866
Counter-cyclical payments on covered commodities	0	37,179
Marketing Assistance loans on covered commodities	-115	-5,825
Loan deficiency payments for grazing	5	24
Marketing assistance loans for wool and mohair	14	202
Marketing assistance loans for honey	11	101
Milk price support program	24	773
Sugar program	50	-18
Fixed, decoupled payments for peanuts	63	625
Counter-cyclical payment for peanuts	0	1,242
Marketing assistance loans for peanuts	0	436
Compensation to peanut quota holders	236	1,180
Title II - Conservation		
Enrollment in Conservation Reserve Program	21	1,517
Enrollment in Wetlands Reserve Program	170	1,726
Limitation and timing of EQUIP Payments	0	0
Ground & surface water conservation	30	555
Funding for Environmental Quality Incentives Prog.	825	10,850
Wildlife Habitat Incentive Program	25	385
Farmland Protection Program	50	500
Grassland Reserve Program	0	254
Farmland Stewardship Program	0	0
Title III - Trade		
Increase MAP funding to $200 million	6	974
Increase Food for Progress Admin/ other Caps	16	308
Increase Cooperator to $37 million	7	96
Increase emerging markets to $13 million	1	28
Technical assistance for specialty crops	3	30
Title IV - Nutrition		
Simplified definition of Income	0	48
Standard deduction	0	1,420
Transitional food stamps	0	1,485
Quality control system	0	60
Simplified application and eligibility determination	0	90
Modified food stamp program in American Samoa	0	57
Assistance for Community Food Projects	5	73
Commodities for TEFAP	40	400
Interactions	0	16
Title VI - Rural Development		
Rural television loan guarantee program	40	200
Value added market development grants	60	600
Community water assistance grants	75	750
Pilot program for Rural development strategic plans	60	600
Title VII - Research and Related Items		
Initiative for future agriculture and food systems	**0**	**1,160**
Other Titles (V, VIII, IX)	**41**	**492**
New Budget Authority	**3,050**	**73,458**
Total spending under Farm Bill	**15,777**	**171,023**

Source: CBO

FISCAL CONDITION OF STATES : AN UPDATE

- While economic fallout from the World Trade Center attacks has punched a $1 billion hole in New York City’s budget (leading Mayor Giuliani to order his agencies to slash spending to help plug the gap), most state and local governments are also bracing for a wave of negative economic effects. Prior to September 11th, many states were already lowering revenue estimates and fending off expenditure pressures (especially from Medicaid) as the slowing economy began to take hold.

- Since the September 11th attacks, economic uncertainty has intensified, leading to an even gloomier fiscal outlook for states. The increase in layoffs (mostly in the airline and tourism industries) has led to a decline in personal income tax revenues and drawn down state unemployment insurance funds.

- A preliminary review conducted by the National Association of State Budget Officers (NASBO) of publicly available information indicates that as of October 4th, net state budget shortfalls totaled

$5.8 billion. As states analyze the slowing economy and examine the additional affects of the September 11th attacks, that figure is anticipated to grow over the next few weeks, possibly as high as $10 - $15 billion. Even before September 11th, NASBO identified 26 states (mostly in the Mid-West) in or near a recession.

- Revenues from states' sales tax, an indicator reflective of the ups and downs in the economy, have fallen because of slowing retail sales. A report by the Fiscal Studies Program at the Nelson A. Rockefeller Institute of Government shows that sales tax revenues increased a minuscule 0.5 percent in the second quarter of 2001. But if adjusted for inflation and legislated tax changes, sales tax revenues actually declined by 2.7 percent in that period. Though 39 out of the 45 states with a general sales tax have experienced slower sales tax revenue growth, the report notes that it does not compare to the levels seen during the recession in the early 1990s where adjusted sales tax revenues fell as much as 8 percent in one quarter.

VICTIMS OF TERRORISM RELIEF ACT

- On September 13, the House unanimously passed H.R. 2884, the Victims of Terrorism Relief Act. The bill provides immediate tax relief to the families affected by the September 11 terrorist attacks. No cost estimate is yet available, but Ways and Means Chairman Thomas has stated that the bill would cost "in the tens of millions."

- Under current law, members of the Armed Services who die while serving in a combat zone are not subject to income tax for the year of death, as well as for any prior year ending on or after the first day the individual served in the combat zone. In addition, military and civilian employees of the U.S. are entitled to this exemption if they die as a result of wounds incurred outside the U.S. in terrorist or military action. Current law also provides a reduction in Federal estate taxes for U.S. citizens or residents who are killed in action while serving in a combat zone.

- H.R. 2884 would give families of the September 11 attack victims the tax benefits mentioned above. Under the legislation, the individuals killed on the airplanes and on the ground are exempt from income tax this year and their estates are subject to reduced estate taxes. The legislation specifically excludes the perpetrators of the terrorist attacks from receiving such tax benefits.

- On September 19, Senators Allen and Warner introduced a similar bill, S. 1433, and Senator Craig introduced S. 1440. Their legislation is the same as H.R. 2884, except that it would repeal the estate tax for the September 11 victims. The House-passed measure and the two Senate bills have been referred to the Finance Committee, which has not scheduled any action.

BUDGET QUIZ

Question: What is a "Low-Growth Report" as required by the Balanced Budget and Emergency Deficit Control Act of 1985?

Answer: The Act requires the Congressional Budget Office (CBO) to notify the Congress at any time when economic growth is slowing significantly. There are two ways this could happen.

The first: if either the CBO or OMB decide to project two consecutive quarters of negative economic growth.

The second: if the most recent Department of Commerce's advanced preliminary or final actual reports of real economic growth for two consecutive quarters is less than 1%. We already know from the Department of Commerce that the second quarter of 2001 was less than 1% (actually 0.3%) and that the third quarter preliminary GDP will be released on October 31. The *Bulletin* expects the Department of Commerce's October 31 report will trigger a CBO Low-Growth Report -- Happy Halloween !

Question: So what happens if such a notification is given to Congress and when did this last occur?

Answer: When CBO issues the report, section 258 of the Balanced Budget and Emergency Deficit Control Act of 1985 directs that the Majority Leader of the House may and the Majority Leader of the Senate shall introduce a joint resolution which, if adopted, would suspend the discretionary and pay-go sequesters and the congressional points of order set out in sections 302(f), 310(d), 311(a), and section 312(b) of the Budget Act.

In the Senate, the joint resolution would then be referred to the Committee on the Budget, which has the option of reporting the joint resolution without amendment or being discharged after 5 days.
The joint resolution must be considered by the Senate within 5 days of session after the Committee has reported or is discharged. Debate on the measure is limited to 5 hours, equally divided and no amendments or motions to recommit are in order. Within the 5 hours, debate on any debatable motions or appeals would be limited to 1 hour. Similar procedures apply in the House of Representatives, and a mechanism for receiving a previously passed measure from the other chamber is included. If the measure is adopted in both the House and Senate it would be presented to the President.

The Senate last considered a low-growth resolution back in 1991. Actually it considered 3 separate resolutions that year – on January 31, May 9, and September 19 – as required following 3 consecutive low-growth reports from CBO. Each time the resolution was overwhelmingly defeated: 2 to 97 in January, 5 to 92 in May, and 8 to 88 in September.

At the time, most in the Senate believed that the Budget Enforcement Act and the bipartisan deficit reduction plan adopted in 1990 would aid in the economic recovery and that suspension of budget discipline was exactly the wrong response. Remember too that this was during the Gulf War, and although many acknowledged that additional spending might become necessary, it was felt that the emergency designation procedures would be sufficient to address further needs. The House did not consider any low-growth resolutions in 1991.

It may seem tempting to take advantage of the opportunity presented by an imminent low-growth report and dump our current fiscal discipline – especially since many aspects of our enforcement are set to expire at the end of September of 2002 anyway. The *Bulletin* suggests Congress resist such an easy course. In the coming months, budgeteers should look upon the confluence of recent events – a slowing economy, the fiscal aftermath of September 11th, and the sun-setting of budget enforcement – to reassess the role of federal budgeting in our changing world. Now may be a rare opportunity to reshape what many view as an outdated and much maligned aspect of the legislative process into a simpler and more transparent tool for guiding the formation of federal fiscal policy.

CALENDAR

October 18: Economic Stimulus; Witnesses to be announced; **10 am, SD-562**.