

INFORMED BUDGETEER

FY 2003 SENATE-PASSED APPROPRIATION BILLS vs. FY 2002
 (Budget Authority in billions of \$)

| Subcommittees | 2002 a/ | Senate Appropriations Bills b/ | % increase or Decrease |
|---|----------------|--------------------------------|------------------------|
| Agriculture c/ | 17.171 | 18.350 | 6.9% |
| CJS d/ | 42.995 | 41.505 | -3.5% |
| Defense | 0.560 | 0.574 | 2.5% |
| Nondefense | 42.435 | 40.931 | -3.5% |
| Defense (Enacted) | 334.113 | 354.830 | 6.2% |
| DC | 0.607 | 0.512 | -15.7% |
| Energy and Water | 25.334 | 26.164 | 3.3% |
| Defense | 15.164 | 15.899 | 4.8% |
| Nondefense | 10.170 | 10.265 | 0.9% |
| Foreign Ops e/ | 16.433 | 16.429 | 0.0% |
| Interior | 19.135 | 18.952 | -1.0% |
| Labor, HHS f/ | 127.659 | 136.519 | 6.9% |
| Legislative | 3.254 | 3.362 | 3.3% |
| Mil Con (Enacted) | 10.604 | 10.499 | -1.0% |
| Transportation g/ | 23.095 | 21.574 | -6.6% |
| Defense | 0.440 | 0.340 | -22.7% |
| Nondefense | 22.655 | 21.234 | -6.3% |
| Treasury, Postal | 18.515 | 18.220 | -1.6% |
| VA, HUD | 95.758 | 90.349 | -5.6% |
| Defense | 0.153 | 0.144 | -5.9% |
| Nondefense | 95.605 | 90.205 | -5.6% |
| Unallocated Reductions | -0.350 | --- | --- |
| Defense | -0.196 | --- | --- |
| Nondefense | -0.154 | --- | --- |
| TOTAL | 734.323 | 757.265 | 3.1% |
| Defense | 360.838 | 382.286 | 5.9% |
| Nondefense | 373.485 | 374.979 | 0.4% |
| Division M | | | |
| Classified Defense Programs | --- | 3.895 | |
| Division N | | | |
| Election Reform – Title I | --- | 1.500 | |
| Wildland Fire Management– Title III | --- | 0.825 | |
| Fisheries Disasters – Title V | --- | 0.100 | |
| 2.85 % ATB reduction in 11 bills | --- | -11.392 | |
| Subtotal | --- | -8.967 | |
| TOTAL, Discretionary | 734.323 | 752.193 | 2.4% |
| Defense | 360.838 | 385.680 | 6.9% |
| Nondefense | 373.485 | 366.513 | -1.9% |
| One-time, non-recurring projects | 15.946 | --- | |
| Defense | 1.338 | --- | |
| Nondefense | 14.608 | --- | |
| TOTAL, Discretionary less one-time | 718.377 | 752.193 | 4.7% |
| Defense | 359.500 | 385.680 | 7.3% |
| Nondefense | 358.877 | 366.513 | 2.1% |
| H.J. Res. 2 TOTAL, without enacted | | | |
| Defense and Mil Con | | 386.864 | |
| Defense | | 20.351 | |
| Nondefense | | 366.513 | |
| Memo: | | | |
| Mandatory Items in Division N | | | |
| Title II - Agriculture Drought Relief | | 3.100 | |
| Title IV - Medicare Physicians | | 0.630 | |
| Title IV - Rural Hospitals | | 0.250 | |
| Title IV - Welfare Payments to States | | 0.173 | |
| Collins Amendment – Home Health | | 0.040 | |
| Bingaman Amendment – QI-1 Program | | 0.028 | |
| Total | | 4.221 | |
| TOTAL, with Mandatories | | 756.414 | |
| H.J. Res. 2 TOTAL, without enacted Defense and Mil Con | | 391.085 | |

Source: CBO; SBC Republican Staff

NOTES: a/ The 2002 figures include the levels enacted in the FY 2002 appropriation bills, as well as the \$24.2 billion in BA in P.L. 107-206 (the Emergency Supplemental Appropriations and Rescissions, 2002), as estimated by CBO.

b/ These bills also include \$26.885 billion in advance appropriations, \$3.727 billion more than the \$23.158 billion in advances from the FY 2002 appropriation bills.

c/ Includes a \$500 million amendment (by Senator Nelson) for Food Relief funding.

d/ Includes a \$165 million amendment (by Senators McCain and Kyl) for INS.

e/ Includes a \$180 million amendment (by Senator Durbin) for Global HIV/AIDS Programs.

f/ Includes a \$5 billion amendment (by Senator Gregg) to Education funding and a \$120 million amendment (by Senator Murray) to Community Access Program funding.

g/ Includes mass transit budget authority of \$1.445 billion and a \$374 million amendment (by Senator Murray) to Amtrak funding.

CONGRESSIONAL BUDGET TIMETABLE

- Already this year is not going according to the usual schedule; for example – appropriation bills in January!?! It remains to be seen whether the Congress will get back on track with the usual budget schedule for the rest of the year. For all the new members, staff, and budding budgeteers, the following table summarizes how the statutory milestones (as laid out in section 300 of the Congressional Budget Act of 1974) apply for this year.

| Date/Deadline | Action to be Completed |
|---|---|
| January 29 | CBO submits report on budget and economic outlook to Budget Committees |
| February 3 | President submits budget to Congress |
| Not later than 6 weeks after the President submits budget | Each Committee submits to its respective Budget Committee a views and estimates letter on matters within its jurisdiction |
| April 1 | Senate Budget Committee reports budget resolution |
| April 15 | Congress completes action on budget resolution |
| June 10 | House Appropriations Committee reports last regular appropriation bill |
| June 30 | House completes action on regular appropriation bills |
| October 1 | Fiscal year begins |

BUSH TO REQUEST INCREASES FOR SCHOOLS THAT SERVE MINORITIES

- President Bush, in one of the selected excerpts previewing his impending 2004 budget request, announced last week that he will propose a 5% funding increase for Historically Black Colleges and Universities (HBCUs), Historically Black Graduate Institutions (HBGIs), and Hispanic Serving Institutions (HSIs). The 5% increase is measured against the President's 2003 request (since there is yet to be an appropriation enacted to set the final 2003 levels). The table that follows shows funding for these programs since 2000 and includes the totals in the omnibus appropriations bill that passed the Senate last week.
- Federal funding for HBCUs was established in 1980 (President Carter's Executive Order 12232) with the intent to strengthen HBCUs and expand their access to federal programs. The program makes formula grants to 99 eligible institutions for a range of purposes, including construction of facilities, acquisition of equipment and educational materials, faculty development, student services, and academic instruction in fields in which African Americans are underrepresented. While these institutions make up a small percentage of higher education institutions (3%), they enroll roughly 16% of African American college students.
- The HBGI program provides 5-year grants to 18 graduate institutions. The grants can generally be used for the same purposes as HBCU funds and can also be used to provide financial assistance to eligible graduate and professional students.
- The HSI program strengthens eligible HSIs through competitive grants. To be eligible, an institution's enrollment must be at least 25% Hispanic students and 50% of the Hispanic enrollment must be low-income. Grants are to be used for purposes similar to those for both HBCUs and HBGIs, and may also be used for community outreach to elementary and secondary students with the goal of increasing Hispanic participation in higher education.

- President Bush's request follows significant increases since 2000 in funding for programs targeting minority serving institutions (see table below).

FUNDING FOR INSTITUTIONS SERVING MINORITIES
(Budget Authority, in millions of \$)

| Program | 2003 | | | 2003 | | %inc. | |
|--------------|--------------|--------------|--------------|--------------|---|--------------|------------|
| | 2000 | 2001 | 2002 | Req. | Omnibus 2004 Req. Appropriation (w/5% inc.) | | |
| HBCU | \$149 | \$185 | \$206 | \$213 | \$215 | \$224 | 50% |
| HBGI | \$31 | \$45 | \$49 | \$51 | \$54 | \$53 | 71% |
| HIS | \$42 | \$69 | \$86 | \$89 | \$93 | \$94 | 124% |
| TOTAL | \$222 | \$299 | \$341 | \$353 | \$362 | \$371 | 67% |

ECONOMICS

TORT LIABILITY, ASBESTOS & THE ECONOMY

- Asbestos litigation is rapidly becoming a serious problem for the economy by threatening future economic growth. The Rand Institute for Civil Justice study entitled, *Asbestos Litigation Costs and Compensation, An Interim Report*, estimates that litigation and settlement expenses have cost as much as \$54 billion since 1982, and could easily exceed \$200 billion. The outcome of protracted asbestos litigation often has been diminished stock value, reduced resources for investment or expansion, and eventual bankruptcy. Furthermore, the impact of asbestos litigation extends beyond defendant companies and their shareholders, already resulting in 60,000 lost jobs and a reduction in employee 401(k) plan value.
- Many economists expect the number of future claims to continue to explode as a result of several new trends. In 1982, Rand reported that in 1982 the number of open and closed asbestos liability claims totaled 21,000. Today, analysts at Tillinghast-Towers Perrin expect the total number of claims to eventually reach 1 million. Why? First, the litigation has shifted away from the traditional defendants. The asbestos manufacturing business is now virtually non-existent in this country, with the original manufacturers having long ago settled their claims or gone out of business. Therefore, plaintiffs' lawyers are now targeting companies with no history of direct involvement in asbestos production, such as those that may have purchased or merged with remnant companies, or that may have shipped and installed products (such as brake pads) that contained asbestos. Another trend is that the majority of asbestos plaintiffs today have no medical injury. The Rand Institute for Civil Justice estimates that up to 65 percent of all suits being filed today are by claimants unimpaired by any form of asbestos-related injury.
- It is not uncommon for a defendant company to have thousands of suits filed against it, usually involving hundreds of claimants per suit. Faced with incalculable litigation costs, companies often seek to settle rather than litigate what are sometimes frivolous claims. Often a company's insurance policy does not cover all of the claims, pushing the company into bankruptcy. The Rand study estimates that asbestos litigation has already forced 60 major companies into bankruptcy and predicts many more will follow.
- There is little debate that asbestos litigation drains a company's financial resources. It diverts funds needed to pay litigation costs or punitive awards away from a firm's retained earnings. Some

companies respond by investing less. In a study published in Brookings Papers on Economic Activity entitled, *Financial Constraints and Corporate Investment*, Fazzari, Hubbard & Petersen estimated that a \$1 dollar reduction in retained earnings leads to a \$0.42 drop in investment. Based on estimated litigation costs to date, Rand calculates that defendant companies have invested \$10 billion less into the economy. Assuming that the capital-to-labor ratio in the United States is equal to \$78,000 per worker, Rand estimates that the economy created 138,000 fewer jobs. Each time a company decided to forgo \$78,000 of investment, one less job was created.

- Not only do the investors and workers of asbestos-related companies bear the cost of excessive torts, but so does the economy as a whole. The President's Council of Economic Advisers (CEA) estimates that tort litigation in general acts as a tax on all workers and investors. Just like taxes, corporations shift a portion of the burden of excessive tort litigation onto the consumer by raising prices. Similarly, workers' wages fall due to decreased demand for the higher-priced good. To the extent that excessive tort liability reduces investments in companies affected by such litigation, capital will migrate to other sectors of the economy, depressing overall returns. The CEA calculated a burden equivalent to a 2% tax on consumption, a 3% tax on wages and a 5% tax on capital.

CALENDAR

Unless otherwise noted, all hearings will be held in Dirksen 608 at 10 a.m. Additional hearings and witnesses will be scheduled. A live broadcast of the hearings can be watched from our website: <http://budget.senate.gov/republican>

January 29: The State of the Economy

Witnesses:

David Malpass Bear Stearns & Co., Inc. Chief Global Economist
Michael E. Baroody Executive Vice President, National Association of Manufacturers and Chairman, Asbestos Alliance
Gene B. Sperling Former National Economic Advisor and Director of the National Economic Council

January 30: CBO's Budget and Economic Outlook

Witness:

Barry B. Anderson Acting Director, Congressional Budget Office

Feb. 4, 2:30 p.m.: The President's FY 2004 Budget

Witness:

Dr. Glenn Hubbard Chairman, Council of Economic Advisers

February 5: The President's FY 2004 Budget

Witness:

The Honorable Mitchell E. Daniels, Jr. Director, Office of Management and Budget

EDITOR'S NOTE

The *Bulletin* will **not** publish on **Feb. 3, 2003** because the staff will prepare a brief overview of the President's 2004 Budget, which will be available on the committee website later that day.