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INFORMED BUDGETEER

CHOPPING AWAY AT THE SURPLUS

- Three weeks have passed since the *Bulletin* last published the possible budget outlook for 2002 (October 8, 2001) – which is, lately, an eternity in the budget world.

- Since then, the Ways and Means Committee reported and the House passed H.R. 3090, the Economic Security and Recovery Act of 2001. According to the Joint Committee on Taxation and CBO, the total cost of the bill comes to $103 billion for 2002 and $163 billion over ten years. Interest costs associated with the bill would reduce the surplus by an additional $2 billion in 2002 and $113 billion over ten years.

- If stimulus legislation of the magnitude of the House-passed bill is agreed to, the 2002 unified surplus, once estimated at $313 billion, will likely be more than $50 billion in the red.

Possible Budget Outlook - FY 2002 - 2011
($ in Billions)

	2002	2002-2011
Total Surplus (CBO August)	**176**	**3,397**
Revised Total Surplus (Staff estimate)[a]	**52**	**2,604**
House Passed bill[b]		
Tax relief	-70	-130
Refundable AMT credits	-16	-16
Supplemental rebate	-14	-14
Reed Act transfers	-2	0
SSBG	-1	-3
Total additional spending	-33	-33
Total	**-103**	**-163**
Additional interests costs	-2	-113
Surplus/Deficit following House action	**-53**	**2,329**

Source: SBC, HBC, JCT, and CBO
a/ House and Senate Bipartisan Budget Committee staff estimates. Includes revisions for economic and technical changes, 2002 discretionary spending, the emergency anti-terrorism supplemental, the airline assistance package, and the associated interest costs.
b/ Estimates from JTC (tax provisions) and CBO (spending provisions).

FOURTH TAP OF EMERGENCY RESPONSE FUND

- President Bush tapped into the Emergency Response Fund for the fourth time on October 22nd, releasing $1.7 billion of the $20 billion appropriated thus far to respond to the terrorist attacks.

- All but $71.4 million for the Department of Defense will be made available to federal agencies after 15 days under the notification provisions of the emergency response supplemental bill (P.L. 107-38). Of the $1.6 billion, the lion's share again will go to the Department of Defense – $1.1 billion or 69 percent. The DOD funding will go in part to National Guard personnel providing airport security ($30 million immediately and $175 million after 15 days).

- The Department of Transportation will receive $141 million to recruit additional air marshals, and $50 million will go to air carriers to reimburse them for the cost of war risk insurance.

- Additional nondefense funding will largely go to Department of State and related agencies for foreign security needs as well as food and humanitarian assistance to the people of Afghanistan ($42 million), and economic assistance and border security for Pakistan ($173 million).

- This package also includes public outreach efforts to the Muslim world through Voice of America broadcasts and State Department personnel ($27 million).

- This fourth release of funds brings to $8.8 billion the total amount thus far transferred from the Emergency Response Fund.

- Also pending before the Congress is a $20 billion request from the President for the Emergency Response Fund that requires congressional approval through subsequent appropriations action (see next issue of the *Bulletin* for details). These funds are expected to be attached to the final appropriations bill being sent to the President.

BA Transferred From the Emergency Response Fund
($ in Millions)

Agency	2001
First Release of funds:[a]	**5,115**
Defense	2,548
Nondefense	2,567
Second Release of funds:[b]	**1,848**
Defense	1,736
Nondefense	112
Third Release of funds:[c]	**196**
Defense	7
Nondefense	189
Fourth Release of funds:[d]	
Funds available immediately:	
Department of Defense	**71**
Increased situational awareness	41
National Guard personnel providing airport security	30
Funds available after 15 days:	
Department of Defense	**1,098**
Increased situational awareness	438
Improved command and control	210
National Guard personnel providing airport security	175
Offensive counter-terrorism	140
Mobilization of National Guard and Reserve personnel	70
Repair of Pentagon	41
Winter Olympics Security	20
Pentagon security	4
Department of State	**136**
International Narcotics & Law enforcement, Pakistan border	73
Additional Diplomatic Security agents	30
Public diplomacy media outreach to Muslims abroad	15
Replacement of outdated secure phones	8
Emergency medical supplies	4
Counter-terrorism Foreign Emergency support team equip.	1
International component biological terrorism simulation	3
Special Coordinator for Counter terrorism, 12 new positions	2
Department of Transportation	**191**
Additional air marshals	141
Reimbursement for air carriers' cost of war risk insurance	50
International Assistance Programs	**129**
Pakistan economic support	100
Humanitarian assistance for Afghanistan	20
Evacuate Peace Corps volunteers	4
Training foreign governments to combat terrorist financing	3
Security improvements for overseas AID personnel	2
Department of Agriculture	
P.L. 480 Grants, food for people in Afghanistan	**22**
Broadcasting Board of Governors	
Increase Voice of America broadcasts	**12**
Subtotal, Funds available after 15 days	1,588
Subtotal, Fourth release of funds	**1,659**
TOTAL RELEASE TO DATE	**8,818**
Defense	5,460
Nondefense	3,358
Funds available immediately	7,230
Funds available after 15 days	1,588

Source: OMB
a/ Detailed information on the first release of funds (September 21, 2001) was presented in the *Bulletin* on October 1, 2001.
b/ Detailed information on the second release of funds (September 28, 2001) was presented in the *Bulletin* on October 8, 2001.
c/ Detailed information on the third release of funds (October 5, 2001) was presented in the *Bulletin* on October 8, 2001.
d/ The transfers from the Emergency Response Fund for the fourth release of funds were authorized on October 22, 2001.

CONSERVATION SPENDING CAP– ONE YEAR LATER

- Although the President and the Congress have finally reached an agreement (not yet enacted) on how to reset the levels for the last year (2002) of statutory caps for general purpose discretionary spending, there is little likelihood that they will decide on whether and how much to extend such caps for 2003 and beyond. In that context, budgeteers may question the relevance of the boutique caps that have been carved out for highways, mass transit, and the newest category – conservation.

- Last year in the 2001 Interior and Related Agencies Appropriations bill, Congress created a new discretionary spending cap in 2002 for Land Conservation, Preservation and Infrastructure Improvement (LCPII) programs. Proponents of this cap believed it was necessary to ensure a sustained funding level for environmental and natural resource programs.

- The new conservation cap not only established an overall spending limit, but also created the following six subcategories in attempt to prevent one or two programs from receiving all the funding under the LCPII cap: the Federal and State Land and Water Conservation Fund, State and Other Conservation, Urban and Historic Preservation, Revenue Sharing, Federal Deferred Maintenance, and Coastal Assistance. The first five subcategories above are funded in the Interior Appropriations Bill, and the last is funded in the Commerce, Justice, State Appropriations (CJS) Bill.

- Based on the Senate funding levels for programs under the LCPII cap, the total budget authority provided for 2002 is $184 million less than the cap level of $1.76 billion because the Senate passed CJS bill under funds its Coastal Assistance subcategory by that amount. It should be noted however, that the Interior Conference report fully funds its portion of the overall LCPII cap and that the House-passed CJS bill fully funds its portion of the LCPII cap.

- Despite the proponents' efforts to direct funding at certain levels across the subcategories, both OMB and CBO have agreed that the only enforceable item in law creating this new category and subcategories is the overall limit: if total spending on these programs exceeds the overall limit, then OMB would issue a sequester. The statutory effort to set minimum or maximum levels of funding for the subcategories may be informational, but is not enforceable. Action thus far on the 2002 funding provides proof: three of the six subcategories did not receive the level of funding the law outlines a minimum – State and Other conservation programs, Urban and Historic Preservation, and Coastal Assistance.

- Furthermore, for some of the programs covered by the LCPII cap, there are both LCPII parts and non LCPII parts. In these programs, funding is provided in the non LCPII part to augment funding levels for the program without violating the cap level.

- This leads the *Bulletin* to wonder if this new cap and its subcategories have accomplished what they set out to do, or have they just added more confusion to the budget process? Perhaps during the upcoming discussions on budget reform, there should be serious consideration as to whether the LCPII cap and its subcategories should be continued.

IS THE TAX-PAYER GETTING FLEECED AGAIN?

- If budgeteers are still wondering what to be for Halloween, you should know that one old chestnut considered dead for many years – the wool/mohair support costume – is attempting to come back to life.

- What did you say? Didn't Congress vote to kill wool and mohair support programs by 1995? Yes, it did (P.L. 103-30, signed into law on November 1, 1993). But under the farm bill passed by the House earlier this month, a new mutation of a wool and mohair support program emerges with a different mask – offering producers a choice of "marketing assistance loans" or direct "deficiency" payments.

- Why was the original wool and mohair support program created in the first place? Because wool and mohair were deemed strategic commodities necessary for soldiers' uniforms and blankets, price supports for both were enacted in the late 1940s. A few years later, the Wool Act of 1954 (P.L. 83-690) established direct payments to producers of both commodities.

- By the time Congress voted to phase out such payments 8 years ago, payments for wool accounted for 70% of wool producers' income. During the four years prior to the termination of the National Wool Act, payments to wool producers averaged $122 million per year when the total market value for the products averaged only $53 million.

- But the House will argue that the wool/mohair program in its latest farm bill is not a revived direct payment program but rather a non-recourse loan program. For those not familiar with a non-recourse loan, let's look at graded wool as an example. The House proposes a loan rate – in effect, a support price – of $1 per pound. The current spot market price for graded wool trades from 50 cents to 70 cents, which is 30 cents to 50 cents below the loan rate. When the producer sells the wool to the market, the government would ensure that the producer is paid no less that the loan rate, which translates into a direct payment of 30 to 50 cents for the producer. Because CBO forecasts that the market price will always be lower than the loan rate for the 10-year period covered by the House-passed farm bill, it estimates producers will always receive this payment.

- Alternatively, the House bill would allow a producer to take out a loan against the amount of wool he produces at the "support" or "loan" price of $1, and if he decides not to pay back the loan, he can instead forfeit the commodity to the government (then Secretary of Agriculture would have to manage the forfeited supplies). If the market price were to rise above $1, then the producer could sell the wool to the market at that price, pay off the loan at $1, and then pocket the difference – a one-sided bet if there ever was one.

- Gullible budgeteers may agree with the House view that since the producer is supposed to pay back the loan, he is not receiving a direct payment. While the semantics of this may fool some, budgeteers not easily spooked say the result is the same. In fact, CBO scores the "loan" program at $202 million over FY 2002-11. This cost results because the House farm bill sets the loan program so much higher than projected prices that it turns out the producer would be paid above domestic prices **every year**.

- In fact the House-passed bill makes certain that the producer becomes more and more reliant on the government for survival. This proposal moves further and further away from a free market. While consumers continue to buy cheaper world supplies, the US would build inventory of high-priced, taxpayer-purchased domestic supplies. In time, these stocks will be dumped back on to the market further driving down price and resulting in even greater taxpayer payments to wool and mohair producers.