INFORMED BUDGETEER

IN THE HOME STRETCH: STILL

- Since last week's *Bulletin,* Congress has completed its initial work on each of the thirteen appropriation bills and, according to our calculations, has not spent the Social Security surplus. Discretionary totals in the table reflect CBO's scoring of the bills with directed adjustments to reflect OMB outlay rates and three OMB scored policies that were adopted by the Congress - - FCC spectrum, National Data New Hire system, and Crime Victims Trust Fund.

- At the time of this week's publication, eight of the bills have been enacted, three bills have been vetoed by the President, and the two remaining bills (one of which is attached to a revised District of Columbia appropriation) have cleared the Hous. The Senate will act on the DC-Labor bill on November 2. Language mandating an across-the-board cut of 0.97 percent in budget authority (which translates into $5.7 billion in budget authority and $3.5 billion in outlays) is also included in the revised DC appropriation.

- The budget authority (BA) for fiscal year 2000, given Congressional action to date, totals $562.6 billion, while the outlays (OT) total $594.2 billion. These totals are $10.7 billion below the 1999 level in CBO's July 1999 baseline for budget authority and $14.3 billion above that level for outlays. Total outlays for discretionary spending will grow 1.9% between 1999 and 2000.

- The CBO July 1999 cap on discretionary spending is $538.2 billion in budget authority and $579.8 billion in outlays. Currently, regular appropriations are under that cap level by $1.6 billion in BA and $5.91 billion in outlays. If the President were to sign the remaining appropriation bills (which include the 0.97 percent across-the-board cut in BA) and the vetoed appropriation bills were revised and sent to the President at their current BA and outlay levels, no sequester by OMB would be necessary at the end of this session.

- Total emergency spending for FY 2000 tops $25.4 billion in BA and $18.5 billion in outlays. Emergency spending is $8.7 billion below the 1999 level for BA.

FY 2000 Appropriations Status
($ in Billions)

		Action to Date BA	Action to Date OT
Discretionary	Regular	542.9	576.2
Total	Emergency (new outlays)	25.4	18.5
	Contingent Emergencies[A]	0.0	1.6
	Total	568.3	596.3
Mandatory Spending Medicare Option		- -	1.0
0.97%Across the board cut in BA		-5.7	-3.5
Debt Service		- -	0.4
TOTAL		- -	594.2
Limit (cap + 14.4 billions)		- -	594.2
Amount out of Social Security Surplus		- -	0.00
Memo:			
CBO July 1999 cap level		538.2	579.8
Anticipated Adjustments to cap level[B]		1.0	0.5
Amount appropriations are over the cap		-1.6	-5.9

[A]Contingent emergency appropriations not in the OMB Sequestration Preview report.
[B]Adjustments for EITC, Arrearages, CDRs, and adoption assistance.

THE FINISH LINE FOR '99 - SPENDING GROWS 3.2%

- On October 27, 1999, the Treasury Department released its Monthly Treasury Statement for September. This statement included the final budget totals for FY 1999.

- The total budget surplus for FY 1999 was $122.7 billion, with total receipts of $1,827.3 billion and outlays of $1,704.5 billion. This is the largest dollar surplus ever and represents 1.3% of GDP.
- Receipts grew by 6.1% between 1998 and 1999. Spending grew by 3.2% between 1998 and 1999.

- The President's February budget projected a surplus of $79.3 billion, and his midsession review projected a surplus of $98.8 billion for 1999. The on-budget deficit was $1 billion in FY 1999. The President's February budget projected an on-budget deficit of $41.7 billion, and his midsession review projected an on-budget deficit of $24.8 billion for 1999.

- Actual outlays were $23 billion lower than projected in the midsession review. Half of the $23 billion outlay underestimate was due to Medicare outlays, about one-third of the underestimate was due to lower than expected Department of Defense-Military outlays. Other agencies coming in lower than expected include Education, Interior, Veterans Affairs and the Office of Personnel Management.

- The midsession estimate for total receipts was only about $1 billion lower than actual receipts. However, the midsession review overestimated 1999 individual income tax collections by $7 billion, and underestimated corporate income and employment taxes by $5 and $3 billion, respectively.

Receipts, Outlays and Surplus/Deficit
($ in Billions)

	Receipts	Outlays	Total	On-budget
1998 actual	1721.5	1652.2	69.2	-30.0
1999 estimates:				
February budget	1806.3	1727.1	79.3	-41.7
Mid session review	1826.3	1727.5	98.8	-24.8
1999 actual	1827.3	1704.5	122.7	-1.0

SOURCE: OMB, Treasury

✯BUDGET FACTOID ✯

History of Growth in Government Spending
(annual average, by percent)

1970-1975	All spending	10.6%
	Nondefense discretionary	7.4%
	Defense discretionary	9.9%
1975-1980	All spending	12.2%
	Nondefense discretionary	15.0%
	Defense discretionary	1.4%
1980-1985	All spending	10.0%
	Nondefense discretionary	2.8%
	Defense discretionary	13.5%
1985-1990	All spending	5.8%
	Nondefense discretionary	4.2%
	Defense discretionary	3.5%
1990-1995	All spending	3.9%
	Nondefense discretionary	6.3%
	Defense discretionary	-1.8%
1995-present	All spending	2.8%
	Nondefense discretionary	1.4%
	Defense discretionary	1.0%

SOURCE: Senate Budget Committee; Annual average rate of growth for the time periods specified, nominal dollars.

A RICHER UNDERSTANDING OF INCOME AND POVERTY MEASURES

- The recent release of two annual Census Bureau reports has renewed the debate over poverty and income inequality in the U.S. The reports bear good news, showing that poverty in 1998 has been reduced to the level of 1989- - 12.7% - -which was the end of the last period of economic expansion. Real median household income has risen for four straight years and is now at its all-time high - - $38,885.

- At the same time, the poverty rate is slightly higher than it was in the mid-to-late-1970s despite continued efforts to assist the poor.

The data also show increasing inequality in income. The wealthiest fifth of households have increased their share of total income since 1967 while the share held by the other four quintiles have declined (although real median income for all groups continues to rise).

- Critics of Census Bureau statistics, however, argue that the poverty and income measures provide an inaccurate picture of economic well-being, especially for those at the lower end of the income distribution. The debate centers on two basic issues: what to measure and how to measure it.

- Measuring "poverty" requires judgments about what economic resources should be counted ("income") and how much of these resources are necessary to provide for basic necessities (the "poverty threshold").

- Ideally, both concepts should account for all quantitative factors that bolster or detract from economic well-being, including health care and government-provided, in-kind benefits. The poverty threshold should reflect situational factors such as the number of people in the household, which it does, and the region of residence, which it does not. Additionally, comparing poverty rates and incomes over time requires an accurate measure of inflation.

- The Census Bureau's official definition of "money income" includes cash transfers such as Social Security or public assistance payments, but it excludes in-kind benefits such as employer-provided health insurance. This definition also ignores the effect of taxes (such as the EITC) and excludes both capital gains and the value of home equity. These factors, either alone or in combination, may raise or lower a household's measured well-being and thus affect its status relative to the poverty threshold. (See table below.)

Individual Impact of Selected Factors: 1997 Poverty Rate
(By percent)

Factor	Poverty Rate
Official	13.3
Home Ownership	11.0
Including all in kind benefits, after taxes	11.1
Including all in kind benefits, before taxes	11.8
Food stamps/school lunches	12.4
Payroll/income taxes, including EITC	12.7
Housing subsidies/ heating assistance	12.8
Including geographic differences	13.0
Subtracting payroll taxes only	14.1
Subtracting work-related expenses	14.5
Subtracting out of pocket medical costs	16.3

Source: U.S. Census Bureau, *Experimental Poverty Measures: 1990 to 1997*.

- In 1995, the National Academy of Sciences released a report recommending several changes in the measurement of poverty, which has remained virtually unaltered since it was originally developed in the mid-1960s. (For a summary of these recommendations, go to http://www.census.gov/hhes/poverty/povmeas/exppov/exppov.html). The Census Bureau is currently experimenting with several alternative measures based on these recommendations.

- Like many other "official" statistics, the income and poverty measures are subject to an odd mixture of science and politics, and value judgments cannot be divorced from the objective aspect. A richer understanding, however, can be achieved by not accepting terms like "income" and "poverty" at face value, and appreciating the complexities that lie underneath.

ECONOMICS

THE SHIFTING COMPOSITION OF AMERICA'S DEBT

- Years of fiscal vigilance have clearly been paying off. With the emergence of federal budget surpluses in fiscal years 1998 and 1999, debt held by the public has now fallen for two consecutive years -- the first time this has happened since 1957.

- However, while federal borrowing has decreased, private sector borrowing has surged. This surge has been aided by several factors: 1) the decrease in federal borrowing and the after-effects of last year's financial crisis allowed interest rates to be lower than they otherwise would have been; 2) the sharp rise in stock values since 1995 boosted household assets and corporate valuations, which allowed the private sector to carry additional debt more readily. On net, total domestic debt in the nonfinancial sector has grown 10.2 percent between 1997 and second quarter 1999, the latest quarter available.

Domestic Nonfinancial Debt by Sector
($ in Billions)

	1997	1999-Q2	Growth Rate
State-Local governments	1,120	1,231	9.9%
Business	4,904	5,708	16.4%
Households	5,433	6,170	13.6%
Federal government	3,805	3,705	-2.6%
Total	15,621	16,813	10.2%

SOURCE: Federal Reserve Flow of Funds, September 1999

- Home mortgages were a key force behind the swell in consumer borrowing, growing 15 percent over this period. Unfortunately, owner's equity in their household real estate continued its long-term decline, as homeowners took advantage of easy financing to further leverage their down payment. (The ratio of owners' equity in their household real estate holdings has fallen from 66 percent in 1988 to 56 percent in 1998).

- Fortunately, the growth in households' assets has well outstripped the increase in their liabilities, which has made many economists downplay concerns over rapid private sector debt buildup. However, were there to be a serious equity/real estate correction, these concerns might be harder to downplay.

CALENDAR

The following briefings are a continuing series focusing on budget reform and the 25th anniversary of the Congressional Budget Act. All the briefings are at 3 pm in Room 608 of the Dirksen Building.

November 9: Dr. Robert Reischauer, Senior Fellow, Brookings Institution; formerly Director of the Congressional Budget Office.

November 17: Dr. Eugene Steuerle, Senior Fellow, Urban Institute; formerly Deputy Assistant Secretary at the Treasury Department.

CALENDAR FOLLOW-UP

- On Wednesday, October 27, the Budget Committee hosted a meeting with EU President Prodi, Trade Commissioner Lamy and EU Ambassador to US Paemen. The meeting served to strengthen transatlantic ties and permitted a discussion of a number of trade issues in advance of the Seattle WTO ministerial meeting in November. The Budget Committee extends its best wishes to Ambassador Paemen, who is leaving his post this fall. He has been an exemplar representative and will be missed.