

INFORMED BUDGETEER:

TAX RELIEF AND THE BUDGET RESOLUTION
THE STRAIGHT STORY

- In his remarks April 18 at the Brookings Institution, Treasury Secretary Lawrence Summers was sharply critical of the tax relief and the five-year time frame of the Budget Resolution Conference report. The *Bulletin* would like to take this opportunity to reply to the Secretary’s spurious arguments.
- The Secretary stated that “the Resolution requires taxcuts of \$150 billion over five years.” Sorry, Mr. Secretary, that is not true. The Resolution *permits* tax cuts of *up to* \$150 billion over five years, with reconciliation protection. If the tax writing committees do not choose to produce tax cut legislation, they incur no penalty.
- The Secretary also stated that “reasonable projections have been made that the 10-year costs, including interest, could possibly escalate as high as \$1 trillion.” He bases this on what he calls “legislative history.”
- His “legislative history” is the conference agreement on last year’s taxcut bill, which contained taxrelief of \$156 billion over five years and \$792 billion over 10 years.
- The *Bulletin* would like to remind its readers that last year’s taxbill fit into what was allowable under last year’s budget resolution and its underlying assumptions – and it was vetoed.
- There’s more. The Secretary implies that a five-year budget resolution is some kind of anomaly, and states that the five-year horizon “obscures” the size of the tax cuts.
- Last year was the first time the budget resolution covered 10 years, and this was done solely in response to the President’s gimmicked-up 15-year budget. Eight of the last 12 budget resolutions covered a five-year horizon. The 1996 and 1997 budget resolutions covered seven and six years, respectively, and the 1990 resolution covered only three years.
- The Secretary also states that “it is standard practice for the JCT and the CBO to project the effect of tax and spending proposals 10 years in advance to take account of changes that are to be phased in over time.” This statement is true. The Secretary goes on to say, “without the discipline of 10-year horizons, it becomes easy to adopt policies that are appealing today, but could raise serious risks over the longer-term.”
- The budget resolution does not abandon the discipline of 10-year horizons. A five-year resolution does not mean less budgetary discipline, since JCT and CBO will still produce 10-year estimates. Nothing is “obscured” by a five-year resolution.
- In fact, the Budget Resolution assumptions that make up the \$150 billion in five-year tax relief have 10-year JCT estimates. The table below shows that the ten-year total comes nowhere close to \$1 trillion.

Budget Resolution Tax Relief Assumptions			
Revenue Reduction, \$ in billions			
	2001	2001-05	2001-10
Marriage Penalty Relief: S.2346	-4.1	-64.4	-235.7
Affordable education Act: S.1134	-0.5	-7.7	-21.3
Patients’ Rights*	-2.8	-15.2	-34.5
Small Busin. Tax Fairness: H.R.3832	-2.4	-45.3	-122.5
Roll back federal employees’ retirement contributions	-0.5	-1.3	-1.3
Total policy assumptions	-10.2	-133.9	-415.0
<u>Other tax relief</u>	-1.4	-16.1	N/A
Budget Resolution revenue reduction	-11.6	-150.0	N/A

*Senate Amendment to H.R. 2990, excluding tax increases.

- Of course, the tax-writing committees do not have to follow the budget resolution revenue assumptions, but the *Bulletin* suspects the results will be very close, since the budget resolution assumptions were structured to accommodate tax cut legislation already moving through the 106th Congress.

THE ELEMENTARY AND SECONDARY EDUCATION ACT

- This week, the Senate will consider S. 2, the Educational Opportunities Act. This bill reauthorizes programs under the Elementary and Secondary Education Act. The following table, taken from CBO’s cost estimate, summarizes the impact of S. 2 for fiscal years 2000-2002.

Spending Subject to Appropriations By Fiscal Year			
\$ in millions			
	2000	2001	2002
Spending under current law			
BA/Authorization level	13,348	8,075	160
Estimated outlays	12,757	12,280	3,782
Proposed discretionary changes			
Estimated authorization level	0	25,335	25,311
Estimated outlays	0	2,097	19,175
Spending under S. 2			
Estimated authorization level	13,348	33,410	25,471
Estimated outlays	12,757	14,376	22,957

SOURCE: CBO Note: The 2000 level is the amount appropriated for that year. The 2001 level includes \$7.9 billion from an advance appropriation already enacted. Remaining amounts for 2001 and subsequent years are the estimated authorization levels under current law.

- This estimate, while technically accurate, probably overstates spending under S. 2. in 2001. Why? CBO’s estimate does not make any assumptions about advanced funding for amounts authorized by S. 2. It is likely, however, that at least some of the \$25.3 billion authorized in 2001, would be advanced into fiscal year 2002, as is current practice.
- By focusing on the appropriations for the academic year, or the period in which schools receive and use federal funds, we get a different picture of spending under S. 2. While the fiscal year runs from October 1 to September 30, the academic year runs from July 1 to June 30.

Spending Subject to Appropriations By Academic Year			
\$ in millions			
	2000-01	2001-02	2002-03
Spending under current law			
BA/Authorization level	15,059	160	160
Proposed discretionary change			
Estimated authorization level	0	25,335	25,311
Spending under S. 2			
Estimated authorization level	15,059	25,495	25,471

SOURCE: SBC

- On an academic year basis, discretionary spending under S. 2 would increase by \$10.4 billion from academic year 2000-01 to 2001-02. Most of this increase is for programs under Title 1 - Helping Disadvantaged Children Meet High Standards.
- S. 2 also would increase direct spending by \$2.6 billion in 2006, and by an additional \$100 million over the following two years combined, primarily to reward states that improve student achievement.
- For all Department of Education programs (not just those reauthorized by this bill), the President requested an increase of \$4.5 billion for academic year 2001-2002 while the Budget Resolution assumes an increase of \$2.2 billion.

- The policy changes in this bill will improve education, but the amounts authorized far exceed those in the President's Budget and in the Budget Resolution and are not realistic.

THE COST OF KOSOVO

- How much has the U.S. financially contributed to Kosovo? With all the conflicting numbers and talk of burden-sharing, it's hard to know for sure. This table below summarizes most Defense and International Affairs account expenditures for U.S. efforts in Kosovo.
- The European Union is distributing information which cites U.S. expenditures much lower than the reality. They also fail to account for military contributions, for which the United States provided \$6.7 billion.
- Enacted in last year's Foreign Operations Appropriations bill is a provision limiting the U.S. share to 15% of all funds pledged at last November's donors conference for reconstruction.

United States Kosovo Expenditures (\$ in millions)				
	FY1999	FY 2000 ^A	FY2001 ^B	FY99-FY01 ^A
Function 150				
Humanitarian	534 ^C	89		
Revitalization	105	265	175	
Operations	13	140	9	
Peacekeeping:				
Assesed	67	178	138	
Voluntary	12	34	29	
Total 150	731	706	351	1,788
Function 050				
KFOR	1,045	2,025	1,700	
Other	1,956			
Total 050	3,001	2,025	1,700	6,726
Total 150 & 050	3,732	2,731	2,051	8,514

^ABased on the President's proposed supplemental. ^BFY 2001 Country -level estimate for Kosovo not complete. ^CIncludes \$40 million programmed for refugee admissions from the former Yugoslavia (not limited to Kosovo) and \$22 million that is yet unallocated.

BUDGET QUIZ

HOW TO THINK ABOUT ONE-TIME SPENDING

- Remember in high school when your math or geometry teacher directed you to "do the proof at home" to see how the theorem works? Well, here's some basic budgeting (and logic and arithmetic--it's got everything!) you can take home to prove to your second grader (M&Ms work great). The *Bulletin* has tried it, and it works!

Question: What is the only correct (and intuitive) analytical way to think about the following: how should one account for the census (and other one-time events) in 2000 in doing a comparison of appropriation resources available between 2000 and 2001?

Answer: Consider the following simplified table.

Program Comparison, Controlling for One-Time Effects Appropriation Units, M&Ms, Whatever....			
	2000	2001	Increase

Total resources	10	10	0%
Spent on the following programs:			
Ongoing	7	7	
New	--	3	
Census	3	--	
Subtotal: ongoing & new programs	7	10	43%

- Imagine that the federal government spent a total of 10 appropriation units in 2000: 7 units on ongoing programs and 3 on the census (try substituting 10 M&Ms, with 3 that have to be given to a younger sibling). Further imagine the Congress sets a total for 2001 exactly the same as the total available in 2000, with the knowledge that the census absolutely requires no further resources in 2001 (give another 10 M&Ms, but this time, none need be shared).
- This means the Congress can continue to fund ongoing programs at least the same as the 2000 level, as well as provide new appropriations for items not funded in 2000 (ask your child whether he or she got to eat more M&Ms the second time round). In this exaggerated example, looking at the correct universe for a meaningful comparison, funding for ongoing and new programs combined can increase 43 percent.
- If this makes sense to you, as it does to any rational eight-year old, then you would have to agree that the budget authority assumed in the 2001 budget resolution for nondefense programs represents an increase over the amount provided in 2000 because about \$9 billion of one-time events in 2000 need not be repeated in 2001.

QUOTE OF NOTE

"Few people realize why, from an international perspective, it would be such a shame if the U.S. family farmer died out. Many of them are, in fact, much more savvy in the foreign policy and international trade arena than a lot of members of Congress."

-Stephan-Götz Richter, Publisher, Trans Atlantic Wire, April 21, 2000

CALENDAR

June 6: SBC/CBO Seminar New Economy vs. Old Economy. Dirksen 608, Time TBD.

June 29: Agriculture reserve Fund, \$5.5 billion for FY 2000, released if legislation is reported before this date.

July 14: Reconciliation bill to reduce revenues to be reported.

September 13: Reconciliation bill to reduce revenues to be reported.

PHappy 25th Anniversary to CBO!P

- One of the first reports prepared by the CBO in December 1975 was requested by the Chairman of the Senate Budget Committee then, Senator Edmund Muskie. The report entitled: "Growth of Government Spending for Income Assistance: A Matter of Choice" made projections to the year 2000 for federal income assistance programs.
- That report estimated that if the recent trends in spending for these programs continued at the same rate over the next 25 years, they

would consume 33.4% of GDP. But CBO said this was a matter of choice and policy changes in these programs could result in them consuming between 9.4 and 10.4% of GNP in the year 2000. CBO's most current estimate – January 2000 – of these programs for FY 2000 represent 10.3%! Not bad for a 25 year cost estimate. Somebody must have been listening. We're proud of you CBO!