

INFORMED BUDGETEER

HOUSE BUDGET RESOLUTION RECONCILIATION TARGETS

- With conference on the 1999 budget resolution looming, it is useful to consider the differences between the Senate and House-passed resolutions.
- The previous *Bulletin* examined differences in discretionary appropriated funding levels. The House-passed resolution would reduce appropriations \$53 billion in BA and \$38 billion in outlays compared to the Senate-passed resolution. This week's *Bulletin* will focus on the House-passed resolution mandatory spending savings.
- The Senate resolution includes no reconciliation instructions (although the Senate identified \$20 billion in mandatory savings to be used as offsets for increased highway spending). The House resolution asks nine of its committees to reduce mandatory spending in their jurisdictions by \$55 billion over 1999-2003, and to report legislation accomplishing that by June 26.
- The table below shows how the House resolution, if adopted in conference and passed by both bodies, would affect nine Senate committees that would have to produce legislation that achieve the \$55 billion in spending reductions.

House-Passed Budget Resolution Reconciliation Assumptions by Senate Committee (\$ in Billions)		
Senate Committee	1999	1999-2003
Agriculture	-0.5	-3.7
Banking	-0.8	-3.9
Commerce	-0.5	-2.5
Ed & Labor	-0.2	-0.7
Energy	--	-6.6
Environment & Public Works	-0.2	-2.0
Finance	-2.0	-23.3
Governmental Affairs	*	-1.8
Veterans	-0.4	-10.4
TOTAL	-4.6	-54.9

SOURCE: SBC staff preliminary analysis; *less than \$50 million

- The two committees that appear to be responsible for the largest amount of assumed savings--Finance and Veterans Affairs--already have some of their work done for them. For example, almost all the instruction to the Veterans committee--\$10 billion worth--has already been enacted and spent in TEA21--the transportation bill signed into law on June 9.
- Further, TEA21 included as an additional offset to increased highway spending a \$2.4 billion reduction in Social Services Block Grants (SSBG). Although the House resolution assumes a \$3.1 reduction in SSBG, only \$0.7 billion in savings is left to be enacted into law.
- The House-passed resolution also assumes over \$3.7 billion in savings from reductions in the federal food stamp program. The Congress recently sent to the President a bill that already accomplishes \$1.8 billion of those savings while at the same time increases food stamp spending for legal immigrants.
- Thus, of the \$55 billion total savings assumed in the House resolution that are supposed to be available to reduce taxes over the next five years, only \$41 billion represent new savings not already enacted.
- The reconciliation instructions in the House-passed resolution

would require nearly \$ 3.9 billion in reductions from FHA and flood insurance programs.

- Other items of note in the House reconciliation instructions include the assumption that receipts would be collected from allocating airport slots worth \$2.5 billion, required from the Commerce Committee. In addition, increased inland waterway fees would generate \$2 billion required from the Environment and Public Works Committee.
- The House-passed reconciliation instructions would require nearly \$1.8 billion in savings from reductions in FEHB and federal employee retirement programs.
- The Energy Committee would be responsible for another large--but one-time only--amount of savings: \$6.6 billion, mostly in 2002 and 2003, from selling three power marketing administrations. The effect of receipts occurring after 2003 that would be foregone after such sales is omitted from the savings assumptions.
- Finally, of the \$41 billion in new savings assumed in the House resolution, approximately \$11 billion would come from welfare programs -- EITC, Medicaid and Welfare to Work -- and another \$10 billion in unspecified savings is assumed in the jurisdiction of the Finance Committee.

CBO'S FORECASTING ACCURACY

- As CBO's estimate of the FY1998 budget surplus continues to rise, there has been some criticism voiced over the accuracy of CBO's budgetary projections.
- However, it is important to note that OMB, private forecasters, and state & local governments were all taken by surprise at the size of this year's revenue inflows. In fact, since the start of this year, CBO has been slightly more optimistic on the size of this year's surplus than OMB.
- Over time, CBO and OMB deficit projections have tracked each other very closely. The two following charts show their multi-year deficit forecasts since FY1994 and the average amount by which both agencies' fiscal year forecasts deviated from actuals.
- While both were not optimistic enough on their recent multi-year forecasts, this is largely due to the remarkable strength of the US economy and stock market which no public or private forecaster anticipated.
- Both CBO and OMB make forecasts given the best information at hand, and update these regularly to reflect legislative, technical and economic changes that inevitably occur during the projection period.

CBO VS. OMB Surplus/Deficit Forecast Accuracy (FY1994-1998, Percent of GDP)		
Mean Absolute Error for Surplus/Deficit Projections		
	CBO	OMB
Current Year	0.7	0.8
One Year Out	1.4	1.3
Two Years Out	2.2	2.0
Three Years Out	2.9	2.8
Four Years Out	3.1	3.2

SOURCE: CBO & OMB Winter/Spring Forecasts

Comparison of Deficit Projections: FY94-FY98 Winter/Spring Forecasts (Current Services, Capped Baseline Estimates, \$ Billions)	
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	1994	1995	1996	1997	1998
CBO-January 1994	223	171	166	182	180
OMB-February 1994	235	177	178	184	187
ACTUAL	203	164	107	22	(53)
Actual minus CBO	20	7	59	160	233
Actual minus OMB	32	13	71	162	240
CBO-January 1995		176	207	224	222
OMB-February 1995		189	201	218	209
ACTUAL		164	107	22	(53)
Actual minus CBO		12	100	202	275
Actual minus OMB		25	94	196	262
CBO-April 1996			144	171	194
OMB-March 1996			154	150	126
ACTUAL			107	22	(53)
Actual minus CBO			37	149	247
Actual minus OMB			47	128	179
CBO-January 1997				124	120
OMB-February 1997				128	114
ACTUAL				22	(53)
Actual minus CBO				102	173
Actual minus OMB				106	167
CBO-January 1998					5
OMB-February 1998					10
ACTUAL					(53)
Actual minus CBO					58
Actual minus OMB					63
Mean Absolute Error					
CBO	20	10	65	153	197
OMB	32	19	71	148	182

SOURCE: CBO, OMB; Parentheses indicates forecast estimate.

- Some have argued that Wall Street has been more accurate than Washington's official forecasters in estimating the size of the FY1998 surplus. Yet, it is important to sample official and Wall Street projections at the same point in time. When this is done, the differences become less pronounced.

Comparison of Federal Deficit/Surplus Projections (\$ in Billions, January 1997/98 Projection for FY1997/98)		
	1997	1998
CBO	-124	-5
OMB*	-126	-10
Actual	-23	53(f)
Bankers Trust		-10
Brown Bros. Harriman		-16
Chase	-100	25
DLJ	-110	-3
DRI	-127	-32
Goldman, Sachs	-135	30
JP Morgan	-100	10
MA	-117	2
Merrill Lynch		-15
Morgan Stanley	-145	20
MBA	-107	-2
Salomon/Smith Barney	-100/-125	40
WEFA	-121	6
Wrightson	-90/-100	35
Private Average:	-115.4	6.4

*OMB's forecasts released in February; (f) indicates latest CBO forecast for 1998. SOURCE: CBO.

- Furthermore, Wall Street should not be seen as a counterpart of CBO or OMB. Wall Street focuses mainly on the current year's fiscal position and does not construct multi-year budget forecasts which Congress depends upon. Its models are not

detailed enough to examine the potential budgetary and economic impact of any prospective change in tax and spending policies. As such, CBO and OMB perform a unique and valued service to the federal government.

A COMPLETE REPORT

- The *Bulletin* has noticed that lately there has been much talk about completion of budget resolutions. So that our informed budgeteers can put this discussion in perspective here is a list of the completion dates of budget resolutions since the enactment of a statutory deadline in 1974.

Completion Dates of Budget Resolutions	
Fiscal Year	Budget resolution adopted
1976	May 14, 1975
1977	May 13, 1976
1978	May 17, 1977
1979	May 17, 1978
1980	May 24, 1979
1981	June 12, 1980
1982	May 21, 1981
1983	June 23, 1982
1984	June 23, 1983
1985	October 1, 1984
1986	August 1, 1985
1987*	May 15, 1986
1988	June 25, 1987
1989	June 6, 1988
1990	May 18, 1989
1991	October 9, 1990
1992	May 22, 1991
1993	May 21, 1992
1994	April 1, 1993
1995	May 12, 1994
1996	June 29, 1995
1997	June 13, 1996
1998	June 5, 1997

*From fiscal year 1976 through fiscal year 1986 May 15 was the deadline for adoption of a budget resolution. The enactment of Gramm-Rudman-Hollings in fiscal year 1987 changed the deadline date to April 15. Bold indicates that Congress met the statutory deadline for completion of the budget resolution.

YIKES! WATCH OUT FOR PAYROLL TAXES!

- CBO released its latest projections for 1999 tax liabilities by income category and family type in a May 1998 CBO Memorandum.
- CBO projects payroll taxes will exceed income taxes for 74 percent of all taxpayers in 1999. Not surprisingly, the percentage is higher for lower income taxpayers.
- For a family of four with income under \$22,900 (first quintile), 99 percent pay more in payroll taxes than in income taxes. For a family of four with income under \$65,850 (middle quintile), 81 percent pay more in payroll taxes than in income taxes. And even in the highest quintile (income above \$101,200 for a family of four), 35 percent pay more in payroll taxes than in income taxes.