

Don Nickles, Chairman
 Hazen Marshall - Staff Director

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108th Congress, 1st Session: No. 20

September 29, 2003

INFORMED BUDGETEER

IN FOR A PENNY, IN FOR A POUND

- The previous *Bulletin* provided an overview of the Senate's success rate in enforcing the 2004 Budget Resolution when budget points of order were raised. This week we examine how much of an increase in the deficit we avoided by defeating spending amendments on appropriation bills thus far. (Since the last *Bulletin*, one more successful point of order increased the record to 54 out of 55. During debate on the Interior appropriations bill, the Senate beat back the Daschle amendment, #1734 – to increase spending by \$292 million in 2004 on clinical services in the Indian Health Service – because it exceeded the bill's allocation. Over 10 years, the amendment would have cost \$4.3 billion.)
- Of the 55 points of order, 30 (or 55%) occurred during debate on the Homeland Security, Labor-HHS, and Interior appropriation bills. The Senate successfully defended its budget on all those occasions, saving a combined \$44 billion in spending increases in 2004 and a whopping \$645 billion over the next 10 years (see tables and accompanying footnotes below). For perspective, those proposed increases amount to 60 percent more than Congress is trying to spend on a Medicare prescription drug benefit over that same time period.

2004 LABOR-HHS APPROP. BILL (H.R. 2660); COST OF AMENDMENTS DEFEATED BY BUDGET POINTS OF ORDER a/ (BA, in \$ billions)		
	2004	2004-13 b/
Impact Aid (Dorgan, #1553)	0.2	2.1
Part B of IDEA (Dayton, #1554)	11.1	125.2
Certain Education and Related Programs (Reid, #1547)	0.2	2.4
Workforce Investment Act (Murray, #1559)	0.8	9.0
Rural Education (Daschle, #1568)	0.1	1.5
Bioterrorism Preparedness Workforce (Clinton, #1565)	0.1	1.1
Fund for the Improvement of Education (Harkin, #1575)	1.0	11.3
Education for the Disadvantaged (Byrd, #1543)	6.2	69.5
Student Financial Aid (Kennedy, #1566)	2.3	25.5
Global HIV/AIDS (Durbin, #1591)	0.9	10.6
Head Start (Dodd, #1597)	0.4	4.0
Ryan White Care Act (Schumer, #1598)	0.4	4.5
Immunization Services (Reed, #1592)	0.1	0.6
LIHEAP (Reed, #1595)	0.3	3.4
Literacy, Library, and Museum Programs (Reed, #1596)	0.0	0.5
Afterschool Programs (Boxer, #1609)	0.3	2.8
Promoting Safe and Stable Families Program (Landrieu #1610)	0.1	1.1
Teacher Quality Programs (Durbin, #1613)	0.4	5.1
West Nile Virus (Landrieu, #1614)	0.1	1.4
NIH (Specter, #1622)	1.5	16.9
Interest on Amendments	=	88.4
TOTAL	26.4	386.8

Source: Senate Budget Committee Republican Staff
 NOTE: The spending in several of these amendments may be for very similar or identical purposes. These amendments are ordered by vote number.
 a/ A Discretionary Spending Limit point of order (section 504(b) of the 2004 Budget Resolution) was raised and sustained against 19 of the 20 amendments. Each of those amendments would have caused the Labor-HHS bill to exceed the discretionary spending limit for 2003 set out in the 2004 Budget Resolution (H. Con. Res. 95). An Emergency Designation point of order (section 502(c)(5) of the 2004 Budget Resolution) was raised and sustained against the Specter Amendment to increase NIH funding (#1622)
 b/ The 10-year cost of the amendments are calculated using CBO's blended inflator rate (consistent with the baseline methodology) from the March baseline.

- It is worth noting that all votes Senators cast to waive the budget in favor of more appropriations have occurred after July 15 – when Congress received word from OMB that the 2004 deficit would be a projected \$475 billion.
- Consider further evidence that “a billion here and a billion there” adds up to real money. In its summer update, CBO estimated that if Congress continues increasing discretionary spending over the next 10 years at the average annual rate enacted over the last five years (7.7 percent), the cumulative 10-year deficit would more than triple – from CBO's baseline estimate of \$1.4 trillion to \$4.8 trillion.

2004 HOMELAND SECURITY APPROP. BILL (H.R. 2555); COST OF AMENDMENTS DEFEATED BY BUDGET POINTS OF ORDER a/ (BA, in \$ billions)		
	2004	2004-13 b/
Fulfilling Homeland Security Promises (Byrd, #1317)	1.8	19.8
Emergency Management Performance Grants (Murray, #1327)	0.1	1.1
Transportation Security Research & Development (Schumer, #1343)	0.1	0.8
Firefighter Assistance Grants (Mikulski, #1346)	0.2	1.7
Chemical Facility Security Assessments (Corzine, #1350)	0.1	0.9
Border Personnel at the Northern Border (Schumer, #1351)	0.2	2.3
Firefighters, Law Enforcement & Emergency Medical (Dodd, #1363)	14.4	162.7
Grants for Use in High-Threat Urban Areas (Specter, #1368)	0.5	5.6
Grants to Public Transit Agencies to Enhance Security (Reed, #1372)	0.1	1.1
Interest on Amendments	=	58.1
TOTAL	17.4	254.1

Source: Senate Budget Committee Republican Staff
 NOTE: The spending in several of these amendments may be for very similar or identical purposes. These amendments are ordered by vote number.
 a/ A subcommittee allocation point of order (302(f)) was raised and sustained against each of the nine amendments. Each amendment would have caused the Homeland Security subcommittee to exceed its 302(b) allocation.
 b/ The 10-year cost of the amendments are calculated using CBO's blended inflator rate (consistent with the baseline methodology) from the March baseline.

NORTHPOINT PROVISION SIGNALS FUTURE OF SPECTRUM AUCTIONS POINTING SOUTH

- The Commerce-Justice-State (CJS) appropriations bill (S. 1585), as reported by the Senate Appropriations Committee, includes several provisions that constitute “authorizing on an appropriations bill.” “Ho hum,” blase budgeteers might say, “happens all the time.” But some of the provisions in CJS are breathtaking both for their public policy and budgetary impacts. This week the *Bulletin* examines the “Northpoint” provision of the bill (section 626).
- From the invention of radio until 1993, the Federal Communications Commission (FCC) used to give away licenses to use spectrum – either by lottery or by beauty contest (i.e. the FCC, often with help from Congress and/or the president, decided who was “most deserving”). Since the reconciliation bill in 1993 (as reinforced, extended, and expanded by the 1997 Balanced Budget Act), the law has required the FCC to auction licenses instead when there is more than one party interested in using the spectrum. (There are some statutory exceptions to this rule; for instance, the FCC is not allowed to auction licenses for digital television or for nonterrestrial satellite licenses.)
- A company called Northpoint applied for a license to use a band of spectrum, but others also indicated interest to the FCC. Because more than one party applied for the same band, the FCC correctly followed the law and scheduled an auction. Unfortunately, the FCC has postponed and rescheduled this auction several times, allowing time for lobbyists to convince members of Congress to intervene in the FCC's implementation of the law. The auction is now scheduled for January 14, 2004. CBO estimates the auction would generate \$60 million in winning bid receipts for the Treasury.
- Northpoint would, of course, prefer to get these licenses for free rather than have to bid (and, if the highest bidder, pay) for them at a fair and open auction. To that end, Senators Landrieu and Hutchison, with the support of an apparent majority of members speaking in favor of Northpoint, offered an amendment to the CJS bill during full committee markup.
- The amendment would so narrowly limit the eligibility for the particular spectrum license that it would most likely have the result that the FCC would not conduct the scheduled auction and that ultimately Northpoint would acquire the licenses for free. This is equivalent to appropriating \$60 million for one company – Northpoint – and letting them use those taxpayer funds to “win” the spectrum at an “auction” of one bidder. The Committee studiously avoided a roll-call vote, approving the amendment

instead by a curious voice vote in which some of the amendment's opponents asked to be "recorded as present."

- To justify their association with Northpoint, supporters will repeat, mantra-like, one big misdirection throughout any debate on this provision – something like: most of Northpoint's competitors have gotten most of their spectrum without going to auction.
- There is a two-part response to this mythology. First, until 10 years ago, everyone got spectrum licenses for free from the FCC, so most of those with FCC licenses today never paid a dime to taxpayers. But in 1993, Congress decided that – going forward – many uses of spectrum would be subject to auction as long as more than one party has a viable plan for putting the spectrum to use and is willing to pay for it. Auctions were enacted to promote the most efficient – highest and best – use of spectrum, and to end the practice of presidents and the Congress deciding to give it away to a favored few (who have an application that may not be as highly valued by the public as other potential applications). And most damaging to Northpoint's lie – the same frequency band that Northpoint desires *was already auctioned in 1996 for \$735 million* to two different television services using direct broadcast satellites (a technology different than Northpoint's).
- The relevant question now is not: who already has spectrum and how did they get it? Instead, the right question is: does more than one party want a license and who's willing to pay for it?
- Second, claiming it has "competitors" demonstrates Northpoint's overactive imagination. The notion that existing, operating companies, which are already delivering product over the airwaves, are competitors is a stretch because Northpoint does not really exist yet (they sell nothing, make nothing); in fact, Northpoint claims it won't ever begin to develop and sell its product (a package of wireless video, phone, and internet services) unless it gets its desired licenses for free.
- Instead, the relevant competitors to Northpoint are **not** those who already have licenses (whether free or paid for), but instead include companies that already exist, already provide phone or other wireless services to real customers, are seeking additional licenses, and **are willing to participate in an auction** run by the FCC. But Northpoint does not want to compete against them if it can convince Congress to rig a process where Northpoint appears to be the only company eligible for the license.
- When Northpoint proponents were trying to attach a similar amendment to the Agriculture appropriations bill two years ago, the Statement of Administration Policy on that bill said: "[t]he Administration would strongly oppose any amendment that would restrict the FCC's ability to assign, via competitive bidding, spectrum licenses. . . such a provision would interfere with the efficient allocation of Federal spectrum licenses, provide a windfall to certain users, and reduce Federal [receipts]."
- This time around, if the Administration's resolve is not sufficient to prevent this amendment from being enacted, the amendment would effectively kill the spectrum auction program for 2004 (as the Northpoint auction is the only significant one scheduled for the upcoming year) and foretells the demise of this successful program. Except for when Congress has meddled to pick winners and losers or play budget-timing gimmicks, auctions have efficiently allocated the use of spectrum and have generated nearly \$20 billion in receipts recorded by the Treasury for taxpayers.
- Next week the *Bulletin* examines another provision in the CJS bill that would eliminate all the FCC's funding for the auction program and its effect on scheduled auctions and associated receipts in future years.

SHOULD WE STALL THE ENGINE OF SMALL BUSINESS?

- Some Democratic Presidential contenders, other Democrats in Congress, and some political talking heads have recently suggested that the supplemental cost of operations in Iraq should be financed by raising taxes on "the rich."
- It may seem like a no-brainer to support raising taxes on highly-paid executives and entertainment tycoons in order to finance additional expenses for Iraq. After all, like Senator Biden stated, "We should ask for shared sacrifice here. Well-to-do people are no less patriotic than anyone else and they haven't been asked to do anything."
- Let's take a look at who those "well-to-do people" in the top tax bracket are. According to the Treasury Department, small business owners account for roughly 80% of those who file in the top marginal tax bracket. And maybe they haven't been *asked* to do anything, but they are doing plenty – they are investing in and expanding their businesses and creating jobs.
- Raising the top rate back up to 39.6% (the top bracket during the Clinton Administration) would bring in about \$16 billion next year, nowhere near enough to pay for the supplemental. Congress would have to raise the top rate to the Clinton level for the next five years in order to raise taxes enough to pay for the \$87 billion supplemental the President has requested for one year.
- If members are seriously thinking about raising taxes for the top bracket, they need to be aware of the damage they could do to the small business sector. Economic research has shown that taxes have a significant impact on the decisions of small business owners.
- In their paper, *Does Atlas Shrug*, Carroll Robert, Douglas Holtz-Eakin, Mark Rider and Harvey S. Rosen estimated that the marginal rate reductions enacted by the Tax Reform Act of 1986 significantly increased investment by sole proprietorships. Their research suggests that a five percentage point reduction in the marginal tax rate that applies to small businesses increases investment by 10%. Conversely, high marginal tax rates discourage entrepreneurs from investing in new capital equipment. More investment means more jobs. Less investment means fewer jobs.
- Current surveys of small businesses' activity also suggest that marginal rate cuts have had a positive impact on employment. The Bureau of Labor Statistics' Household Survey of Employment indicates that the number of self-employed individuals increased 649,000, or 7.3%, since the end of the recession (see chart below). At this point after the last recession, self-employment was shrinking, not expanding. The National Federation of Independent Business, the largest advocacy organization representing small business, has found that since the introduction of the latest round of tax cuts in February 2003, the fraction of small businesses intending to hire additional employees over the next three months increased eight percentage points -- the largest six-month increase since November 1999. Does it really make sense to raise taxes on small business and stall the recovery?

President's Tax Cuts Boost Self Employment

