INFORMED BUDGETEER:

@ End of 106th Congress Countup @
Calendar Days Past Planned Sine Die: October 6
(As of October 16)

Total days	10
Total votes in the Senate	10
Appropriations bills passed in the Senate	5
Appropriations bills enacted	0
Appropriations bills vetoed	1
Number of Continuing Resolutions	3
Appropriations bills left to be enacted	10

FY2000 SURPLUS NUMBERS

- In its latest monthly budget review, CBO expects the FY2000 surplus to be $232 billion (an impressive 2.4 percent of GDP) – this is exactly what they forecast in July. Final numbers will not be available until later in the month, when the Administration releases its Monthly Treasury Statement (MTS) for September. However, the final figure should be within a billion or two of CBO's latest estimate.

- To put things in perspective, the last time we had a surplus this large (as a percentage of GDP) was in 1948, as outlays fell sharply due to an unwinding of the war effort.

- While CBO's current surplus estimate is identical to their July forecast, both revenues and outlays are now estimated to be $17 billion above the July projections. The estimated revenue increase is a continuation of the robust revenue growth we've seen in recent years. The outlay overage is mainly due to a one-time shifting of FY2001 outlays into FY2000 - - from the enacted summer 2000 supplemental legislation.

- For the fiscal year as a whole, CBO expects revenues to grow 10.8 percent. Individual income tax payments are forecast even faster at 14.2 percent, apparently due to a combination of real bracket creep (due to across the board gains in real incomes), large increases in higher tax-bracket incomes and capital gains/options realizations. Individual income taxes are now at a record high as a share of GDP (even above World War II's level).

FY 2000 CBO Surplus Estimates
($ in Billions)

	FY 1999	FY 2000*	Percent Change
Unified Surplus	124	232	
On-Budget	1	81	
Off- Budget	124	151	
Revenues	1827	2025	10.8%
Outlays	1703	1792	5.3%

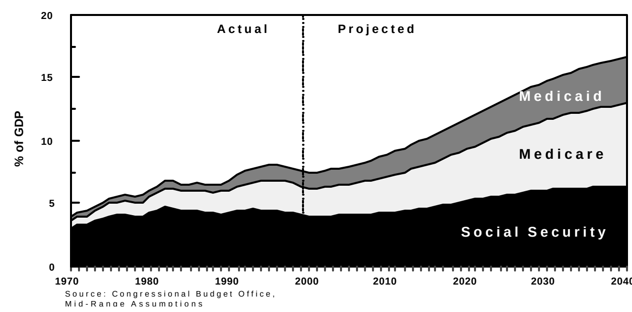
*CBO's Estimate of FY 2000.

REFORMS NEEDED TO SHORE UP LONG-TERM FISCAL OUTLOOK

- CBO recently released an update of "The Long-Term Budget Outlook". The results are not encouraging – even if policymakers were to save all of today's projected surpluses, we will still face an unsustainable long-term fiscal outlook as adverse demographics and lengthening lifespans lead to surging entitlement costs. The General Accounting Office reached similar conclusions in its long-term fiscal update, released earlier this summer.

- CBO projects that the three main entitlement programs – Social Security, Medicare, and Medicaid – will rise from roughly 7.5 percent of GDP today to 17 percent by 2040 absent programmatic reforms. (Indeed, this share would rise even more sharply if benefit expansions are approved in the absence of overall reforms).

Spending for Entitlements

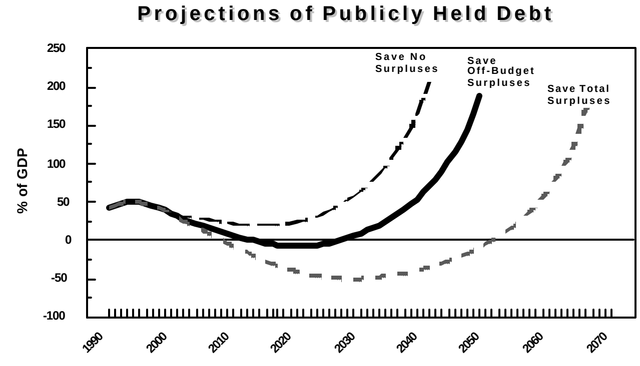


- If one assumes that taxes remains at roughly 19-20 percent of GDP, these entitlement trends suggest that government will eventually exist just to transfer resources from the young to the old. Few believe that this is a desirable distributional outcome.

- CBO's results call into question some policymakers' claims that all we need to do is to eliminate our debt and our long-term worries are solved. CBO ran three simulations that looked at what would happen to debt levels if: (i) all surpluses are saved, (ii) the Social Security surplus is saved, and (iii) no surpluses are saved.

- Even under the unlikely scenario that all projected surpluses are saved, debt still rises to unsustainable levels in the second half of this century, which would lead to higher interest rates and economic melt-down absent policy changes.

Projections of Publicly Held Debt



- The only way to avoid this adverse fiscal outcome is to undertake meaningful reforms of entitlement programs now. CBO summed it up best in the first page of their report:

  "..under most of the assumptions CBO used, a fiscal imbalance eventually develops whether or not surpluses are realized. If the nation's leaders do not change current policies to eliminate that imbalance, federal deficits are likely to reappear and eventually drive federal debt to unsustainable levels."

- CBO's report can be found at their website: http://www.cbo.gov

DEBATING FEDERAL EMPLOYEES

- In the most recent Presidential debate, one topic of discussion was the decrease in federal employees during the Clinton- Gore Administration. It is true that there has been a large decrease in federal employees.

- However upon closer examination these numbers tell a different story then the Vice President was telling. Most of the reduction has been in civilian employees of the Defense Department. There has been a decrease of 271,000 employees in the Defense Department, as compared to a decrease of 12,000 employees in all other federal agencies.

- Then 96% of all the reduction have come from the Department of Defense, hardly an across the board reduction in the size and scope of government.

Total Executive Branch Civilian Full-Time Equivalent Employees: 1993-2000 (in Thousands)			
Fiscal Year	Defense Dept.	Other Agencies	Total Exec. Branch
1993	932	1207	2139
1994	868	1184	2053
1995	822	1148	1970
1996	779	1113	1892
1997	746	1089	1835
1998	707	1083	1790
1999	681	1097	1778
2000*	661	1195	1857
Decrease from 1993-2000			
Total	-271	-12	-282
Percent of decrease	96%	4%	

SOURCE: OMB, FY 2001 Budget, Historical Tables, Table 17.3, p. 282.
*Estimate

UNDEBATABLE FACTS ABOUT STATE CHILDREN'S HEALTH INSURANCE PROGRAM

- As part of the 1997 Balanced Budget Act, Congress created the State Children's Health Insurance Program (S-CHIP). The program provides allotments to States to expand health insurance coverage for children based on a formula that takes into consideration the number of low income children in the state with no health insurance coverage.

- Federal requirements are: States must match the federal funding, but at a rate that is more favorable to the states than Medicaid and; States may use S-CHIP funds to: expand Medicaid, provide coverage outside of Medicaid as long as the program meets certain requirements, or some combination of the two. The aggregate federal allotments for S-CHIP are as follows:

Federal S-CHIP Allotments ($ in Billions)							
	1998	1999	2000	2001	2002	98-02	98-07
Allotment	4.3	4.3	4.3	4.3	3.2	20.3	39.7

- There are approximately 40 states that did not use their full FY 1998 allotment by the end of FY 2000. Thirty-two states had no spending in FY 1998. Six states had no spending at all in FY 1998 and FY 1999.

States With Unexpended FY 1998 Funds (FY 1998, $ in millions)			
Selected States	Allotment	Unused Funds	Percent Unused
California	855	591	69%
Texas	581	449	77%
Arizona	117	78	67%
Georgia	125	77	61%
Washington	47	46	98%
Minnesota	28	28	99%
Louisiana	102	74	73%
New Mexico	63	58	92%

*Source: Health Care Financing Administration (6-27-00)

- It is widely recognized that the S-CHIP program began slowly because state legislatures and HCFA had to approve state plans. Congress is expected to allow states with unused funds from FY 1998 and FY 1999 to keep those funds for an additional period of time as enrollment accelerates.

- Estimates indicate that there are 2 to 4 million children eligible but not enrolled in Medicaid and another 2 million or more who are eligible but not enrolled in S-CHIP. Some families lack information; others wait to sign up for the program when they need to get health care. As more working class families have become eligible, it is likely that many of them get health insurance sporadically through work, but most S-CHIP programs do not provide subsidies for employer-based coverage.

ECONOMICS

BLUE CHIP LOOKS FOR STRONG GROWTH

- Blue Chip released their updated long-term economic forecasts last week. While their economists do look for a mild growth slowdown in 2001, they still expect real GDP growth to average 3.3 percent over the 2002-2006 and 2002-2011 periods. This is up two tenths from their last long-term forecast in March 2000. These long-term growth forecasts have been trending higher as economists revise up their estimates for the economy's sustainable productivity growth.

- In comparison, the official budget real GDP forecasts look quite conservative. OMB looks for 3 percent growth over the next five years and 2.9 percent over the next ten years. CBO is slightly more pessimistic, looking for 2.7 percent growth over both periods.

Real GDP Growth (by %, Calendar Year)			
	2001	2002-2006	2002-2011
Blue Chip: Oct. 2000	3.5	3.3	3.3
OMB: July 2000	3.2	3.0	2.9*
CBO: July 2000	3.1	2.7	2.7*

*Since OMB and CBO have not yet compiled forecasts for 2011, their average ten year growth rate is for 2002-2010.

- It is impossible to look at just one indicator & gauge whether OMB's and CBO's overall forecasts are conservative or not. There are other variables – notably assumptions about the distribution of national income between sectors – that can have offsetting effects.

- Nonetheless, GDP is one of the most important economic variables in determining revenue forecasts. Thus, it is interesting to note that the difference between Blue Chip and OMB/CBO's ten year real GDP forecast translates into roughly $1 trillion over the next ten years. (This can be seen using CBO's rules of thumb in its January 2000 Economic and Budget Outlook, page 121-122).

- It is desirable that OMB's and CBO's economic forecasts are conservative – positive budget surprises are always better than negative ones. However, this economic buffer should temper criticism that official budget forecasts are too rosy. Furthermore, it stresses the fact that while outlays may come in above official projections in coming years, the risks are high that revenues will exceed projections by an even greater margin barring outright recession.