A BAD WEEK FOR INFORMED BUDGETEERS

FROM EVERYTHING I NEEDED TO KNOW I LEARNED IN KINDERGARTEN: ACTIONS SPEAK LOUDER THAN WORDS

- On the Senate floor November 13, during Morning Business, Budget Committee Chairman Conrad responded as follows to Sen. Bill Nelson's comments on tax cuts and the federal budget surplus: "Unfortunately, caution was thrown to the wind, and as a result <u>we now face</u> a circumstance where we will have budget deficits in this fiscal year, and perhaps for several years thereafter, and for the next 10 years we will see all of the Medicare trust fund money being used to fund the other operations of government and a very substantial portion of the Social Security trust fund being used to fund the other operations of government. **That should not be done. That is a mistake**."(Emphasis added.)

- Last week, when OMB Director Daniels predicted budget deficits for the next several years, Senate Budget Committee Chairman Conrad said that "The hard <u>reality</u> is the administration's budget policy put us in trouble well before September 11th." Conrad said the administration should offer a plan to guarantee the integrity of the Medicare and Social Security trust funds.

- Senator Conrad presaged this view even earlier (July 31) when he stated on the Senate floor: "We are not at a point that we are using Medicare trust fund money...I believe by the end of the year we will be using Medicare trust fund money to fund other government programs...I warned about it at the time the budget was considered. I warned about it during the tax bill debate. It is very clear that is going to happen, not just this year; ...in 2002, 2003, and 2004."

- The Chairman's statements are clear: he repeatedly states the federal budget is in deficit, and that the level of spending on other federal activities, combined with lower federal revenues, means the Treasury must borrow from the surpluses of both the Medicare Hospital Insurance and Social Security trust funds, rather than use those surpluses to pay down debt.

- But his actions belie his words. On November 28, Chairman Conrad took action to release the $63 billion in the reserve fund for agriculture in the FY 2002 budget resolution. His statement, inserted into the Congressional Record, says that the budget resolution "permits the Chairman of the Senate Budget Committee to make adjustments to the allocation of BA and outlays to the Senate Committee on Agriculture, *provided certain conditions are met."* (Emphasis added.) Then he displays the relevant numbers that reflect the adjustment.

- But deafening silence followed on whether those "conditions are met." What were those conditions again?

- First (according to section 213(a) of the FY 2002 budget resolution), the Senate Agriculture Committee must report legislation, an amendment thereto must be offered, or a conference report produced which reauthorizes title I of the 1996 farm bill. That condition was satisfied when the Agriculture Committee approved its farm bill, S. 1628, on November 15 (oops, or maybe when it reported on November 27 a different bill – S. 1731 – than what Committee members voted on; see following *Bulletin* article).

- Second, in order for the reserve fund to be released (section 213(b) of the budget resolution), the farm bill, together with previously enacted legislation, must not reduce the on-budget surplus below the level of the Medicare Hospital Insurance trust fund surplus in any fiscal year 2002 through 2011. Chairman Conrad, because he released the reserve fund and in spite of his recent numerous statements to the contrary, must believe that condition has been met as well.

- If actions do speak louder than words, should we take cold comfort in the fact that the Chairman of the Senate Budget Committee is **not** projecting a unified budget deficit, is **not** projecting an on-budget deficit, and, in fact, is projecting on-budget surpluses at least as large as the Medicare Hospital Insurance trust fund surplus in each and every year through the end of the decade? Or do these conditions somehow now "exist" only when the Senate considers an expensive farm bill?

A CHEESY MOVE ON DAIRY TITLE OF FARM BILL

- A funny thing happened on the way to the Senate Agriculture Committee reporting a farm bill. California, the nation's largest dairy state, which had been included in the new dairy policy created by Chairman Harkin, was omitted from the bill that was eventually reported due to a "technical" correction!

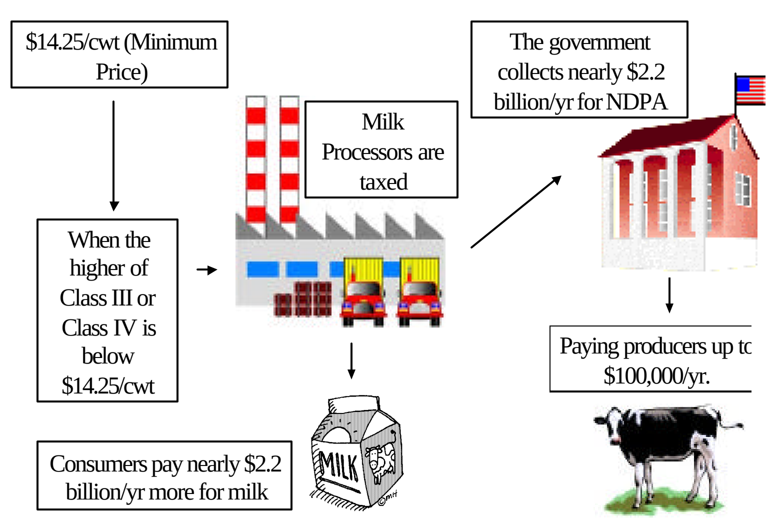
- What really happened? During November 6-15, the Ag Committee met over six days to mark up each of the 11 titles of the Chairman's introduced farm bill – S. 1628. On November 15, the Committee approved the commodity portion (title I) of the bill at the same time it ordered reported the whole bill. Title I included a completely new layer of a nationwide dairy bureaucracy with 11 new regional dairy districts (covering the 48 contiguous states).

- Under current law, dairy policy is implemented through 11 federal Milk Marketing Orders, which cover parts or all of 48 states except California, Maine, and Montana. The 11 orders set minimum prices and share pooled proceeds within each region, and these transactions do not appear in the federal budget.

- The new dairy policy that the Committee voted to approve on November 15 would have created 11 "Regional Supply Management Districts" on top of the existing marketing orders and would have covered <u>all</u> 48 states (see chart below). The bill also would have established a new minimum price support level for fluid milk at $14.25/cwt (per hundred pounds), in contrast to an average all-milk price of $12.28/cwt projected by the Food and Agriculture Policy Research Institute under current law.

- Critical to ensuring this lofty support price was an annual fee of $2.2 billion charged to milk processors. This money was to be collected by the government and put into a special National Dairy Producers Account to be paid out to all milk producers nationwide, but it ultimately would have been paid by consumers, resulting in higher prices for dairy products. In the day or two after the Committee completed work, all press accounts similarly described this new dairy provision.

The Harkin Plan (S. 1628) would have funded the National Dairy Producers Account (NDPA) with over $2.2 billion annually from milk processors who will pass the cost along to consumers.



Prepared by SBC Republican staff November 27, 2001: Analysis based on work by FAPRI (Food and Agricultural Policy Research Institute)

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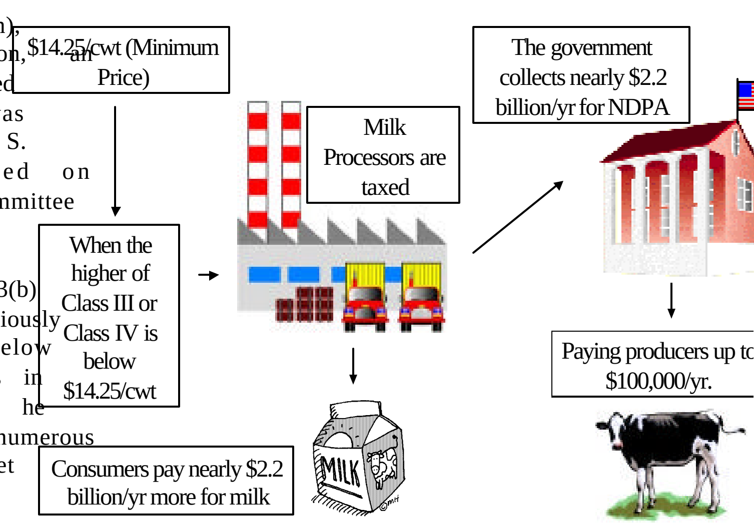

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determined the annual fee was in fact a tax amounting to $15.7 billion over 10 years, which, under scoring rules, cannot be used by the Committee to offset the $18.7 billion in increased outlays associated with the payout of the new dairy provisions. Instead of a $3 billion net cost the chairman was expecting, the bill cost $15.7 billion more over 10 years, meaning the committee was exceeding the allocation it expected to receive from the Budget Committee Chairman, which would have created a 60-vote point of order.

- So between Nov. 15 and Nov. 27 (when the Committee reported an "original bill" that was different from S. 1628 as marked up, and that received the bill number of S. 1731), Chairman Harkin instructed his staff, over the objections of Senator Lugar, to use its authority to make technical changes (usually applying to cites, references, consistency issues, typos) to rewrite the dairy section. The new regional supply districts melted like butter, and the original inclusion of California crumbled like non-fat dry milk powder. They were gone. In their place was a system that still taxed processors, but is now done under the guise of the existing federal Milk Marketing Orders.

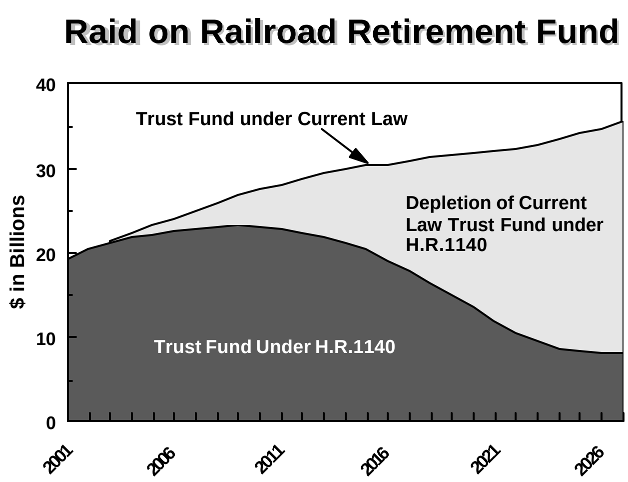
- Some are trying to hide this tax and seem to have been successful, given the CBO scoring of the replacement dairy provision, which costs a net $3 billion over ten years. But the tax is still there and it will be passed back to consumers – increasing the price of fluid milk, resulting in decreased milk consumption, therefore requiring the government to purchase and stockpile more butter, cheese, and non fat dry milk products.

- It is puzzling that a provision that has almost the same effects (except for California) could in one case be considered on-budget and in another form be left off-budget.

WILL TAXPAYERS BE TIED TO THE TRACKS OF A RUNAWAY TRAIN?

- The Senate today is debating H.R. 1140, the Railroad Retirement and Survivors' Improvement Act of 2001. Faithful readers will know that past *Bulletins* (Feb. 28 and July 17, 2000 and July 23 and Aug. 6, 2001) have addressed how this bill sets a bad precedent for Social Security reform and, more importantly, weakens an already unsustainable retirement program.

- The Railroad Retirement Board (RRB) – the federal agency that runs this program – estimates that under current law the Railroad Retirement Trust Fund would steadily increase to $35.7 billion in 2027.



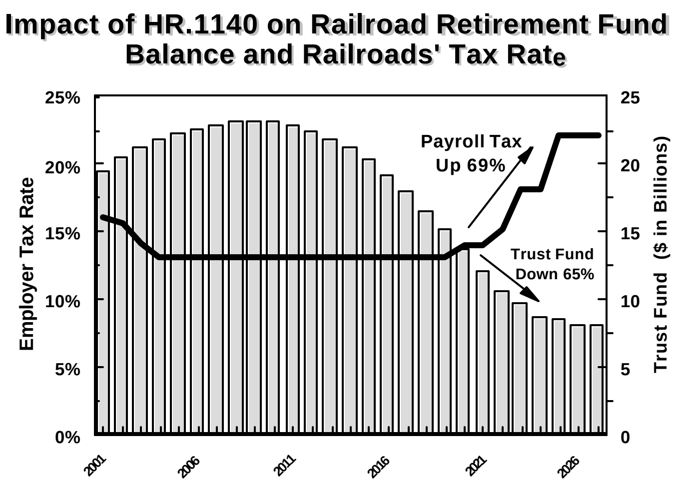
Source: Railroad Retirement Board

- As shown in the following graph, the RRB estimates that H.R. 1140 would deplete the trust fund instead by $27.5 billion, leaving just $8.1 billion by 2027.

- Supporters of the bill claim that it will allow the RRB to generate higher returns by investing the trust fund's assets in the stock market. Yet even with the most optimistic earnings assumptions for those assets, the vastly increased retiree benefits and retirement tax cuts created by H.R 1140 would swamp those gains, producing the large drop in trust fund resources.

- To create the illusion of sustainability, the bill hypothesizes there will be a large, "automatic" tax hike on railroad employers far in the future, by which point the rest of the bill will have threatened the health of the trust fund. As shown in the following table, this retirement tax is currently 16.1% of payroll. Under the bill, this tax would drop to 13.1% through 2019.

- At that point the RRB estimates that the trust fund would be facing bankruptcy as defined by the bill, triggering an automatic increase in employer retirement taxes to 14.1% in 2020, rising to 22.1% for the 2025-2042 period. From 2025-2042, payroll taxes would total 39.4% of payroll (22.1% for employers, 4.9% for employees, and 12.4% for employers and employees combined for social security).
- It is an open question whether the industry could digest this staggering 69 percent increase in employer railroad retirement tax without incurring financial losses that would threaten its ability to operate and make further payments at that level. If not (as is



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likely), then the only alternative to making taxpayers even more liable for these expanded benefits would be a future repeal (if H.R. 1140 is enacted) of some of the overly generous benefit expansions. Since a future rollback of benefits seems unlikely, taxpayers would appear to be doomed. A better outcome would be to save taxpayers now and never enact these benefits in the first place.

EDITOR'S NOTE

- The holiday season is upon us and it is time to hold the annual Republican Budget Committee Holiday party. The party will be held from 3:00 to 7:00pm on December 18th in our temporary offices in the Senate Russell Courtyard-1. Feel free to stop by if you are in the neighborhood.

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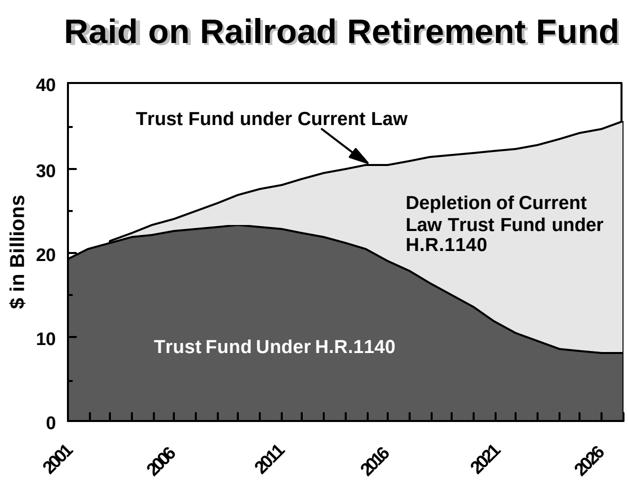

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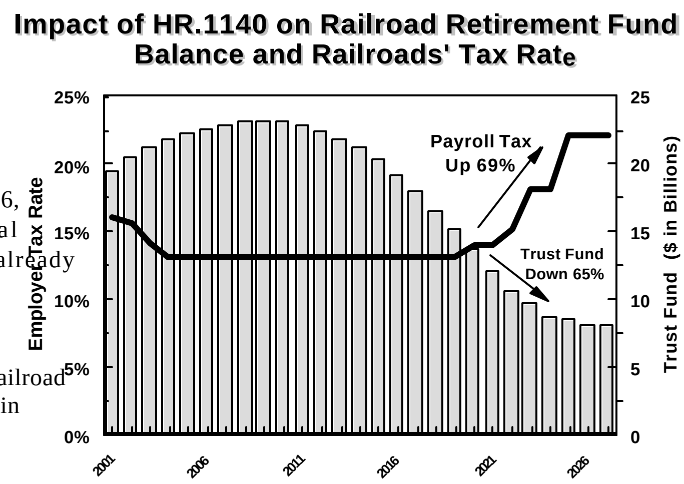

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