

INFORMED BUDGETEER HAPPY HOLIDAYS

THE DECLINING SURPLUS: FY 2002

- In January 2001, the Congressional Budget Office estimated a baseline federal surplus of \$313 billion for FY 2002 and \$5.6 trillion over FY 2002-11.
- What a difference a year makes! The *Bulletin's* preliminary estimate now is that the federal budget for FY 2002 will hover around balance (a drop of \$312 billion) and that the FY 2002-11 surplus will be \$1.9 trillion (a drop of \$3.8 trillion). These estimates assume no fiscal stimulus will be enacted in this last week of this session, which is uncertain at this time. Of course, such additional legislation could further reduce surplus estimates in the near term.

<i>Bulletin's</i> Budget Outlook (\$ in Billions)		
	'02	'02-'11
Total Surplus (CBO January 2001)	313	5,610
Changes to date ^a :		
Economic and technical changes	222	1,449
Legislative changes:		
Tax relief ^b	41	1,655
FY 2001 Supplemental Appropriations ^c	10	110
FY 2002 discretionary changes ^d	11	218
Emergency Anti-Terrorism supplemental ^e	24	291
Airline assistance ^f	3	18
Other mandatory ^g	1	10
Subtotal legislative changes	90	4,059
Total changes:	312	3,750
Revised Total Surplus	1	1,860

Source: Senate Budget Committee Republican Staff Estimates

^a These estimates include the interest effects of the changes assumed.

^b CBO cost estimate for the Economic Growth and Tax Relief Reconciliation Act of 2001 (P.L. 107-16). The estimate includes both a reduction in taxes and an increase in outlays.

^c CBO cost estimate for the Emergency Supplemental Appropriations and Rescissions, 2001 (P.L. 107-20).

^d Estimates assume appropriations of \$686 billion in budget authority in 2002 and outlays at the Senate current status level. Out year estimates assume a level of \$686 billion, adjusted for inflation after 2002.

^e Estimates assume CBO scoring of outlays from the \$20 billion in emergency spending that was enacted in the FY 2001 Emergency Supplemental Appropriations Act for Recovery From and Response to Terrorist Attacks on the United States (P.L. 107-38). Estimates also assume CBO's outlay estimate of the President's proposal for the \$20 billion that has yet to be enacted pursuant to that legislation. Of the \$40 billion BA total, \$20 billion is carried forward in all subsequent years, in real terms.

^f CBO cost estimate for the Air Transportation Safety and System Stabilization Act (P.L. 107-42).

^g The other mandatory changes include increased interest costs due to the Railroad Retirement and Survivors' Improvement Act of 2001 (H.R. 1140), even though \$15.3 billion purchase of non-Federal assets pursuant to that legislation was directed to be treated as a means of financing.

- What caused these surplus reductions? For 2002, by far the biggest culprit is up-to-date economic and technical re-estimates that reflect the recession, which the *Bulletin* estimates to be \$222 billion – 71% of the total drop. The tax relief bill, reputed by some to be the main cause of the declining surplus, accounts for a mere 13% in 2002 (19% without the timing shift for corporate receipts). The \$40 billion in emergency appropriations to respond to terrorism accounts for 7% of surplus reduction. Other spending – primarily 2001 supplemental appropriations, 2002 discretionary spending increases, and airline assistance – together accounts for 8% of surplus reduction.
- For the 2002-11 period, economic and technical re-estimates are responsible for 39% of surplus reduction, compared to 44% for enacted tax relief (including associated debt service), 8% for emergency response, and 9% for other spending.
- Some seek to assign a disproportionate blame for the declining surplus on the enacted tax relief package. But their own proposals would have had essentially the same impact on the surplus. For example, if the Carnahan-Daschle tax cut bill had been enacted instead (a bill that was supported by every Democratic member on the Senate Budget Committee), it would have accounted for 20% of surplus reduction in 2002 and 43% (including associated debt

service) over the 10 years – little different from the comparable 13% and 44% figures noted above for the enacted tax relief bill.

- An examination of other attempts to apportion blame for the declining surplus reveals the lengths some will go to get to the sexy threshold argument that at least half or more than half of the decline is because of the enacted tax relief package (even though the percentages “achieved” are not wildly different from the more reasonable figure of 44%).
- A recent analysis by the minority staff of the House Budget Committee (letter from Ranking Member Spratt, November 29, 2001) ascribes greater responsibility (55%) for surplus reduction over 10 years to tax relief. However, that analysis used the Bicameral Bipartisan Budget Committee staff estimate for economic and technical revisions (October 4, 2001). That estimate, which is two months old, was reasonable when made, but subsequent data quickly rendered it obsolete. Using those old numbers now makes surplus reduction due to changed economics and technicals look artificially small and surplus reduction due to tax relief look artificially large.
- In contrast, an alternate approach by the majority staff of the Senate Budget Committee (November 30, 2001) does employ the currently more pessimistic economic and technical outlook than the outdated October 4 Bipartisan estimates. However, their analysis then proceeds to add the cost of a fiscal stimulus package (whose fate is still uncertain) to the cost of tax relief enacted earlier this year in order to leave the impression that the already enacted tax package is responsible for more of the reduction of the surplus (49%) than has been true.

EMERGENCY RESPONSE FUND – SEVENTH RELEASE NEARLY EXHAUSTS FIRST \$20 BILLION

2001 BA Transferred From the Emergency Response Fund (\$ in Millions)	
	2001
First through Sixth Release of Funds^a	18,973.7
Seventh Release of Funds (November 30, 2001)	
All Funds available immediately	
Department of Defense	345.0
Increased situational awareness	215.0
Improved command and control	130.0
Legislative Branch	290.4
Senate	18.8
House of Representatives	22.6
Capitol Police, overtime	38.0
Architect of the Capitol, Capitol Visitor Center	211.0
Department of Treasury	36.7
Secret Service, increased overtime and travel	36.7
Department of Transportation	25.0
FAA, reimburse Reagan National Airport	15.0
Federal Transit Administration, formula grants	10.0
Department of Commerce	2.0
Economic Development Administration, Northern Virginia	2.0
Subtotal, Seventh release of Funds	699.1
Total Released to date	19,672.8
Defense	13,746.2
Nondefense	5,926.6
Funds available immediately	9,672.8
Funds available after 15 days	10,000.1

Source: OMB

^a Information on the first through sixth releases are found in *Budget Bulletins* published October 1, 8 (releases 2 and 3), 29, November 12, and 20, 2001, respectively.

- On November 30, President Bush issued the seventh release of

funding from the Emergency Response Fund bringing to \$19.7 billion the amount made available from the first \$20 billion in the Fund to respond to the September 11th terrorist attacks.

- The latest release totaled \$699.1 million, with nearly half (\$345 million) going to the Department of Defense, and most of the remainder (\$290 million) slated for the Legislative Branch, especially for the Capitol Visitor Center (\$211 million).
- Of the \$19.7 billion made available to date, 70 percent of the funding (\$13.7 billion) goes to defense, and 30 percent goes to non-defense activities.

WRAPPING UP THE SENATE FARM BILL FOR THE HOLIDAYS, MAYBE!?!

- As this final *Bulletin* for 2001 went to press, the Senate was debating the Agriculture, Conservation, and Rural Enhancement Act of 2001, better known simply as – the farm bill!
- Ever since President Franklin D. Roosevelt’s New Deal Administration sponsored “temporary” measures during the Great Depression to provide relief to farm families – government intervention in the agriculture economy has become a staple of public policy.
- While America’s farmers are the most modern, productive, and efficient in the world – it takes only about 150,000 American farmers to produce most of our food and fiber – farm legislation remains grounded in policies that distort world trade and that rely on Depression-era levers of government intervention, high support prices, and production stimulation.
- The current farm bill expires at the end of September 2002. A continuation of those policies, along with annual discretionary spending for agriculture, will cost the federal government nearly \$150 billion over the next decade. All the farm bill proposals being debated in the Congress today would add to that cost – increasing public support by a minimum of 40%.
- **Given the outlook for declining surpluses (discussed above) – any increase in farm program costs will be coming from the Social Security and Medicare Trust Fund balances in the near future!**

Senate Farm Bill Options (BA \$ in Billions)			
	FY 2002	FY 02-06	FY 02-11
2002 Budget Resolution	7.35	40.25	73.50
S. 1731, Reported, Sen. Ag. Comm.	7.35	40.87	73.44
Daschle Substitute	7.24	45.25	73.47
Cochran- Roberts Substitute	5.52	34.90	69.01
Lugar Substitute	1.75	21.43	60.69
House-passed Farm bill, H.R. 2646	3.05	35.84	73.47

Source: CBO estimates

- As evidenced by the CBO cost estimates of competing farm bills (see table above), some proposals load more of their cost towards the front end. For example, the Daschle substitute is nearly \$10 billion more expensive in the first five years than the House-passed farm bill.

- By relying on high loan rates for commodities as the basis for income support, the Daschle substitute increases the probability of increased “emergency” farm payments in the future. Farmers only qualify for support from high loan rates when they produce a crop. Droughts, floods, disease – the nature of farming – ensure that the cost estimate for the Daschle policy approach is understated because it omits the inevitable emergency farm payments that would be forthcoming.
- Farming has changed dramatically since the Depression-era programs first lent a needed hand. The 21st Century should be a time for a change in policy – oriented for a competitive world market and risk management, with a targeted safety net. Will the 2002 farm bill move to the new Century?

*** HOLIDAY PRICE INDEX ***

It’s time for one of the *Bulletin’s* favorite holiday traditions, our Christmas Price index.



Christmas/ Hanukkah Price Index

Item	2001	2000	Unit/Source
Gold	\$273.80 (12/12/01)	\$268.60 (12/12/00)	\$ per troy oz. Comex Spot
Silver	\$4.28	\$4.66	\$ per troy oz. Engelhard Industrial Bullion
Frankincense Oil -Oman	\$6.84	\$5.71	\$ per oz. Adventure Arabia
Myrrh Oil -Yemen	\$2.55	\$4.00	\$ per oz. Adventure Arabia
Lamp Oil	\$6.90	\$6.90	8 day supply, 32 oz. Nowell's Inc.

The Twelve Days of Christmas

--2001 Price List --

Item	Price
A Partridge	\$15
A Pear tree	\$125
Two Turtle Doves	\$58
Three French Hens	\$15
Four Calling Birds	\$316
Five Golden Rings	\$375
Six Geese-a-laying	\$150
Seven Swans Swimming	\$3,500
Eight Maids Milking	\$41
Nine Ladies Dancing	\$4,019
Ten Lords Leaping	\$3,770
Eleven Pipers Piping	\$1,615
Twelve Drummers Drumming	\$1,749
TOTAL as sung	\$62,935

Source: PNC Advisors

EDITOR'S NOTE

This is the final *Budget Bulletin* of the first session for 2001. We look forward to the second half of the 107th Congress and the many intriguing budget twists and turns that will bring an eventful Congress to a close.