

## INFORMED BUDGETEER

### HISTORY IS DOWNHILL FOR PUTTING BRAKES ON DISCRETIONARY SPENDING

- It is a fiscal fact that every major conflict in this country's history has led to a higher level of government activism and increased government expenditures. The current war on terrorism is following historic patterns.
- With the submission of the President's third supplemental spending request for the current fiscal year on March 20, discretionary budget authority would total \$739 billion for 2002. Compared to 2001, this is a 11.6 percent increase.
- Obviously defense spending has seen a major increase over the last year. But perhaps surprisingly, of the \$77 billion increase in discretionary BA between 2001 and 2002, 60 percent was for non-defense appropriations and 40 percent for defense. Homeland security expenditures are primarily defined as non-defense spending. Defense and non-defense discretionary BA in 2001 each amounted to \$332 billion, for a total of \$664 billion. Adding in the latest supplemental request for 2002, defense BA will grow to \$362 billion in the current year – a 9.4 percent increase, and non-defense BA will increase to \$377 billion, or 13.9 percent over 2001.
- So what does all this mean for the upcoming budget year? The table below compares current appropriations, assuming the President's supplemental, to the President's FY 2003 request. Total appropriations would increase \$20 billion, or 2.8 percent, to \$759 billion. Defense appropriations would increase \$31 billion or 8.6 percent. But dramatically reversing the growth from last year, non-defense appropriations would decrease relative to 2002 by \$11 billion, down 3.3 percent.
- A good government and good policy case can be made that increased budgetary resources in one year (whether it is for defense or non-defense programs) need not become the unquestioned, unexamined base from which next year's appropriations are determined. But at a time of war, history is not on the side of this argument, particularly now given the blurring of distinctions between categories of defense and non-defense in protecting the homeland.

<b>Comparison of Discretionary Resources in President's FY 2003 Budget</b> (\$ in Billions)					
	2001	2002 <sup>a</sup>	2003	02-03 Dif.	02-03 Change
Total Budget Authority	664	739	759	20	2.8%
Less Defense	332	362	393	31	8.6%
Less International Affairs	24	25	25	*	-0.6%
Less Homeland Security	12	25	25	*	0.2%
Total, Other Domestic Disc. BA	296	326	316	-11	-3.3%
Plus transportation ob. lim.	38	41	32	-9	-21.2%
Total, Other Domestic Disc. Budgetary Resources	335	368	348	-19	-5.3%

Source: SBC GOP Staff; CBO

Note: Totals may not add due to rounding

<sup>a</sup> The 2002 level includes the effects of the \$20 billion emergency response fund, as well as the President's \$27.1 billion request (as estimated by CBO) for the 2002 supplemental that was submitted on March 20, 2002. Does not include the President's accrual proposal.

\* Less than \$500 million.

### PRESIDENT SUBMITS FY 2002 SUPPLEMENTAL

- As Congress begins its consideration of the annual spring supplemental appropriations bill, what a difference a year makes. Last year, the President proposed, and the Congress enacted, a \$6.54 billion supplemental appropriations bill for FY 2001 that was fully offset for budget authority (there were no emergency items in the bill).

- Congress now has pending a Presidential request for a \$27.1 billion emergency supplemental appropriations bill targeted to recovery from the September 11<sup>th</sup> terrorist attacks, which follows \$40 billion in emergency funding for FY 2001 and FY 2002 as an immediate response to the attacks.

<b>President's Request for FY 2002 Supplemental Appropriations</b> (\$ in Millions)	
	2002 BA
<b>Defense Emergencies</b>	<b>14,023</b>
Military Personnel - Air Force	206
Operation and Maintenance	12,224
Procurement	1,430
Research, Development, Testing and Evaluation	163
<b>International Emergencies</b>	<b>1,609</b>
State Department	436
International Assistance	1,166
Broadcasting Board of Governors	7
<b>Homeland Security</b>	<b>5,284</b>
Department of Transportation	4,668
FEMA - terrorism and chem-bio response capabilities	327
U.S. Postal Service	87
GSA	54
Justice	51
Energy - energy response assets	26
NSF - CyberCorps/ Scholarships for Service program	19
Judicial Branch - security	14
Commerce - Info. technology and evaluation program	13
EPA - anthrax investigation and cleanup	13
Legislative - Copyright Office and Library of Congress	8
Executive Office of the President - Office of Administration	5
<b>Assistance to New York Emergencies</b>	<b>5,467</b>
FEMA - disaster relief	2,750
Transportation	1,967
HUD - CDBG for lower Manhattan Development Corp.	750
<b>Economic Recovery Emergencies</b>	<b>750</b>
Labor - assist dislocated workers	750
<b>Nonemergencies and Offsets</b>	<b>-11</b>
Nonemergencies	240
Offsets	-251
<b>TOTAL</b>	<b>27,123</b>

Source: SBC Republican Staff

- Slightly over half (52 percent or \$14 billion) of the request goes to the Department of Defense for the ongoing war against terrorism, with \$12.2 billion for operation and maintenance costs.
- International expenditures total \$1.6 billion in the supplemental with 72 percent (\$1.2 billion) for U.S. allies joining in the war against terrorism. The State Department would receive \$436 million to secure U.S. embassies, establish missions in Afghanistan and Tajikistan, and for related activities.
- Homeland security enhancements and additional aid to New York to recover from the attacks would each receive more than \$5 billion under the President's request.
- The lion's share of homeland security funding again goes to the new Transportation Security Administration with \$4.4 billion proposed to continue security upgrades (of which \$1.9 billion are contingent appropriations), and \$0.25 billion for the Coast Guard. To carry out its newly proposed mission of first responder training, FEMA would receive \$327 million. The Postal Service receives \$87 million for improved security measures.
- Transportation is also a focus of the aid to New York with \$2 billion going to reconstruct damaged highways and transit systems. Another \$2.75 billion will be made available to New York through FEMA. The supplemental request also includes \$750 million (as a

contingent emergency) to assist dislocated workers affected by the economic downturn. A few non-emergency supplemental items totaling \$240 million are proposed with offsets.

- Still pending is the President’s February request for \$1.3 billion to make up a shortfall in Pell grant funding, for which he indicated he would propose offsets, but none have been specifically submitted.
- To round out FY 2002 action to date, the President recently released contingent emergency funding of \$346 million for forest firefighting approved in the FY 2002 Interior Appropriations Act, and the last remaining \$27.2 million from the Emergency Response Fund (out of the \$20 billion appropriated in September 2001) for security upgrades to the Eisenhower Executive Office Building.

#### U.S. ASSISTANCE TO ISRAEL AND WEST BANK/GAZA

- At a time when events in the Middle East have dominated the attention of world news and U.S. policy makers, the *Bulletin* examines the connection of the federal budget to the two immediate parties in the present conflict.
- Simply put, U.S. aid to Israel, at about \$2.8 billion annually, is significant compared to aid provided to the Palestinians – about \$0.2 billion per year. As the table below shows, aid to Israel flows through several programs, the largest of which is foreign military financing.

US Assistance to Israel and West Bank/Gaza (\$ in Millions, BA)		
	2001	2002
<b>Israel</b>		
Foreign Military Financing	1,976	2,040
Economic Support Fund	838	720
Migration and Refugee assistance	60	60
<b>Total, Israel</b>	<b>2,874</b>	<b>2,820</b>
<b>West Bank/Gaza</b>		
Economic Support Fund	85	72
Contributions to UNRWA	100	100
<b>Total, West Bank/Gaza</b>	<b>185</b>	<b>172</b>

Source: Department of State, USAID

- In addition, the United States Agency for International Development (USAID) Global Bureau for Economic Growth, Agriculture and Trade manages a number of regional programs that involve small amounts (\$5-7 million) to Israel. In FY 2000, the US provided Israel an additional \$1.2 billion beyond “normal” assistance funds pursuant to the Wye agreement.
- Of the U.S. funds provided to the Palestinians in the West Bank or Gaza, none go directly to the PLO or the Palestinian Authority. About 20% of US aid to the Palestinians is delivered through private voluntary organizations and 80% is delivered through contractors.
- The United Nations Relief and Works Agency (UNRWA) was created in 1949 to carry out relief and works programs for Palestinian refugees in cooperation with local governments. The US contributions to UNRWA are funded through the Migration and Refugee Assistance and Emergency Refugee and Migration Assistance accounts.

- As part of the FY 2000 Wye supplemental, the US provided the Palestinians an additional \$400 million to be paid out over three years.

#### BUDGET QUIZ

**Question:** Federal government borrowing reached the statutory limit of \$5.95 trillion on April 4, 2002. Does that mean no one can cash their Federal benefit or tax refund check?

**Answer:** Go ahead and cash your checks – they won’t bounce.

The current \$5.95 trillion statutory debt limit has been in effect for more than four and one-half years. It was last increased as part of the Balanced Budget Act of 1997. Due to federal government unified budget surpluses over the past several years, one part of debt subject to limit -- debt held by the public -- is actually \$385 billion lower now than it was in August 1997 (\$3.415 trillion now vs. \$3.8 trillion then). Debt held by government accounts, the other part of debt subject to limit, has grown by \$1.035 trillion over the same period due to investment of trust fund surpluses in Treasury securities (\$2.535 trillion now vs. \$1.5 trillion then). The combination of the recession, the war on terrorism, and the requirement to invest trust fund surpluses in Treasury securities finally caused Treasury to reach the debt limit on April 4, 2002.

During the first half of every month, Treasury issues a large amount of checks for benefit payments: Social Security (\$30 billion), Medicare/Medicaid (\$18 billion), civilian and military payroll (\$6.4 billion). In early April, Treasury also paid about \$20 billion in tax refunds.

Since Treasury was at the debt limit, it couldn’t just go out and borrow more money in order to get the cash to pay benefits. Secretary O’Neill indicated that he would “take the necessary steps to ensure the protection of the full faith and credit of the United States Government.” In other words, the Treasury Secretary was prepared to take action to guarantee payment to holders of maturing debt and to prevent government checks from being returned to banks stamped “insufficient funds.” Treasury temporarily canceled the sale of Patriot Bonds and State and Local Government Securities. The Secretary also suspended the investment of securities in the Government Securities Investment Fund (G-Fund), where some of federal employees’ retirement fund contributions are invested.

The suspension of investment of the G-fund is a paper transaction which temporarily takes government debt held by federal retirement trust funds off the books, and opens up additional borrowing authority under the statutory debt ceiling. While the disinvested funds are “off the books,” they appear as “uninvested balances” for government accounting purposes. Treasury can then borrow more to raise the cash it needs to pay benefits, pay maturing debt, and continue other operations of government. G-Fund beneficiaries are fully protected and experience no adverse consequences from this action. By law (5 U.S.C. 8438(g)), as soon as Treasury receives sufficient cash in the form of tax receipts, or as soon as the debt limit is increased, the suspended investments are reinvested and are credited with any interest earnings that may have been lost during the suspension period.

Secretary O’Neill wrote to Congress on April 17, notifying members that mid-April tax receipts have enabled the Treasury to fully restore the G-Fund as required by law, and the need to raise the debt ceiling

has been postponed until the later part of June.

#### **EDITOR'S NOTE**

The *Bulletin* would like to commend its running entry in the Cherry Blossom 10 mile run. Republican Budget Committee staff, running under the banner of the "Axis of Evil Deficits," posted an 11<sup>th</sup> place finish for teams from the Senate and also finished 2<sup>nd</sup> in the all important category of best team name.