INFORMED BUDGETEER: SBC-REPORTED RESOLUTION

S. Con. Res. 100 Changes Relative to the President's Budget[/a]
Without Economic Stimulus and Excluding Accruals
($ in Billions)

	FY 2003	FY 2003-2012
How S. Con. Res 100 gets it:		
Increases taxes	8	553
Cuts defense	0	-160
Decreases interest costs	-3	-17
Subtotal, available for spending or debt reduction	**11**	**730**
How S. Con. Res. 100 uses it:		
Increases nondefense disc. spending	10	106
Increases mandatory spending	3	242
Subtotal, usage of taxes, defense cuts, and interest savings	**14**	**348**
Therefore, how S. Con. Res. 100 claims:		
Additional debt reduction	-3	382

Source: SBC Republican Staff
/a CBO's reestimate of the President's Budget

- Just before the recess (March 21), the Senate Budget Committee ordered reported S. Con. Res. 100, the 2003 Budget Resolution, on a straight party-line vote of 12-10. Because some members who voted for the resolution in committee do not intend to support it on the floor, it remains unclear when the resolution will be scheduled for consideration by the full Senate. Even though additional and minority views were due March 26, the Chairman has still not filed the committee report.

- Meanwhile, this *Bulletin* highlights for more-than-skin-deep budgeteers some of subtleties of the numbers embedded in the resolution. For starters, the resolution claims to have a "reserve fund" for defense to pay lip service to the President's defense request. But there is no money in the reserve fund; if there was, the amounts of the reserve fund would appear in the resolution totals. But they do not.

- The resolution touts its virtue of paying down more debt ($382 billion over 10 years) than the President's budget. But this is an artifact not only of providing less than the President for our national defense, but also of the unrealistic assumptions about the path of nondefense discretionary spending in the resolution.

Rates of Growth in the SBC-Reported Resolution
($ in Billions)

	2002	2003	2012	% Change 02-03	Avg. Annual growth 03-12
Defense	348	380	479	9.2	2.6%
Nondefense	383	415	490	8.3	1.9%
Discretionary	731	795	970	8.8	2.2%
Mandatory	1,103	1,165	1,983	5.7	6.1%
NDD and	1,485	1,580	2,474	6.4	5.1%
mandatory	2,001	2,132	3,099	6.5	4.2%
Total Outlays	1,833	1,960	2,953	6.9	4.7%
Outlays w/no interest					

Source: SBC Republican Staff Totals may not add due to rounding
/a The SBC- reported resolution does not include the effect of the enactment of the Job Creation and Worker Assistance Act of 2002 (P.L. 107-147) or the President's accrual proposal.

- The table above shows that, after increasing nondefense outlays by 8.3% in 2003, the reported resolution assumes such a large increase will be followed immediately by real cuts, as the 1.9% growth per year in outlays thereafter would not even keep pace with inflation.

- Adjusting the resolution's 2003 nondefense outlays only for CBO's baseline growth rate (which is conservative in that such a scenario is less likely than the higher real growth rates experienced in recent years) would add another $180 billion in outlays over 10 years to the resolution's totals (excluding interest). Assuming away outlays in the outyears with unrealistic spending paths is another way the resolution pretends to pay down its claimed level of debt.

WILL THE REAL DISC. NUMBER PLEASE STAND UP?!

- The reported resolution sets a level for total discretionary spending for 2003 of $768 billion in budget authority, while claiming it is the same as the President's request. But it is not the President's request.

SBC-Reported Resolution exceeds President's Budget for Discretionary Spending
(BA $ in Billions)

	CBO Reestimate of President's Budget	SBC-Rept. Resolution
Discretionary spending,		
Without Accrual Proposal	759	768
Accrual Discretionary	9	/a
Accrual Mandatory	-9	/a
Total Effect on Budget of Discretionary Spending and Accrual Proposal	759	768
Memorandum:		
Appropriations w/out discretionary accrual proposal	759	768
Appropriations with discretionary	768	N/A
accrual proposal	0	9
Increase in Deficit	0	9
Additional Use of Social Security		

Source: SBC Republican Staff /a Does not include accrual proposal.

- The table above shows that President's discretionary request is $759 billion for 2003, excluding a proposal (that has both plus and minus effects of $9 billion that net to zero) to appropriate the accrual costs of retirement benefits for federal employees that the Congress has shown no interest in pursuing. The reported resolution pretends that the President's request is still $768 billion without the accrual proposal, even though CBO's reestimate of the President's budget clearly shows that is not true (see CBO's *Analysis of the President's Budgetary Proposals for Fiscal Year 2003*, Table 10, p. 24).

- So for starters, the reported resolution on its face sets discretionary spending at $9 billion more than the President for 2003. Then backdoor augmentations of the resolution's $768 billion come into play. First, the resolution assumes $4.3 billion in "historical" rescissions that the President neither assumes nor proposes in his budget (see *Budget Quiz* for detailed discussion), thereby making it possible to spend $4.3 billion more in discretionary programs without specifying where the offsetting reductions might come from.

Comparison of 2003 Discretionary Budget Authority
($ in Billions)

	CBO Reestimate of President's Budget	SBC-Reptd. Resolution	Dif.
Net discretionary level	759.1	768.1	9.0
"Historical" rescission	—	4.3	4.3
New advanced appropriations	—	2.2	2.2
Total Discretionary BA	**759.1**	**774.6**	**15.5**

Source:SBC Republican Staff

- Then the resolution increases the limit on advance appropriations in last year's budget resolution from $23.2 billion to $25.4 billion, which would allow appropriators to defer $2.2 billion more in education spending and squeeze in another $2.2 billion for other programs (underneath the $768 billion level) that the President does not assume. Adding up these three key differences from the President's budget yields an effective (gross) discretionary level that is $15.5 billion higher than the request in 2003.

2002 TRUSTEES REPORT FOR SOCIAL SECURITY

- In separate reports for 2002 (both released on March 26), the Boards of Trustees for Social Security and Medicare show both trust funds are substantially underfinanced over the next 75 years. Benefit payments are expected to exceed payroll tax revenues by 2017 for Social Security and by 2016 for Medicare. The trustees estimate that the Social Security trust fund will be exhausted in 2041 and the Medicare trust fund in 2030.
- Relative to last year's report, the key dates for the more financially troubled Medicare trust fund have not changed significantly. However, Social Security's financial health seems to be improving with each new trustees report. In fact, since 1997, the date of insolvency for Social Security has moved steadily further away into the future from 2029 to 2041.

- Continual improvement in these measures of trust fund solvency, as well as the 75-year actuarial balance (which has also improved since 1997), beg the question of whether the actuaries have been consistently underestimating favorable trends in factors that affect trust fund solvency. The factors are primarily demographic, such as immigration and fertility and death rates, as well as economic – wage growth, inflation, productivity and unemployment.

- According to the trustees, the values given to these variables may change from year to year for the first decade or more of any valuation period. After the first decade, changes are more difficult to predict, so the actuaries eventually assign an "ultimate" value to each variable. Although changes in variables over the first 10 years of a valuation period partially affect the trust fund solvency date, most of the variance in the solvency date is explained by changes in the ultimate values of the key variables from one report to the next.

Changes in Key Assumptions for Social Security

Ultimate Value Assumptions	1997 Report	2002 Report
Demographic:		
Total fertility rate (children per year)	1.90	1.95
Life expectancy at birth in 2075 (combined average for men and women, in years)	81.5	83.2
Annual net immigration (in thousands)	900	900
Economic:		
Annual percentage change in:		
Real wage differential (percent)	0.9	1.1
Productivity (total US economy)	1.3	1.6
Unemployment rate (percent)	6.0	5.5
Annual trust fund interest rate(percent)	6.2	6.0

Source: 1997 and 2002 Trustees Reports

- For the solvency date to extend, the improvement in economic assumptions (such as increased productivity) must more than outweigh the increase in life expectancy and the unfavorable changes in the valuation periods. (For instance, this year's valuation period adds the negative cash flows for 2076 and drops the positive cash flows for 2001 relative to last year's report.)

- The *Bulletin* does not want to suggest that we can grow our way out of Social Security's financial troubles. However, improving productivity and a strong economy will make reform easier.

BUDGET QUIZ

Question: For the markup of the 2003 budget resolution, Senate Budget Committee members adopted a rule that all amendments to the Chairman's mark be budget neutral. During the markup, the Chairman discussed an amendment's offset by saying "[i]n my calculations of the 920 account, we have enough left to cover this amendment, but no more. And the reason I say that is rescissions have typically run $5 billion a year. We budgeted for $4 billion a year but not $5 [billion]." But what is the "920 account"?

Answer: Unlike other budget functions, function 920-Allowances, includes no real budget accounts for which historical data are ever recorded. Rather, it is a mechanism used in presidential budget requests and congressional budget resolutions to "display the budgetary effects of proposals that cannot be easily distributed across other budget functions because the precise effects are uncertain, the proposals are not clearly specified, or they affect multiple functions" (Chairman's Mark, FY 2003 Senate Budget Resolution, p. 57).

In past budget resolutions, members have used the Allowances function to assume governmentwide savings from cuts in federal agencies' purchase of furniture, federal employee travel, or overhead. During consideration of the 2002 budget resolution last year, members did not even bother with such rationales. Because last year was the first time sense of the Senate amendments were not allowed to be offered to a budget resolution on the Senate floor, members had to find a new way to express support for a favorite program.

The "new way" was about three dozen amendments that increased spending by a certain amount in a particular function in the name of a favorite program (almost always discretionary) and then included an exactly offsetting minus of the same amount in function 920. The result of such an amendment was that the overall discretionary allocation in the resolution would be unchanged, with adoption of the amendment signaling a commitment for spending resources on a favorite program without specifying where reductions should come from, ultimately leaving the real decisions to the Appropriation Committees. There is no limit to the possible number or amount of offsets in function 920 since it really is just a balancing device.

Which brings us back to the Chairman's suggestion that the potential for offsets in function 920 is limited in the SBC-reported resolution. The Chairman's allusion to amounts "left" in the "920 account" start with an assumption his budget makes that the Congress will rescind $4.2 billion in unspecified appropriations in 2003 (and will rescind $47 billion over the next 10 years). All else being equal, this assumption allows the Chairman to allocate $4.2 billion more in discretionary resources to specific programs in other budget functions than does the President because the President's budget does not include a vague assumption to rescind funds from unidentified accounts. The Chairman then suggested there are still amounts "left" beyond this $4.2 billion because that level of rescissions "is well below the recent annual average of more than $5 billion" that he says CBO has documented.

Indeed, in a paper published a year ago, *Supplemental Appropriations in the 1990s*, CBO shows that $50.7 billion in budget authority was rescinded over the 1990-1999 period. But just because the Congress has historically rescinded such levels of BA does not mean outlay savings have also occurred that warrant the level of outlay reductions assumed in the Chairman's resolution. In fact, the CBO paper directly investigated the likelihood "that...rescissions intended to offset supplementals [are] merely write-offs of budget authority that, for a variety of reasons, would probably never have been spent." CBO concluded that for all but two years during the 1990s, "rescinded budget authority was not expected to generate enough outlay savings over five years to fully offset the supplemental budget authority with which it was linked."

So for outlays (which is the relevant unit for measuring the surplus/deficit), it appears that, realistically, there was little in the "920 account" to begin with as far as counting on future rescissions to provide sufficient outlay offsets. On the other hand, why not just assume a discretionary mark that is lower by $4-5 billion in each year of the resolution so that $47 billion in unspecified BA rescissions over 10 years won't be necessary? But since neither of these cautions was heeded and the rescission assumption is now in the reported resolution, the door has been opened for others who seek to offset amendments simply with a corresponding minus in function 920.