INFORMED BUDGETEER:

NONDEFENSE SPENDING: LET ME COUNT THE WAYS

- How does one measure the aggregate level of federal resources devoted to various public activities? How one answers this question, often can create spirited debate among budgeteers and, of course, legislators.

- A small dispute has arisen over the level of federal resources devoted to that segment of the federal budget broadly classified as "nondefense discretionary" spending. This segment of the budget represents about $320 billion in outlays this year, or only 18% of all federal spending. And measured as a draw against our national economy – it is estimated to consume 3.3 % – the lowest share for this category since such statistics have been compiled.

- Nevertheless the bulk of all budget accounts fall into this politically charged category. These programs are annually appropriated and they represent a huge annual headache for 11 of the 13 Appropriation subcommittees that deal with non-defense discretionary spending.

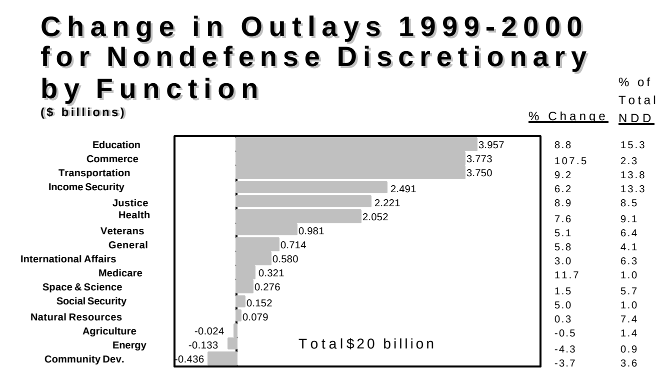
- Recently the projected rate of growth in nondefense spending – budgeteers call it outlays – has raised eyebrows. Between 1999 actual and 2000 projected, nondefense spending may grow nearly 6.7 percent. In aggregate levels, from $299.5 billion in 1999 to $319.5 billion in 2000, and increase of nearly $20 billion.

- As a side-bar, net nondefense budget authority increased only about $2 billion between 1999 and 2000. How can $2 billion in budget authority created $20 billion in outlays? It doesn't, wait until the next *Budget Bulletin* to find out.

- Now where did the increase in nondefense outlays take place? The chart below, gets down into the details. Looked at by broad functions of the budget, nondefense spending increased the most in six areas: Education, Commerce, Transportation, Income Security, Justice, and Health. These six areas represent 85% of the estimated $20 billion in outlay increase between 1999 and 2000.

- Looked at this way – is anyone surprised with the 6.7% rate of increase. Education was a priority of the first session of the 106th Congress – it increased nearly $4 billion or about 9% from 1999. Commerce – meaning the Census – increased nearly $4 billion also or about 108%. Transportation, driven by the new TEA-21 law that mandates gasoline taxes be spent on highways (not much discretion here) increased nearly $4 billion or over 9%. Income Security – meaning Low Income Home Energy and Housing Assistance – up nearly 6%. Justice, prison construction and law enforcement up nearly 9%.

- And finally, for the real budgeteers, the total increase in spending ($20 billion) between 1999 and 2000 was split evenly between outlays from prior authority and outlays from new authority. In other words, much of the growth in outlays (50%) was a result of decisions Congress made before last year!



APRIL 15 (OR 17TH THIS YEAR) ISN'T JUST TAX DAY!

- The Budget Act establishes the annual timetable for completing action on a congressional budget. On or before April 1 of each year the Senate Budget Committee is supposed to report is resolution. And on or before April 15, the Congress its supposed to complete a conference between the House and Senate versions of their respective budget resolutions.

- Now good budgeteers know that schedules are not always met the drafters of the Budget Act anticipated possible reporting difficulties. (See following: Discharge Procedures). The discharge route has been used only once in the history of the Committee (FY 1991) to report a budget resolution, but even then the Committee came back and still met its assigned responsibility to report a resolution – albeit late.

- However, the recent history of the Senate Budget Committee in meeting its April 1 deadline has not been all that bad. In 6 of the last 10 years, the Committee has met its deadline. Only twice in the last 10 years, however, has the April 15 conference deadline been met.

SENATE ACTION ON BUDGET RESOLUTIONS

FY	SBC Reported Resolution	Conference Report
1976	April 12, 1975	May 14, 1975
1977	April 3, 1976	May 12, 1976
1978	April 12, 1977	May 13, 1977
1979	April 14, 1978	May 15, 1978
1980	April 12, 1979	May 23, 1979
1981	April 9, 1980	June 12, 1980
1982	May 1, 1981	May 21, 1981
1983	May 10, 1982	June 23, 1982
1984	April 24, 1983	June 23, 1983
1985	April 18, 1984	September 26, 1984
1986	March 20, 1985	August 1, 1985
1987	March 24, 1986	June 27, 1986
1988	April 15, 1987	June 24, 1987
1989	March 31, 1988	June 6, 1986
1990	April 27, 1989	May 18, 1989
1991	April 2, 1990 (discharged) May 10, 1990 (S. Con. Res. 129)	October 9, 1990
1992	April 18, 1991	May 22, 1991
1993	April 3, 1992	May 21, 1992
1994	March 13, 1993	April 1, 1993
1995	March 18, 1994	May 12, 1994
1996	March 15, 1995	June 29, 1995
1997	March 13, 1996	June 13, 1996
1998	May 19, 1997	June 5, 1997
1999	March 20, 1998	No Conference
2000	March 19, 1999	April 15, 1999

SPRING FEVER: DISCHARGE PROCEDURES

- Pursuant to a Senate precedent interpreting section 300 of the Budget Act (which sets forth the annual timeline for consideration of the Budget Resolution), if the Budget Committee has not reported a budget resolution by April 1st, then on April 1st any and all budget resolutions which have been referred to the Committee will be automatically discharged and placed on the Senate Calender. Note that this may include a resolution which has come over from the House.

- It is then up to the leadership to choose to move -- at some point in time -- to one of the resolutions on the Calendar. Note that if the Committee later reports a budget resolution, the Leader could proceed to the reported resolution, rather than any of the ones discharged out of committee.

SOCIAL SECURITY EARNINGS TEST REPEAL

- On Wednesday, the Senate passed the Social Security Freedom to Work Act of 2000, by a vote of 100-0, with a technical amendment offered by Chairman Roth and Ranking Member Moynihan. The bill repeals the earning limit for seniors age 65 to 69.

- Under current law, seniors in this age range lose $1 in their Social Security benefits for every $3 they earn over the limit, set at $17,000 in 2000. H.R. 5 would repeal this limit on earnings, retroactive to January 1, 2000.

- CBO estimates the bill will increase Social Security outlays by $19.7 billion over the period 2000 to 2005, and $22.8 billion over the period 2000 to 2010. However, over the long-run, the bill will have little impact on Social Security solvency, according to the Social Security actuaries.

- Under current law, seniors who lose their benefits due to the earnings limit get higher benefits later due to "delayed retirement credits." With repeal of the earnings limit, seniors who elect to take higher benefits earlier because they will no longer be penalized by the earnings test will lose their delayed retirement credits.

Effect on Surplus of the Repeal of Social Security Earnings Test
$ in Billions

	Baseline Surplus	Senate-Passed H.R. 5	Surplus w/H.R. 5
2000	154.9	-3.9	151.0
2001	166.4	-4.3	162.1
2002	182.5	-3.6	178.9
2003	196.0	-3.1	192.9
2004	208.6	-2.6	206.0
2005	224.7	-1.9	222.8
2006	238.4	-1.3	237.1
2007	252.9	-0.6	252.3
2008	266.5	- -	266.5
2009	279.9	0.4	280.4
2010	292.6	0.6	293.4
00-05	1133.1	-19.4	1113.7
00-10	2463.4	-20.3	2443.1

Source: CBO

HOW DO OTHER NATIONS BALANCE THEIR CHECKBOOKS?

- The GAO Report, BUDGET SURPLUSES: Experiences of Other Nations and Implications for the United States, which was released in November, discusses the experiences of other nations with budget surpluses and provides budgeteers with a wealth of alternative ideas. The purpose of this report was to illustrate how six nations had some success developing policies designed to utilize current surpluses to address each nation's priorities. It also suggests that these six nations were able to maintain a degree of fiscal discipline while at the same time permitting flexibility to lower taxes, increase spending or do both.

< **Norway's** government determined that its policy-making ability would be constrained by the fact that it would run out of oil revenue once its North Sea oil deposits were exhausted at the same time that its old age population retired. Therefore, the government developed a budget process that established expenditure caps and measured its fiscal position using a structural measure that excluded revenues generated from its offshore oil deposits. These funds were deposited into the Government Petroleum Fund, which invested the proceeds into foreign securities. This prevented the inflow of revenues from abroad from making Norway's other industries less competitive while at the same time providing resources for future priorities.

< **New Zealand's** elected leadership recognized how vulnerable their economy was to external shocks. This prompted them to examine the public sector's role in the economy and introduce wide-ranging economic reforms in order to allow their private sector to become more competitive. To measure their fiscal position the government switched from a cash-based accounting system to an accrual basis to determine their "operating balance". They planned to sustain surpluses in order to reduce their debt down to 20% of GDP. Once they met their debt target, the future surpluses would be used to reduce tax burdens.

< **Sweden** experienced a deep recession in the early 1990's that caused the government to reevaluate its fiscal policies. In its aftermath, the government had found itself saddled with an enormous amount of debt and continuing deficits. The Parliament adopted a fiscal policy that included 3-year expenditure ceilings and set their policies to achieve a surplus of 2% of GDP. However, they also built in a cushion to shield the budget from adverse changes in the economy that could negatively impact revenues. In the case that the margin was not used, it could be earmarked for other spending priorities.

< **Australia** changed its fiscal policy to improve its national savings. Its huge government debt had crowded out investment and forced the private sector to borrow heavily from external sources. In order to reverse this trend Australia had to increase public savings by reducing its debt. Therefore the government adopted a deficit reduction program to bring the budget into balance by monitoring its "underlying balance" that measures the impact of spending minus the impact of funds derived from privatization. This has aided the government to bring down spending and to use privatization funds instead to reduce the nation's debt.

< **Canada's** lawmakers endeavored to reduce their government's deficits and pay down their nation's debt in order to restore foreign investor confidence in the economy. Burgeoning debt levels caused the currency to depreciate, raised debt service costs and threatened to lower the rating on Canada's sovereign debt. To address these problems, the government instituted a program of "balance or better" that established declining deficit targets over the two year budget window. However due to conservative economic assumptions about revenues and the establishment of a contingency reserve, the government was implicitly planning to have surpluses that could be allocated toward a combination of tax cuts, debt reduction and spending increases

< The **United Kingdom** uses structural measures of the government's fiscal position utilizing 3-year spending ceilings to better gauge its available budget resources. Previous budget projections were deemed to be less accurate because they included cyclical figures that distorted the longer-term projections. The "golden" and "sustainable investment rules" guide their fiscal policy by prohibiting the government from using borrowing to fund non investment spending and establish that the government maintain a prudent level of debt less than 40% of GDP.

- It is interesting to note that most of these nations have already made substantive improvements to their pension systems to extend their solvency. Hopefully the present good fiscal news wouldn't preempt similar action from occurring here.

CALENDAR

March 28-29: Senate Budget Committee mark-up of FY 2001 Budget Resolution. Dirksen 608, 3:15 pm on 3/28; 10:00 am on 3/29. (Tentative)