INFORMED BUDGETEER

EMERGENCY, EMERGENCY: WHO'S GOT THE REQUEST?

President's Pending Request FY 1998 Emergency Funding ($ in millions)	
Request	Amount
Y2K, contingency	3,250
Agriculture	
President	1,800
Daschle/Harkin (net impact)	5,200
Defense	
Bosnia[A]	1,859
Embassy Security	200
Disaster Recovery	224
Disaster Recovery, contingency	30
Interior- Security: Terrorism	6
State- Embassies	1,398
Justice	22
Treasury-Security	90
Funds to President	
Economic Support Fund	50
Security Assistance	20
TOTAL	**14,148**

[A]FY 1999 Emergency Funding

- In terms of how much emergency spending has come out of the surplus, the *Bulletin* notes that $5.7 billion in FY 1998 supplemental emergency appropriations has already been enacted since the beginning of the year. The contniuing issue for this week is how much additional emergency spending does the President thus far want to take from the surplus: $14.1 billion for a 1998 total of $19.8 billion.

- Last week's *Bulletin*, expected that the President's requests for emergency appropriations for both Fiscal Year 1998 and 1999 -- but not yet acted upon by Congress -- total $8.0 billion.

- Following last week's *Bulletin*, on Tuesday September 22, President Clinton made official the Administration's request for emergency funding in a number of areas, that had been assumed would be requested but had not been officially transmitted to Congress.

- The *Bulletin* now believes it can accurately quantify the President's emergency requests pending before Congress. The table above allocates the pending $14.148 billion of Presidential emergency request to each affected agency, except for Y2K contingency appropriations. The Y2K emergency appropriation request transmitted on September 2 would be made available to the Office of the President for unanticipated needs to be transferred as necessary to affected agencies.

- Officially, the September 22 emergency request for agricultural programs was for $1.8 billion. However, President Clinton states: "The proposals I am transmitting today do not include income assistance to farmers for low commodity prices. On September 10, Secretary Glickman communicated the Administration's support for such assistance through Senators Daschle and Harkin's proposal to remove the cap on marketing loan rates for 1998 crops." CBO estimates the 1999 cost of such a proposal would reach $6.2 billion, with repayments in 2000 of nearly $1.0 billion. Hence, the table below includes a net cost for this Clinton supported emergency proposal of $5.2 billion.

- On September 22 the President requested $1.8 billion for emergency expenses arising from the " consequences of recent bombings of our embassy facilities."

- The President has still not requested amounts anticipated for defense readiness. The President did send a letter to Chairman of the Armed Services Committee, Strom Thurmond, on September 22 stating that: " I have asked key officials of my Administration to work together over the coming days to develop a fully offset $1 billion funding package for these [*defense*] readiness programs." But this does not constitute an official request for emergency defense funding from the Administration.

HOW MANY ZEROS IN $140 BILLION?

- The Office of Management and Budget (OMB) has estimated that it cost the nation $140 billion to comply with the federal tax code in 1997. The estimate was contained in a draft report to Congress on the costs and benefits of federal regulations.

- OMB derived the estimate by multiplying the number of hours of tax preparation time required to file tax forms (assumed to be 5.3 billion hours in 1997) by an estimate of the opportunity cost of the average hour spent on the forms (assumed to be $26.50 in 1997).

- The tax code compliance estimate is part of a report required by the 1998 Treasury and General Government Appropriations Act, which summarizes the total costs and benefits of federal regulatory programs and the costs and benefits of each rule likely to increase costs on the economy by $100 million.

- The report did not include an estimate of the benefits of tax compliance, because, according to OMB, compliance "is necessary for the whole range of services the federal government provides. While we do not have quantitative estimates of the aggregate benefits of tax compliance, they are undoubtedly very large."

GET READY FOR APRIL 15TH: 1999 TAX BRACKETS

- The Consumer Price Index for August 1998, released September 17, was the last piece of information needed to index next year's individual income tax brackets. For *Bulletin* readers who like to plan ahead, the following is CBO's approximation of the individual tax parameters for 1999.

- The personal exemption amount will increase $50, from $2,700 in 1998 to $2,750 in 1999. The standard deduction for individuals will increase $50 to $4,300 and the standard deduction for couples will jump $100 to $7,200 in 1999.

- A taxable income of $283,150 will place you in the top marginal tax bracket of 39.6 percent in 1999.

1998 TAX PARAMETERS			
Personal Exemption $2,700			
SINGLE: Rate Brackets			
Taxable Income	Rate %	Standard Deduction	
$0-$25,750	15.0	Regular	$4,300
$25,750-$62,450	28.0	Elderly/Blind	$1,050
$62,400-$130,250	31.0		
$130,250-$283,150	36.0	Exemption Phase-out	$126,600
$283,150 & Over	39.6	Itemized Phase-out	$126,600
JOINT: Rate Brackets			
Taxable Income	Rate%	Standard Deduction	
$0-$43,050	15.0	Regular	$7,200
$43,050-$104,050	28.0	Elderly/Blind (Each)	$850
$104,050-$158,550	31.0		
$158,550-$283,150	36.0	Exemption Phase-out	$189,950
$283,150 & over	39.6	Itemized Phase-out	$126,600

- The maximum Earnes Income Credit (EIC) for families with one child will be $2,312 in 1999 -- $41 more than in 1998. The maximum credit for two or more children will rise by $60 in 1999, from $3,756 to $3,816.

- With one child the EIC is completely phased out at $26,928 in 1999 (compared to $26,463 in 1998). With two or more children the EIC is completely phased out at $30,580 in 1999 (compared to $30,085 in 1998).

EARNED INCOME TAX CREDIT			
Type of Return	Maximum Eligible Earning	Maximum Credit	Breakeven Point
Childless	$4,530	$347	$10,200
One Child	$6,800	$2,312	$26,928
Two or more	$9,540	$3,816	$30,580

UNDER CONSTRUCTION: THE GOVERNMENT-WIDE PERFORMANCE PLAN

- The GAO recently released their evaluation of the revised government-wide performance plan, which was requested by Senator Domenici. The Congress first received this milestone in performance measurement last February, along with the President's budget submission. After the Congress criticized the plan for excluding key Presidential priorities like reducing teen smoking, the OMB appropriately issued a revised plan.

- The GAO noted that the basic framework of the plan was sound, but concluded that the plan's content did not always provide a complete, consistent, or clear picture of government performance. The plan had four major weaknesses: 1) it was based on inadequate agency performance plans; 2) it lacked a government-wide perspective wrapped around broad, federal goals; 3) it gave short shrift to tax expenditures and regulation; and 4) it lacked trend and baseline data needed to provide context around most goals.

- When the government-wide plan was first received, many analysts were surprised that it did not uncover any overlap among agencies or programs. The GAO report sheds some light, explaining that the OMB does not believe the plan should drive change; rather they view it as a derivative document reflecting budget and management decisions made throughout the process.

- In contrast, the GAO believes a government-wide perspective is crucial for addressing widely-documented areas of fragmentation and overlap. For example, GAO noted that "the Community and Regional Development chapter ... does not address the inefficiency, confusion, and potential duplication arising from a patchwork of about 100 rural development programs operated by over a dozen federal agencies." It is remarkable that the first mission-based examination of the federal government did not expose any mission-creep or duplication.

ECONOMICS

DARKENING GLOBAL OUTLOOK

- The emerging market financial crisis began with devaluation of Thailand's currency in July 1997. It has been gaining steam ever since, with nations like Korea, Indonesia, and Russia having to devalue as well. At this point, virtually every emerging nation has been affected to some extent. Even industrialized nations like Canada, Australia, New Zealand, and Norway have seen their currencies come under pressure due to their reliance on commodity exports and their proximity to severely affected regions.

- Such currency pressures have driven up interest rates in the affected nations and thus have darkened their growth outlooks. As a consequence, the IMF has reportedly scaled back its estimate of world 1998 GDP growth to only 2 percent. Last year, the IMF had forecasted 4.25 percent 1998 global growth.

- Federal Reserve Chairman Greenspan echoed such sentiments in recent testimony before the Senate Budget Committee. He said that "policy-makers around the world have to be especially sensitive to the deepening signs of global distress which can impact their own economies".

- The question arises, "What has triggered the domino-like spread of financial contagion across the globe?" The main factor appears to be a repricing of risk by investors. Up until the summer of 1997, investors entered emerging market investments with seemingly little consideration of the inherent risks involved.

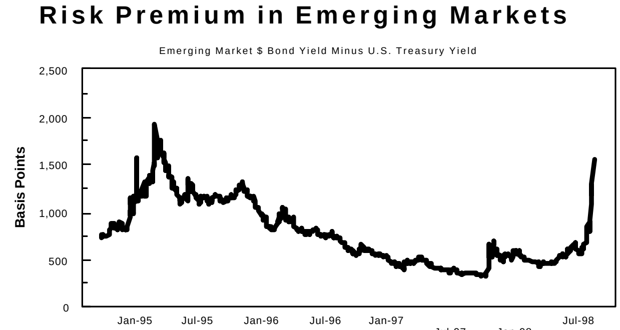
- However, following the Thai devaluation, investors became concerned with the prospect of large negative rates of returns on their investments. Then, in the wake of Russia's debt default and Malaysia's imposition of capital controls, investors began to worry about return of principal as well.

- Such concerns caused investors to flee emerging market assets in droves and to park their money in safe havens like US Treasuries. This caused the spread of emerging market debt yields over Treasury yields to soar, to the point where investors may now be requiring excessive compensation for risk in some markets.

- These trends can be seen in the accompanying chart which shows the spread of emerging market dollar bond yields over Treasury yields. It is interesting to note that the US has not been immune to the repricing of risk itself. The spreads of US junk bonds yields over Treasury yields has widened considerably of late as well.

- Unfortunately there does not appear to be an immediate end to these global trends in sight. Markets are hoping that a US interest rate cut might provide some relief. However, any such reprieve is likely to be temporary without accompanying improvements in regulatory policies in the affected nations themselves.

Risk Premium in Emerging Markets



Source: JP Morgan

✯ BUDGET FACTOID ✯

UN CONTRIBUTIONS BY COUNTRY United Nations assessment, 1998-200, selected countries			
		GDP[A] 1996	
Rank by contribution	% UN Budget	% of world	$ per person

1 United States	25.0	20.8	28,020
2 Japan	18.0	8.3	23,420
3 Germany	9.6	4.8	21,110
4 France	6.5	3.5	21,510
5 Italy	5.4	3.2	19,890
6 Great Britain	5.1	3.3	19,960
7 Russia	2.9	1.7	4,190
8 Canada	2.8	1.8	21,380
16 Mexico	0.9	2.0	7,660
18 China	0.9	11.3	3,330
23 Saudia Arabia	0.6	0.5	9,700
38 Malaysia	0.2	0.6	10,390
39 Singapore	0.2	0.2	26,910

[A]at PPP exchange rates. Source: UN; World Bank.