INFORMED BUDGETEER:

HOUSE SENATE CONFERENCE

- As the *Bulletin* was going to print, discussions between House and Senate budgeteers, Congressional Leadership and non-Leadership, centrists and "non-centrists," Administration and "non-Administration," were on-going to bridge the differences between the Senate-passed and House- passed budget blueprints for the upcoming fiscal year and beyond.

Summary of House & Senate Passed Resolutions
($ in billions)

Senate Passed Budget Resolution

		2002	2002-2006	2002-2011
Spending:*				
Discretionary:				
Defense	BA	334.8	1725.6	3696.0
	OT	327.1	1689.2	3621.1
Nondefense	BA	353.6	1801.7	3852.0
	OT	371.5	1966.2	4205.8
Subtotal	BA	688.4	3527.3	7547.9
	OT	698.6	3655.4	7826.9
Mandatory	OT	1093.3	6174.3	14455.2
Net Interest	OT	187.3	799.0	1149.8
Total Outlays		**1979.2**	**10628.7**	**23431.9**
Revenues		**2177.1**	**11879.8**	**26698.3**
Unified Surplus		**197.9**	**1251.0**	**3266.4**
On-budget		27.2	234.0	787.0
Off-budget		170.8	1017.0	2479.5
Memo: HI surplus		35.9	199.5	392.6

House Passed Budget Resolution

		2002	2002-2006	2002-2011
Spending:*				
Discretionary:				
Defense	BA	324.9	1715.8	3686.1
	OT	319.7	1681.7	3613.7
Nondefense	BA	335.8	1774.7	3814.1
	OT	364.0	1948.3	4176.9
Subtotal	BA	660.8	3490.5	7500.2
	OT	683.7	3630.0	7790.6
Mandatory	OT	1075.4	6049.2	14120.4
Net Interest	OT	182.2	767.3	1092.1
Total Outlays		**1941.2**	**10446.5**	**23003.1**
Revenues		**2168.1**	**11730.6**	**26247.7**
Unified Surplus		**226.9**	**1284.0**	**3244.5**
On-budget		56.0	263.6	753.5
Off-budget		170.9	1020.4	2491.1
Memo: HI Surplus		35.9	199.5	392.6

Differences: Senate versus House Passed
Senate less House

		2002	2002-2006	2002-2011
Discretionary:				
Defense	BA	9.9	9.9	9.9
	OT	7.5	7.5	7.5
Nondefense	BA	17.8	27.0	37.8
	OT	7.5	17.9	28.8
Subtotal	BA	27.6	36.9	47.7
	OT	15.0	25.4	36.3
Mandatory	OT	18.0	125.1	334.8
Net Interest	OT	5.1	31.7	57.7
Total Outlays		**38.0**	**182.2**	**428.7**
Revenues		**9.1**	**149.2**	**450.6**
Unified Surplus		**-29.0**	**-33.0**	**21.9**
On-budget		-28.8	-29.6	33.5
Off-budget		-0.1	-3.4	-11.6

*The level of discretionary spending for FY 2002 that is envisioned in the Senate resolution is above the discretionary spending limits set for that year in the Balanced Budget and Emergency Deficit Control Act of 1985, as amended.

- Major differences in the numbers have focused on the House-passed tax cut of $1.639 trillion and the Senate-passed cut of $1.188 trillion over the ten year period – FY 2002 to FY 2011. This difference of $450 billion in tax cuts does not include the Senate's surplus refund assumption of $85 billion this year (FY 2001).
- Lost in the heated discussion of this different tax cut figures is the simple fact that the difference in the Senate and House-passed tax cut plans represent **less than 1.5%** of the total expected tax collections over the next decade. This degree of precision in projecting revenues, especially over 10 years, is not likely to ever be achieved.
- Major differences in spending numbers have focused on the FY 2002 discretionary spending authority level of the Senate-passed $688.4 billion figure and the House-passed $660.8 billion figure. This difference of $27.6 billion in a budget that will spend in total nearly $2.0 trillion is again a difference of **less than 1.4%.**

- Differences in FY 2002 discretionary spending overlook the fact that the difference between both resolutions is only $47.7 billion in spending over the next decade, a difference unlikely to be meaningful when total discretionary spending at a minimum will exceed $7.5 trillion over this same period.

THE HEALTH OF SCIENCE FUNDING

- The Bush Administration has proposed an FY 2002 technology budget that, on the surface represents a 5% increase in funds over FY2001. The President's budget science funding focuses on health related research, thereby leaving other research agencies behind.

- Closer analysis of the President's budget reveals that the only real winner is the National Institutes of Health (NIH), with an increase of 14%. The NIH increase for FY2002 is actually larger than the total increase for all science funding combined.

- Take away NIH funding and the total for science becomes a decrease of $252 million, or a negative 1%. If agency science funding is adjusted for inflation, only NIH and Veterans receive real increases in FY2002.

Bush Federal Science and Technology Budget
($ in billions)

Agency	2001 est	Bush Budget	$ Change	% Change
NIH	20.361	23.112	2.751	14%
Veterans	.350	.360	.010	3%
Defense*	4.981	5.086	.105	2%
Transportation	.621	.631	.012	2%
NASA	6.957	7.038	.081	1%
NSF	4.416	4.472	.056	1%
Education	.363	.368	.005	1%
Ag	1.831	1.759	-.072	-4%
Energy	4.910	4.682	-.228	-5%
EPA	.732	.679	-.053	-7%
Interior	.883	.813	-.070	-8%
Commerce	.809	.711	-.098	-12%
Total	**47.214**	**49.711**	**2.497**	**5%**
Total less NIH	**26.853**	**26.599**	**-.254**	**-1%**

*FY02 DOD science reflects a projection of FY01 funding plus inflation. FY02 levels are subject to change as a result of the DOD review by the Bush administration.

ECONOMICS

THE IMF's WORLD ECONOMIC OUTLOOK

- Saying "the prospects for global growth have weakened significantly," the IMF recently downgraded its estimates of economic growth in its latest World Economic report. They now expect the global economy to grow 3.2% in 2001 and 3.9% in 2002. In October, the IMF predicted growth of 4.2% in 2001.

- The IMF reduced growth for 2001 in every major advanced economy. Although the US received the largest downgrade – from 3.2%t to 1.5% – Japan's economy should grow the slowest among the group, at only 0.6%. France and the UK should lead the major advanced economies, growing 2.6% each.

- The IMF suggests three reasons why the global slowdown will be moderate and relatively short. First, in the US, the decline in long-term interest rates in 2000 and the decline in short-term interest rates in 2001 should encourage growth by the second half of the year. Second, with inflation risks generally on the wane worldwide and many advanced countries enjoying favorable fiscal positions, central banks have room to loosen monetary policy and governments have room to loosen fiscal policy. Third, due to the reduction in countries with "soft" pegged exchange rate systems, emerging market countries are less vulnerable to external economic shocks.

- The IMF makes some recommendations for the world's leading economies. The US should further reduce interest rates and enact "moderate" tax cuts. Japan should aggressively implement its new (looser) framework for monetary policy and address underlying structural weaknesses, particularly in its financial system. The Euro-zone should consider a small reduction in interest rates and enhance long-term growth by reforming its labor markets, pension systems, and health systems.

- However, the IMF's forecasts and recommendations should be taken with a grain of salt. A year ago that they said the US should raise short-term interest rates to 7% or higher to slow US demand growth to a sustainable pace. US short-term rates ultimately hit a high of 6.5%. If the Federal Reserve had taken the IMF's advice the US economy would most likely be even slower than it is now.

Real GDP Growth in Advanced Economies
(numbers by percent)

	1999	2000	2001*	2002*
World	3.5	4.8	3.2	3.9
United States	4.2	5.0	1.5	2.5
Euro Area	2.6	3.4	2.4	2.8
Japan	0.8	1.7	0.6	1.5
United Kingdom	2.3	3.0	2.6	2.8
Canada	4.5	4.7	2.3	2.4
Germany	1.6	3.0	1.9	2.6

SOURCE: IMF; April 2001. *Projected

WHERE HAVE ALL THE DEFICITS GONE?

- The United States is quite proud of itself for having turned budget deficits into large budget surpluses. The IMF's World Economic Outlook shows we are not alone. With the glaring exception of Japan, almost all industrialized counties have significantly altered their fiscal positions since the early 1990s in the direction of smaller deficits or budget surpluses.

- The United States went from a general government deficit of 5.1% of GDP in 1993 to a general government surplus of 1.7% in 2000, a turnaround of 6.8 percentage points. In some countries the turnaround was much more dramatic. For example, the United Kingdom went from a deficit of 7.8% to surplus of 5.9%, a swing of 13.7 percentage points. Canada went from a deficit of 8.7% to a surplus of 3.4%. Norway and Sweden take the top prizes with swings of 15.5 and 15.3 percentage points, respectively.

- Going forward, a key issue is whether this new fiscal position is temporary or durable. The fact that the previous fiscal gaps were closed more by spending restraint than by tax increases (as a share of GDP) suggests durability. Average general government spending fell by 6% of GDP in advanced economies, according to the IMF, with the sharpest drop in northern Europe. Spending restraint has come in the form of a reduction in transfer payments to the unemployed and a reduction in total public-sector wages and salaries.

- Private savings rates appear to have fallen in response to more public savings, suggesting taxpayers see the new fiscal position as durable and a near-term return to deficits unlikely. If taxpayers thought the new fiscal position was temporary they might be more likely to maintain higher savings rates to prepare for higher taxes in the future that could accompany larger future deficits, especially if the deficits were generated by a return to higher levels of government spending.

- There are factors, however, that suggest limited room for even smaller deficits or larger surpluses. In the Euro area, part of the new fiscal position is due to lower interest rates and higher capital outlays associated with the introduction of the euro. In the United States, part of the new fiscal position is due to a decline in defense spending as a share of GDP that would be impossible to repeat.

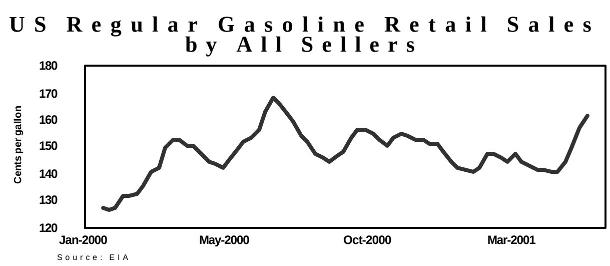
General Government Budget Balances
(% of GDP)

	1993	2000
United States	-5.1	1.7
Euro Area	-5.9	0.3
Japan	-1.6	-8.2
United Kingdom	-7.8	5.9
Canada	-8.7	3.4
Germany	-3.1	1.5
France	-6.0	-1.3

SOURCE: IMF; April 2001.

PRICES AT THE PUMP ARE DRIVING HIGHER

- Drivers are beginning to feel the pinch of higher gasoline prices even before the height of the summer driving season. The Energy Information Agency's (EIA) Weekly Petroleum Report indicated that gasoline prices were already $0.13 cents a gallon higher than the average price ($1.49) they forecasted in their Summer 2001 Motor Gasoline Outlook released less than a month ago.



- High prices are expected to keep consumption growth relatively low in comparison to past years. The EIA projected that gasoline consumption would increase by only 0.6% to 8.59 million barrels per day, below the average of the previous five summers.

- Refineries are expected to produce 8.42 million barrels a day, up an additional 1.4% from a year ago. Imports will account for an additional 230,000 barrels a day with the remainder most likely being used to build stocks up to their normal levels. Net withdrawal from gasoline inventories are not expected to contribute significantly to meeting this summer's demand.

- The EIA baseline scenario anticipated that refineries would be operating at an average 95% capacity throughout the summer, assuming no potential production or distribution problems. Last week, Bloomberg reported an explosion closed down a Conoco refinery in Killingholme, England. Almost half of the 81,500 it produced on a daily basis was exported. This week a fire shut down the industrial fuels unit at a Tosco refinery in Carson, California; (gasoline production was unaffected). Although there has not been a major domestic disruption, capacity utilization increased to 97.8%, about five percentage points higher than a year ago.

• Higher demand and low inventories may reduce the amount of flexibility available to address possible disruptions this summer and increase the risk that prices will rise higher.

O The Bulletin would like to belatedly welcome James O'Keefe to the Budget Committe. James joined the staff in March as the transportation analyst and formerly handled this issue at CBO.

O **CONGRATULATIONS to the New Balance Budgeteers!** Following Senate passage of the FY 2002 Budget Resolution a Senate Budget Committee staff team competed in the Cherry Blossom 10 mile race, placing 10th out of 20 Senate teams. Team members: Amy Call, Bill Hoagland, Andrew Siracuse, Bob Stevenson, and Libby Turpen.