INFORMED BUDGETEER:

IT'S OVER: THE HOUSE AND SENATE CONFERENCE AGREEMENT ON THE 2002 BUDGET!

- The final agreement for the FY 2002 budget was adopted by Congress last week. Details of the conference agreement can be found on our Web site. The following table summarizes the levels assumed in the final agreement, truncated to just 2001, 2002 and the sum over the 2002-2011 period.

Summary of Conference Agreement; H. Con. Res. 83
($ in billions)

Levels of Spending

		2001	2002	2002-2011
Spending:*				
Discretionary:				
Defense[A]	BA	317.6	325.1	3656.1
	OT	303.1	319.4	3592.5
Nondefense	BA	324.4	336.2	3773.6
	OT	344.0	363.4	4129.8
Subtotal	BA	642.0	661.3	7429.7
	OT	647.1	682.8	7722.3
Mandatory	OT	1094.4	1082.5	14376.4
Net Interest	OT	207.0	186.7	1119.5
Total Outlays		1948.5	1951.9	23218.2
Revenues		2134.6	2170.5	26602.7
Unified Surplus		186.1	218.6	3384.5
On-budget		29.9	47.7	896.8
Off-budget		156.2	170.8	2487.7
SBC Baseline				
		2001	2002	2002-2011
Unified Surplus		281.1	312.9	5609.7
On-budget		124.9	142.1	3122.0
Off-budget		156.2	170.8	2487.7
H. Con. Res. 83: Changes from SBC Baseline				
Discretionary		2.4	2.3	-16.4
Mandatory[B]		90.6	19.6	460.0
Net Interest		2.1	7.2	497.9
Tax cuts (net)		0.0	-65.3	-1283.7
Total change		-95.0	-94.4	-2225.2

*Discretionary spending in this summary reflects the levels that will apply once new discretionary limits are enacted. [A]The resolution assumes a $6.6 billion FY 2001 supplemental for defense. [B]In 2001, $85 billion is available for a surplus refund. When added to the $1,284 billion in tax cuts, total tax relief over the 11-year period of the resolution totals $1,369 billion.

- The big ticket items have been highlighted in the media, but to summarize: Debt held by the public would be reduced from today's figure of $3.2 trillion to $818 billion in 2011 – a $2.4 trillion decrease.

- Spending less interest will grow 4.6% annually, increasing from $1.742 trillion in 2001 to over $2.722 trillion in 2011. Taxes (even after being reduced from current policy) will still grow 4.3% annually, increasing from $2.135 trillion today to $3.256 trillion in 2011.

- The nominal growth in the economy is projected to grow 5.1% annually from $10.3 trillion today to $16.9 trillion in 2011. So spending (less interest) would decline slightly – 16.9% today to 16.1% in 2011. And revenues would decrease slightly from 20.7% today to 19.2% in 2011.

- Taxrevenues would be reduced by $1.284 trillion over the 2002 - 2011 period, but some of these are not reconciled tax cuts. The reconciled taxcut for this period is $1.250 trillion. Add $100 billion in economic stimulus tax reductions or rebates in 2001-2002, and the total reconciled policy of reduced taxes is $1.350 trillion.

- Over the decade an on-budget surplus of $897 billion would remain, but of this the Medicare HI Trust Fund would contribute $393 billion, so the non-social security, non-Medicare HI surplus would be $504 billion. Some of this surplus may be needed to implement increases in defense spending once the President submits and Congress agrees to changes recommended in his Strategic Review, or for any unexpected emergencies, which are not assumed in the budget.

- All numbers in the summary tables assume the full application of the resolution's reserve funds. In other words, while $300 billion in mandatory spending (the largest reserve fund) will be withheld from the Senate Finance Committee by the Budget Committee until Finance reports a bill reforming Medicare and providing a new prescription drug benefit, nevertheless the resolution's totals and these tables already reflect such spending. If the reserve funds are not triggered then mandatory spending increases of nearly $422.3 billion would not result and more debt reduction would result.

HOW MANY WAYS TO CALCULATE A % INCREASE?

- This year's budget debate has highlighted one important variable – the percentage increase in spending. Now that the Congress has completed action on the first round of the budget and appropriation process, the time has come to clarify this measure of change and show how one size does not fit all.

- First, all should know that the President's heavily advertised 4% increase was only one component of the budget – discretionary budget authority (BA), represents only about 1/3 of all federal spending. (Just for the record, the number that goes into calculating a deficit or surplus (outlays) associated with the 4% BA requests was projected to increase 5.9%.)

- So what was the final % increase included in the final conference agreement for discretionary BA? Well it depends on the starting point. The congressional BA figure for 2002 is $661.3 billion. Compared to the same 2001 base used by the President ($635.4 billion) the conference agreement represents a 4.1% increase. But the conference agreement assumes a $6.6 billion supplemental in 2001, and if the 2001 base is adjusted higher for this supplemental, the % increase would be only 3.0%!

- But the *Bulletin* will argue that the 2001 base should be adjusted to remove the supplemental assumption and all discretionary emergencies that were provided in 2001 ($5.4 billion) – because the policy decision in the conference agreement is to allow emergencies to be added on top of the $661.3 billion if needed. The result – comparing apples to apples –an increase of 5.0%.

- There is another little issue – Mass Transit BA. This is not included in the $661.3 billion figure but, will be added on top due to the mysterious workings of the transportation caps. More on this in the next *Bulletin*, but with this adjustment the increase is closer to 5.2%.

- There you have it, pick your % anywhere from between 3.0% to 5.2%! No wonder the professional press has trouble tracking the budget process.

Growth Rate in Budget Authority between 2001 and 2002 in the Budget Resolution Conference
($ in Billions)

	2001	2002	% change 2001-2002
2001 with supplemental	642.0	661.3	3.0%
2001 without supplemental	635.4	661.3	4.1%
2001 less emergencies & supplemental	630.0	661.3	5.0%
2001 less emerg, supp & mass transit	628.8	661.3	5.2%
CBO Reestimate of Bush Blueprint	635.4	660.7	4.0%

SOURCE: Senate Budget Committee;

REESTIMATE OF THE PRESIDENT'S TAX PROPOSALS

- The Treasury's Office of Tax Analysis (OTA) published its estimates of President Bush's taxproposals along with the April 9, 2001 release of the full 2002 budget. The total 2002-2011 effect, estimated by OTA, was $1.645 trillion.

• The Joint Committee on Taxation (JCT) published its reestimate of the President's proposals earlier this week, indicating that the Bush plan would cost $130 billion more than estimated by Treasury. JCT estimates that the President's plan would cost $1.775 trillion over 10 years.

• The largest estimating differences were for the rate reductions (including the creation of the new 10% bracket), repeal of the death tax, and providing a deduction for charitable contributions for nonitemizers.

Reestimate of the President's Tax Proposals
($ in billions, 2002-2011)

	JCT	OTA	Difference
Rate reductions	877.2	811.3	65.9
Child credit	210.7	200.3	10.4
Marriage penalty relief	102.7	112.8	-10.1
Repeal death tax	305.9	271.3	34.6
Charitable contribution deduction	84.4	52.2	32.2
Refundable credit for health ins.	70.5	71.5	-1.0
Deduction for long term care ins.	13.3	15.9	-2.6
All other proposals	110.6	109.3	1.3
Total tax package	1775.3	1644.6	130.7

• JCT's estimates will be incorporated into CBO's overall reestimate of the President's budget, which will be available May 18, 2001.

IF YOU DIDN'T ITEMIZE, YOU MAY HAVE PAID TOO MUCH

• Studies are issued every so often which estimate the amount of federal tax that is either under-collected or not collected at all. Interestingly, some taxpayers, faced with the complexity of the income tax code, are paying more tax than they owe.

• GAO recently issued a report which estimates the number of taxpayers who may have overpaid their taxes by claiming the standard deduction instead of itemizing their deductions. The GAO report also estimates the amount of taxes overpaid.

• Because data on mortgage interest was the only type of itemizable expense for which data were readily available, GAO could only estimate the number of returns where taxpayers who claimed the standard deduction may have had deductible mortgage interest expense in excess of their standard deduction.

• GAO estimates that about 510,000 1998 individual tax returns overpaid taxes because they did not itemize. Total overpayments in 1998 were about $311 million, with the average overpayment at $610. Surprisingly, GAO estimates that 6,000 of these taxpayers overpaid by more than $5,000 each.

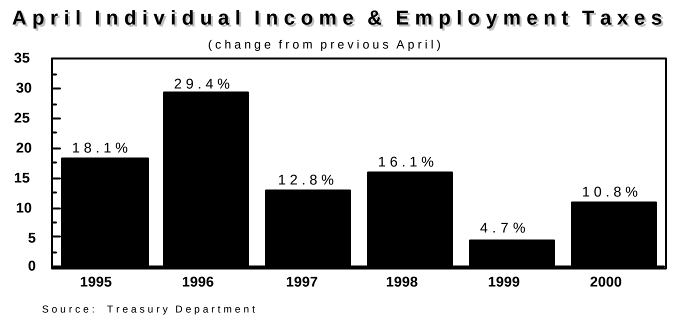
• Certainly in these cases, complexity costs the taxpayer and benefits the federal government.

ECONOMICS

REVENUE ROUNDUP

• April is the most important month for federal tax collection. In recent years, with many individual filers making large capital gains-related tax payments, April revenue has been around 15% of total annual revenue – almost twice as much as the typical month.

• A Budget Committee analysis of Daily Treasury Statements suggests total net revenue was about $331 billion in April, an increase of 12% versus last year. Revenue from individual income and employment taxes (net of refunds) appears to have increased at the fastest rate since 1998. Informed budgeteers should be careful in making comparisons though, as this April had one more workday than last year.



• If the SBC estimate for April is right on target, fiscal year-to-date revenue (October - April) is up 6.8% compared to last year. The CBO estimate for total baseline revenue in FY 2001 is $2.135 trillion, an increase of 5.4% versus last year. CBO assumes a modest 4.9% rate of revenue growth during the 2002-2011 budget window.

• Given year-to-date receipts, reaching CBO's baseline revenue projection for FY 2001 will require revenue growth of 3.5% in the May through September period. Of course, that assumes no changes in policy that reduce revenue in this fiscal year.

• CBO is expected to release its Monthly Budget Review early this week. The Treasury Department is scheduled to release its definitive Monthly Treasury Statement on Friday, May 18th.

GREENSPAN ON DEBT REDUCTION AND SURPLUS INVESTMENT

• Federal Reserve Chairman Alan Greenspan issued his first warning about the perils of paying down too much federal debt too fast when he testified before the Budget Committee on January 25. The paydown of the federal debt was also the topic of his recent speech before the Bond Market Association.

• Greenspan reiterated his belief that rapid productivity growth will continue to generate large budget surpluses and that it will soon become difficult to reduce outstanding federal debt .

• In general, Greenspan said, debt reduction is a good thing because it increases national savings. However, running budget surpluses after the federal debt has been reduced to its minimum level would require the federal government to accumulate private assets, thereby putting at risk the market-driven allocation of capital that has helped generate higher productivity.

• Political interest groups would see the accumulation of assets by the federal government as a chance to acquire capital at lower cost than they would have to pay in the private markets. In turn, these investments would pay a sub-market rate of return.

• If the federal government accumulated private assets in a defined *benefit* fund, such as the Social Security Trust Fund, it would be difficult to prevent the political manipulation of the investments made by the government. Benefits would be guaranteed regardless of investment losses, so beneficiaries would have no incentive to "police" the fund's investment policies.

• Defined *contribution* plans might be more insulated from the political process. Beneficiaries would have an incentive to oppose politically-motivated investments that would lower their rate of return. In particular, Greenspan mentioned individual retirement accounts owned and administered by beneficiaries as a way to use the surpluses to maintain national savings while avoiding political manipulation of the investment process.