The Budget Outlook

The Newsletter of the Senate Budget Committee Majority Staff | **Volume 1, Issue 4, August 2001**

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Where Do We Stand on Appropriations?

DESPITE THE UNUSUALLY late start this year following the two-month delay in the submission of President Bush's budget and the change in control of the Senate, the Senate has managed to complete action on five of the 13 regular appropriations bills for 2002: Interior, Energy and Water, Legislative Branch, Transportation, and VA-HUD. (These bills are now ready for conference with the House.) Each of these bills has fully complied with the 2002 budget resolution.

In addition, the Senate Appropriations Committee has approved four other bills for consideration by the full Senate in September: Agriculture, Commerce/State/Justice, Treasury/Postal, and Foreign Operations. (For two of these bills – Treasury/Postal and Foreign Operations – the subcommittees have yet to file bill reports; so detailed information about those bills is not available.) By passing nine bills so far, the Senate Appropriations Committee has kept pace with its House counterpart, despite its later start.

But much work remains to be done. When Congress reconvenes in September, it will have only 17 legislative days before the start of the next fiscal year. In that time, Congress must complete work on the four committee-passed bills mentioned above, and begin and finish work on the Defense, Military Construction, Labor/HHS/Education, and District of Columbia bills.

As Figure 1-1 shows, the seven bills reported in the Senate, for which details are available, account for just under $200 billion of the $661.3 billion in total budget authority available under the 2002 budget resolution. ■

Figure 1-1: Current Status of FY 2002 Appropriations
(in millions of dollars)

	Senate					House				
		Allocation*		Appropriation Bill			Allocation*		Appropriation Bill	
Subcommittee	Status	BA	Outlays	BA	Outlays	Status	BA	Outlays	BA	Outlays
Agriculture	Passed committee	16,137	16,107	16,137	16,107	Passed House	15,668	16,044	15,668	16,044
Commerce/Justice/State	Passed committee	38,760	38,747	38,627	38,747	Passed House	38,541	38,905	38,541	38,905
Defense	Awaiting action	298,568	291,692	0	0	Awaiting action	300,209	293,697	0	0
District of Columbia	Awaiting action	392	412	0	0	Awaiting action	382	401	0	0
Energy and Water	Passed Senate	24,960	24,980	24,959	24,978	Passed House	23,705	24,218	23,705	24,218
Foreign Operations**	Passed committee	15,524	15,149	0	0	Passed House	15,168	15,087	15,167	15,080
Interior	Passed Senate	18,527	17,622	18,471	17,622	Passed House	18,941	17,800	18,941	17,800
Labor/HHS/Education	Awaiting action	119,000	107,513	0	0	Awaiting action	119,725	106,224	0	0
Legislative Branch***	Passed Senate	2,877	2,912	1,944	2,063	Passed House	2,892	2,918	2,240	2,369
Military Construction	Awaiting action	9,649	9,284	0	0	Awaiting action	10,152	9,447	0	0
Transportation	Passed Senate	15,579	52,928	15,575	52,925	Passed House	14,893	53,817	14,892	52,596
Treasury/Postal Service**	Passed committee	16,972	16,183	0	0	Passed House	16,875	16,149	16,876	16,118
VA/HUD	Passed Senate	84,053	88,463	84,043	88,456	Passed House	84,134	88,069	84,134	88,045
Full Committee	Awaiting action	302	784	0	0	Awaiting action	15	0	0	0
Total -		661,300	682,776	199,756	240,898		661,300	682,776	230,164	271,175

*Subject to the increase in the statutory cap on discretionary spending assumed in the 2002 Budget Resolution.

**Bill totals will not be available for the Senate subcommittees until they file their reports.

***The Senate and House committee bills do not include items that are exclusive to the other chamber. Such amounts are added in the Senate-House conference on the bill.

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Tax Cut Comes at Expense of Social Security Reform

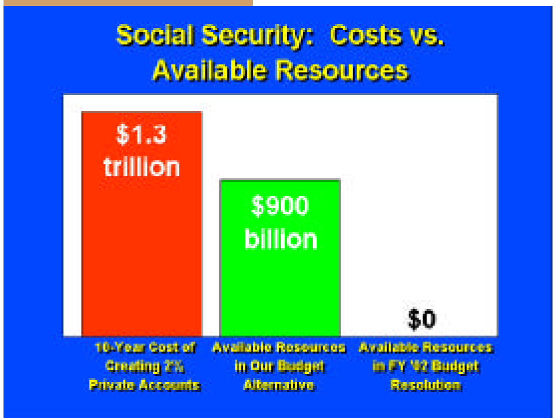

Figure 2-1
FY '02 Budget Resolution leaves no resources for the cost of Social Security reform.

EXPERTS ON ALL SIDES of the Social Security reform debate agree that any effort to reform and strengthen the Social Security program – particularly any reforms which include the creation of private accounts – will require substantial new budgetary resources. Notably, President Bush's recently-convened Commission to Strengthen Social Security is expected to make recommendations which call for the creation of voluntary private accounts equivalent to two percentage points of payroll taxes. Calculations by the Senate Budget Committee show that creation of such accounts would cost about $1.3 trillion, including interest, between 2002 and 2011.

Even Treasury Secretary Paul O'Neill has acknowledged that the creation of such new accounts would require additional resources outside current revenues dedicated to the program. A recent exchange between O'Neill and a *National Journal* reporter went as follows:

> **O'Neill:** We have an opportunity to move from an income-transfer mentality to a wealth-accumulation mentality, which is a powerfully different idea.
> **NJ:** Wouldn't it take some additional infusion of resources to get there?
> **O'Neill:** Sure.
> **NJ:** Any notion where they would come from?
> **O'Neill:** Sure.
> **NJ:** And that would be?
> **O'Neill:** I'm not going to tell you. But, yes, do I have a notion about how this could be done? You bet.

While we anxiously await Secretary O'Neill's plan, we would like to consider the question: Are sufficient budgetary resources available to fund the types of reforms envisioned by President Bush and his Commission?

In January 2001, the answer to this question was a definite yes. January surplus projections from the Congressional Budget Office (CBO) showed a $5.6 trillion surplus over the next 10 years – $2.9 trillion in Social Security and Medicare surpluses and $2.7 trillion in non-Social Security and non-Medicare surpluses.

These hard-earned surpluses outside of the Social Security and Medicare programs provided an important opportunity to set aside the additional resources necessary to address the long-term budgetary costs of Social Security reform. Yet, instead of setting aside the resources from the current surplus to pay for the reform, the Bush Administration abandoned fiscal discipline and spent the surplus on its tax cut.

In contrast, our budget alternative would have set aside all of the Social Security and Medicare surpluses for debt reduction and one-third of the remaining surplus – $900 billion – to strengthen the Social Security program over the next ten years. Now the Administration is faced with huge transition costs for the Social Security reform it seeks, but has no way to pay for it. Without large benefit cuts or substantial tax increases, it will be forced to further raid the Social Security and Medicare trust funds.

But with the huge influx of retiring baby boomers just around the corner, the best use for the Social Security and Medicare surpluses is to pay down the national debt. Debt reduction not only boosts national saving, but also promotes economic growth and frees up future resources for already-promised benefits. Raiding the Social Security and Medicare trust funds to pay for an income tax cut or other priorities – such as additional defense needs – limits our future flexibility to deal with the fiscal burdens of an aging society. In more tangible terms, less debt reduction today means bigger tax increases, deeper benefit cuts, and more national debt in the future.

The bottom line is that by insisting on such a massive tax cut, the Administration has limited the Commission's and Congress' flexibility to find a politically and financially viable solution to the fiscal challenges that lie ahead. The real challenge for the President's Commission will not be finding a way to reform Social Security, but finding a way to pay for it. ■

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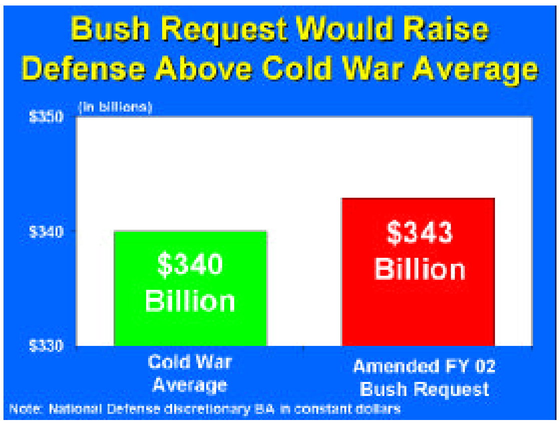
The Bush Defense Request

What Happened to Completing the Defense Review First?

During the budget debate, the Bush Administration insisted that it would not ask for additional resources for defense until Defense Secretary Rumsfeld had completed his "National Defense Review" and determined how much additional money for defense would be needed and how best to use it. Secretary Rumsfeld has still not completed his review and it is unlikely that all the conclusions of the review will be announced until submission of the President's 2003 budget request next February. But instead of waiting for the review to be completed as promised, the Defense Department went ahead with a request for an increase of $18.4 billion over the $325 billion placeholder amount included in Bush's April Budget.



What About a Full Explanation of How This Money Will Be Spent?

To ensure consistency and continuity in multi-billion dollar defense programs, Congress has required the Defense Department to provide a multi-year budget estimate with its spending requests. Yet, the Administration has failed to provide a full six-year "Future Years Defense Plan" with its request.

With the Tax Cut Eating Up All the Surpluses, How Do We Pay For This Increase Without Raiding the Trust Funds?

The Bush Administration claimed that there would be more than enough money to provide for additional defense resources following Secretary Rumsfeld's review. But the Congressional Budget Office is now showing that the President's tax cut and the weakening economy have not only wiped out the projected non-Social Security, non-Medicare surplus in 2001, but have actually invaded the Medicare and Social Security trust funds themselves (all of the Medicare surplus and $9 billion of the Social Security surplus will be used to pay for other government activities).

Further, CBO projects that most of the Medicare surplus will be needed to fund other activities in 2002 under current policies. If Congress were to agree to the President's proposed $18.4 billion increase for defense in 2002, all of the remaining Medicare surplus and $9 billion of the Social Security surplus would have to be devoted to that additional spending.

In a June 26 letter, the Chairman offered to work with the President to provide for defense in a fiscally responsible manner that would avoid raids on Medicare or Social Security. For weeks no response was forthcoming. Finally, at a July 18 Senate Budget Committee hearing on the defense budget, Deputy Secretary Wolfowitz indicated that non-defense offsets might be found, but neither he, nor the Administration's Office of Management and Budget, have offered a specific proposal.

What Does Bush's Defense Request Look Like When Put in Perspective?

The Bush Administration has made repeated claims that the previous Administration neglected the military. But defense budgets from 1994 to 1999 were almost exactly the same as those proposed in 1993 by then-Defense Secretary Richard Cheney for the same period. In fact, according to the Center for Strategic and Budgetary Assessments, defense spending in those years deviated from the Cheney plan by less than one percent.

Further, the Bush defense request would actually push defense spending to Cold War levels. Defense budget authority averaged $340 billion – in 2002 dollars – during the Cold War years, 1947 through 1989. President Bush's amended defense request would exceed this average by $3 billion in 2002.

What About 2003 and Beyond, When the Tax Cut Will Deplete Even More of the Surplus?

In testimony before the Senate Armed Services Committee on June 28, Secretary Rumsfeld stated that the extra $18.4 billion in 2002 "only begins to make a dent," and that he will need an additional $18 billion above that level in 2003 before an additional spending request for "transformation" can even be considered. In other words, Secretary Rumsfeld seems to be saying that a defense budget of $361 billion in 2003 – $21 billion above the Cold War average – is still not sufficient. ■

Should defense spending be a function of the size of the economy?

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Should Spending on National Defense be a Function of the Size of the Economy?

Although it went largely unnoticed, in his prepared testimony before a hearing of the Senate Budget Committee on July 18, Deputy Defense Secretary Paul Wolfowitz argued for increasing defense spending from around 3 percent of GDP to 3.5 percent of GDP, noting that this would still be below "historical average[s]" for defense spending. This is a weak argument for additional defense dollars.

To suggest that we should set the amount we spend on national defense as a percentage of the size of the American economy is odd, to say the least. Although defense certainly warrants an increase over last year's level, share of GDP is an arbitrary and misleading yardstick by which to set spending on national security. Just think about the implications: If the threat increases but the economy shrinks, should defense be cut? Conversely, if the threat diminishes but the economy booms, should we automatically increase defense spending? The level of defense spending should reflect the level of the threat, the cost of our defense strategy, and the national fiscal environment.

It is not clear why Deputy Secretary Wolfowitz suggested the 3.5 percent figure. Perhaps it was a trial balloon to test out support for future defense requests. Regardless of the reason behind it, setting defense spending at 3.5 percent of current GDP would require a defense budget of $386 billion, or $46 billion above the Cold War average! ■

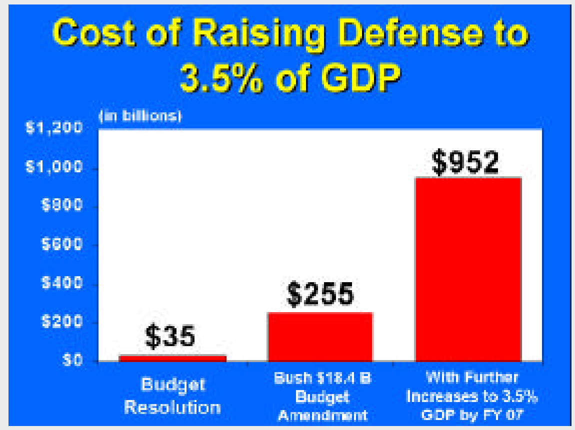

Figure 4-1: Raising defense to 3.5% of GDP would bring enormous cost. *Note: All numbers represent 10-year outlays relative to baseline, adjusted for inflation.*

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