

INFORMED BUDGETEER

**✈ AIR-21, PART DEUX: ✈
EVEN THE "SPRUCE GOOSE" FLEW FOR A MOMENT**

- Last week, the *Bulletin* compared FAA spending to actual aviation excise tax receipts for 1998 -2000. The result was that total proposed aviation spending for 2000 will be at least \$300 million above aviation excise tax revenue, and in the end, spending will probably be nearly \$1 billion above revenues, depending on enacted appropriations. Not a bad deal at all.
- Currently, the House is proposing in H.R.1000, the Aviation Investment and Reform Act for the 21st Century (AIR-21), that this subsidy level go beyond its current level high into the stratosphere.
- As the *Bulletin* pointed out last week, one must look at all aviation revenues and spending, to get the best picture. **Both** trust fund and general fund spending on aviation must be summed.
- AIR-21 proposes to spend nearly \$15 billion on aviation above the current projections for aviation revenues - - See the chart below.

| Actual Aviation Revenues vs. Air 21 Spending (\$ in Billions) | | | | | | |
|--|------|------|------|------|------|-------|
| | 2000 | 2001 | 2002 | 2003 | 2004 | Total |
| Revenues | 9.2 | 9.7 | 10.4 | 11.0 | 11.7 | 52.0 |
| AIR-21 | 10.0 | 13.0 | 14.0 | 14.6 | 15.2 | 66.8 |
| AIR-21 over revenues | 0.8 | 3.3 | 3.6 | 3.6 | 3.5 | 14.8 |

SOURCE: SBC Majority Staff based on CBO estimates.

- So in addition to the aviation taxes we pay to fly (the small print on the lower left of your airline ticket), the House wants the general taxpayer to bring \$3 billion from general revenues to the table each year from 2001 through 2004 in order to make AIR-21 fly.
- That's one expensive airline ticket. And then there's the small provision taking the Airport and Airway Trust Fund off-budget...

FIVE 302(B) ALLOCATIONS IN AS MANY WEEKS

- The Senate Appropriations Committee has reported its fourth set of revised 302(b) allocations since the original set of allocations was issued on May 25. The allocations provide the spending limits for each subcommittee and offer an evolving picture of the priorities of the Senate appropriators, as well as contrasts with differing priorities of the House (a revision to the first house 302(b)s is expected next week).

| Comparison of Senate 302 (b) Allocations (\$ in Billions) | | | | | | | | |
|--|-------|-------|---------------------|-------|----------------|-------|-----------------------|------|
| | 1999 | | Original Allocation | | New Allocation | | Difference old vs new | |
| | BA | OT | BA | OT | BA | OT | BA | OT |
| Agriculture | 14.0 | 14.1 | 13.1 | 13.3 | 14.0 | 14.3 | 0.9 | 0.9 |
| Commerce | 32.6 | 30.6 | 28.0 | 27.2 | 29.5 | 28.2 | 1.4 | 1.0 |
| Defense | 250.3 | 248.3 | 263.7 | 254.4 | 263.7 | 254.4 | -- | -- |
| D.C. | 0.6 | 0.6 | 0.4 | 0.4 | 0.4 | 0.4 | 0.0 | 0.0 |
| Energy | 21.2 | 20.4 | 21.2 | 20.8 | 21.3 | 20.9 | 0.1 | 0.1 |
| Foreign ops | 13.3 | 12.7 | 12.5 | 13.2 | 12.7 | 13.2 | 0.2 | -0.0 |
| Interior | 13.8 | 14.0 | 13.6 | 13.6 | 13.9 | 14.3 | 0.3 | 0.7 |
| Labor | 83.8 | 80.4 | 80.3 | 80.9 | 80.3 | 80.9 | -- | -- |
| Legislative | 2.4 | 2.3 | 2.5 | 2.4 | 2.5 | 2.5 | -- | 0.1 |
| Mil Con | 8.7 | 9.4 | 8.7 | 9.1 | 8.3 | 8.8 | -0.5 | -0.3 |
| Transp. | 11.9 | 40.8 | 12.1 | 14.2 | 12.0 | 14.2 | -0.1 | -- |
| Treasury | 14.0 | 12.9 | 12.1 | 12.3 | 13.1 | 13.8 | 1.0 | 1.5 |
| VA-HUD | 71.0 | 80.4 | 62.4 | 77.6 | 62.4 | 77.6 | -- | -- |
| Deficiency | -- | -- | 3.1 | 4.6 | -- | 0.5 | -3.1 | -4.0 |
| Total | 537.6 | 567.0 | 533.7 | 544.0 | 534.0 | 544.0 | 0.3 | 0.0 |

SOURCE: SBC Majority Staff. NOTE: Allocations are for general purpose only and do not include crime or transportation numbers, which have not changed.

- In the most recent revision, the Appropriations Committee has released all the budget authority from the so-called "deficiencies"

subcommittee. The Treasury subcommittee received most of the last bit that had remained unallocated since the previous revision. Now, receipts offsets are the only way for subcommittees to increase total appropriations.

MORE BUDGET SMOKE

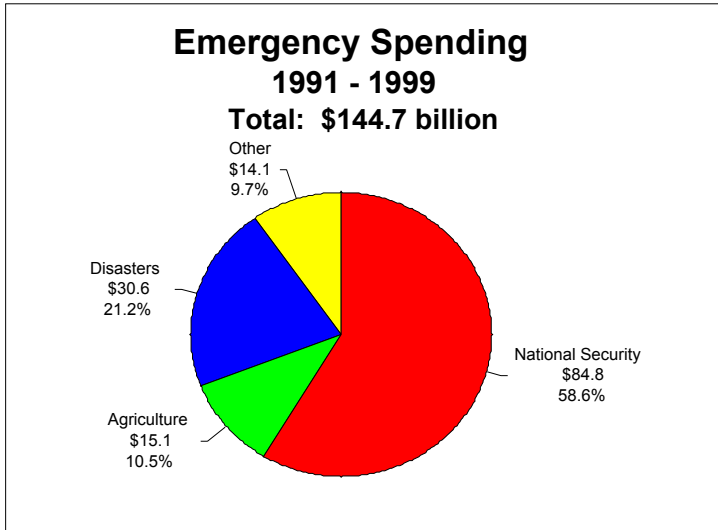
- In his May 19, 1999 letter to Congress, OMB Director Lew restated the President's proposal to pay for \$8 billion in 2000 discretionary spending through increased excise taxes on tobacco. Over the next five years, the President proposes to raise tobacco taxes by \$34 billion, and over the next ten years, the President would raise tobacco taxes by \$66 billion -- all to pay for discretionary programs.
- CBO believes that current rules do not allow revenue changes to be counted as offsets to discretionary spending under any circumstance.
- The current federal tax on cigarettes is \$0.24 per pack and is scheduled to rise to \$0.39 per pack by 2002. President Clinton would accelerate the current law increase *and* raise tobacco taxes by \$0.55 per pack, despite consistent research showing that federal excise taxes are the most regressive component of the U.S. tax code.
- The federal tobacco excise tax trails only transportation excise taxes in regressivity. People with adjusted gross income (AGI) under \$10,000 paid 1.4 percent of their income in federal transportation taxes, and paid 0.7 percent of their income in federal tobacco taxes.
- Of the \$5.9 billion in federal tobacco excise taxes collected in 1998, 37 percent (\$2.2 billion) was paid by people with AGI under \$20,000. In contrast, only 9 percent (\$0.5 billion) was paid by people with AGI over \$75,000.

EMERGENCY SPENDING TRENDS

- The Budget Enforcement Act of 1990 (BEA) exempts spending defined as "emergency" from the discipline of the statutory spending caps and, if a mandatory or revenue emergency item, from the pay-as-you-go requirement.
- "Emergency" is not defined in the budget law. But under procedures in effect since 1991, emergency spending is whatever the President and the Congress deem it to be.
- S.557 -- a bill to provide guidance for the designation of emergencies in the budget process was reported earlier this year by the Governmental Affairs Committee and was discharged from the Budget Committee. When considered on the Senate floor, the bill was amended with a strict social security lock-box procedure and further consideration of the emergency changes are now entangled in the social security debate.
- The Congressional Budget Office recently updated its tabulations of emergency spending over the life of the caps to reflect the most recent 1999 Emergency Supplemental Appropriations -- Kosovo, Hurricane Mitch, and other items. Including this most recent emergency supplemental, the caps have been adjusted upward nearly \$144.5 billion, since their enactment in BEA.
- The pie chart summarizes the allocation of these emergency cap adjustments in broad areas -- national security, agriculture, disasters (non-agriculture) and others (e.g., Chicago floods, Low Income Home Energy Assistance, Y2K).
- Nearly 60% of the emergency adjustments, or \$84.8 billion, has been a result of national security issues -- Operation Desert Shield/Storm, Bosnia, Kosovo.
- Emergency funding for natural disasters (not counting agriculture natural disasters) represents 21% of the total or \$30.6 billion -- Hurricanes Bob, Andrew, Iniki, Fran, Hortense, Mitch and Bertha,

LA Earthquake and Midwest flooding.

- Emergency funding for agriculture income support, droughts and blizzards affecting agriculture, represent 10.5% of the total or \$15.1 billion.
- The single largest adjustment to the caps occurred in their first year -- 1991 -- when they were adjusted upward by nearly \$46 billion. This included \$44 billion for defense funding related to Operation Desert Shield/Storm.
- The second largest adjustment is underway this year -- 1999 -- having topped \$34 billion, with about half related to defense spending, Kosovo and peacekeeping activities.



RAPIDLY EXPANDING DEBT RELIEF PROPOSALS

- The G8 has called for a \$70 billion reduction in the \$130 billion debts of heavily indebted poor countries (HIPC) that are owed to the international financial institutions (IFIs) and bilateral creditors in what is called the Cologne Debt Initiative. This plan seeks 90% bilateral debt forgiveness and earlier debt relief combined with a reduced performance period (from 6 to 3 years) for multilateral debt forgiveness under the original 1996 HIPC initiative. (Approximately 50% of HIPC debt is owed bilaterally, 35% is owed to the international financial institutions (IFIs), and 15% is private debt; source CRS).
- While debt relief is promised with good intentions, it is important to note that conservative estimates reveal that 18 out of the 41 HIPC countries are either at war, facing severe internal insurgencies, or are prohibited from receiving US foreign aid.
- The Clinton Administration has not released an estimate of how much the G8 deal will cost the US taxpayer, although the costs will result from two sources: 1) bilateral debt forgiveness, and 2) contributions to the IFIs.
- The G8 Communique states: "We are aware that new (HIPC) proposals will require additional substantial financing. While several means of financing are under consideration, credible progress in identifying additional funding possibilities is needed, and we stand ready to help with financing solutions. In this context we recognize the importance of fair burden sharing among creditors."
- **Bilateral debt forgiveness:** the US has forgiven a substantial amount of its debt through a series of initiatives this decade, therefore only about 7% of the bilateral debt is owed to the US. Under the Credit Reform Act of 1990, an appropriation is needed only for the amount equal to the loss the US Treasury would bear, therefore a greater appropriation is needed for countries with higher credit ratings.

- **Multilateral Debt:** Debts to the IMF and multilateral development banks are more expensive and contributions must be appropriated on a dollar-for-dollar basis. In addition to contributions from donors, the G8 wants funding from 2 other sources: interest on the profits of selling 10 million ounces of IMF gold, and accessing \$1.4 billion in the Special Contingency Account (SCA-2) trust fund. The Administration has sent authorizing requests to Congress.
- According to the *Bulletin's* calculations, selling 10 million ounces of gold could generate \$2.6 billion at current gold prices, a capital gain of \$2.1 billion. Interest annually from such a profit would only amount to \$106 million.
- The second authorization request is for accessing the SCA-2 fund. This fund was set up at the IMF to cover shortfalls due to arrears through a burden sharing agreement between debtor and creditor member countries of the IMF. Funds are generated by an increase in the rate of charge and a decrease in the rate of remuneration of member countries each quarter. The fund totals about \$1.36 billion, and the US share equals approximately \$300 million.
- The agreement establishing SCA-2 states that when the arrears issue is resolved, the resources return to the member countries, which is the present situation. Today, the IMF is considering closing SCA-2 and requiring member countries to donate their refund to the HIPC initiative.
- Unlike the scoring of the IMF appropriation, which is an exchange of monetary assets (dollars in exchange for a claim on the IMF), the SCA-2 proposal is a use of resources that otherwise would revert to the Treasury.
- In conclusion, a comprehensive plan for financing the debt relief proposal has not been submitted to the Congress, nor does such a plan seem to exist. The U.S. budgetary costs of this proposal is a long way from being determined.
- The bilateral costs to France and Japan (the largest creditors) will be substantial and could limit their contributions to the multilateral relief. Hopefully the G8 has not promised more than it will deliver.

✿ **BEACH READING** ✿: At the Budget Committee's request, GAO has issued a new publication, Federal Debt: Answers to Frequently Asked Questions -- An Update. This pamphlet updates a 1996 GAO report, and presents current information on the federal debt, including how debt is defined and measured; who holds federal debt; how much it has grown in recent years; and its significance to the national economy. The report can be accessed via GAO's website at <http://www.gao.gov/new.items/cg99027.pdf>.

SBC STAFF WELCOMES & BIDS FAREWELL....

A belated welcome to Bernard Johnathan Cieplak, born to proud parents Lisa & Bernie on May 29th. Best wishes to the newest budgeteer baby on the block.

And a fond farewell to Marc Sumerlin, who has left the Budget Committee for Austin, TX and George W. Bush's Presidential Campaign. Many thanks to Marc for his service to the Committee and good luck on his new endeavor.