INFORMED BUDGETEER

RACKING IT UP

- Congress is well on its way toward completing its work on each of the thirteen appropriation bills. At the time of the *Bulletin's* publication, Congress had completed action on eleven bills: five appropriation bills had been enacted and five additional bills had cleared both Houses and were awaiting the President's signature. One bill, the District of Columbia appropriation, had been vetoed by the President. The two remaining bills to be conferenced are Labor-HHS and Commerce.

FY 2000 Appropriations Status
($ in Billions)

		Action to Date FY 2000 BA	OT
Agriculture- Cleared	Regular	14.0	14.3
	Emergency	8.7	8.3
	Total	22.7	22.6
Commerce Senate passed	Regular	30.8	31.4
	Emergency (census)	4.6	4.2
	Contingent Emergencies[A]	0.0	0.0
	Total	35.4	35.6
Defense Cleared	Regular (readiness)	259.6	249.9
	Emergency	7.2	4.8
	Contingent Emergencies[A]	0.0	0.8
	Total	266.8	255.5
DC Vetoed	Regular	0.4	0.4
	Emergency	- -	- -
	Total	0.4	0.4
Energy Enacted	Regular	21.3	20.8
	Emergency	- -	- -
	Contingent Emergencies[A]	0.0	0.1
	Total	21.3	20.9
For Operations Cleared	Regular	12.7	13.1
	Emergency	- -	- -
	Total	12.7	13.1
Interior Cleared	Regular	13.9	14.2
	Emergency (firefighters)	0.1	0.0
	Contingent Emergencies[A]	0.0	0.0
	Total	14.0	14.2
Labor-HHS Senate passed	Regular	84.2	84.3
	Emergency (LIHEAP)	0.3	0.1
	Contingent Emergencies[A]	0.0	0.1
	Total	84.5	84.4
Leg Branch Enacted	Regular	2.5	2.5
	Emergency	- -	- -
	Total	2.5	2.5
Mil Con Enacted	Regular	8.4	8.8
	Emergency	- -	- -
	Total	8.4	8.8
Transportation Enacted	Regular	12.5	43.3
	Emergency	- -	- -
	Total	12.5	43.3
Treasury Enacted	Regular	13.7	14.1
	Emergency	- -	- -
	Contingent Emergencies[A]	0.0	0.4
	Total	13.7	14.6
VA-HUD Cleared	Regular	71.9	82.6
	Emergency	- -	- -
	Contingent Emergencies[A]	0.0	0.2
	Total	71.9	82.9
Discretionary Total	Regular	545.8	579.8
	Emergency (new outlays)	20.9	17.4
	Contingent Emergencies[A]	0.0	1.6
	Total	566.7	598.8
CBO July 1999 cap level		538.2	579.8
Anticipated Adjustments to cap level[B]		0.9	0.5
Amount appropriations are over the cap		6.8	1.0

[A]Contingent emergency appropriations not in the OMB Sequestration Preview report.
[B]Adjustments for EITC, Arrearages, CDRs, and adoption assistance. CBO scoring including outlay adjustments to approximate OMB outlay rates.

- Discretionary totals in the side table reflect the conference agreements for the bills that have been sent to the President and the Senate passed version of the two bills that are or will be in conference.

- The budget authority (BA) for FY 2000, given Congressional action to date, totals $566.7 billion, while the outlays (OT) total $598.8 billion. These totals are $6.6 billion below the 1999 level in CBO's July 1999 baseline for budget authority and $18.9 billion above that level for outlays.

- Currently total emergency spending for FY 2000 tops $20.9 billion in BA and $17.4 billion in outlays. Emergency spending is $13.2 billion below the 1999 level for BA.

- The CBO July 1999 cap on discretionary spending is $538.2 billion in BA and $579.8 billion in outlays. Currently, regular appropriations with anticipated adjustments are over that cap level by $6.8 billion in BA and $1.0 billion in outlays. To avoid a sequester by OMB at the end of the session, regular appropriations must be cut by those amounts before all of the remaining appropriation bills have been completed.

THE PRESIDENT'S MEDICARE GIMMICK: A $2.2 TRILLION TAX INCREASE

- In his State of the Union address, and again in a submission to Congress in June, the President proposed to credit the Medicare Hospital Insurance (HI) trust fund with trillions in new reserves to keep it solvent. The President has stated repeatedly that these transfers are the budget surpluses, but that is false. As CBO and others note, these transfers have absolutely no effect on the budget surpluses because they are nothing more than paper transfers from the general fund of the Treasury to the HI trust fund.

- The President simply used the rhetoric of "saving the surplus" as an excuse to oppose tax relief. In fact, the Chief Actuary of the Health Care Financing Administration (HCFA) states the following in his official estimates of the President's plan:

"The amounts shown for general fund transfers to the HI trust fund would be specified in legislation and would not be affected by variations in actual future Federal Budget surpluses..."

- According to a recent analysis provided by the HCFA's Office of the Actuary, the total amount of transfers the President recommends for the HI trust fund is $2.2 trillion over 30 years.

- The President proposes to credit the trust funds with $690 billion in new reserves between 2000 and 2014. These reserves will then earn interest totalling about $1.5 trillion between 2000 and 2030, when the trust fund would be depleted In total, therefore, the President proposes to give the HI trust fund $2.2 trillion in new reserves, literally out of thin air.

- What is the real effect of these transfers? As Senator Bob Kerrey has noted, the only real effect of such transfers is an enormous, hidden income tax increase on workers. Between now and 2030, the HI trust fund will need this $2.2 trillion in reserves to cover Medicare costs, and working Americans will be forced to pay higher income taxes to cover the cost paying off this debt to the trust fund.

BUDGET QUIZ (make that a mid-term)

Question: What is the difference in the budgetary treatment of emergency and contingent emergency appropriations? Extra Credit: Why should we care?

Answer: The difference - -(1) is a function of when the funds are legally available, (2) produces a different scoring treatment between CBO and OMB, and (3) has made confusing the task of estimating the total amount of discretionary outlays that will occur in 2000 from cumulative appropriations action.

Description. Your basic emergency appropriation is funding which is available for obligation upon enactment because the President has already requested it as an emergency item and the Congress designates it as such in the bill. A contingent emergency appropriation occurs when the availability of the appropriation is subject to an additional step that the President must take after enactment--the President must designate and "release" the funds before they are available for obligation.

Treatment. The treatment of "basic" emergency appropriations is relatively uncomplicated. Both CBO and OMB score the full emergency budget authority at the time it is enacted, estimate the outlays that will flow from that, and increase the statutory caps by those amounts in the affected years.

- For contingent emergencies, however, the wheels come off. CBO treats contingent emergencies the same as "basic" emergencies: because no future congressional action is required for the funds to become obligated, CBO scores the BA and estimated outlays at the time of enactment. OMB ignores the contingent emergencies when they are enacted, and only records their existence if and when the President subsequently requests to use them, adjusting the BA and outlay caps afterwards at the next regularly scheduled opportunity. If contingent emergencies enacted near the beginning of a fiscal year are not designated by the time the President submits his budget in February, the caps are not adjusted until his Sequestration Update Report in August. In the past, this has led to differences between OMB and CBO estimates of the caps and also the caps assumed in the Congressional Budget Resolution.

- Effect on Caps and Total Outlays in 2000. So now that you have the theory let's apply it in practice. The Omnibus Appropriations Bill for 1999 included about $7 billion in BA for contingent emergencies. However, the President released few of those contingencies before he submitted his budget. After the budget submission, the President designated and released most of the contingent emergency spending. However, OMB did not adjust the caps accordingly until their Sequestration Update Report this August .

- CBO's Sequestration Preview Report, included in their January annual report, did not include any additional outlays for the contingent emergencies, because CBO is required to adopt OMB's estimate of the caps, an estimate which did not yet reflect the unreleased contingencies. However, in accordance with their treatment of contingent emergencies, CBO included the necessary outlay adjustments in the cap estimate accompanying their report on the President's budget and their revised baseline, which is often the basis of the congressional budget resolution.

- When the Budget Committees were putting together the FY 2000 budget resolution, they chose instead to use the OMB estimate of the caps, which did not reflect the President's release of the contingent emergencies. Thus, the $1.6 billion of outlays in 2000 associated with the released contingencies did not count in enforcing the budget resolution caps.

- As the Bulletin has often reiterated, while the budget resolution is the basis for Congressional scorekeeping, it may not keep up with reality. In the waning days of this session, Congress has focused not only on enforcing the the budget resolution but also on the reality of whether the social security surplus is being spent. In reality, the $1.6 billion in outlays associated with contingent emergencies are being counted. Therefore, the real estimate of what the caps are that relate to the amount of the on-budget surplus in 2000 must also reflect these contingent outlays.

ECONOMICS

ANYBODY WANT TO BUY A TREASURY?

- The Treasury market has been under pressure for most of 1999. After starting the year at 5.15 percent, the 30 year bond yield is now at a two year high of 6.35 percent. This surge has been driven by fears that the broad-based global economic recovery and possible US economic overheating could rekindle inflationary pressures here.

- As such, it is not surprising to see that foreigners reduced their holdings of Treasuries over this period, from $1.274 trillion in December 1998 to $1.253 trillion in July 1999 (the latest data available). However, this overall trend disguises some interesting bilateral flows.

Foreign Holdings of US Treasuries
(Stock Figures, $ in billions)

	July 1999	December 1999	Difference
Japan	303	276	+27
UK	243	264	-21
All Others	707	734	-27
Total	1,253	1274	-21

SOURCE: Department of Treasury

- Most of the biggest Treasury sellers were nations with advanced financial centers & bases for off-shore hedge funds. Together, the UK, Switzerland, Singapore and the Netherlands Antilles have sold $48 billion Treasuries since the start of 1999. This suggests that the major international financial players have been heavy sellers this year.

- The buyers are a more mixed group. Japan was the largest, albeit unwilling, purchaser – most of its holdings were amassed in an effort to restrain the recent rise in the yen's value. Ironically, these purchases are a sign of Treasuries unattractiveness, since the Bank of Japan had to come in as a buyer of last resort after private investors sold.

- These Treasury flows back up reports that the Treasury sell-off and the dollar/yen plunge were related -- reportedly, international financiers have been selling Treasuries, converting their dollars to yen, and then repaying yen denominated loans. This has forced the Bank of Japan to take the other side of this transaction.

- There were other interesting buyers as well. As the price of oil soared this year, OPEC found itself with a larger than expected amount of the dollars, $7 billion of which made its way into Treasuries. Some South East Asian nations have also increased their Treasury purchases, presumably as they rebuilt their foreign exchange reserves post-crisis.

CALENDAR

The Committee has scheduled a series of three staff briefings on budget reform. The briefings will examine many of the issues that were to be explored in the postponed hearings on the 25th anniversary of the 1974 Budget Act. All the briefings are at 3 pm in Room 608 of the Dirksen Building.

October 26: Dr. James A. Thurber, Professor and Director of the Center for Congressional and Presidential Studies at American University.

November 9: Dr. Robert Reischauer, Senior Fellow, Brookings Institution; formerly Director of the Congressional Budget Office.

November 17: Dr. Eugene Steuerle, Senior Fellow, Urban Institute; formerly Deputy Assistant Secretary at the Treasury Department.