INFORMED BUDGETEER:

CBO ANALYZES PRESIDENT'S BUDGET AND REVISES BASELINE

• At a meeting of the Senate Budget Committee last week, CBO Director Crippen presented a summary of the agency's analysis of the President's budget. The effort yielded one slight enhancement to the already sanguine surplus outlook, as well as confirmation of a suspicion about the President's request.

• In analyzing the President's budget, CBO usually learns new programmatic information that allows CBO to simultaneously update its baseline projections made in January in its annual report. This new baseline that incorporate those revisions typically becomes the starting point for the construction of the annual congressional budget resolution.

• CBO now estimates that the current year (2000) federal surplus will reach $179 billion and that the next year's surplus could continue to grow to nearly $190 billion depending on what one assumes about the growth of appropriated accounts.

• CBO's March baseline projects on-budget surpluses that are higher than in January by the following amounts: for 2000, $3 billion; for 2001, $5 billion; and for the 2001-2010 period, $33 billion. In context, these revisions are actually quite minute, and almost entirely stem from slightly lower estimates for Medicare spending and larger projected receipts from increased mortgage insurance activities of the Federal Housing Administration.

Changes in CBO Baseline: Estimates of On-Budget Surpluses
($ in Billions)

	2000	2001	2001-2010
January Estimate:			
On-Budget Surplus	23	22	1,858
Technical Changes:			
Revenues	- -	- -	- -
Outlay Decreases			
Discretionary	*	*	2
Mandatory	3	5	14
Net Interest	*	*	17
Total Changes	3	5	33
March Estimate:			
On-Budget Surplus	26	•27	1,891

*Less than $0.5 billion; SOURCE: CBO

• As for the President's request, CBO observes that even though the President is proposing to replace (as well as extend through 2010!) the outmoded discretionary caps for 2001 and 2002 set in the 1997 Balanced Budget Act, the new caps set by the President still are not large enough to accommodate the increased levels of spending proposed in his budget.

• As the table below shows, the President seeks appropriations (BA) in 2001 that are $11 billion more than his cap. The reason for the disconnect in the President's budget is that none of his proposals for offsetting his gross spending level (to get down to his cap) are valid according to CBO.

President's Budget Even Exceeds Proposed New Caps
($ in Billions)

	2001		2002	
	BA	OT	BA	OT
President's proposed disc. caps	614	626	625	649
CBO's reestimate of Pres. request	625	635	629	656
Amount Pres. breaks his own caps	11	9	4	7

• In total dollar terms over the next ten years, the President is proposing $1.3 trillion in new spending, of which 65 percent or $866 billion goes for increased discretionary programs. Of the total baseline surpluses projected over the next ten years, the President wants to allocate 70 percent of it for new spending, 8 percent for tax relief and 22 percent for debt reduction.

CBO's Re-Estimate President's FY2001 Budget
$ in Billions

	2000	2001	2001-2005	2001-2010
Unified Surplus	168	190	1065	2727
On-Budget	15	24	90	423
Off-Budget	153	166	975	2304
Revenues	1946	2026	10908	24250
Outlays	1778	1836	9843	21523
Discretionary	611	635	3346	7099
Publicly Held Debt*	3464	3287	end 2465	end 873
CBO's March 2000 Freeze Baseline				
	2000	2001	2001-2005	2001-2010
Unified Surplus	179	192	1374	4204
On-Budget	26	27	396	1891
Off-Budget	153	166	978	2313
Revenues	1945	2016	10913	24396
Outlays	1766	1824	9539	20193
Discretionary	603	625	3128	6233
Publicly Held Debt*	3452	3272	end 2128	end -666

* Publicly Held Debt Net of Excess Cash Balances

TAX CUTS - ADMINISTRATION'S CLAIM VS. CBO'S REESTIMATE

• When the tax proposals in the President's 2001 budget were being gradually leaked early this year, the President and his advisers claimed that his budget contained $350 billion in tax cuts over ten years.

• At a Budget Committee hearing, when pressed about the amount of the *net* tax cut, the Deputy Treasury Secretary stated, "our budget provides a first year net tax cut of $42 million... We think there is also $900 million in net tax cuts in the second year, and that over the 10-year budget there would be net tax reductions of $256 billion."

• The Deputy Secretary arrived at his number by counting the outlay increases resulting from the tax proposals as tax cuts, and by not counting things like Superfund taxes or tobacco tax hikes as tax increases.

• CBO has waded through all the Administration's tortured terminology and confirmed numbers very close to those published in *Bulletin* No. 4 (February 14, 2000): the net effect of all tax proposals in the President's budget is to raise taxes by $5 billion in 2001, cut taxes by a cumulative $4 billion through 2005, and cut taxes by $146 billion over ten years – quite a bit different from the Administration claim that the budget contains a net tax cut of $256 billion over ten years!

• Several tax proposals in the President's budget involve refundable credits (when individuals who don't have an income tax liability get a "tax" credit from the government in the form of a check sent to them) and therefore result in an increase in outlays. Over the first five years, outlays resulting from the President's tax proposals would increase more than $16 billion, which is more than four times the amount of the net tax cut the President recommends over the same time frame!

GAS TAXES AND TRANSPORTATION SPENDING

• Enacted in 1998, the Transportation Equity Act for the 21st Century (TEA-21) links spending authority on highway programs to taxes deposited into the Highway Trust Fund, the majority of which are gasoline taxes. Assuming that the House passes, and the President signs the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (FAIR-21), spending on aviation programs also will be linked to excise tax receipts deposited into the Airports and Airways Trust Fund beginning in 2001. Therefore, now is the perfect time to review the relationship between gasoline taxreceipts and aviation and highway spending.

- **Highways:** Currently, the federal gasoline tax is 18.4 cents per gallon, and diesel and kerosine tax is 24.3 cents. These tax rates include the Clinton 1993 increase of 4.3 cents that originally was targeted for deficit reduction, but is now deposited into the Highway Trust Fund.

- With a provision referred to as revenue aligned budget authority (RABA), TEA-21 links spending authority forhighway programs to actual tax receipts deposited into the Highway Trust fund. It provides that changes in tax receipts above or below the receipt estimates stated in TEA-21automatically adjust the discretionary highway cap and spending authority for highway programs – on a dollar per dollar basis, up or down.

- For 2000, the RABA adjustment was nearly $1.5 billion.In 2001, the RABA increase will be nearly $3.1 billion, meaning highway spending authority will increase by $3.1 billion for total spending authority of almost $30 billion next year. In the same vein, if future gas tax receipts dip below actuals or estimates provided in the Act and cause RABA to be negative, spending authority for highway programs will be adjusted downward.

- Since TEA-21 augments or decreases highway funds that are distributed to states by formula, states received in 2000 and will receive in 2001 additional funds for their highway programs. However, if in the future RABA is negative, highway formula funds apportioned to each state will be reduced.

- Therefore, eliminating the Clinton 4.3 cents gasoline tax for 12 months will eventually reduce highway spending by almost $6 billion.

- **Aviation:** Of all taxes on various aviation fuels, the 4.3 cents per gallon taxon commercial aviation fuel accounts for about 3/4 of the total. The remaining taxes are 19.3 cents on general aviation gasoline and 21.8 cents per gallon on non-commercial jet fuel. These rates include the Clinton 4.3 cents originally slated for deficit reduction that has been deposited in the Airports and Airways Trust Fund (AATF) since 1998. According to CBO estimates, total taxes on all aviation fuels will comprise 9% of the total deposits into the AATF in 2000. (The majority of other revenues into AATF come from airline ticket taxes.)

- The Senate-passed FAA reauthorization conference report, FAIR-21, contains a “trust fund guarantee.” For aviation programs, FAIR-21 directly appropriates an amount equal to the President’s budget estimate of annual receipts deposited into the AATF, plus interest. Based on the President’s budget, the amount for 2001 is $10.5 billion. Trust fund amounts are first used to fully satisfy the capital program authorization levels. Additional amounts for aviation programs can be appropriated from the general fund.

- If gasoline receipts into the AATF are reduced (without offsetting increases), amounts guaranteed for aviation will be lower. The lower level guaranteed and available from the trust fund may necessitate additional appropriations from the general fund to pay for aviation programs.

WHAT ACCOUNTS FOR THE DROP IN CRIME?

- The FBI’s most recent Uniform Crime Report (UCR) provides some food for thought in our “war on crime” and how we fund this war. Consider, for example, that violent crimes reported to the police have declined for the seventh straight year.

- The overall violent crime rate per 100,000 residents -- 566 murders, rapes, robberies and assaults -- dropped to its lowest level since 1985 when the crack epidemic sent violent crime rates soaring. Both murder and robbery rates have reached lows last seen in the 1960's. The use of guns to commit murder and robbery also decreased according to the latest version of the UCR. The biggest drops in homicide rates were among black and latino male victims, groups which suffered the largest increases in the 1980's.

- While gun control efforts are cited by some experts, according to the Attorney General, “there is no one reason for the continued drop in crime. It’s a combination of factors.” Credit must be given to “more police officers on the streets, partnerships between law enforcement agencies, continued efforts to keep guns away from criminals, and a balanced approach that includes prevention, intervention, punishment, and supervision.” Interestingly, this laundry list does not include the effects of a nearly nonstop 17-year economic expansion interrupted only by a shallow, eight month recession in 1991.

- What else is there in this edition of the UCR? First, in looking at the overall downward trend in violent crime, it is easy to miss a lot of the action. Consider the publicity attendant to youth homicides at schools which has grabbed so much attention even though overall juvenile crime is clearly declining. In contrast, there has been little drop in the 1990's homicide rates among white teenagers in suburban and rural areas.

- Second, 566 murders, rapes, robberies and assaults per 100,000 residents does not sound all that safe. In fact, violent crime is much higher than the 50's and 60's, a period similar to the 1990's because of its low unemployment and improving standards of living. This is an ominous indicator.

- Disturbingly, there is little data to explain the surge, and subsequent decline, of violent crime rates which have returned to the levels of the mid-eighties. This failure applies across the board.

- For example, we can no longer explain violence by reference to the so-called “crime prone” 15-24 year olds. Two recent studies disproved that thought as researchers, by adjusting for the decline in this demographic age group, found that rates of violent crime still dropped. Similarly, there is vocal support for the impact of high incarceration rates on the decline in violence. However, there is no incontestable research which bears out this assertion. Remember, correlation does not mean causation.

- As with any explanation, the absence of a solid theory based on empirical research means that since we cannot explain causes and identify impacts, we can not measure how we’re affecting the war on crime. Consequently, advocates for various theories and approaches to crime control seem to simply request more and more funding regardless of the availability of evidence to support their cause. This likely means inflated justice budgets at all levels.

CALENDAR

March 22-23: Senate Budget Committee mark-up of FY 2001 Budget Resolution. Dirksen 608, Time TBD.