INFORMED BUDGETEER

@ Fiscal New Year 2002 Countdown @
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(From August 6)

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Less:	
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MUCH ADO ABOUT BORROWING

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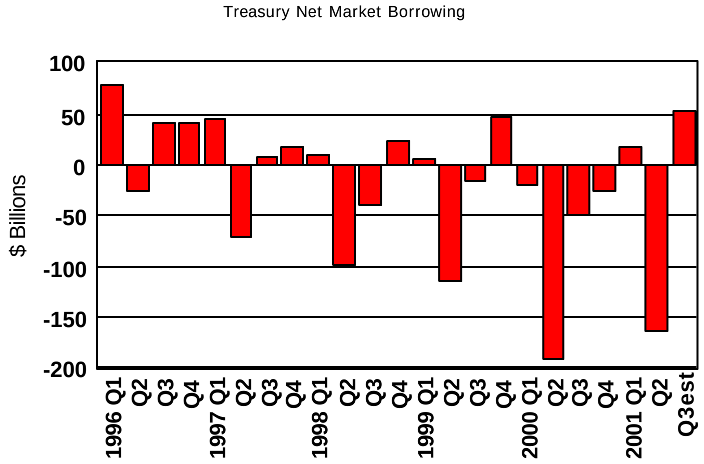
- Treasury took these actions in order to balance its debt management goals of ensuring a sufficient supply of cash to pay obligations, ensuring that the debt is financed at the lowest cost, and promoting efficient capital markets.

- As the chart shows, in some quarters Treasury debt is drawn down, and in some quarters, even in the era of surpluses, Treasury must borrow. In recent years, Treasury has paid down the most debt in the second calendar quarter, when Treasury is flush with cash due to income tax payments. Debt has also been paid down in the 3rd quarter in the past three years, due to the influx of corporate income tax receipts.



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- As recently as April 30, Treasury had announced it expected to pay down $57 billion in debt in the 3rd quarter. What accounts for the $108 billion swing (from -57 to +51) in projected borrowing requirements, which has caused some doom-and-gloomers to warn the sky is falling?

- About $70 billion is due to policy changes Congress and the President enacted through the tax cut - $38 billion in advanced individual income tax refunds had to be financed in the 3rd quarter and $33 billion in corporate tax payments were shifted out of the 3rd quarter and into the 4th quarter.

- The rest, about $37 billion, is due to lower-than-expected revenues from the weaker economy, mostly on the corporate side.

- In other words, two-thirds of the difference is due to explicit policy decisions made in order to stimulate the economy and boost sagging growth. One-third is due to slower economic growth that began in the summer of 2000.

- Treasury has announced that it expects to pay down $36 billion in debt during the 4th quarter. The October-December quarter has typically been a borrowing quarter for Treasury. The shift in corporate tax payments, which is responsible for adding to the borrowing needs in the 3rd quarter, will allow a paydown in debt in the 4th quarter.

CAUTION - DANGEROUS RAILROAD CROSSING AHEAD

- Last week, the House of Representatives passed (384 to 33) HR 1140 – the Railroad Retirement and Survivors Improvement Act of 2001 which would not only increase railroad retirement benefits but would also permit the federal railroad retirement trust fund to be invested in private securities. Both CBO and OMB estimate that the provision allowing private investment in equities would increase outlays by $15.3 billion in FY 2002. The House, hoping to avoid the inconvenience of a $15.3 billion outlay in 2002 and a corresponding reduction in the surplus, directed OMB to record the $15.3 billion as a means of financing and not an outlay.

- Two weeks ago the *Bulletin* explained in detail why the federal purchase of equity investments is properly scored as an outlay. As a refresher, the budget of the federal government is a cash budget, not a capital budget. It currently treats other investments, from infrastructure to R & D, to education and training as an outlay. There is no consensus to treat financial investments any differently. The House "directed scorekeeping" language would require OMB to record the $15.3 billion outlay as a means of financing. Regardless, privately investing federal trust fund surpluses means that the government will have less cash to pay off the public debt, resulting in higher government interest payments to the public. In the case of Railroad Retirement, the outlay of $15.3 billion in federal funds means that debt held by the public will be $15.3 billion greater than it otherwise would have been, resulting in an additional $10 billion in debt service over the next 10 years.

- The House's deviant budgetary treatment of a government-controlled investment in the private markets sets a troubling precedent for Social Security Reform. Under current scorekeeping practices, both publicly and privately-controlled investments of federal trust fund balances in equities are treated consistently – they would increase outlays. Almost every policy expert believes that the Social Security system needs to receive a greater rate of return on accumulated funds than provided by low-yielding government bonds. Much of the debate revolves around whether the Social Security funds should be invested collectively by the federal government or individually through privately-controlled accounts. If publicly-controlled investments were recorded as a means of financing (and consequently no longer decreased the surplus) these railroad retirement-type proposals would have a significant advantage over proposals to create individuals accounts.

- As a final note, inserting directed scorekeeping language will change the budgetary treatment of these transactions only after the bill becomes law. Astute budgeteers know that, despite the language in the House bill, one can not avoid the Budget Act points of order that lie against this bill. CBO, as always, will score the legislation as if the directed scorekeeping language were not present. Only if the bill is enacted would CBO record the costs as directed. Thus the measure would be subject to two 60-vote point of order: a section 302(f) point of order because the measure would cause the Finance Committee to exceed its allocation and a section 306 point of order because of the inclusion of the directed scorekeeping language. If the bill is enacted as passed the House, budget enforcement mechanisms will be prevented from reflecting the real cost. So you can be sure that Congress then will be poised to spend this $15 billion twice - without having to make the otherwise difficult decision of allocating scarce resources. The Chairman of the Senate Budget Committee, who has pledged repeatedly to protect the Medicare surplus from similar-sized "raids," has thus far been quoted as not wanting the "phony accounting" of directed scorekeeping, but says he has not yet studied the bill enough to determine his position. X

FOREIGN AID BUDGET: EFFORTS TO COMBAT GLOBAL HIV/AIDS PANDEMIC

- The FY2001 supplemental spending bill that President Bush signed last month includes $100 million in accelerated funding for the US contribution to a global fund to combat HIV/AIDS, malaria and tuberculosis. On May 11, the President pledged a contribution of $200 million for the fund in 2002. However, the supplemental recognizes the urgency of immediate action and thus provides funding to meet half of the President's pledge so that the fund is operational before the end of this year.

- The Global AIDS and Health Fund was also on the agenda at the G-8 Summit held in Genoa. The G-8's Final Official Notice stated the determination of the participating Heads of State and Government to make the fund operational by the end of the year, and they welcomed the further commitments of some $500 million announced over the week leading up to the close of the summit: Italy pledged $200 million, Russia $20 million, Canada $98 million, the EU Commission $100 million, and Germany $131 million. Total pledges to the fund now stand at over $1.3 billion (see http://www.un.org/News/ossg.aids.htm).

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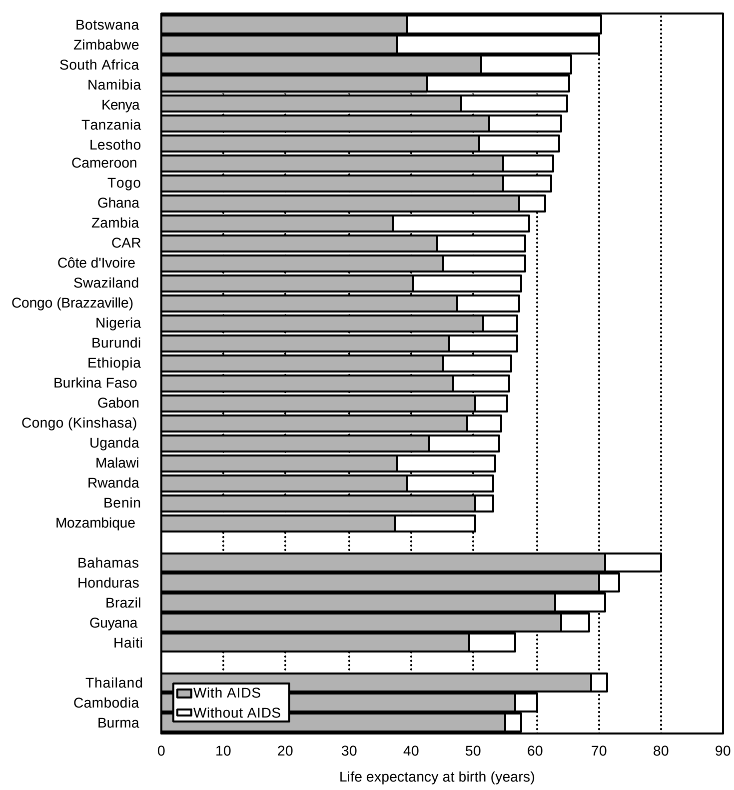
- On June 13, Senate Budget Committee staff were briefed on the impact of the AIDS pandemic in the developing world by Karen A. Stanecki, Chief of the Health Studies Branch in the Population Division of the US Census Bureau. Her research indicates that the overwhelming majority of people with HIV-- 95% of the global total -- live in the developing world. Moreover, 71% of that global total of HIV-positive people live in sub-Saharan Africa.

- According to the Census Bureau, AIDS mortality is resulting in falling life expectancies from levels they would have been without AIDS. As the accompanying table shows, in Botswana, for example, life expectancy is now 39 instead of 71.

- The Census Bureau research also evidences that in sub-Saharan Africa, more women than men are HIV positive. It is estimated that at the end of 1999, 55 % of all HIV infections in that region were among women. Peak HIV prevalence among women occurs at a younger age than among men. Among women, HIV prevalence tends to peak around 25 years of age. For men, it peaks 10 to 15 years later and generally at lower levels.

Life Expectancy Lost due to AIDS



Source: U.S. Bureau of the Census, International Data Base and unpublished tables.

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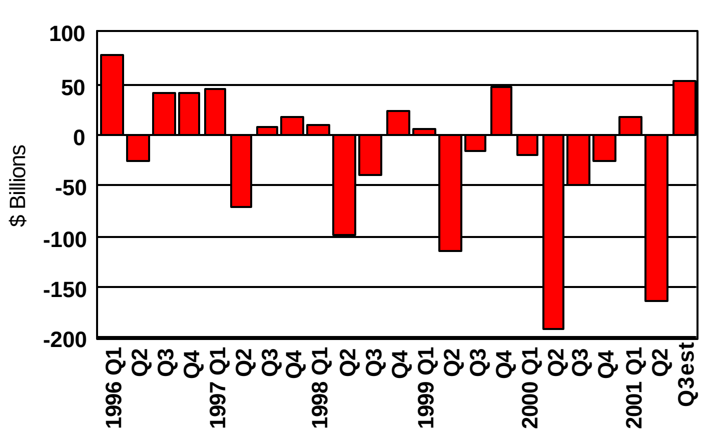

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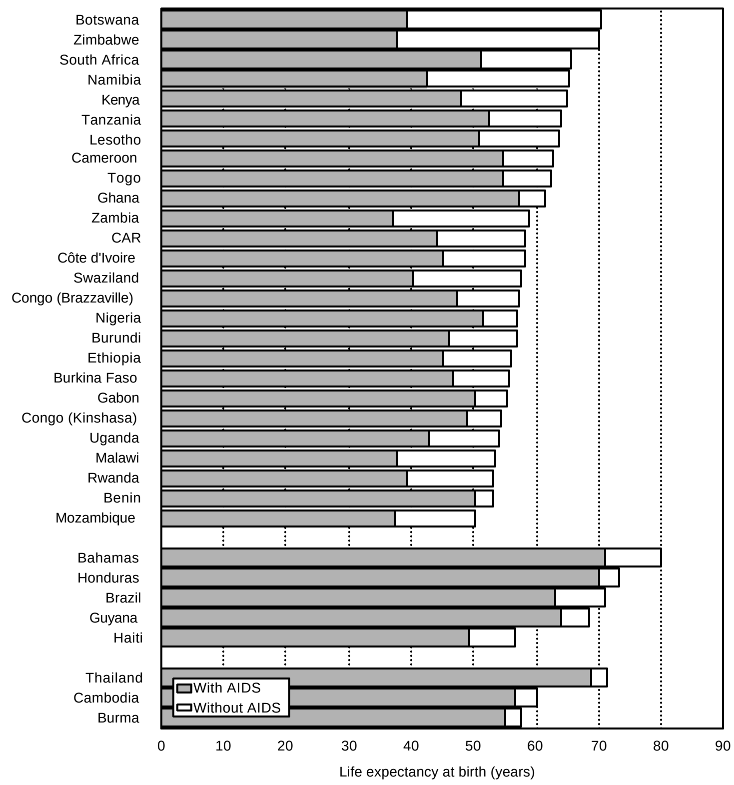

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