

## INFORMED BUDGETEER

Estimated Impact of Legislation Enacted in Response to September 11 (\$ in billions)						
		CBO Baseline August			Alt. Baseline <sup>/a</sup>	
		01-02	2003	03-12	2003	03-12
Dept. of Defense	BA	31.0	17.6	197.0	24.4	275.1
	O	18.3	21.3	200.6	24.8	273.0
Other Nondefense	BA	34.0	29.5	328.9	13.5	151.5
	O	9.7	20.0	293.6	19.2	167.3
Tot. Discretionary <sup>/b</sup>	BA	65.0	47.1	525.9	37.9	426.6
	O	28.0	41.3	494.2	44.0	440.3
Direct Spending <sup>/c</sup>	BA	5.7	3.0	5.6	3.0	5.6
	O	5.7	3.0	5.6	3.0	5.6
Total Spending	BA	70.7	50.1	531.5	40.9	432.1
	O	33.7	44.3	499.8	47.1	445.9
Revenue <sup>/d</sup>		-0.7	-0.9	-4.7	-0.9	-4.7
Deficit/Surplus						
Total Impact		34.4	45.2	504.5	47.9	450.6

Source: SBC Republican Staff; CBO

Totals may not add due to rounding.

<sup>/a</sup> The alternative baseline uses the President's 2003 budget request for discretionary programs and projects those amounts through 2012, with adjustment for inflation.

<sup>/b</sup> Discretionary legislation includes the 2001 Emergency Supplemental Appropriations Act for Recovery From and Response to Terrorist Attacks (P.L. 107-38), the 2002 Department of Defense and Emergency Supplemental Appropriations Act (P.L. 107-117), additional spending in the 13 regular 2002 Appropriations acts, and the 2002 Supplemental Appropriations Act for Further Recovery From and Response to Terrorist Attacks (P.L. 107-206).

<sup>/c</sup> Direct spending legislation includes an updated scoring subsequent to the August 29 letter for the Air Transportation Safety and System Stabilization Act (P.L. 107-42), the USA Patriot Act of 2001 (P.L. 107-56), the Victims of Terrorism Tax Relief Act of 2001 (P.L. 107-134), and the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 (P.L. 107-188).

<sup>/d</sup> Revenue legislation includes the Air Transportation Safety and System Stabilization Act (P.L. 107-42), the Victims of Terrorism Tax Relief Act of 2001 (P.L. 107-134), and the New York City assistance in the Job Creation and Worker Assistance Act of 2002 (P.L. 107-147). A minus sign indicates a loss of revenue.

### A LOOK BACK: LEGISLATION ENACTED IN RESPONSE TO SEPTEMBER 11<sup>TH</sup>

- The Senate is currently debating a sweeping piece of legislation – the National Homeland Security and Combating Terrorism Act of 2002. In addition, the Congress is in various stages on other legislation designed to react to the events of last September. While certain pieces of this legislation are quite high profile and have broad support, the fate of most of the pending legislation that responds to terrorism is still quite uncertain. A year after the attacks, the *Bulletin*, with the help of CBO, looks back at the budgetary effects of legislation associated with the tragic events of September 11<sup>th</sup>.
- CBO has provided budgeteers with information in an August 29 letter responding to a request by Congressman John Spratt, ranking member of the House Budget Committee. CBO estimates that legislation enacted to date in response to September 11<sup>th</sup> increased spending in 2001 and 2002 by nearly \$71 billion in budget authority (BA); such legislation has also reduced revenues by nearly \$1 billion. (OMB has cited more than \$100 billion in spending and revenue effects, but some of that money is homeland security funding that would have been appropriated even if the events of September 11<sup>th</sup> had not taken place.)
- Nearly \$65 billion of total BA provided was discretionary and was provided mostly by three supplemental appropriation acts. P.L. 107-38, enacted almost immediately on September 18, 2001, provided an initial \$20 billion. An additional \$20 billion was enacted as part of the 2003 Defense Appropriations bill (P.L. 107-117). And \$24.2 billion was enacted earlier this summer in the 2002 Supplemental Appropriations Act (P.L. 107-206). Less than half of these discretionary funds (\$31 billion) went to the Defense Department. The remainder of the money (\$34 billion) was provided to nondefense agencies, including the Federal Emergency Management Agency (\$11 billion), the Department of Transportation (\$6.7), and the Department of Justice (\$2.2 billion).
- An additional \$5.7 billion in BA resulted from direct spending legislation, with by far the largest cost (\$5.6 billion) for the Air

Transportation Safety and System Stabilization Act (P.L.107-42). The other significant direct spending legislation was the USA Patriot Act of 2001 (P.L. 107-56).

- The largest impact on revenues is from the \$0.5 billion in New York City assistance included in the Job Creation and Worker Assistance Act of 2002 (P.L. 107-147). The rest of the \$0.7 billion in total revenue reduction over 2001 and 2002 results from the Victims of Terrorism Tax Relief Act of 2001 (P.L. 107-134).
- CBO estimates that, although the September 11<sup>th</sup> legislation increased BA by nearly \$71 billion in 2001 and 2002 combined, the outlays from that BA along with the revenue effects will increase the deficit by only \$31 billion in 2002. Because a number of the programs for which the money is intended are either new or received a large influx of new funding, the money is not being outlayed quickly.
- One validation of these outlay estimates is provided by OMB's quarterly reports on the obligation of the first \$40 billion in emergency supplemental appropriations. The obligations recorded for the period from September 18, 2001, through June 30, 2002, represent only 66% of the total monies available for obligation (81% of the DoD's BA and 54% of the BA for nondefense agencies). Because an obligation only represents a contract for a good or a service and does not necessarily require payment immediately, the outlay rate for the three quarters of the fiscal year that have been analyzed would be significantly lower than the obligation rate.
- Of the \$65 billion in discretionary response funds, the \$45 billion enacted in 2002 affects CBO's baseline projections thereafter because the discretionary appropriations for 2002 are assumed to continue in subsequent years with adjustments for inflation. For 2003-2012, CBO estimates that Sept. 11<sup>th</sup>-legislation increases baseline outlays by \$500 billion (from \$532 billion in BA), and reduces baseline revenue by nearly \$5 billion, reducing the government's bottom line by a total of \$505 billion.
- In its response to Congressman Spratt, CBO also prepares an alternative baseline, acknowledging that some 2002 spending most likely would not recur in future years because it would be replaced by funding for proposed executive or legislative branch initiatives to combat terrorism. To produce this alternative baseline, CBO uses the President's 2003 budget request for discretionary programs to combat terrorism both at home and abroad (excluding such activities and levels already in place prior to September 11<sup>th</sup>) and projects those amounts through 2012, with adjustments for inflation. The alternative baseline results in increased BA of \$432 billion between 2003 and 2012, which translates to a bottom-line effect of \$451 billion (the revenue effects under the alternative baseline are not different).
- The regular CBO baseline and the alternative baseline differ by nearly \$100 billion in BA over 2003-2012 because the 2003 discretionary BA assumed in the President's 2003 budget request is \$9 billion less than that assumed by CBO's baseline. While discretionary BA for the DoD is almost \$7 billion higher in the President's 2003 request, BA for other nondefense agencies is \$16 billion lower. This outcome results because the President's 2003 budget significantly increases funding for new expenses in the military war on terrorism and for homeland security, while decreasing funding from the emergency supplemental appropriations for the one-time costs of response and recovery efforts from the attacks.
- The cumulative budgetary impact of legislation enacted because of the attacks last September thus could range from \$450 to \$500 billion over the next decade. But in assessing the costs, budgeteers must never forget the incalculable price already paid by 50 Americans and their allies who have lost their lives battling against terrorism in Afghanistan since the September 11 attacks.

**CBO REPORT ON ALTERNATIVE SURPLUS AND DEFICIT MEASURES**

- The “normal” measure provided by the unified budget surplus or deficit reflects temporary factors, such as the effects of a strong or weak economy or one-time shifts in the timing of federal spending or tax receipts. CBO has released updated estimates of two budget measures that filter out these temporary factors, so budgeteers are better able to determine whether fiscal policy is stimulating short-term growth.
- The cyclically-adjusted surplus/deficit removes the effects of the business cycle, which are the drops in revenue and increases in outlays that occur automatically during a recession and then reverse during a recovery.
- A more broadly adjusted measure – the standardized-budget surplus/deficit – removes not only the effects of the business cycle but other temporary factors as well, such as 1) large discrepancies between tax payments and liabilities (for example, when taxpayers did not reduce their withholding in 2001 to coincide with reduced liabilities from the tax cut and declining economy), 2) swings in collections of capital gains taxes, 3) changes in the inflation component of net interest payments, and 4) temporary legislative changes in the timing of revenues and outlays.
- The CBO report notes that some analysts view a decline in the adjusted surplus or an increase in the deficit (relative to potential GDP, or the highest level of real GDP that can be sustained without raising the inflation rate) as an indicator of fiscal stimulus. An increase in the adjusted surplus or reduction in the deficit is considered an indicator of fiscal restraint.
- CBO compiled data on the changes in adjusted surpluses or deficits over recession periods (shown in the accompanying table), and found that “the government’s current fiscal stimulus appears to be unusual in both its size and timing.” Unusual how?

Fiscal Stimulus in Periods of Recession		
Cumulative Change in Budget Measure During the Period (as % of potential GDP)		
Recession in Fiscal Years	Standardized Budget Surplus/Deficit(-)	Cyclically Adjusted Budget Surplus/Deficit(-)
1960-1961	2.3	2.7
1970-1971	*	-0.7
1974-1975	1.5	0.3
1980	0.3	0.2
1981-1983	-2.7	-1.3
1990-1991	-0.2	-0.4
2001-2002	-2.8	-2.6

Source: CBO \*=- between -0.05% and zero.  
 Notes: The first fiscal year in each period includes the peak of the business cycle; the final year includes the cyclical trough. (In 1980, the peak and trough occurred in the same year).

- **The declines in the adjusted surpluses, relative to potential GDP, are larger for 2001 and 2002 than they were for any other recession years. This means that fiscal stimulus was enacted at the right time, and was larger in the most recent recession than for any other since 1960.** Moreover, during some past periods of recession, stimulus measures (if enacted at all) were enacted too late, resulting in fiscal restraint during the recession and stimulus after the recovery had begun, just the opposite of what we want to happen.

- Several pieces of legislation – the Economic Growth and Tax Relief Recovery Act of 2001 (the advanced refund tax rebates), the Job Creation and Worker Assistance Act of 2002, and increases in discretionary appropriations – explain most of the stimulus. CBO does point out that changes in the adjusted budget measures also reflect other factors, including shifts in the distribution of income, the size of various tax bases as a share of GDP, and outlays for entitlement programs.

**BUDGET QUIZ**

**Question:** The *Bulletin* has noticed that there may be a bit of confusion about budget enforcement in the Senate come October 1<sup>st</sup>. While the super-majority enforcement of a number of provisions of the Budget Act – such as section 306 and the points of order governing amendments to budget resolutions and reconciliation bills – are permanent, many points of order will revert to simple majority status. Assuming that no legislative action occurs with respect to the expiring provisions, by which rules will we be playing?

**Answer:** Starting on October 1<sup>st</sup> there will be 4 important differences. *First*, there will be no statutory limit on discretionary spending and no possibility of sequestration of discretionary accounts. *Second*, while there remains the possibility (through September 30, 2006) of a PAYGO sequester with respect to existing balances on OMB’s pay-go scorecard (see last week’s *Bulletin* article), the cost of any mandatory spending or revenue legislation enacted after September 30<sup>th</sup> will not be added to that scorecard. *Third*, the Senate’s pay-as-you-go point of order (section 207 of the FY 2000 budget resolution) will lapse in its entirety. This 60-vote point of order applies *when the on budget deficit on the Senate scorecard would be increased* for any mandatory spending or revenue legislation that is not deficit neutral. But because this lapses, there will not even be a simple majority vote required. *And fourth*, the following Budget Act points of order, which currently require 60 votes for a waiver or appeal, will require only a simple majority vote (but they will not disappear, as many seem to think):

*section 301(i):* prohibits consideration of budget resolutions that assume a reduction in the surpluses in the Social Security trust fund;

*section 302(c):* prohibits the consideration of appropriations bills until after the Committee on Appropriations has filed its 302(b) allocations;

*section 302(f):* prohibits consideration of legislation that exceeds a committee’s section 302(a) allocation;

*section 310(g):* prohibits consideration of reconciliation legislation that contains changes in the Social Security program;

*section 311(a) and 311(b):* prohibits consideration of legislation that exceeds the spending, revenue or Social Security aggregates;

*section 312(b):* prohibits consideration of legislation that exceeds statutory discretionary spending limits; and

*section 312(c):* prohibits consideration of legislation that exceeds maximum deficit amounts (if any).