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Summary of the Conference Agreement on the Republican Budget Resolution for Fiscal Year 2000

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This document has not been reviewed and approved by the Democratic Caucus of the Budget Committee and may not necessarily reflect the views of all members.

General Notes:

- ! All years are fiscal years unless otherwise noted.
- ! Funding levels for discretionary programs are stated in budget authority, unless otherwise noted. Funding levels for entitlements and other direct spending programs represent outlays.
- ! Unless otherwise noted, the 1999 levels used for comparing the discretionary spending levels in the House Republican budget resolution are the Congressional Budget Office's freeze figures, known as the "Without Discretionary Inflation" (WODI) baseline. The CBO freeze figures are used for comparing discretionary levels because they represent the 1999 funding levels for discretionary programs. They have been adjusted to exclude funding for emergencies, the International Monetary Fund, and changes to mandatory programs enacted as legislative riders in 1999 appropriations acts. The baseline then "freezes" future spending at this level of budget authority with no adjustments for inflation. For five- and ten-year comparisons, the term "1999 freeze level" refers to this CBO freeze baseline.

The 1999 level for each function also excludes funding that was provided to agencies last year to address the Y2K problem, because it was provided as an emergency. The committee staff only recently received information about how the Y2K emergency funds were distributed to different agencies, so earlier staff analyses contain slightly different figures for 1999 funding levels.

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I. Overview: Putting Tax Cuts First

Last year, for the first time in the history of the Budget Committee, Congress failed to pass a Concurrent Resolution on the Budget. The House budget plan diverged so far from reality that House and Senate Republicans never even convened a conference to resolve their differences.

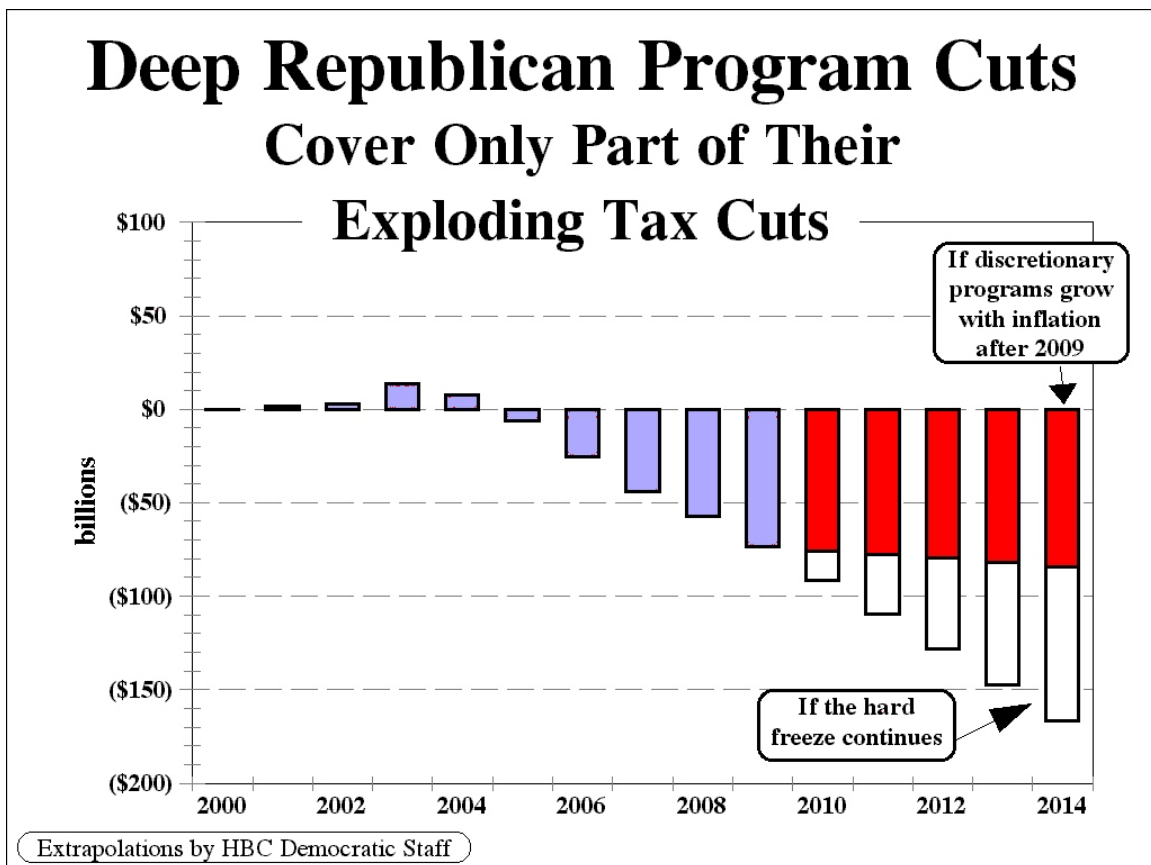
This year, House and Senate Republicans reached accord, but their budget plan is every bit as unrealistic as last year's House plan, and even more irresponsible. The conference agreement on the Republican budget resolution sets a framework for spending and taxing with no hope of enactment. Because of their fixation on enacting exploding tax cuts, Republicans brought to the floor a budget plan that envisions appropriation bills even they know they cannot pass. And their plan does *nothing* to extend the solvency of Social Security or Medicare. The conference agreement is, in short, a poor start for the first fiscal year of the next millennium.

This conference agreement —

- ! trumpets a huge, fiscally irresponsible, and exploding tax cut — \$778 billion over ten years and at least \$1.7 trillion over fifteen years;
- ! deposits in the Medicare and Social Security trust funds *only* those amounts they get under existing law, thereby failing, as the non-partisan actuaries confirm, to extend the solvency of those trust funds by even one day;
- ! breaks the promise House Republicans made just two days earlier, by a vote of 349-44, to report tax cuts *after* enactment of Social Security and Medicare solvency legislation. Instead, they advance the date for reporting tax cuts from September 30 to July 16;
- ! fails to pay for the cost of the tax cut, in flagrant violation of the Pay-As-You-Go rules the Republicans so proudly reaffirmed and extended less than two years ago;
- ! earmarks 100 percent of any improvement in budget projections for 2000 to an even bigger tax cut, denying relief to any federal program;
- ! dissipates virtually all of the on-budget surplus in tax cuts, leaving little or nothing for other unmet needs, such as Social Security and Medicare solvency, education, veterans, transportation, and the environment.
- ! does nothing to relieve the pressure on the appropriations process, and further cuts discretionary programs below CBO's capped baseline by almost \$200 billion over the next ten years;

- ! cuts funding for key discretionary programs *even below a ten-year hard freeze*, for example:
 - ▶ veterans — function 700 (by \$2.3 billion over ten years),
 - ▶ agriculture — function 350 (by \$4.9 billion),
 - ▶ environment and natural resources — function 300 (by \$10.4 billion),
 - ▶ health research and public health — function 550 (by \$25.3 billion),
 - ▶ scientific and space research — function 250 (by \$9.0 billion),
 - ▶ transportation — function 400 (by \$16.7 billion),
 - ▶ law enforcement — function 750 (by \$14.5 billion),
 - ▶ assistance to state, local, and regional governments — function 450 (by \$46.4 billion).

- ! conceals which specific programs must be cut to meet constrained functional levels, and contains \$81.4 billion in *additional* unspecified program cuts, allowing the Republicans to imply funding promises Congress cannot keep.



Social Security, Medicare, Deficits, and Surpluses — Three times during this decade — 1990, 1993, and 1997 — Congress enacted bold budgets to deal with enormous deficits. This year, the fruits of our efforts are spread before us in the form of surpluses forecast as far as the eye can see. We have resolved the short-run problem of annual deficits, and will continue to do so if we adhere to disciplines such as the Pay-As-You-Go rules that have helped achieve these results.

But the actuaries at the Social Security Administration tell us Social Security will exhaust its trust funds by 2034, and will then be able to pay only 71 cents on each dollar of benefits owed out of its incoming tax revenues. The Health Care Financing Administration tells us that Medicare Part A (Hospital Insurance) will exhaust its trust fund even sooner, by 2015.

These are not recent revelations, but until we wiped out our annual deficits, it was harder to design legislation to shore up the Social Security and Medicare trust funds and make their benefits more secure. This year, Congress is in a position to address these problems and take the country into the next millennium on a strong fiscal foundation.

But the conference agreement fails to meet the challenge. While the clock ticks away on Social Security and Medicare, Republicans have chosen to waste time. They are pushing an irresponsible tax cut which grows larger and larger over time, thereby savaging discretionary programs and dissipating the surplus we will need to safeguard Medicare and Social Security. The Republican plan for Medicare and Social Security is simply to let those programs go broke on schedule.

Social Security and Medicare are the bedrock of financial security for tens of millions of Americans. Both are safe and solvent for now because of budget measures Congress passed in 1983, 1990, 1993, and 1997. During initial consideration of this year's budget resolution, House Democrats offered an alternative budget plan, that proposed to commit budget surpluses directly to Social Security and Medicare, extending their solvency by 19 and 12 years, respectively.

The Republicans rejected our proposals out of hand, but offer no alternative of their own. They transfer no additional resources to those trust funds. They propose no reforms, fundamental or otherwise. All they propose are tax cuts.

Social Security “Safe Deposit Box”: A Solution That Can Make the Problem Worse — Republicans propose a “safe deposit box” that purports to require that all Social Security surpluses be used to pay down government debt held by the public.

Paying down debt has merit and can help Social Security and Medicare simply because, with lower debt, the government and the nation will be in a better position to meet the financial challenges that will arise when the Baby Boomers retire. But four facts about the “safe deposit box” and the Republican conference agreement stand out.

First, the Republican “safe deposit box” is a sham: it lasts for only 18 months; it applies only to budget resolutions, not to legislation; and it can be waived by a simple House majority.

Second, the “safe deposit box” has a trap door for any legislation that the Budget Committee Chairman decides fits the vague and undefined phrase, “enhancing retirement security.” That phrase could mean anything — another tax cut, the diversion of Social Security’s existing resources into Medicare, or the diversion of those resources into new private “retirement accounts” as a substitute for Social Security.

If, in the name of “enhancing retirement security,” resources are diverted from the Social Security trust fund, it will become insolvent even sooner than the actuaries expect. Benefits promised by existing law will have to be cut.

If resources are diverted from the *rest* of the budget in the name of “enhancing retirement security,” (i.e., if on-budget surpluses are spent or dissipated through tax cuts beyond those called for in the conference agreement), then the rest of the budget will fall back into deficit. We have already noted that future budget resolutions and legislation to “enhance retirement security” are exempt from the new, weak, short-term point of order. But the conference agreement goes further; it automatically turns off *existing* Congressional enforcement rules for such legislation as well. Those existing rules — points of order against exceeding a committee’s spending allocation or against cutting taxes below the levels in a budget resolution — can currently only be waived by the vote of 60 Senators. It is ironic that the Republicans have created new loopholes that weaken existing enforcement of the surpluses and debt reduction they otherwise call for.

Third, even if the “safe deposit box” were not temporary and weak, and even if it did not create new loopholes — in short, even if it did, in some way, lock up the debt reduction planned in the conference agreement — such a “safe deposit box” does nothing to extend Social Security’s solvency. By acknowledging that the money dedicated to Social Security should in fact go to Social Security, the Republican “safe deposit box” does nothing more than ensure that Social Security goes broke right on schedule. This assessment was confirmed in a letter from Harry C. Ballantyne, Chief Actuary of the Social Security Administration.

Because the Republicans provide no additional resources to the Old Age, Survivors, and Disability Insurance trust funds (Social Security), the Chief Actuary stated, “The proposal would not have any significant effect on the long-range solvency of the OASDI programs under the intermediate assumptions of the 1998 Trustees Report. Thus, the estimated actuarial deficit . . . would not change, and the year of the combined trust funds’ exhaustion . . . would not change.”

In plain language, *even if it weren’t a sham*, the Republicans’ proposal for Social Security would not extend its solvency one day.

Finally, the budget alternative offered by House Democrats ran *larger* surpluses than the conference agreement in *every* year, paying down *more* debt than the conference agreement — \$151 billion more over ten years and half a trillion more over fifteen years.

In summary, the Social Security “safe deposit box” —

- ! expires in 18 months;
- ! does nothing to reform Social Security or extend its solvency, as already certified by the non-partisan actuaries;
- ! allows Social Security resources to be diverted to the Republicans’ pet scheme, “privatization;”
- ! allows Social Security resources to be transferred to Medicare;
- ! allows even deeper tax cuts than the exploding tax cuts in the conference agreement, if done in the name of “enhancing retirement security;”
- ! creates loopholes in existing enforcement rules, allowing the on-budget accounts to be pushed back into deficit by legislation enacted in the name of “enhancing retirement security.”

It is disingenuous to assert that *any* of these features would help Social Security.

Ignoring Medicare — The conference agreement has no plan at all for Medicare solvency — the Medicare budget figures in the conference agreement equal current law, ensuring that it, too, goes broke on schedule.

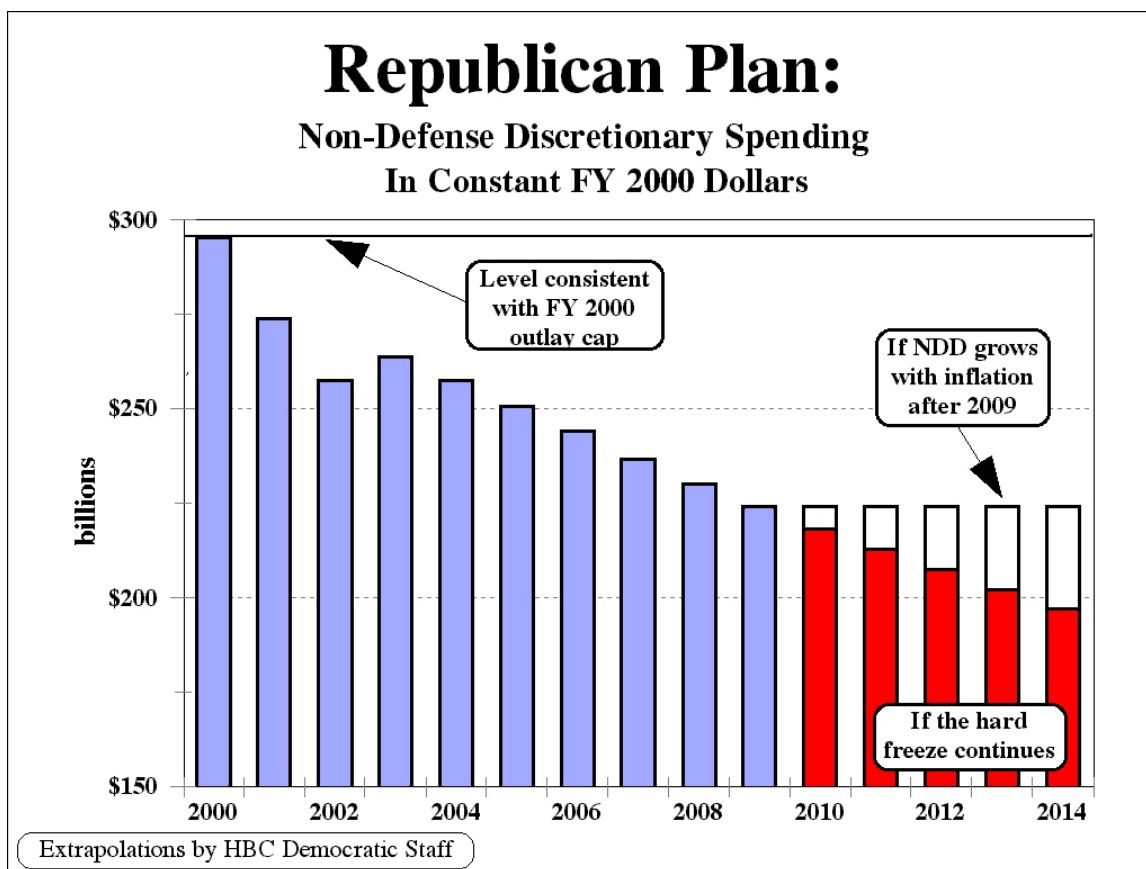
There are only three ways to extend the solvency of the Medicare Part A (Hospital Insurance) trust fund: by raising payroll taxes, by cutting benefits, or by transferring resources from the general fund. The conference agreement does not prohibit tax increases or benefit cuts, but it attempts to prohibit general fund transfers. In other words, on-budget surpluses *cannot* be used to extend the solvency of Medicare. To say, as some have, that the conference agreement allows the use of projected on-budget surpluses — zero in 2000-2003 and \$92.4 billion in 2004-2009 — to extend the solvency of the Medicare Part A trust fund is simply false.

Discretionary Spending: Grossly Inadequate and Deliberately Opaque — The conference agreement commits so much to its tax cut that discretionary programs must be cut \$191.5 billion below CBO’s capped baseline over ten years in order for the Republicans to meet their rhetoric about “locking up” the Social Security surplus.

The discretionary caps for 2000 are widely viewed as too tight, and the caps for 2001 and 2002 are tighter still. Yet the conference agreement slavishly follows these caps in all three years, even though the Republicans show no compunction about violating the Pay-As-You-Go rule so they won’t have to pay for their exploding tax cuts. Overall, the conference agreement —

- ! cuts total discretionary funding below CBO's capped baseline by \$191.5 billion over ten years;
- ! cuts non-defense discretionary programs from \$299.3 billion in 1999 (excluding emergency spending) to \$287.5 billion in 2009;
- ! reduces the purchasing power of these non-defense programs by 29 percent by 2009;
- ! reduces these non-defense programs from 3.4 percent of the economy in 1999 to 2.1 percent by 2009.

In fact, the Republican budget is so unrealistically tight that every area is cut. In terms of purchasing power, the overall, or average, reduction reaches 29 percent by 2009, as noted. This reduction in purchasing power ranges from a 9 percent reduction in defense and an 11 percent reduction in education, training, employment, and social services, to a 70 percent reduction in assistance to state, local, and regional governments.



The conference agreement obscures the political implausibility of its budget plan by not providing even minimal information about how Republican discretionary spending priorities can be funded within these constraints. This conference agreement is skeletal for a reason: to dodge criticism

of the huge cuts it requires in discretionary programs. Republicans take credit for selected spending initiatives without ever specifying the severe cuts necessary to meet their overall totals. These cuts will meet with opposition, on both sides of the aisle, simply because they represent bad policy.

Questioning during House mark-up exposed this strategy. When asked to reconcile the specific spending increases mentioned in their press materials with the declining funding totals, Republicans refused to admit to any specific cuts. Though they have bragged about spending initiatives for veterans, defense, education, health care, and scientific research, they fail to specify the offsetting cuts required to fund their proposals.

Not only are the specific budget functions filled with unspecified cuts, but the conference agreement hides additional non-defense discretionary cuts in a budget function disarmingly called “Allowances” but which could better be called “Someone Else’s Problem.” In order to hide the extent of their cuts in the environment, veterans health, agriculture, law enforcement, health research, transportation, and so on, the Republicans set a new record for burying unspecified cuts in “Allowances” — \$81.4 billion over ten years. Of course, these cuts in Allowances will ultimately have to be cuts imposed on real programs. Consequently, the very tight budget figures in the specific functions will undoubtedly be reduced even further.

The futility of unspecified or hidden cuts was aptly described last year by Senator Domenici, reacting to the same ploy House Republicans took then. Senator Domenici said:

The notion that it’s less onerous because it doesn’t ask you to consider specifics is just not so . . . Where is it going to come from? What is going to be cut?

The passage of a year does not weaken the force of those questions.

Exploding Tax Cuts and the Retirement of the Baby Boomers — There is an underlying reason for the deep program reductions and budget problems laid out above. The Republicans’ budget plan calls for tax cuts that grow increasingly large over time. The crippling of discretionary programs, the procrastination on Social Security, the neglect of Medicare — all result from one overriding fixation: passing a huge package of tax cuts.

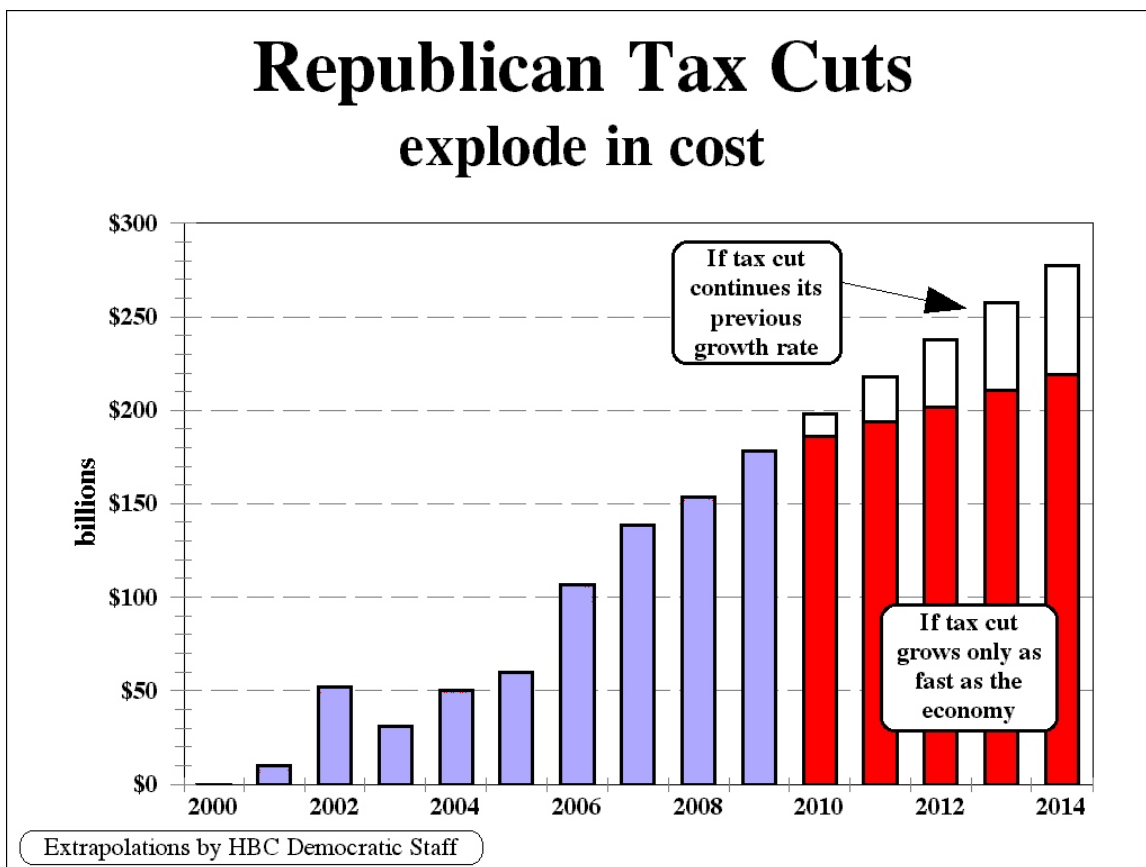
The conference agreement proposes tax cuts that start out by growing with the on-budget or non-Social Security surplus, and then exhausting it. After the first five years, the proposed tax cuts begin to exceed the projected non-Social Security surpluses, and as a result, sharp cuts in discretionary spending are required.

Even more disturbing results of their tax proposal are “over the horizon” and are not seen in their budget tables. They fall in years beyond their ten-year budget time-frame. These years, 2010

through 2014, are when the “Baby Boom” generation begins to retire, putting heavy pressure on the finances of Social Security and Medicare. During the five years beyond their budget time-frame, both the Social Security surplus and the non-Social Security surplus will peak and then start to decline, as payroll taxes become insufficient to cover benefit payments and Medicare spending grows more quickly.

Republicans have not specified their tax cuts, but the revenue losses of virtually all tax cuts increase with time. If their tax cuts follow this pattern, the government would face three unappealing choices around 2010:

- ! To cut defense and non-defense spending even lower;
- ! To repeal tax cuts previously enacted; or
- ! To use Social Security and Medicare payroll taxes to offset revenue shortages created by exploding tax cuts, as in the 1980s.



Conclusion — In this conference agreement, the Republicans do not take seriously their responsibility to govern. They send Congress a budget plan requiring appropriations bills they know they cannot pass due to opposition on both sides of the aisle. They ignore Medicare. They fail to propose practical ideas to protect Social Security and do nothing to extend its solvency. They weaken, not strengthen, budget enforcement rules and create a new loophole that allows legislation to remove resources from the Social Security trust fund, force the on-budget accounts back into deficit, or both, if done in the name of “enhancing retirement security.” And before the first on-budget surplus is realized, they propose tax cuts that will grow larger and larger with time, eviscerating discretionary programs and colliding with the retirement of the baby boomers.

None of this is necessary. During House consideration of the Republican budget plan, Democrats offered an alternative that put Social Security and Medicare before any tax cuts or spending increases. And, *contingent on extending the solvency of those trust funds*, House Democrats provided a credible plan:

- ! \$502.5 billion more than the Republicans for defense and non-defense discretionary programs over ten years;
- ! targeted tax cuts of a net \$117 billion over ten years;
- ! higher surpluses, and therefore lower debt, than the Republican budget in *every* year;
- ! by 2009, a total of \$151 billion *more* debt reduction than the Republicans.

Responsible budgeting is possible, but the Republican conference agreement fails the test.

II. Failing Social Security and Medicare

The conference agreement on the Republican budget resolution does nothing to address the impending funding shortfalls for Social Security and Medicare. Social Security is still scheduled to become insolvent in 2034, and Medicare will do so in 2015. Letters from the nonpartisan actuaries for Social Security and Medicare have confirmed that merely reserving the Social Security surplus, as provided in the conference agreement, does not extend the solvency of either program by a *single* day.

This is especially disappointing because the conference report, which House Republicans support, violates the motion to instruct that most of them voted for only one day earlier. The motion instructed the House conferees to insist that a tax bill not be reported until the latest possible date. This would give Congress as much time as possible to work on extending solvency for Social Security and Medicare before dealing with Republicans' exploding tax cut. Instead, the conference agreement has a July deadline for reporting the tax bill, even if Congress does nothing to extend the solvency of Social Security or Medicare.

Instead of directly engaging Social Security's and Medicare's problems, the conference report contains sense of the Congress language inviting the committees of jurisdiction to create a "lockbox." The Republicans' proposal supposedly would require that all Social Security surpluses be used to pay down government debt held by the public. However, the "lockbox" is not secure. First, the "lockbox" expires at the end of next year. In other words, it only applies to legislation through FY 2001. Then, it disappears. Second, Social Security surpluses in the "lockbox" may be used "to enhance retirement security," i.e. for unspecified reforms to Social Security or Medicare.

Such "reforms" might include setting up private retirement accounts as a substitute for Social Security or offering tax cuts for medical savings accounts. This escape clause is a direct threat to the Social Security benefits provided under current law. If the resources already committed to Social Security beneficiaries under current law are diverted to private retirement accounts or for Medicare, Social Security benefits provided by current law will have to be cut.

To enforce their "lockbox," Republicans propose that simple majority points of order be established in the House and the Senate against any bills or resolutions that might tap into Social Security surpluses. This presents only a minimal deterrent to raiding the supposedly secure "lockbox" because such points of order are routinely mowed down.

Democrats have repeatedly attempted to amend the Republican approach so that Social Security and Medicare can genuinely be safeguarded. In committee markup, the Ranking Democrat offered an amendment prohibiting net new tax cuts or spending increases until solvency was extended for Social Security until 2050 and for Medicare until 2020. This

amendment was defeated on a party-line vote. The Democratic alternative resolution offered on the floor embodied the same safeguard. Before the conference, the Ranking Democrat offered a motion to instruct House conferees to delay consideration of tax cuts so that the challenges faced by Social Security and Medicare could be addressed first. Although most Republicans voted for that motion, the Republican conference report nonetheless violates it.

Not a Lockbox, A Trojan Horse

Aside from being completely insecure, the Republicans' hypothetical "lockbox" does nothing to extend Social Security's solvency. By acknowledging that the money dedicated to Social Security should in fact go to Social Security, the Republican "lockbox" does nothing more than ensure that Social Security goes broke on schedule. The Ranking Democrat confirmed this assessment with a letter from Harry C. Ballantyne, Chief Actuary of the Social Security Administration, which was presented at committee markup.

Because the Republicans provide no additional resources to the Social Security (OASDI) trust funds, the Chief Actuary stated: "The proposal would not have any significant effect on the long-range solvency of the OASDI programs under the intermediate assumptions of the 1998 Trustees Report. Thus, the estimated actuarial deficit...would not change, and the year of the combined trust funds' exhaustion...would not change." In plain language, the Republicans' proposal for Social Security would not extend its solvency one day.

The escape clause for the Republican lockbox reveals its true purpose. The resolution states that Social Security surpluses are to be walled off unless Congress chooses to use them for unspecified "reforms" to Social Security or Medicare. Republicans' unwavering advocacy of privatization, i.e. replacing Social Security's guaranteed retirement benefits with individual investment accounts, suggests what reforms they might have in mind.

Certainly, the merits and flaws of privatization proposals are worth debating. However, that debate should recognize that the Social Security taxes currently being paid into the trust funds are intended to pay for Social Security benefits from the current system. As the Social Security actuaries remind us, that flow of payroll taxes will be insufficient to pay all the promised benefits without an additional infusion of resources. Without additional resources, benefits will have to be cut. Draining trust fund resources for privatization or overhauling Medicare makes the trust fund less solvent, requiring even more severe cuts.

Therefore, using Social Security monies to fund Republicans' privatization schemes is doubly irresponsible. The conference agreement fails to provide any additional resources to avoid the benefit cuts that would otherwise be required. And it allows resources to be diverted from Social Security, which would require even greater cuts than those necessary merely to keep the existing system going.

Ignoring Medicare

The Republican conference agreement is almost completely silent on their plans for Medicare. Republicans do establish a reserve fund for Medicare, but it seems designed to open the door for tax cuts, for vouchers, or other defined contribution replacements for the program. The conference agreement's reconciliation instructions insist that Medicare can be reformed but only in ways that do not involve using the non-Social Security surplus directly to help the program.

As described above, of course, the conference agreement would allow Social Security surpluses to be tapped for unspecified Medicare "reforms," even though those surpluses already are dedicated to paying Social Security benefits under current law. But there is no indication of what those reforms might be and no commitment of resources from elsewhere in the budget to strengthen Medicare.

Social Security is scheduled to face insolvency in 2034, some years from now. But Medicare is projected to run short of funds by 2015. Medicare is, therefore, a more urgent problem than Social Security, as well as a program of greater complexity. Choosing to ignore this, the third largest program in the federal budget, is not just baffling; it is irresponsible.

III. REVENUES

As with so many other items in the conference agreement on the budget resolution, Republicans did not provide specific recommendations regarding the form of tax cuts, leaving such decisions up to the Ways and Means Committee. The size of the cuts, however, is unambiguous. The conference agreement calls for a gross tax cut in 2000 of up to \$15 billion, which is to be entirely offset. Thereafter, it calls for net tax cuts of \$142.3 billion over five years and \$777.9 billion over ten years, an increase of more than half a trillion dollars. Even a cautious extrapolation of this path suggests that the Republican tax cut would grow by an additional trillion dollars between 2010 and 2014, just as the Baby Boom generation is beginning to retire. Even using the most cautious extrapolation, the total fifteen year cost of the tax cut would be at least \$1.7 trillion.

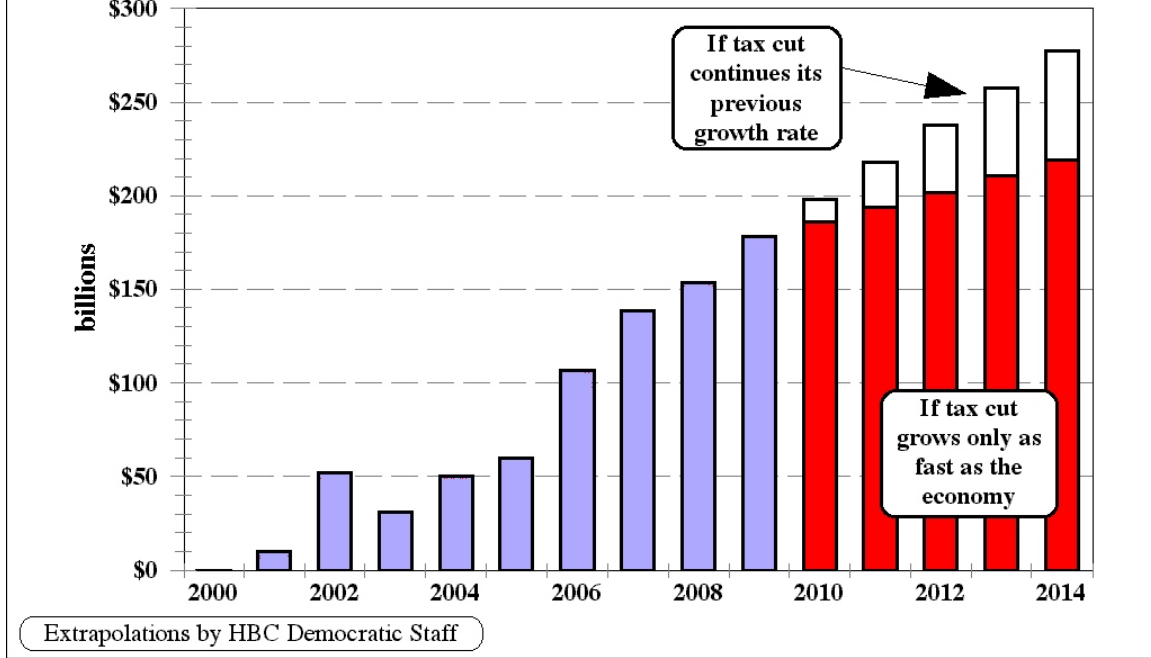
The conference agreement calls on the Congressional Budget Office (CBO) to issue an updated budget forecast by July 1, 1999. This re-estimate is widely expected to erase the small non-Social Security deficit in 2000 as a result of recent strong economic conditions. The conference agreement stipulates that any non-Social Security surplus that might occur as a result of the re-estimate can be used only for a net tax cut in 2000.

The Republicans' conference agreement is designed to pave the way for a large, growing, multi-year tax cut irrespective of the fate of Social Security and Medicare. Republicans trumpet the fact that they don't touch the Social Security surplus and portray this as doing something to save the program. Unlike the Democratic lockbox amendment offered in committee markup, unlike the Democratic alternative budget resolution, and unlike the Democratic motion to instruct conferees, the Republican conference report permits large net new tax cuts before anything is done to help Social Security and Medicare.

Furthermore, the conference agreement limits its views to the next ten years. This obscures the primary danger of the conference agreement's tax cut. After 2009, the Baby Boom generation begins to retire, and both the Social Security and non-Social Security surpluses are projected to start to decline. This means that the Republican tax cut would have to shrink during those years to avoid using Social Security money.

More likely, the tax cut would continue to grow, presenting a direct threat to Social Security and Medicare at the time they are most vulnerable. Even if the growth of the tax cut's cost slowed from its pace between 2000 and 2009, it would still swell to more than \$1 trillion between 2010 and 2014, the very years when Baby Boomers start to retire. If the tax cut's cost continued to rise at the same pace as it did in its first ten years, the cost would explode to well over a trillion dollars.

Republican Tax Cuts explode in cost



Possible Republican Tax Cuts

While the conference agreement is silent about specific tax cuts, Republicans have always been quite vocal about the kinds of cuts they support. In addition to Chairman Kasich's favored across-the-board rate cut, they have advanced a host of other tax cuts. These include a broadening of the 15 percent rate bracket, further cuts in the capital gains tax, reductions in estate taxes, exclusion of dividend and interest income up to certain amounts, further expansions of tax-preferred savings accounts, reductions in fuel taxes, relief for oil and gas producers, reducing income taxation for upper-income Social Security beneficiaries, accelerating the deductibility of health insurance costs for the self-employed, ensuring that middle-class taxpayers were not affected by the alternative minimum tax, addressing the marriage penalty question, and making permanent various tax provisions set to expire.

Clearly, there isn't sufficient room within the resolution's numbers to accommodate all of these initiatives. Republicans will have to pick among the many possibilities while still remaining revenue neutral in 2000 and staying below their five- and ten-year limits.

For instance, Chairman Kasich's across-the-board 10 percent rate cut violates the conference agreement's constraints by itself. It would cost twice as much as the resolution allows in the first five years and would require offsetting tax hikes of \$58 billion in the first year to remain revenue neutral in 2000. Even if this were accomplished, additional offsets would have to continue to be found to prevent a tax cut of this magnitude from dissipating any of the Social Security surplus. It would not be until 2006 that the non-Social Security surplus is sufficient to cover the cost of the Kasich tax proposal.

In addition, it is heavily lopsided in favor of the most affluent. About 45 million low-income households would not get any tax cut under his proposal. Among those who did, the largest percentage cuts would go to those with the highest incomes. Taxpayers with incomes over \$200,000 per year, the top 1.8 percent, would receive almost a third of the benefits of an across-the-board rate cut.

Capital Gains Tax Cuts

Another favorite tax cut often advanced by Republicans is a further reduction in capital gains tax rates. Past cuts in capital gains rates often have provided a short-term boost to revenues because of increased capital gains realizations. Of course, this revenue boost is followed by subsequent revenue losses. Since the resolution calls for no net revenue loss in 2000, the fact that this cut would be self-financing in the first year may make this cut attractive to Republicans.

However, because capital gains rates already have been reduced considerably in recent years, the magnitude of this effect has been greatly diminished. For instance, last year the Joint Tax Committee (JCT) analyzed a proposal by then-Speaker Gingrich to lower the capital gains rate to about half the rate on other income. JCT estimated that this would bring in an additional \$2 billion initially but eventually lose about \$5 billion per year.

As has been pointed out repeatedly, the benefits of capital gains rate reductions accrue disproportionately to those with higher incomes. For instance, a 1997 CBO report estimated that taxpayers with yearly incomes over \$200,000 accounted for over half of all capital gains realizations. Their average realization was \$144,000. Meanwhile, households with incomes below \$50,000, who account for 62 percent of taxpayers, received only 12 percent of capital gains with average realization of only \$1,700.

Estate Tax Cuts

Another element of the Republican tax agenda is estate tax relief. While it is true that the estate tax can have an impact on the inheritance of family farms and small businesses, some of these difficulties have been addressed in recent years. Current Republican proposals are not

targeted to families facing these specific difficulties. Rather, Republicans tend to call for an increase in the exclusion from its current level of \$650,000, which can be effectively doubled through estate planning by married couples to \$1.3 million. Currently, only about 1 percent of decedents pay any estate tax, and these are of course those with very large estates.

Areas of Potential Bipartisan Agreement

Democrats also want to see tax relief enacted this year. But Democrats differ from Republicans because they would first like to ensure that significant steps are taken to extend the solvency of Medicare and Social Security. Democrats also would like tax relief to be targeted to working families, and to make sure that the cost of tax cuts does not explode over time, jeopardizing our fiscal health just when the Baby Boomer's retirement puts pressure on federal finances.

One area where these differences are highlighted is the area of tax-preferred savings vehicles. Approximately 40 percent of American households have no savings whatsoever. These are the citizens who ultimately must rely exclusively on Social Security for their retirement income. Democrats would like to see these households take a step on the ladder of private wealth creation and self-sufficiency.

Republicans also favor using the tax code to create savings incentives and have argued for their inclusion in this year's budget. Unfortunately, their proposals, like Roth IRA's, tend merely to shift existing savings from taxable forms to non-taxable forms, rather than create net new saving. Furthermore, their incentives typically are structured as deductions rather than refundable tax credits, which means that they inevitably favor higher-income taxpayers with higher tax rates. Statements by Ways and Means Chairman Archer and Finance Committee Chairman Roth suggest that any tax preferences advanced by the Republicans this year will continue to have these characteristics.

There may be some common ground this year on marriage penalty relief. Here again, though, the details of particular proposals are very important. Some past proposals for marriage penalty relief have huge and growing costs in terms of lost revenue. Furthermore, they create new inequities for singles and disproportionately favor upper-income families. For example, one bill last year would have imposed a larger tax bill on some single taxpayers than on couples with the same income.

Finally, there is a fair amount of agreement that some of the tax provisions that are expiring this year should be extended. There is wide agreement that families who qualify for the child tax credit should not be subject to the alternative minimum tax. The work opportunity credit and the welfare-to-work credit enjoy bipartisan support. The research and experimentation tax credit also is widely accepted and will help to foster productivity growth. Extension of

expensing for “brownfields” remediation costs and the D.C. homebuyers credit may also garner bipartisan support.

IV. Discretionary Programs

By placing tax cuts above all other priorities, the conference agreement on the Republican budget resolution imposes such deep cuts in non-defense discretionary programs that it is simply not a credible plan. The conference agreement is \$191.5 billion below CBO's capped baseline over the next ten years, 2000-2009. While the Republicans claim that the conference agreement is consistent with the discretionary caps for 2000-2002 that were set in the Balanced Budget Agreement of 1997 (BBA), they increase defense by making matching cuts in non-defense, and thus are breaking faith with the non-defense levels set by the BBA. In sum, despite claims to the contrary, the conference agreement means substantial cuts to programs supporting education, veterans, law enforcement, agriculture, the environment, and other important programs.

- ! **Comparison with the House resolution** — The conference agreement provides a minuscule amount of additional non-defense discretionary outlays over 2004-2009 compared to the House Republican budget resolution. The total outlay increase over ten years is \$8.0 billion, an increase of three-tenths of one percent.
- ! **Background** — Discretionary programs are those controlled by the annual appropriations process. In the Bipartisan Summit Agreement of 1990, statutory dollar limits or “caps” were placed on discretionary budget authority and outlays for the years 1991 to 1995. A “sequestration” mechanism was created to make across-the-board cuts automatically if, at the end of each session of Congress, OMB determined that Congress had breached the caps. The discretionary caps were extended through 1998 when President Clinton's first budget was enacted in 1993, and the 1997 BBA revised and extended these caps through 2002.
- ! **The “Firewalls” Come Down in 2000** — The BBA established separate caps for discretionary defense and non-defense programs in 1998 and 1999. Known as “firewalls,” these separate caps prevented defense resources from being transferred to non-defense programs, and vice versa, in the appropriations process. Under the BBA, the firewalls cease to exist after 1999. Since the conference agreement increases funding for defense by \$8.4 billion for 2000 and does not raise the caps,¹ non-defense discretionary programs must be cut dollar-for-dollar to accommodate this increase. (The defense increase is problematic in several respects; see *Function 050: National Defense* for a summary of defense funding in the conference agreement.) In the conference agreement, the funding level for non-defense discretionary programs for 2000 is \$27 billion (9.9 percent) below the 1999 freeze level.

¹The \$8.4 billion is an increase above the President's request for 2000.

- ! ***Non-Defense Discretionary Funding, 2001-2002*** — In the conference agreement, the onslaught against non-defense programs continues. Non-defense discretionary budget authority will be 13.4 percent below the 1999 freeze level in 2001, and 11.7 percent below the 1999 level in 2002. In 2009, the non-defense discretionary spending level is \$19.4 billion below the 1999 freeze level in nominal dollars.

The Republicans also mask the size of their cuts in each function by placing a large, unspecified cut in function 920, which is a “catch-all” account that contains no actual programs. The size of these unspecified cuts ranges from \$5.1 billion to \$20 billion a year. (See *Function 920: Allowances*, for further discussion).

The resolution does not spell out its assumptions on what programs will be cut for a reason: to dodge criticism of the huge cuts required by the path it plots for discretionary spending. Even more hypocritically, Republicans are trying to take credit for selected spending initiatives, such as a one-time only increase for veterans’ medical care, without ever specifying the severe cuts necessary to meet their overall spending totals. These cuts are sure to meet with opposition on both sides of the aisle.

- ! ***Loss in Real Purchasing Power in Non-Defense Discretionary Programs*** — The table on page 21 compares discretionary programs under the conference agreement to a 1999 freeze. As the table indicates, the cumulative amount that non-defense discretionary outlays are cut below a 1999 freeze level over the first five-year period of the conference agreement, 2000-2004, is almost \$140 billion. Over the full ten years that the conference agreement covers, 2000-2009, the cumulative cut to non-defense program funding is \$241.5 billion. By 2004, these cuts represent an 18.2 percent decrease in purchasing power; by 2009, a 28.6 percent decrease.

- ! ***Discretionary Priorities*** — The graph on page 22 illustrates the effect of the resolution on the relative shares of defense and non-defense discretionary spending. In 1999, four years after the Republicans gained control of Congress, defense represents about 48 percent of all discretionary outlays, while non-defense outlays are 52 percent. By 2004, the conference agreement will reverse these priorities, with defense representing 52 percent of all discretionary outlays and non-defense 48 percent. These ratios remain relatively constant in the second five-years of the resolution, 2004 to 2009.

- ! ***Discretionary Spending As a Percentage of Gross Domestic Product (GDP)*** — As a percentage of GDP, discretionary spending steadily declines under the conference agreement.² In 1999, discretionary spending is 6.6 percent of GDP. Under the

²Measuring government programs or spending categories as a percentage of GDP is widely used but has flaws. For example, if the economy is growing, but defense and non-defense requirements hold steady, their share of GDP will naturally decline without any adverse effects. But while defense requirements are linked to variables external to the U.S. economy, (military threats), many non-defense programs are affected by economic

resolution, discretionary spending as a share of GDP will decline a full percentage point in the first five years, to 5.6 percent in 2004, and more than a full percentage point in the second five years, to 4.5 percent in 2009. Non-defense discretionary spending as a percentage of GDP falls precipitously under the conference agreement, going from 3.4 percent in 1999 to 2.7 percent in 2004 to 2.1 percent in 2009.

If one assumes that discretionary spending will keep pace with inflation from the 2009 level in the following five years (2010 to 2014), total discretionary spending will be 4.1 percent of GDP in 2014, with non-defense discretionary spending falling to just under 2.0 percent. If one assumes a freeze of spending at 2009 levels, then discretionary spending will be just 3.6 percent of GDP in 2014, and non-defense discretionary spending will be only 1.7 percent of GDP.

- ! ***Summary of Republican Discretionary Spending: Deliberately Opaque and Grossly Inadequate*** — The conference agreement appropriates virtually all of the on-budget surplus to offset the cost of its tax cut, leaving discretionary spending at unrealistic levels. The political implausibility of the conference agreement is demonstrated by the lack of even minimal information about the programs which must be cut to stay within its spending constraints. Republicans in both chambers have acknowledged that current discretionary caps are unrealistic:

“I think they [the discretionary spending caps] will have to be raised...It is going to be a difficult year.”

Sen. Ted Stevens, Chairman, Senate Appropriations Committee, 1999

“It’s reality, probably, that we have to bust the caps.”

Rep. Tom DeLay, House Majority Whip, 1999

The futility of this approach was aptly described last year by Senator Domenici, reacting to the same ploy House Republicans used then. Senator Domenici then said:

“The notion that it’s less onerous because it doesn’t ask you to consider specifics is just not so...Where is it going to come from? What is going to be cut?”

conditions, (such as low-income programs), or are investments that improve the future earning potential of the economy, (education, infrastructure). There is thus particular merit in using percentage of GDP as a measurement of non-defense, and it is a useful indicator of the relative affordability of both defense and non-defense programs to society as a whole.

DISCRETIONARY TOTALS
CONFERENCE AGREEMENT ON REPUBLICAN BUDGET RESOLUTION
(In billions of dollars)

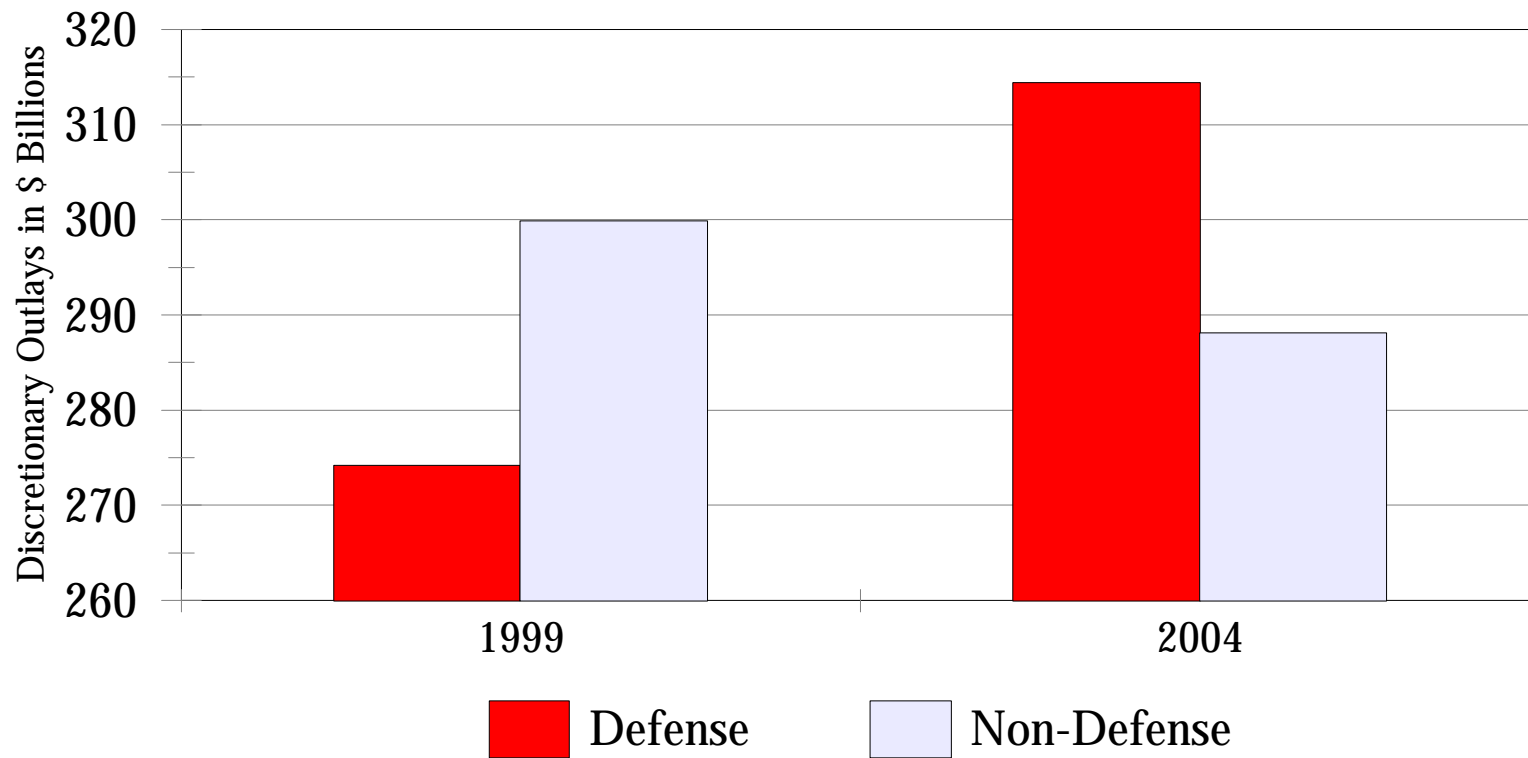
	2000	2000-04	2000-09	Above (+)/Below (-) BA Freeze"		
				2000	2000-04	2000-09
Total Discretionary						
Budget Authority	536.3	2,780.4	5,708.5	-9.6	50.0	247.3
Outlays	570.9	2,904.8	5,930.1	-14.8	-24.3	99.7
Non-defense discretionary						
Budget Authority	246.3	1,229.0	2,498.1	-26.9	-137.3	-234.3
Outlays	293.2	1,428.0	2,868.3	-17.6	-140.0	-241.5
050 National Defense						
Budget authority	290.0	1,551.5	3,210.5	17.3	187.4	481.8
Outlays	277.8	1,476.8	3,062.0	2.9	115.7	341.4
150 International Affairs						
Budget authority	17.7	82.7	162.8	-1.9	-15.3	-33.2
Outlays	18.5	89.5	169.6	-0.3	-7.8	-24.5
250 General Science, Space						
Budget authority	17.9	89.4	178.8	-0.9	-4.5	-8.9
Outlays	18.2	89.3	178.0	-0.3	-3.8	-8.2
270 Energy						
Budget authority	1.8	8.0	17.5	-1.2	-7.0	-12.4
Outlays	2.6	9.3	18.9	-0.6	-6.2	-11.6
300 Natural Resources and Environment						
Budget authority	22.0	109.0	222.3	-1.3	-7.3	-10.4
Outlays	21.9	108.7	221.5	-1.2	-7.6	-10.7
350 Agriculture						
Budget authority	3.9	18.6	36.8	-0.3	-2.3	-4.9
Outlays	4.0	18.7	36.7	-0.2	-2.1	-4.8
370 Commerce and Housing Credit						
Budget authority	3.5	11.0	20.9	-0.5	-9.2	-19.5
Outlays	3.7	11.2	20.7	-0.4	-8.5	-18.7
400 Transportation						
Budget authority	12.2	57.9	113.9	-1.1	-8.4	-18.6
Outlays	43.4	223.9	445.4	-1.2	-6.5	-16.7
450 Community and Regional Development						
Budget authority	6.4	21.7	40.7	-2.3	-21.9	-46.4
Outlays	10.9	35.5	51.8	0.0	-14.1	-41.9
500 Education and Training						
Budget authority	51.1	263.7	544.1	-0.2	7.0	30.7
Outlays	48.5	251.8	530.0	-0.7	-1.4	21.9
550 Health						
Budget authority	29.3	139.7	271.7	-0.4	-8.8	-25.3
Outlays	28.3	137.1	267.1	-0.3	-8.4	-24.9
570 Medicare						
Budget authority	3.0	14.9	29.9	0.0	-0.0	0.0
Outlays	3.0	14.9	29.8	0.0	-0.0	-0.0
600 Income Security						
Budget authority	28.7	156.6	340.3	-5.1	-12.1	3.2
Outlays	39.4	196.9	399.3	-2.8	-12.1	3.7
650 Social Security						
Budget authority	3.2	15.8	31.6	0.0	-0.0	-0.0
Outlays	3.3	15.9	31.6	0.0	0.0	0.0
700 Veterans						
Budget authority	20.9	97.1	191.7	1.6	0.3	-2.3
Outlays	20.9	97.7	191.9	1.5	0.7	-1.9
750 Administration of Justice						
Budget authority	23.1	120.8	242.3	-2.7	-7.9	-14.5
Outlays	25.1	123.7	245.3	-0.0	-4.3	-10.9
800 General Government						
Budget authority	11.4	55.6	111.3	-1.0	-6.6	-13.0
Outlays	12.3	57.5	112.0	-0.2	-4.4	-10.8

Numbers may not add exactly due to rounding.

NOTE: "BA Freeze" refers to CBO's WODI excluding IMF, emergencies, and the effects of changes in mandatory programs.
Functions 920 and 950 are excluded for comparability purposes.

Republican Budget Resolution

Defense/Non-Defense: 1999 v. 2004



Unfortunately, the House Republicans have been able to convince their Senate counterparts this year to produce an unrealistic budget resolution on a bicameral basis. Based on the discretionary levels in the conference agreement, it is difficult to escape the conclusion that the conference agreement is an implausible budget blueprint and represents instead a cynical approach to governance.

Function 050: National Defense

The conference agreement on the Republican budget resolution claims to provide \$290.0 billion in discretionary funding for national security activities for 2000. While the Department of Defense represents about 95 percent of this function, the nuclear weapons-related programs of the Department of Energy and defense activities in various other agencies, such as the Coast Guard and the Federal Bureau of Investigation, are also included within this function.

Republicans Stiff the Troops. Again.

! **Comparison with the House resolution** — The House resolution did not fund three different pay and retirement initiatives for military personnel requested by the Joint Chief of Staff and promised to our troops. These initiatives were:

- 1) An across-the-board 4.4 percent raise in 2000 and a 3.9 percent raise every year thereafter through 2009.
- 2) A repeal of “REDUX,” the military retirement system enacted in 1986 that cut pensions for military personnel from 50 percent of base pay after 20 years of service to 40 percent.
- 3) Additional raises up to 5.5 percent for mid-level military personnel who are critical to maintaining military readiness. This initiative is often referred to as “Pay Table Reform.”

The conference agreement does fund the across-the-board raise in 2000 and each year thereafter (the first initiative above), but flatly rejects the repeal of REDUX and the Pay Table Reform initiative despite repeated testimony by the Joint Chiefs of Staff that these initiatives are critical to readiness (see more detailed discussion below). In all other respects, the conference agreement is the same as the House resolution.

A Bogus Defense “Increase”

! **The Republicans Claim to Increase Defense, But the Numbers Don’t Add Up** — The conference agreement “provides” \$8.4 billion more in discretionary budget authority than the President’s budget, and \$29.6 billion more over five years (2000-2004). However, this increase is a budgeting mirage because the conference agreement does not provide the outlay levels needed to support this substantial increase in budget authority.³

³Budget authority refers to the amount of funding an agency may commit or obligate. Outlays refer to actual cash disbursements. For example, if Congress provides \$5 billion in budget authority for an aircraft carrier, the Navy can sign a contract with a shipyard to build that carrier. The Navy will not pay the contractor

The outlay level for 2000 is \$277.8 billion in the conference agreement, which is \$2.9 billion above the President's outlay level. Over five years, despite adding \$29.6 billion in budget authority, the conference agreement provides only \$7.3 billion more in outlays. In fact, in 2002 through 2004, the conference agreement provides **no** increase in outlays, despite adding almost \$6 billion in budget authority per year in that period.

Simply put, the Republicans don't put the cash (outlays) in the budget to match their rhetoric (measured in budget authority). The *total* outlay increase over five years in the conference agreement doesn't even support the increase in budget authority they provide in 2000 alone, much less the additional \$21.2 billion "provided" for the years 2001 to 2004.⁴

Three Possible Explanations of the So-Called "Increase"

- ! ***Explanation One: Promises Unfulfilled*** — The defense budget authority levels in the conference agreement are simply not backed up by the necessary outlays. The conference agreement could, therefore, be promising increases that cannot be fulfilled. It is noteworthy that the conference agreement does not accommodate the additional costs of S. 4, the bill recently adopted by the Senate to add to the President's pay and retirement package for military personnel. The Administration argued that S. 4 was raising expectations that could not be met, and given the lack of follow-through in the conference agreement, this criticism of S. 4 appears to be vindicated.

- ! ***Explanation Two: The Republicans Plan to "Bust the Caps" and Spend the Surplus Without Telling the U.S. Taxpayer*** — Using standard DoD spending rates, the Republicans are \$19 billion short in outlays of what is needed to support the budget authority levels in their conference agreement. If the Republican increase in budget authority were enacted, DoD could obligate it and outlays would be \$19 billion *more* over 2000-2004 than the conference agreement pretends. Surpluses, in turn, would be \$19 billion *less* than the conference agreement predicts, and their budget would "bust" the outlay caps set by the Balanced Budget Act of 1997.

the entire cost immediately, but rather will make progress payments to the contractor over the seven or so years it takes to build an aircraft carrier. These progress payments are recorded as outlays.

⁴CBO's estimate of defense outlays has been higher than OMB's estimates for 1993-1998, but in each of those years even CBO has underestimated actual defense outlays. For 2000, CBO's estimate of defense outlays for the President's budget is \$9.6 billion more than OMB's estimates. The House Republican budget resolution clearly does not assume CBO outlay estimates for defense. For purposes of this analysis, the President's budget is based on OMB's estimates.

! **Explanation Three: The Republican Budget Authority “Increase” Will Come at the Expense of the Troops** — As discussed previously, the conference agreement rejected two of the three initiatives requested by the Joint Chiefs of Staff and promised to our troops: the repeal of REDUX and the “Pay Table Reform” initiative. The Joint Chiefs of Staff have consistently testified as to the importance of these initiatives and their vital link to retaining an experienced, skilled, and top-notch military force. Adm. Jay Johnson testified that many sailors “are taking a wait-and-see attitude before making a career commitment. They want to see what we deliver this year.”⁵ Those sailors must be disappointed so far. To make matters even worse, the rejection of these critical initiatives comes on the heels of the sad saga of S. 4, which is now at the bottom of the legislative heap.

By not providing these benefits for the troops, the conference agreement can reduce its budget authority/outlay mismatch by \$5.7 billion over five years. If additional (albeit large) cuts are made to fast-spending accounts, such as health care and readiness, and the “savings” are shifted to relatively slow-spending accounts, such as procurement, the defense budget authority and outlay numbers in the conference agreement become plausible. However, this means that funding for readiness and health care for military personnel, their families, and retirees will have to be slashed.

In short, if adhered to, the budget authority and outlay numbers in the conference agreement will undermine military readiness and show a decided preference by Republicans for defense contractors over military personnel and their families.

! **Omitting Repeal of REDUX and Pay Table Reform Not an Accident** — When it became obvious that none of the military pay and retirement initiatives were included in the House Republican budget resolution, several Democrats alerted House Republicans to this fact during debate on the rule for the budget resolution and during debate on the resolution itself. (See *Function 950: Offsetting Receipts* for a discussion of how to determine whether these initiatives are funded.)

While it is possible that the omission was originally an oversight, the fact that the conference agreement redressed the 4.4 percent across-the-board raise issue but not the repeal of REDUX or the Pay Table Reform initiative demonstrates that the omission of these initiatives was deliberate.

⁵Testimony of Adm. Jay Johnson, Chief of Naval Operations, before the Senate Armed Services Committee, January 5, 1999.

The Long-Term Defense Outlook

- ! ***Sacrificing National Security on the Altar of Tax Cuts*** — The President provides \$104 billion more in budget authority than the conference agreement over the 10 year period, 2000-2009. This is primarily due to the fact that the conference agreement essentially freezes defense in 2004-2009 to accommodate the Republicans' exploding tax cuts.

Since the defense budget authority levels in the conference agreement are very misleading for the reasons described above, outlays should be used as a more meaningful comparison. The President's budget provides \$198 billion more than the Republicans for defense over the next 10 years. The conference agreement provides for real growth for defense outlays in the first five years, 2000-2004, but cuts defense drastically in real terms in the second five years. Defense outlays in 2009 are \$74 billion (8.7 percent) less than is needed to keep pace with inflation.

The defense freeze for 2005-2009 is not only unrealistic, but completely at odds with Republican rhetoric on the need for sustained defense increases. The defense levels in the conference agreement are clear signals that either the conference agreement is not a serious document or that the Republicans will sacrifice virtually anything and everything for tax cuts.

Function 150: International Affairs

The International Affairs function includes a wide range of programs and activities, including State Department diplomatic and consular operations (including embassies and consulates throughout the world), various services for Americans traveling abroad, military assistance to allies, assistance to underdeveloped nations, economic assistance to fledgling democracies, promotion of U.S. exports abroad, peacekeeping efforts, and U.S. payments to international organizations. The two largest recipients of U.S. foreign aid are Israel and Egypt. Since 1992, the International Affairs function has represented about one percent of all federal outlays.

- ! **Comparison with the House resolution** — The conference agreement on the Republican budget resolution provides \$1.3 billion more in funding for function 150 for 2000 than the House resolution, but this is still \$1.9 billion below the 1999 level. Over five years, 2000-2004, the conference agreement provides \$5.0 billion more than the House resolution, and \$7.4 billion over ten years. As is discussed below, these levels represent draconian cuts to U.S. international programs.
- ! **International Affairs Funding in the Conference Agreement** — The conference agreement provides \$17.7 billion for international affairs programs for 2000, which is \$1.9 billion (9.8 percent) below the 1999 level. Over five years, 2000-2004, the resolution cuts this function by \$15.3 billion compared with a freeze at the 1999 level, and by \$33.2 billion over 10 years (2000-2009). This represents a 25 percent loss in purchasing power in 2004, and a 36 percent loss in 2009.
- ! **Irresponsible Funding Levels** — The conference agreement cuts funding for international programs and activities to an unrealistically low level without specifying cuts, and is thus emblematic of the unwise and politically implausible assumptions upon which the entire conference agreement rests.

Secretary of State Madeleine Albright warns that cuts of this magnitude:

“would slash deeply into the bone and sinew of our...diplomatic and consular operations...[and] represent a clear and present danger to American safety, prosperity, and values.”

Function 250: General Science, Space, and Technology

Function 250 comprises funding for general science, space, and technology programs including the National Aeronautics and Space Administration (NASA), the National Science Foundation (NSF), and general science programs at the Department of Energy (DOE).

For 2000, the conference agreement on the Republican budget resolution provides \$17.9 billion in discretionary funding for Function 250, \$0.9 billion (4.7 percent) less than the 1999 level. Compared with a freeze at the 1999 level, the conference agreement cuts funding by \$4.5 billion over the five-year period 2000-2004 and by \$9.0 billion over the ten-year period 2000-2009. By 2004, this represents a 15 percent decrease in purchasing power; by 2009, a 24 percent decrease.

- ! **Comparison with the House resolution** — For Function 250, the conference agreement is the same as the House resolution.

- ! **National Science Foundation (NSF)** — The conference agreement does not specify assumptions regarding NSF, but extrapolating the overall function cut for the year 2000 results in a decrease of \$0.2 billion compared with the 1999 level. Compared with a freeze at the 1999 level, the conference agreement cuts funding by \$0.8 billion over five years (2000-2004) and by \$1.7 billion over ten years (2000-2009).

- ! **National Aeronautics and Space Administration (NASA)** — The conference agreement does not specify assumptions regarding NASA, but extrapolating the overall function cut for the year 2000 results in a decrease of \$0.6 billion compared with the 1999 level. Compared with a freeze at the 1999 level, the conference agreement cuts funding by \$2.9 billion over five years (2000-2004) and by \$5.8 billion over ten years (2000-2009).

- ! **Department of Energy (DOE) General Science** — The conference agreement does not specify assumptions regarding DOE general science programs, but extrapolating the overall function cut for the year 2000 results in a decrease of \$0.1 billion compared with the 1999 level. Compared with a freeze at the 1999 level, the conference agreement cuts funding by \$0.6 billion over five years (2000-2004) and by \$1.3 billion over ten years (2000-2009).

Function 270: Energy

Function 270 comprises energy-related programs including research and development, environmental clean-up, and rural electric loans. Receipts from the marketing of federally produced electric power and the fee assessed on electricity produced by commercial nuclear reactors are accounted for in this part of the budget. The resolution does not detail specific cuts to any of these various programs.

For 2000, the conference agreement on the Republican budget resolution provides \$1.8 billion in discretionary funding for Function 270, \$1.2 billion (40 percent) less than the 1999 level. Compared with a freeze at the 1999 level, the conference agreement cuts funding by \$7.0 billion over the five-year period 2000-2004 and by \$12.5 billion over the ten-year period 2000-2009. By 2004, this represents a 43 percent decrease in purchasing power; by 2009, a 50 percent decrease.

- ! **Comparison with the House resolution** — For Function 270, the conference agreement is virtually identical to the House resolution. The only difference is that the function total for 2000 is \$49 million instead of the \$0 provided in the House resolution. The conference agreement does not specify whether this represents an increase in either discretionary or mandatory spending or a decrease in receipts.
- ! **Aberrant spending path** — Not only does the conference agreement cut discretionary funding from \$3.0 billion to \$1.8 billion (a 40 percent cut), as stated above, but it further slashes discretionary funding to \$0.5 billion in 2001. The 2001 level represents an 83 percent cut from the 1999 level. Discretionary funding then rises back to \$1.9 billion annually through 2009 — still far below the 1999 level.

Function 300: Natural Resources and the Environment

The Natural Resources and Environment function includes funding for water resources, conservation and land management, recreational resources, and pollution control and abatement. Agencies with major program activities within this function include: the Environmental Protection Agency (EPA); the Army Corps of Engineers; the National Oceanic and Atmospheric Administration; the US Forest Service; and the Department of the Interior, which includes the National Park Service, the Fish and Wildlife Service, the Bureau of Reclamation, and the Bureau of Land Management, among others.

For 2000, the conference agreement on the Republican budget resolution provides \$22.0 billion for discretionary natural resources and environmental programs. This level of funding is \$1.3 billion (5.4 percent) less than the 1999 level. Over five years, the conference agreement cuts funding by \$7.3 billion compared to a freeze at the 1999 level. Over ten years, the conference agreement cuts funding by \$10.4 billion below a freeze. These cuts represent a 15.5 percent cut in purchasing power by 2004 and a 25.4 percent cut by 2009.

- ! **Comparison with the House Resolution** — For 2000, discretionary funding in the conference agreement is the same as the House resolution. However, over five years, the conference agreement provides \$2.0 billion less than the House resolution. Over ten years, it provides \$4.5 billion less for Function 300 programs.
- ! **Continued State and Local Assistance Placed in Jeopardy** — The cuts envisioned by the conference agreement could translate into a reduction in the assistance provided to states and localities for environmental infrastructure. In 1999, EPA provided \$2.6 billion in grants to finance wastewater and drinking water treatment plants, but even this amount did not fully address the needs of many communities.
- ! **No Help for Ailing National Parks** — The conference agreement likely entails cuts for the National Park Service, which means longer waits for much-needed upgrades to the facilities that serve the millions of visitors who enjoy our parks each year.
- ! **Potential Delays in Water Resources Projects** — The Army Corps of Engineers designs, builds, and often operates and maintains projects that provide river and harbor navigation, flood control, water supply, wildlife protection, and recreation. The conference agreement's cuts could mean delays in harbor-deepening projects or in the construction of flood protection projects.
- ! **No Room for the Lands Legacy Initiative** — The conference agreement does not specify any assumptions regarding the President's Lands Legacy Initiative, but the funding levels leave no room for the President's proposal. That means that the Republican Congress is rejecting the opportunity to acquire critical lands surrounding America's natural

treasures, such as California's Mojave Desert or the Florida Everglades. It also means no funding to support state and local efforts to adopt "smart growth" strategies, to preserve open space, and to restore urban parks.

Function 350: Agriculture

The conference agreement on the Republican budget resolution fails to give farmers the assistance they need, providing discretionary funding below a freeze at the 1999 level every single year. For 2000, it decreases discretionary funding for agriculture by \$300 million below the 1999 level. Over five years, it provides \$2.3 billion less than a freeze at the 1999 level and over ten years, it provides \$4.9 billion less than the 1999 freeze level. These cuts in discretionary funding destroy the purchasing power of agriculture programs; they represent a 24.8 percent decrease in purchasing power by 2004 and a 34.3 percent decrease by 2009.

- ! **Comparison with the House resolution** — For function 350, the conference agreement is the same as the House resolution.
- ! **Crop Insurance Reform** — The conference agreement adds a total of \$6.0 billion in mandatory spending from 2001 to 2005 on the assumption that Congress will reform the crop insurance system. However, the extra spending ends after 2005, leaving farmers in the lurch when this crop insurance program ends. To continue the crop insurance funding would require deep cuts in other mandatory spending programs that provide commodity, credit, and export assistance.
- ! **Programs cut** — The conference agreement cuts discretionary spending for four years and then freezes it from 2003 onward at \$600 million below a freeze at the 1999 level. It cuts program funding by 6.5 percent for 2000 and by almost 14 percent each year from 2003 through 2009. Programs that would absorb these cuts include agricultural research, education, and statistics services; the Animal and Plant Health Inspection Service and other crop inspection services; Department of Agriculture staffing and facilities; programs that help farmers sell crops overseas; and other programs that help farmers boost productivity. The conference agreement does not say how much the Republicans would cut each of these programs.

Function 370: Commerce and Housing Credit

The Commerce and Housing Credit function includes discretionary funding for housing programs such as subsidies for housing in rural areas and mortgage insurance provided by the Federal Housing Administration (FHA). In the commerce area, it includes discretionary funding for programs such as export promotion, science and technology, the census, and small business assistance. This function also includes mandatory spending for deposit insurance activities related to banks, savings and loan institutions, and credit unions.

The conference agreement on the Republican budget resolution provides \$3.5 billion in 2000 for discretionary commerce and housing credit programs. This level of funding is \$0.5 billion (13.3 percent) less than the 1999 level. Over five years (2000-2004), the conference agreement cuts funding for this function by \$9.2 billion compared with a freeze at the 1999 level. Over 10 years (2000-2009), the cuts amount to a staggering \$19.5 billion decrease.

- ! ***Comparison with the House Resolution*** — For 2000, the conference agreement provides \$200 million less than the House resolution for discretionary programs in Function 370. Discretionary funding levels for years after 2000 are the same in the conference agreement and the House resolution.

- ! ***Census 2000 Paid For With Cuts?*** — The conference agreement is silent on how it accommodates the multi-billion dollar increase required for the decennial census. One can only assume that extra funding for the census will be taken away from other programs in this function.

- ! ***Housing and Small Business Programs at Risk*** — The cuts in discretionary funding for this function could translate into a massive scale-back of the following programs: Small Business Administration's loan programs, rural and Indian housing programs, and the FHA's assistance for first-time, low- and moderate-income home buyers.

Function 400: Transportation

Function 400 comprises funding for transportation programs run by the Federal Highway Administration, the Federal Aviation Administration, the Federal Transit Administration, the Federal Railroad Administration, the National Highway Traffic Safety Administration, and other offices within the Department of Transportation. Function 400 also includes funding for the Coast Guard.

For Function 400, the conference agreement on the Republican budget resolution provides \$51.8 billion in budgetary resources (budget authority plus mandatory contract authority) for the year 2000, \$1.0 billion less than the 1999 freeze level. Over the five-year period 2000-2004, the conference agreement cuts transportation funding by \$8.4 billion compared with a freeze at the 1999 level. Over the ten-year period 2000-2009, the conference agreement cuts funding by \$18.6 billion compared with a freeze. The agreement does not specify assumptions regarding funding for the various modes of transportation (highways, mass transit, rail, aviation, and water transportation) or for other transportation programs (highway safety, research, Coast Guard, and others).

! **Comparison with the House Resolution** — For Function 400, the conference agreement is the same as the House resolution.

! **Highways and Transit** — The enactment last year of the Transportation Equity Act for the 21st Century (TEA-21) marked a major shift in the funding of highway and mass transit programs. TEA-21 constrains the role of the annual budget and appropriations process with respect to transportation funding. For example, TEA-21 ties obligation limitations for federal-aid highways for each year to the excise tax revenues that accrue to the Highway Trust Fund during the prior year and requires the guaranteed minimum level of highway resources to be adjusted annually. (The minimum levels are guaranteed by a point of order against appropriations bills that do not provide sufficient funding.) One can reasonably assume, therefore, that the aforementioned cuts over five and ten years will not be taken out of the core highway and transit programs.

! **All Other Transportation Programs** — If highway and transit funding is not subject to the aforementioned cuts, then the cuts must come out of other transportation programs. While most highway and transit programs (and some aviation programs) are funded with mandatory contract authority, discretionary budget authority funds other transportation programs. The conference agreement provides \$12.2 billion in discretionary budget authority for the year 2000, \$1.0 billion (7.9 percent) less than the 1999 level. Compared with a freeze at the 1999 level, the conference agreement cuts discretionary funding by \$8.4 billion over the five-year period 2000-2004 and by \$18.6 billion over the ten-year period 2000-2009. By 2004, this represents a 27.3 percent decrease in purchasing power; by 2009, a 37.2 percent decrease.

The programs from which these cuts will have to be made are the Coast Guard (including boat safety, drug interdiction, fleet maintenance, and other activities), Amtrak and other rail programs, some Federal Aviation Administration programs, NASA aeronautics, transportation research, pipeline safety, and Department of Transportation administration (including the Office of the Inspector General).

Function 450: Community and Regional Development

The conference agreement on the Republican budget resolution dramatically cuts discretionary funding for 2000 for community and regional development programs, providing only \$6.4 billion for 2000, a decrease of \$2.3 billion below the 1999 level. This would require an across-the-board cut of 26.5 percent, eliminating more than a quarter of total funding. The funding is cut further for the next two years and then frozen from 2003 through 2009 at a level \$4.9 billion (56.4 percent) below the 1999 freeze level. This cut is larger than the total funding for the Community Development Block Grant Program that is within this function. Overall, the conference agreement reduces funding by \$21.9 billion over five years (2000-2004) and by \$46.4 billion over ten years (2000-2009) compared with a freeze at the 1999 funding level. These cuts represent a devastating 60.9 percent decrease in purchasing power by 2004 and a 65 percent decrease by 2009.

- ! **Comparison with the House resolution** — The conference agreement provides even less than the already low levels in the House budget resolution. It provides \$1.0 billion less than the House resolution for 2000; \$7.7 billion less over five years (2000-2004); and \$16.6 billion less over ten years (2000-2009).
- ! **Community Development Block Grants** — This program provides funds to help communities improve housing and public works. Under an across-the-board cut of 26.5 percent, funding for 2000 would decrease by \$1.2 billion from the 1999 freeze level of \$4.7 billion. Funding for 2003 through 2009 would decrease by \$2.7 billion (56.4 percent), to \$2.0 billion.
- ! **Disaster Loans** — The 26.5 percent across-the-board cut would cut funding for the Small Business Administration's disaster loan program by \$52 million, from \$197 to \$145 million for 2000. For 2003 through 2009, funding would be \$111 million (56.4 percent) below the 1999 freeze level.
- ! **Federal Emergency Management Agency (FEMA)** — Assuming a 26.5 percent across-the-board cut, the conference agreement decreases funding for FEMA from \$684 million to \$503 million for 2000 and to \$298 million for years 2003 through 2009.

Function 500: Education, Training, Employment, and Social Services

Republicans talk of committing more to education, but the conference agreement on the Republican budget resolution cuts discretionary spending for education, training, employment, and social services for 2000 by \$200 million below the 1999 level. Over five years, the conference agreement provides only \$7 billion above a freeze at the 1999 level, representing a 1.1 percent decrease in purchasing power by 2004. While the conference agreement increases spending by \$30.7 billion in nominal dollars over 10 years, this level is really a 13 percent decrease in purchasing power by 2009.

- ! ***Comparison with the House and Senate resolutions*** — The conference agreement provides \$51.1 billion in discretionary funding, \$1.0 billion more than the woefully inadequate House level and \$1.1 billion below the Senate level. Even with this modest increase, the conference agreement is \$0.2 billion below a freeze at the 1999 level. Because the Republicans no longer provide subtotals within function 500, we do not know if they still intend to increase elementary and secondary education, which would force decimating cuts in higher education and social services, or whether they intend to spread their cut across all programs. For the purpose of this summary, we assume the conference agreement increases funding only for elementary and secondary education programs because those funding levels differed in the House and Senate resolutions, while the levels for other programs were the same and hence outside the scope of the conference.

- ! ***Special education*** — The Republicans purport to increase special education funding by \$500 million, but they cut total discretionary funding by \$200 million for 2000. The conference report has language establishing a reserve fund in the Senate for special education just for 2000 to accommodate separate pending legislation that would allow states to transfer some of the funds Congress provided to help them reduce average class size to special education programs instead.

- ! ***Deep cuts in other education programs*** — Assuming that the conference agreement slashes higher education, employment and training, and social service programs the same way the House and Senate resolutions did, these programs are cut by \$16.6 billion over five years and by \$36.3 billion over ten years compared with a freeze at the 1999 level. The conference agreement does not specify which education programs are cut, but the funding levels over ten years require a 12.2 percent across-the-board cut in programs other than those for elementary and secondary education. This means deep cuts in higher education programs such as Pell Grants and the Work Study program, Head Start and child welfare services, the Smithsonian, and training and employment programs.

Higher Education

- ! **Pell Grants** — The Republicans claim to increase funding for Pell Grants yet they cut overall higher education funding from a 1999 freeze by 5.7 percent for 2000, by 11.1 percent over five years, and by 12.2 percent over ten years. The 2009 level is a staggering 16.2 percent below the 1999 level, which would mean cutting Pell Grants by \$1.2 billion to less than their 1993 funding level.
- ! **Work Study** — The conference agreement cuts the Work Study program by an average of \$106 million from the 1999 level of \$870 million to the lowest level since 1996. The number of students served would decrease by 112,000.

Social Services

- ! **Head Start** — For 2000, the conference agreement on the Republican budget resolution reduces overall discretionary funding for job training and social services activities by 5.7 percent from the 1999 level and by more than 12 percent from the 1999 level beginning in 2001. For 2009, this cut grows to more than 16 percent. For the Head Start program for 2000, this means a funding reduction of \$266 million from the 1999 level, increasing to a cut of \$578 million for 2001. This funding level means cutting the program's current caseload and services, and by 2001 the conference agreement eliminates services to about 100,000 children now enrolled in the program. By 2004, funding in the conference agreement represents more than a 21 percent decrease in purchasing power for Head Start; by 2009, a 32 percent decrease.
- ! **Older Americans Act Programs** — The conference agreement cuts current services for older Americans, including Meals-on-Wheels, Congregate Meals, and supportive services provided through state and local agencies and other service providers. At a time when there is a growing population of frail and at-risk older adults, the across-the-board cut required by the resolution decreases funding for Administration on Aging programs to \$832 million in 2000, a reduction of \$50 million from the 1999 level. By 2004, funding is reduced to \$772 million, a 21 percent decrease in purchasing power. By 2009, funding is reduced to \$739 million, a 32 percent decrease in purchasing power.
- ! **Social Services Block Grant (SSBG)** — The conference agreement appears to fund mandatory social services programs at the levels authorized by current law, including funding the SSBG program (Title XX) at \$2.4 billion for 2000, an increase of \$471 million from the amount available in 1999.

Employment and Training

- ! ***Training and Employment Services*** — The conference agreement calls for a decrease of \$300.6 million for Training and Employment Services for 2000; a decrease of more than \$654.0 million each year for the period 2001-2008 compared with the 1999 freeze level; and a decrease of \$854.4 million for 2009 in relation to the 1999 freeze level. Training and Employment Services consists of Dislocated Worker Employment and Assistance, Job Corps, Youth Activities (which replaces Youth Activities and the Summer Youth Program in 2000), and Adult Employment and Training Activities.

- ! ***National Labor Relations Board*** — The conference agreement calls for a decrease of \$10.5 million for the National Labor Relations Board for 2000; a decrease of more than \$22.8 million each year for the period 2001-2008, compared with a 1999 freeze level; and a decrease of \$29.8 million for 2009 in relation to the 1999 freeze level.

Overall Cut for Education: Alternative Scenario

Because the House and Senate budget resolutions provided identical funding levels requiring deep cuts for higher education, training, and social services programs, this summary assumes that the conference agreement did not change those funding levels. However, the conference agreement does not provide information about how the Republicans spread their \$200 million cut below the 1999 freeze level in this function. It would be equally fair to assume that the conference agreement requires an across-the-board cut of 0.4 percent for 2000 compared with a freeze at the 1999 level in all program in function 500. Under this second scenario, elementary and secondary education programs, including special education, suffer the same cuts as programs in higher education, training, and social services, but the decreases are not as severe in higher education, training, and social services as stated earlier.

Function 550: Health

Function 550 covers most federal programs that provide direct health care services. Health programs included in the function are designed to further national biomedical research goals, protect the health of the general population and workers in their places of employment, provide health services for underserved populations, and promote training for the health care workforce. The major discretionary programs (programs subject to annual appropriations) in Function 550 include the National Institutes of Health (NIH), the Centers for Disease Control (CDC), the Food and Drug Administration (FDA), Ryan White AIDS programs, the Maternal and Child Health Block Grant, Family Planning, and the Substance Abuse and Mental Health Services Administration (SAMHSA). The major mandatory programs are Medicaid and the Children's Health Insurance Program (CHIP).

- ! **Comparison with the House Resolution** — For Function 550, the conference agreement on the Republican budget resolution is the same as the House resolution.

Discretionary Health Programs

- ! **Discretionary Health Programs** — Overall the conference agreement cuts funding for discretionary health programs for 2000 by \$402 million below the 1999 level. Further cuts below the 1999 freeze level are continued thereafter. Over five years (2000-2004), funding for discretionary health programs is cut by \$8.8 billion below the 1999 freeze level. Over ten years (2000-2009), funding is cut by \$25.3 billion below the 1999 freeze level. By 2004, this represents a decrease in purchasing power of 18.2 percent; by 2009, a 31.2 percent decrease. The conference agreement does not contain explicit assumptions regarding the funding of discretionary health programs. However, it is obvious from the extremely low funding levels contained in the conference agreement that severe cuts in discretionary health programs are required over the next ten years (2000-2009).
- ! **Funding Increases for the National Institutes of Health (NIH)** — The conference agreement does not state assumptions regarding funding for NIH. However, it does include a Sense of the Senate provision stating that there shall be a continuation of the pattern of budgetary increases for biomedical research. On a bipartisan basis, Congress significantly increased NIH's funding level in recent years (15 percent in 1999 alone). Currently NIH accounts for 52 percent of all discretionary health funding. If other programs are to survive the deep cuts prescribed in this function by the Republican budget, Congress will have to renege on its promise to continue providing huge, annual increases in NIH funds.
- ! **Other Health Programs Slashed** — Given the overall cuts in discretionary health funding contained in the conference agreement, increases in NIH's funding level will hold funding levels for other health programs even further below the freeze level than implied by the

aggregate cuts cited above. Cuts of this magnitude will drastically undermine the delivery of basic health care services to underserved areas, devastate prevention programs, and seriously compromise the Food and Drug Administration's ability to oversee public health needs. With the exception of NIH funding, the funding levels in the conference agreement threaten the continuation of several vital health services and research programs.

Major Mandatory Health Programs — Medicaid and Children's Health Insurance Program (CHIP)

- ! ***No Changes in Medicaid or CHIP Benefits*** — The conference agreement does not assume any changes in Medicaid/CHIP eligibility, benefits, or administration relative to current law.

- ! ***Medicaid Tobacco Recoupment*** — The conference agreement assumes the federal government relinquishes its right to recoup Medicaid funds related to the 1998 multi-state tobacco settlement from the states. No federal strings are placed on the states' use of the relinquished Medicaid funds. Under current law, if states recover any Medicaid funds, the recoveries must be shared with the federal government. The federal government's share of Medicaid benefits averages 57 percent.

The conference agreement assumes that states retain \$2.9 billion over a five-year period (2000-2004), and \$6.8 billion over a ten-year period (2000-2009) in Medicaid recoupment funds related to the 1998 multi-state tobacco settlement. The amounts waived by the conference agreement are equal to projections by the Congressional Budget Office of the total funds likely to be recouped by the federal government from the 1998 multi-state tobacco settlement. (The waived funds are counted as a cost to the federal government. Conversely, recoveries count as savings.)

Function 570: Medicare

Function 570 includes only the Medicare program. Discretionary funds are used to administer and monitor the Medicare program (Parts A and B). Medicare benefits comprise almost all of the mandatory spending in Function 570.

- ! **Comparison with the House Resolution** — For Function 570, the conference agreement on the Republican budget resolution is the same as the House resolution.
- ! **Failing to Save Medicare** — The conference agreement does nothing to extend the solvency of the Medicare Hospital Insurance Trust Fund by even one day. According to the 1999 Trustees Report, Medicare will be bankrupt by 2015. For a discussion of Medicare and the budget surplus, see *Failing Social Security and Medicare*.
- ! **Administrative Funds Frozen for Ten Years** — On the discretionary side of the budget, the conference agreement freezes Medicare's administrative funds at the 1999 level for ten years (2000-2009). By 2004, this represents a decrease in purchasing power of 15.2 percent; by 2009, a 30.3 percent decrease.
- ! **No Changes in Medicare Benefits or Provider Payments** — The conference agreement does not assume any revisions in Medicare benefits or provider payments relative to current law.
- ! **National Bipartisan Commission on the Future of Medicare** — The Balanced Budget Act of 1997 established the National Bipartisan Commission on the Future of Medicare. The Commission was charged with reviewing and analyzing the financial integrity and the provision of appropriate benefits under the program. By law, the Commission's recommendations to preserve Medicare for the long term were due in March 1999, and they had to be supported by 11 of the 17 members on the Commission. None of the proposals considered by the Commission were supported by more than 10 members of the Commission. Consequently, the Commission will not forward a formal report to Congress.

Although the Commission was unable to muster the 11 votes required by statute to forward a report to Congress, the Co-Chairs of the Commission, Senator Breaux and Rep. Thomas, announced their plans to introduce legislation based on the "premium support" model considered by the Commission. The basic concept underlying a "premium support" model requires converting the Medicare program from a defined benefit to a defined contribution program.

The conference agreement does not assume any Medicare changes based on the work of the Commission. However, revisions in the Medicare program need not be included in the final budget resolution in order for Congress to consider them.

Function 600: Income Security

- ! **Comparison with the House and Senate Resolutions** – For 2000, the conference agreement on the Republican budget resolution includes funding of \$244.4 billion for income security programs, the same amount included in both the House and Senate resolutions. For 2001 through 2009, the conference agreement makes the following changes:

On the mandatory side, the conference agreement cuts the \$12.5 billion increase over 10 years for the Child Care and Development Fund in the Senate resolution to \$3.0 billion over 10 years, beginning in 2004. The House resolution did not include an increase for child care spending. The conference agreement does not include the House budget resolution assumption that, beginning in 2001, states be given flexibility to divert Temporary Assistance for Needy Families (TANF) block grant money for new educational purposes, such as school construction and hiring additional teachers.

On the discretionary side, House and Senate budget resolution levels for function 600 are identical for all years but two, 2001 and 2002. For those years, a last-minute change by House Republicans immediately preceding mark-up of the budget resolution cut funding by an additional \$0.8 billion for 2001 and \$1.3 billion for 2002. The conference agreement splits the difference for these years, and is below the Senate resolution level by \$0.4 billion for 2001 and \$0.6 billion for 2002.

Overall, for discretionary programs in Function 600, the conference agreement on the Republican budget resolution provides \$5.1 billion less funding for 2000 than a freeze level, a reduction of 15 percent. The largest share of Function 600 discretionary expenses is for low-income housing programs, including Section 8 renewals. The conference agreement does not state whether it assumes Section 8 renewals are fully funded and, if they are, how they are financed.

Absent this kind of information, it is difficult to determine the impact the overall funding cut has on Section 8 and other low-income housing programs or on other programs in this function. However, even if funds are made available from unobligated balances or an advance appropriation to meet new obligations for Section 8 renewals for 2000, the outlays provided in the conference agreement for income security programs are 6.6 percent below a freeze level. This cut in outlays means cuts in the current level of services for low-income housing including Section 8 renewals, public housing, HOME Investment Partnership Program grants, homeless assistance, special housing programs for the elderly and disabled, and Housing Opportunities for Persons with AIDS. Further, based on spendout rates for some of these programs, a 6.6 percent reduction in outlays in 2000 necessitates a rescission of funds appropriated for 1999. In all, this outlay reduction translates into a loss of housing assistance for more than 900,000 low-income people in 2000.

To the extent that fully funding Section 8 renewals requires an increase in 2000, then funding levels for other programs would have to be cut by more than the overall funding reduction of 15 percent. However, for purposes of illustrating the potential impact of the conference agreement on other discretionary income security programs in 2000, the following discussion assumes an-across-the-board 15 percent reduction below the 1999 funding level. For 2004, the conference agreement on the Republican budget resolution represents nearly a 27 percent decrease in purchasing power for Function 600 programs; by 2009, a decrease of more than 36 percent.

- ! ***Special Supplemental Nutrition Program for Women, Infants and Children (WIC)*** – A 15 percent cut in funding for WIC translates into a \$589 million cut in 2000 from the 1999 level. Based on 7.4 million monthly participants in 1999, more than 1 million fewer low-income women, infants and children would have benefit of nutrition assistance in 2000. By 2004, WIC funding would be \$1.2 billion below the current services baseline level; by 2009, the shortfall would be more than \$1.7 billion.

- ! ***Low Income Home Energy Assistance Program (LIHEAP)*** – A 15 percent reduction amounts to a cut of \$165 million from 2000 base funding already enacted for LIHEAP. By 2004, LIHEAP funding would be \$321 million short of the level needed to continue services at the current level; by 2009, the shortfall would be \$483 million.

- ! ***Child Care and Development Block Grant*** – A 15 percent reduction for 2000 funding of the discretionary Child Care and Development Block Grant (CCDBG) cuts \$177 million. This eliminates child care assistance for nearly 50,000 low-income children. By 2004, CCDBG funding would be \$346 million below the current services baseline; by 2009, the shortfall would be \$519 million.

- ! ***Supplemental Security Income (SSI) Administrative Expenses*** – A 15 percent cut below a freeze level for SSI administrative expenses is a reduction of \$355 million in 2000. This would have serious consequences for the Social Security Administration's ability to process claims from needy aged, disabled and blind claimants for SSI benefits. Service disruptions and delays in processing claims and other actions would be inevitable. By 2004, funding for SSI administrative expenses would be \$749 million below the baseline; by 2009, the shortfall would be \$1.2 billion.

The conference agreement on the Republican budget resolution includes one change for mandatory programs in Function 600, as follows:

- ! ***Child Care*** – The conference agreement provides \$3.0 billion over 10 years, beginning in 2004, for new mandatory spending for families with children to cover child care expenditures. On the revenue side, the conference agreement assumes that tax cuts in the resolution will include no less than \$3 billion in child care credits for families with children to help cover the costs of raising a child.

Function 650: Social Security

- ! ***Comparison with the House Resolution*** – For Function 650 the conference agreement is the same as the House resolution.

- ! ***No Change to Benefit Payments*** — The conference agreement on the Republican budget resolution proposes no change in Social Security Old Age, Survivors and Disability benefits. See *Failing Social Security and Medicare* for discussion of the Republican “lockbox” proposal.

- ! ***Administrative Funds Frozen for Ten Years*** — On the discretionary side, the conference agreement freezes Social Security administrative funds at the 1999 level for ten years.

Function 700: Veterans' Benefits

The Veterans' Benefits function includes funding for educational benefits and income security benefits such as compensation, pensions, and life insurance. Most of this spending is mandatory. The vast majority of discretionary spending in this function is for veterans' hospitals and medical care, but it also includes funding for housing programs, veterans' cemeteries, and the general operating expenses of the Department of Veterans' Affairs (VA).

For discretionary veterans' programs in 2000, the conference agreement on the Republican budget resolution provides \$20.9 billion. This level of funding is \$1.6 billion (8.5 percent) higher than the 1999 level. However, this is a one-time addition. Over five years, the conference agreement provides a meager \$350 million above the 1999 freeze level (the one-time increase in 2000 masks the cuts in the next four years). Over ten years, the conference agreement cuts veterans' funding by \$2.3 billion below a 1999 freeze. This spending plan represents a 16.3 percent cut in purchasing power by 2004 and a 28.8 percent cut by 2009.

The veterans' health care system is facing considerable budget pressures as it attempts to deal with an aging veterans' population, the increasing prevalence of hepatitis C among patients, and escalating pharmaceutical costs. The conference agreement provides no answers about how the VA is supposed to address these challenges with such a huge cut in funding after 2000.

- ! **Comparison with the House Resolution** — For 2000, the conference agreement provides \$0.7 billion more for discretionary veterans' programs than the House resolution. Discretionary funding levels for years after 2000 are the same in the conference agreement and the House resolution.
- ! **What Happens After 2000?** — Under the conference agreement, after an increase for 2000, discretionary veterans' programs face annual funding levels that are \$100 million to \$600 million *below where they started in 1999*.
- ! **Republicans Ignore Bipartisan Call for Increases** — Both Democrats and Republicans alike have called attention to veterans' needs after years of essentially flat-lined budgets. Despite the pleas from both sides of the aisle, the conference agreement slashes veterans' health care funding every year after 2000.
- ! **No Help for Aging Medical Infrastructure** — According to the Veterans' Affairs Committee, over 40 percent of the buildings in the VA health care system are over 50 years old, an age that private industry would consider obsolete. Under the funding levels in the conference agreement, it is unlikely that VA will be able to address this problem.

Function 750: Administration of Justice

The Administration of Justice function includes funding for federal law enforcement, litigation and judicial activities, correctional operations, and state and local justice assistance. Agencies that administer programs within these categories include the following: the Federal Bureau of Investigation (FBI); Drug Enforcement Administration (DEA); the Immigration and Naturalization Service (INS); the U. S. Customs Service; the Bureau of Alcohol, Tobacco, and Firearms (ATF); the United States Secret Service; the United States Attorneys; the U.S. Marshals Service; legal divisions within the Department of Justice; the Legal Services Corporation; the Federal Judiciary; and the Federal Bureau of Prisons.

For Function 750, the conference agreement on the Republican budget resolution assumes the same discretionary totals as the House and Senate resolutions.

The conference agreement assumes \$23.1 billion in discretionary spending for Administration of Justice programs in fiscal year 2000. This funding represents a decrease of \$2.6 billion, or 10.2 percent, below the 1999 level. For fiscal years 2000 through 2004, the conference agreement assumes a total of \$120.8 billion in discretionary spending for this function. This total represents a decrease of \$8 billion below a freeze of the 1999 level over the five-year period. The conference agreement assumes a total of \$242.3 billion in discretionary spending for this function for fiscal years 2000 through 2009. This funding equals a decrease of \$14.5 billion below a freeze of the 1999 level over the ten-year period.

Under the conference agreement, agencies within the Administration of Justice function will experience an 18.3 percent decrease in purchasing power by 2004 and a 29.3 percent decrease by 2009. The conference agreement's decreased funding for Administration of Justice programs will force agencies such as the FBI, the INS, the DEA, and the Customs Service to significantly cut their current level of services. As a result, these agencies will face greater obstacles in their efforts to combat crime, protect our national borders, and impede drug trafficking.

Function 800: General Government

For function 800, the conference agreement on the Republican budget resolution is the same as the House resolution. The conference agreement assumes \$11.4 billion in discretionary funding for general government in 2000, a decrease of \$1.5 billion from the 1999 level. Compared with the 1999 freeze level, the resolution cuts funding by \$6.6 billion over the five-year period 2000-2004, and by \$13.0 billion over the ten-year period 2000-2009. By 2004, this represents a 24 percent decrease in purchasing power; by 2009, a 35 percent decrease.

- ! ***District of Columbia*** — Under the D.C. Revitalization Act, the federal government assumed responsibility for certain functions of the D.C. government. The conference agreement assumes \$241 million in savings by reducing the federal payment to the District.

- ! ***Federal Building Fund*** — The conference agreement assumes \$462 million in funding for federal courthouse construction to provide enough funds to construct or site and design at least ten new courthouses from the Judicial Conference's 2000 construction plan.

Function 920: Allowances

Function 920 displays the budgetary effects of proposals that cannot be easily distributed across other budget functions. In the past, this function has included funding for emergencies or proposals contingent on certain events. For the year 2000, the conference agreement assumes unspecified cuts of \$9.8 billion below the 1999 level. The agreement cuts \$53.5 billion over the five-year period 2000-2004 and \$81.4 billion over the ten-year period 2000-2009 below CBO's capped baseline.

The conference agreement on the Republican budget resolution is similar to the House-passed bill. However, the agreement does include additional cuts of \$1.8 billion in budget authority and \$0.7 billion in outlays in the year 2000.

The conference agreement fails to explain where these cuts will fall. Many of the cuts are hidden in this budget function disarmingly called "Allowances," but which could better be called "Someone Else's Problem." In order to hide the extent of their cuts in the environment, veterans health, agriculture, law enforcement, health research, transportation, and so on, the Republicans set a new record for burying unspecified cuts in "Allowances" — \$81.4 billion over ten years.

During markup of the House budget resolution, when Democrats asked the Republicans which programs were cut to provide the savings, the Republicans were unable or unwilling to provide any adequate explanation. Instead, they responded by asserting that the cuts are generated by:

- ! ***Cutting the Number of Presidential Appointees*** — The conference agreement reduces an unspecified number of political appointee jobs in the federal government.
- ! ***Privatizing Ginnie Mae*** — The conference agreement assumes \$2.8 billion in discretionary savings in 2000 by selling off the Government Mortgage Association (Ginnie Mae), which guarantees securities based on government-insured mortgages.
- ! ***Cutting Overhead Costs Across All Budget Functions*** — The conference agreement cuts transportation, shipping, printing, utilities, and operation and maintenance of facilities for all agencies of the government.

Function 950: Undistributed Offsetting Receipts

This function comprises major offsetting receipt items such as rents and royalties from the Outer Continental Shelf (OCS), the receipt of agency payments for the employer share of federal employee retirement benefits, and other offsetting receipts, such as those obtained from broadcast spectrum auctions by the Federal Communications Commission (FCC). These offsetting receipts would distort the funding levels of other budget functions if they were distributed to them.

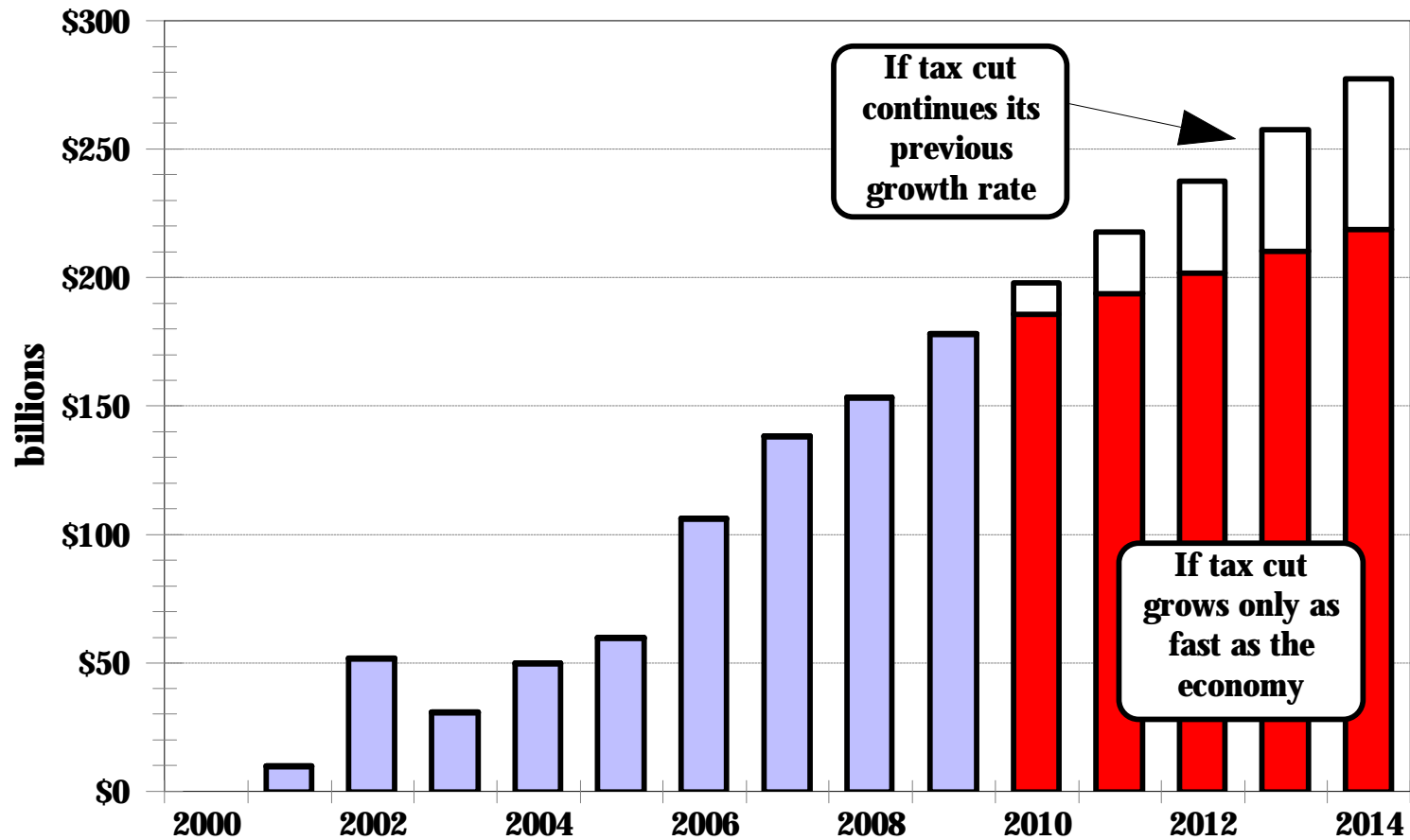
The conference agreement on the Republican budget resolution assumes offsetting receipts of \$42.3 billion in 2000. Over the five-year period 2000-2004, the resolution assumes offsetting receipts of \$235.1 billion, and \$503.1 billion over the ten year period of 2000-2009.

The resolution does not specify any assumptions regarding spectrum auctions.

- ! The conference agreement includes full pay raises for civilian employees and military personnel, initiatives that were not included in the House-passed budget resolution. The agreement includes an across-the-board 4.4 percent raise in 2000 and a 3.9 percent raise every year through 2009.
- ! The conference agreement flatly rejects two initiatives requested by the Joint Chiefs of Staff and promised to our troops. They are:
 - 1) A repeal of "REDUX," the military retirement system law enacted in 1986 that cut pensions for military personnel from 50 percent of base pay after 20 years of service to 40 percent.
 - 2) Additional raises up to 5.5 percent for mid-level military personnel who are critical to maintaining military readiness. This initiative is often referred to as "Pay Table Reform."
- ! If the conference agreement had included the repeal of "REDUX" and the targeted pay raises, it would have increased payments to the military retirement trust fund. The conference agreement does not include these higher contributions.

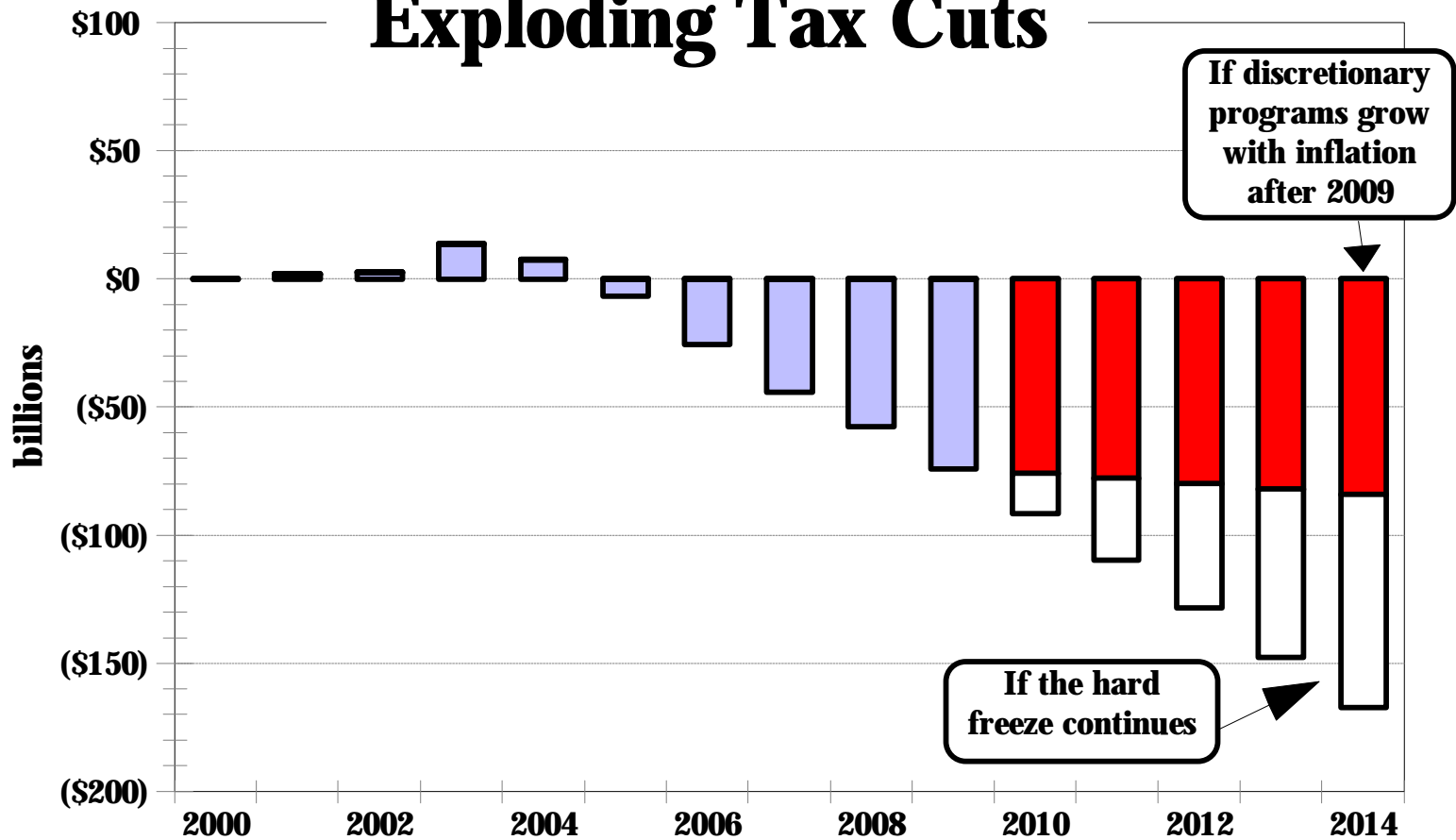
Appendix

Republican Tax Cuts explode in cost



Extrapolations by HBC Democratic Staff

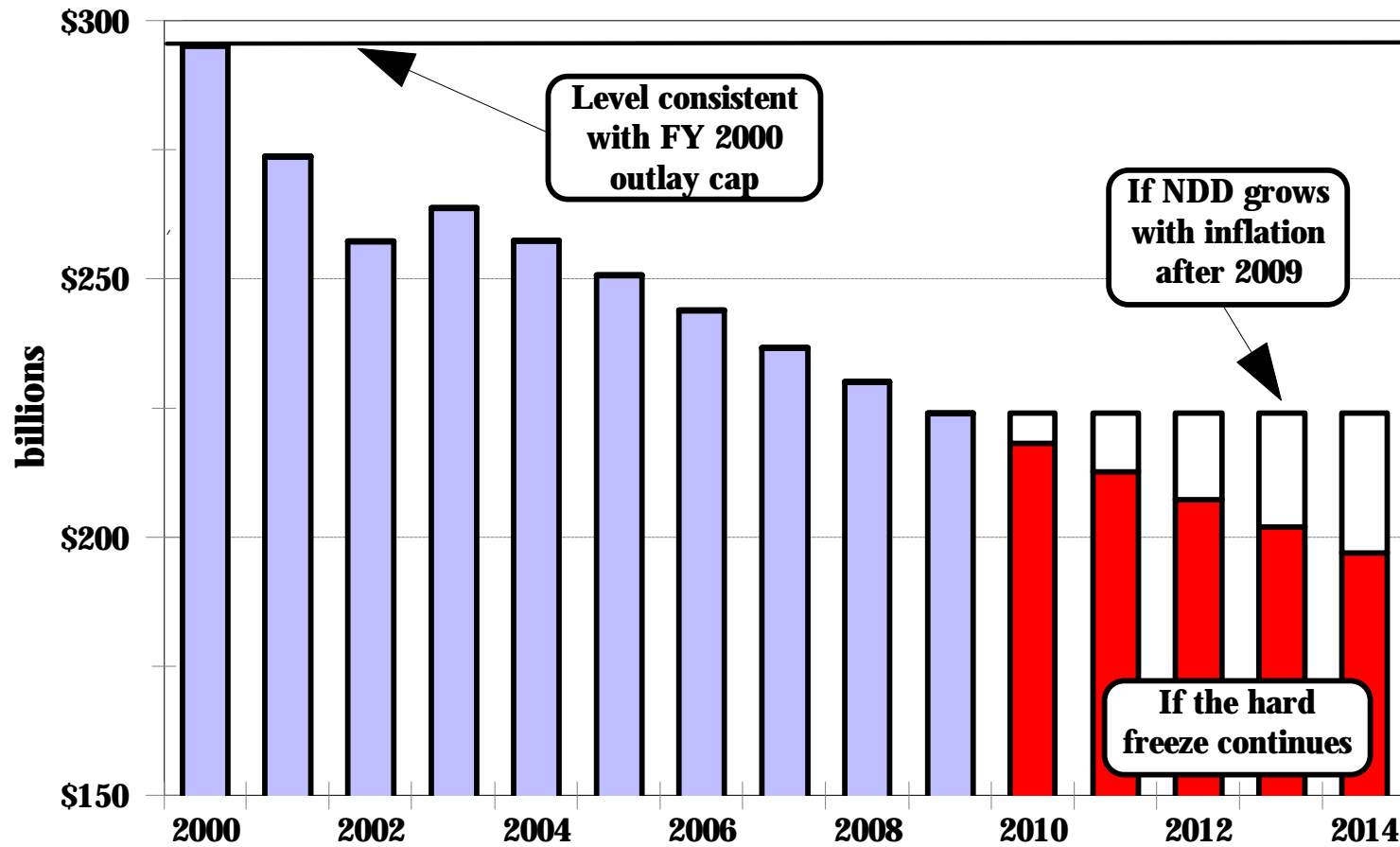
Deep Republican Program Cuts Cover Only Part of Their Exploding Tax Cuts



Extrapolations by HBC Democratic Staff

Republican Plan:

Non-Defense Discretionary Spending In Constant FY 2000 Dollars



Extrapolations by HBC Democratic Staff

TOTAL BUDGET
CONFERENCE AGREEMENT ON REPUBLICAN BUDGET RESOLUTION
(In billions of dollars)

	2000	2001	2002	2003	2004	5 Yr. Total
Budget Authority	1,753.8	1,795.2	1,836.4	1,921.3	1,988.2	9,294.8
Outlays	1,735.2	1,774.3	1,804.2	1,893.7	1,959.0	9,166.4
Revenues	1,876.1	1,922.6	1,961.1	2,058.8	2,134.8	9,953.4
Surplus(+)/Deficit(-)	140.9	148.3	156.8	165.1	175.8	787.0
<hr/>						
050 National Defense						
Budget authority	288.8	303.6	308.2	318.3	327.2	1,546.0
Outlays	276.6	285.9	291.7	303.6	313.5	1,471.3
150 International Affairs						
Budget authority	12.5	11.7	10.9	12.6	14.0	61.7
Outlays	14.9	15.2	14.6	14.0	13.7	72.3
250 General Science, Space						
Budget authority	18.0	17.9	17.9	17.9	17.9	89.6
Outlays	18.2	17.9	17.9	17.8	17.8	89.6
270 Energy						
Budget authority	0.0	(1.4)	(0.2)	(0.1)	(0.3)	(2.0)
Outlays	(0.7)	(3.1)	(1.1)	(1.2)	(1.4)	(7.5)
300 Natural Resources and Environment						
Budget authority	22.8	21.8	21.6	22.5	23.0	111.7
Outlays	22.6	21.9	21.2	22.6	23.0	111.3
350 Agriculture						
Budget authority	14.3	13.5	11.8	12.0	12.1	63.7
Outlays	13.2	11.3	10.0	10.3	10.5	55.3
370 Commerce and Housing Credit						
Budget authority	9.5	10.3	13.8	14.5	13.9	62.0
Outlays	4.1	5.4	9.5	10.9	10.4	40.4
400 Transportation						
Budget authority	51.8	51.0	50.8	52.3	52.3	258.2
Outlays	45.8	47.7	47.3	46.8	46.3	233.8
450 Community and Regional Development						
Budget authority	6.4	4.0	3.6	3.9	3.8	21.7
Outlays	10.5	8.3	5.9	4.5	3.8	33.0
500 Education and Training						
Budget authority	66.3	66.0	66.5	71.0	73.3	343.1
Outlays	63.8	64.6	64.8	67.5	70.2	330.8
550 Health						
Budget authority	156.2	164.1	173.3	184.7	197.9	876.2
Outlays	153.0	162.4	173.8	185.3	198.5	872.9
570 Medicare						
Budget authority	208.7	222.1	230.6	250.7	268.6	1,180.7
Outlays	208.7	222.3	230.2	250.9	268.7	1,180.8
600 Income Security						
Budget authority	244.4	250.5	263.0	276.4	286.1	1,320.3
Outlays	248.1	257.0	266.6	276.2	285.5	1,333.4
650 Social Security						
Budget authority	407.2	426.0	445.9	467.0	489.8	2,235.9
Outlays	407.3	426.0	445.9	467.0	489.7	2,235.9
700 Veterans						
Budget authority	45.4	44.3	44.7	45.9	46.2	226.6
Outlays	45.6	45.0	45.1	46.4	46.7	228.8
750 Administration of Justice						
Budget authority	23.4	24.7	24.7	24.6	26.2	123.5
Outlays	25.3	25.1	24.9	24.4	26.1	125.9
800 General Government						
Budget authority	12.3	11.9	12.1	12.1	12.1	60.5
Outlays	13.5	12.6	12.3	12.2	12.2	62.7
900 Net Interest						
Budget authority	217.7	207.1	196.4	186.5	176.6	984.3
Outlays	217.7	207.1	196.4	186.5	176.6	984.3
920 Allowances						
Budget authority	(9.8)	(8.5)	(6.4)	(4.4)	(4.5)	(33.6)
Outlays	(10.8)	(12.9)	(20.0)	(4.8)	(5.0)	(53.5)
950 Undistributed Offsetting Receipts						
Budget authority	(42.3)	(45.3)	(52.8)	(46.9)	(47.8)	(235.1)
Outlays	(42.3)	(45.3)	(52.8)	(46.9)	(47.8)	(235.1)

Note: Numbers may not add exactly due to rounding.

	2005	2006	2007	2008	2009	Second 5	10 Yr. Total
Budget Authority	2,056.1	2,102.8	2,173.9	2,252.7	2,334.3	10,919.8	20,214.7
Outlays	2,029.1	2,072.4	2,137.7	2,220.0	2,301.4	10,760.6	19,926.9
Revenues	2,225.1	2,283.3	2,363.9	2,459.8	2,549.8	11,881.9	21,835.5
Surplus(+)/Deficit(-)	196.0	210.8	226.3	239.8	248.5	1,121.3	1,908.6
050 National Defense							
Budget authority	328.4	329.6	330.9	332.2	333.5	1,654.6	3,200.5
Outlays	316.7	315.1	313.7	317.1	318.0	1,580.6	3,051.9
150 International Affairs							
Budget authority	14.2	14.4	14.4	14.5	14.5	72.0	133.6
Outlays	13.4	13.1	12.9	12.7	12.6	64.7	136.9
250 General Science, Space							
Budget authority	17.9	17.9	17.9	17.9	17.9	89.5	179.2
Outlays	17.8	17.8	17.8	17.8	17.8	89.0	178.4
270 Energy							
Budget authority	(0.4)	(0.5)	(0.5)	(0.2)	(0.1)	(1.7)	(3.6)
Outlays	(1.5)	(1.5)	(1.4)	(1.1)	(1.1)	(6.6)	(14.1)
300 Natural Resources and Environment							
Budget authority	23.0	23.1	23.2	23.2	23.5	116.0	227.7
Outlays	22.9	23.0	22.9	22.9	23.2	114.9	226.2
350 Agriculture							
Budget authority	10.6	10.6	10.7	10.8	10.9	53.6	117.2
Outlays	9.9	9.1	9.1	9.2	9.2	46.5	101.7
370 Commerce and Housing Credit							
Budget authority	12.7	12.6	12.7	12.6	13.4	64.0	126.0
Outlays	9.4	9.1	8.9	8.5	8.8	44.7	85.1
400 Transportation							
Budget authority	52.3	52.3	52.4	52.4	52.4	261.8	520.1
Outlays	46.1	46.0	46.0	46.1	46.1	230.3	464.1
450 Community and Regional Development							
Budget authority	3.8	3.8	3.8	3.8	3.8	19.0	40.7
Outlays	3.0	2.7	2.6	2.5	2.5	13.3	46.3
500 Education and Training							
Budget authority	74.1	74.9	75.8	76.8	76.7	378.3	721.3
Outlays	72.7	73.8	74.7	75.7	75.7	372.6	703.5
550 Health							
Budget authority	212.8	228.4	246.3	265.2	285.5	1,238.2	2,114.4
Outlays	212.6	228.3	245.5	264.4	284.9	1,235.7	2,108.6
570 Medicare							
Budget authority	295.6	306.8	337.6	365.6	394.1	1,699.7	2,880.3
Outlays	295.2	306.9	337.8	365.2	394.2	1,699.3	2,880.1
600 Income Security							
Budget authority	298.4	304.7	310.5	323.8	334.1	1,571.5	2,891.8
Outlays	298.4	305.1	311.4	325.3	335.6	1,575.8	2,909.2
650 Social Security							
Budget authority	514.6	540.9	568.7	599.0	633.6	2,856.8	5,092.7
Outlays	514.5	540.8	568.7	599.0	633.6	2,856.6	5,092.6
700 Veterans							
Budget authority	48.8	47.3	47.8	48.5	49.1	241.5	468.0
Outlays	49.3	47.8	46.2	49.0	49.7	242.0	470.8
750 Administration of Justice							
Budget authority	26.3	26.4	26.4	26.5	26.5	132.1	255.5
Outlays	26.2	26.2	26.3	26.3	26.4	131.4	257.4
800 General Government							
Budget authority	12.1	12.1	12.2	12.2	12.2	60.8	121.2
Outlays	11.9	11.8	11.9	12.1	11.9	59.6	122.3
900 Net Interest							
Budget authority	165.4	153.7	142.0	128.9	115.6	705.6	1,689.9
Outlays	165.4	153.7	142.0	128.9	115.6	705.6	1,689.9
920 Allowances							
Budget authority	(4.5)	(4.6)	(5.2)	(5.3)	(5.3)	(24.9)	(58.6)
Outlays	(5.1)	(5.2)	(5.8)	(5.9)	(5.9)	(27.9)	(81.3)
950 Undistributed Offsetting Receipts							
Budget authority	(49.8)	(51.4)	(53.6)	(55.6)	(57.6)	(268.0)	(503.1)
Outlays	(49.8)	(51.4)	(53.6)	(55.6)	(57.6)	(268.0)	(503.1)

Note: Numbers may not add exactly due to rounding.

DISCRETIONARY TOTALS
CONFERENCE AGREEMENT ON REPUBLICAN BUDGET RESOLUTION
(In billions of dollars)

	2000	2001	2002	2003	2004	5 Yr. Total
Total Discretionary						
Budget Authority	536.3	541.3	550.4	570.2	582.2	2,780.4
Outlays	570.9	571.0	567.0	592.8	603.1	2,904.8
Non-defense discretionary						
Budget Authority	246.3	236.6	241.1	250.9	254.1	1,229.0
Outlays	293.2	283.9	274.2	288.1	288.6	1,428.0
050 National Defense						
Budget authority	290.0	304.8	309.3	319.4	328.1	1,551.5
Outlays	277.8	287.1	292.8	304.7	314.4	1,476.8
150 International Affairs						
Budget authority	17.7	16.4	16.1	16.0	16.4	82.7
Outlays	18.5	18.8	18.0	17.3	16.9	89.5
250 General Science, Space						
Budget authority	17.9	17.9	17.9	17.9	17.9	89.4
Outlays	18.2	17.8	17.8	17.7	17.7	89.3
270 Energy						
Budget authority	1.8	0.5	1.9	1.9	1.9	8.0
Outlays	2.6	0.8	2.0	1.9	1.9	9.3
300 Natural Resources and Environment						
Budget authority	22.0	21.3	21.1	22.0	22.5	109.0
Outlays	21.9	21.2	20.8	22.1	22.6	108.7
350 Agriculture						
Budget authority	3.9	3.7	3.7	3.6	3.6	18.6
Outlays	4.0	3.8	3.7	3.6	3.6	18.7
370 Commerce and Housing Credit						
Budget authority	3.5	2.1	1.7	1.8	1.8	11.0
Outlays	3.7	2.2	1.7	1.8	1.7	11.2
400 Transportation						
Budget authority	12.2	11.9	11.3	11.2	11.2	57.9
Outlays	43.4	45.4	45.8	44.9	44.5	223.9
450 Community and Regional Development						
Budget authority	6.4	4.1	3.7	3.8	3.8	21.7
Outlays	10.9	8.8	6.4	5.1	4.3	35.5
500 Education and Training						
Budget authority	51.1	50.6	51.3	54.3	56.3	263.7
Outlays	48.5	48.8	49.7	51.2	53.6	251.8
550 Health						
Budget authority	29.3	27.9	27.7	27.5	27.3	139.7
Outlays	28.3	27.4	27.3	27.2	26.9	137.1
570 Medicare						
Budget authority	3.0	3.0	3.0	3.0	3.0	14.9
Outlays	3.0	3.0	3.0	3.0	3.0	14.9
600 Income Security						
Budget authority	28.7	27.9	30.3	34.6	35.2	156.6
Outlays	39.4	39.4	39.4	39.3	39.4	196.9
650 Social Security						
Budget authority	3.2	3.2	3.2	3.2	3.2	15.8
Outlays	3.3	3.1	3.1	3.1	3.1	15.9
700 Veterans						
Budget authority	20.9	19.1	19.0	19.0	19.0	97.1
Outlays	20.9	19.5	19.1	19.1	19.0	97.7
750 Administration of Justice						
Budget authority	23.1	24.4	24.4	24.4	24.4	120.8
Outlays	25.1	25.0	24.8	24.4	24.4	123.7
800 General Government						
Budget authority	11.4	11.0	11.1	11.1	11.1	55.6
Outlays	12.3	11.7	11.4	11.2	11.0	57.5
920 Allowances						
Budget authority	(9.8)	(8.5)	(6.4)	(4.4)	(4.5)	(33.6)
Outlays	(10.8)	(12.9)	(20.0)	(4.8)	(5.0)	(53.5)
950 Undistributed Offsetting Receipts						
Budget authority	0.0	0.0	0.0	0.0	0.0	0.0
Outlays	0.0	0.0	0.0	0.0	0.0	0.0

Note: Numbers may not add exactly due to rounding.

	2005	2006	2007	2008	2009	Second 5	10 Yr. Total
Total Discretionary							
Budget Authority	583.4	584.6	585.4	586.6	588.1	2,928.1	5,708.5
Outlays	606.6	604.6	602.3	605.4	606.4	3,025.3	5,930.1
Non-defense discretionary							
Budget Authority	254.1	254.1	253.6	253.6	253.7	1,269.1	2,498.1
Outlays	289.0	288.6	287.7	287.5	287.5	1,440.3	2,868.3
050 National Defense							
Budget authority	329.3	330.5	331.8	333.1	334.3	1,659.0	3,210.5
Outlays	317.6	316.0	314.6	318.0	318.9	1,585.1	3,062.0
150 International Affairs							
Budget authority	16.3	16.2	16.0	15.9	15.8	80.2	162.8
Outlays	16.5	16.2	16.0	15.8	15.7	80.2	169.6
250 General Science, Space							
Budget authority	17.9	17.9	17.9	17.9	17.9	89.5	178.8
Outlays	17.7	17.7	17.7	17.7	17.7	88.5	178.0
270 Energy							
Budget authority	1.9	1.9	1.9	1.9	1.9	9.5	17.5
Outlays	1.9	1.9	1.9	1.9	1.9	9.5	18.9
300 Natural Resources and Environment							
Budget authority	22.6	22.6	22.7	22.7	22.7	113.3	222.3
Outlays	22.6	22.6	22.5	22.5	22.6	112.8	221.5
350 Agriculture							
Budget authority	3.6	3.6	3.6	3.6	3.6	18.0	36.8
Outlays	3.6	3.6	3.6	3.6	3.6	18.0	36.7
370 Commerce and Housing Credit							
Budget authority	1.8	1.8	1.8	1.8	2.8	10.0	20.9
Outlays	1.7	1.7	1.8	1.7	2.7	9.6	20.7
400 Transportation							
Budget authority	11.2	11.2	11.2	11.2	11.2	56.0	113.9
Outlays	44.3	44.3	44.3	44.3	44.3	221.5	445.4
450 Community and Regional Development							
Budget authority	3.8	3.8	3.8	3.8	3.8	19.0	40.7
Outlays	3.6	3.3	3.2	3.1	3.1	16.3	51.8
500 Education and Training							
Budget authority	56.3	56.3	56.3	56.3	55.2	280.4	544.1
Outlays	55.5	55.9	55.9	55.9	54.9	278.1	530.0
550 Health							
Budget authority	27.0	26.7	26.4	26.1	25.8	132.0	271.7
Outlays	26.6	26.3	26.0	25.7	25.4	130.0	267.1
570 Medicare							
Budget authority	3.0	3.0	3.0	3.0	3.0	15.0	29.9
Outlays	3.0	3.0	3.0	3.0	3.0	15.0	29.8
600 Income Security							
Budget authority	35.7	36.2	36.7	37.2	37.9	183.7	340.3
Outlays	39.7	40.0	40.4	40.9	41.4	202.4	399.3
650 Social Security							
Budget authority	3.2	3.2	3.2	3.2	3.2	16.0	31.6
Outlays	3.1	3.1	3.1	3.1	3.1	15.5	31.6
700 Veterans							
Budget authority	19.0	18.9	18.9	18.9	18.9	94.6	191.7
Outlays	18.9	18.9	18.8	18.8	18.8	94.2	191.9
750 Administration of Justice							
Budget authority	24.4	24.3	24.3	24.3	24.3	121.6	242.3
Outlays	24.4	24.3	24.3	24.3	24.3	121.6	245.3
800 General Government							
Budget authority	11.1	11.1	11.1	11.1	11.1	55.5	111.3
Outlays	10.9	10.9	10.9	10.9	10.9	54.5	112.0
920 Allowances							
Budget authority	(4.5)	(4.6)	(5.2)	(5.3)	(5.3)	(24.9)	(58.6)
Outlays	(5.1)	(5.2)	(5.8)	(5.9)	(5.9)	(27.9)	(81.3)
950 Undistributed Offsetting Receipts							
Budget authority	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outlays	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Note: Numbers may not add exactly due to rounding.



SOCIAL SECURITY

March 12, 1999

The Honorable Richard A. Gephardt
House of Representatives
Washington, D.C. 20515

Dear Mr. Gephardt:

This letter addresses the potential long-range financial effects on the OASDI program of "locking away" the annual increases in the Social Security Trust Funds, as proposed by Republican leaders in the Senate and the House on March 10, 1999. The proposal would require that annual increases in the OASI and DI Trust Funds would be used solely to purchase long-term special issue U.S. government bonds. In addition, the proposal would require that the revenue used for the purchase of these bonds would in turn be used solely for the purpose of reducing Federal debt held by the public. Of course, the net change in the Federal debt held by the public in any year would also be affected by the size of any on-budget deficit or surplus for that year.

The proposal would not have any significant effect on the long-range solvency of the OASDI program under the intermediate assumptions of the 1998 Trustees Report. Thus, the estimated long-range actuarial deficit of 2.19 percent of taxable payroll and the year of the combined trust funds' exhaustion (2032) would not change. The first year in which estimated outgo will exceed estimated tax income would not be affected and would therefore remain at 2013.

Any plan that reduces the amount of Federal debt held by the public may make later redemption by the Trust Funds of special issue U.S. government bonds easier.

Sincerely,

Harry C. Ballantyne
Chief Actuary