Budget Bulletin

Senate Budget Committee
Majority Staff

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INFORMED BUDGETEER

HOW TO WIN FRIENDS AND BALANCE THE BUDGET: A CLINTON REELECTION STRATEGY

Step 1: Spend Now-Save Later; Discretionary Spending

- Increase domestic discretionary spending in 1997 by $10 billion to aid the Clinton re-election effort.
- Make unspecified cuts in the years 1998 to 2002. When asked about the out year spending, talk about the "good" spending increases but say unspecified cuts won't happen.
- Create a trigger mechanism to claim increased discretionary spending in 2001 and 2002, even while acknowledging that under CBO scoring this increased spending would not occur. (The claim is worth $45.0 billion more in outlays in 2002.)

Step 2: Play Accounting games with Medicare, Medicaid And Health Insurance

- Home Health Transfer-- Transfer $55 billion of home health spending from Medicare part A to part B. The transfer artificially inflates the solvency of the part A trust fund at the expense of general revenues and Medicare part B. But don't really transfer the home health program. Otherwise you would have to admit that home health benefits would be voluntary (as are all part B benefits) and therefore, subject to a 20% copayment, as are all other part B benefits. Further, the $55 billion would have to be included in calculating the 25% part B premium.
- Trigger Unspecified Medicare cuts in 2001 and 2002 -- $124 billion in Medicare savings over the next six years off the CBO baseline, but never actually achieve this goal. (According to CBO the FY 1997 budget achieves only $103 billion of savings through specific policy changes.)
- In addition, include a contingent proposal reforming formula-driven overpayment for outpatient hospital services and "trigger", savings of an additional $13.1 billion over six years. Even with this triggered Medicare reform, you are still $8 billion short of the stated goal, saving only $116 billion over six years.
- Health Insurance for the Unemployed -- Create a new entitlement program for workers temporarily unemployed, but sunset the program in 2000. Don't reinstate the program if the trigger kicks in. Sunsetting the program saves about $3 billion in 2002.

Step 3: Tax Cuts Now, Tax Increases Later

- Tax Cut Sunset -- Promise tax cuts now, then tax working families, college students and small businesses in 2001. With the sunset the revenue increases would be $16 billion in 2002.
- Payroll Taxes -- require employers, *beginning in* 2002, to pay Federal and State unemployment payroll taxes on a monthly basis, rather than quarterly. Push $1.4 billion of extra revenue into 2002 from future years.

Step 4: Sell Assets Later

- Push asset sales into 2002 to aid the claim of a balanced budget. Since asset sales are one-time revenues, the sales do not balance the budget in years after 2002. The asset sales and broadcast fees generate in total $25 billion in 2002.
- Spectrum Auction -- In 2002, auction spectrum that won't even be returned to the federal government until 2005, when a forced transition from analog to digital television is supposed to be complete, whether or not the public and broadcasters are ready.
- Ask for spectrum bids so far in advance of its availability resulting in lower bids. (CBO estimates that such an auction would yield $11 billion, but the President needs $17 billion to get to balance, so he includes a contingent fee of $6 billion on broadcasters to make up the difference.
- Governor's Island -- the Island would remain deserted after 1998 when it could be sold for $0.5 billion, but delay the sale until 2002 when you will receive only $50 million.
- Weeks Island Strategic Petroleum Reserve -- Weeks Island is already being decommissioned because of structural problems and the oil will be pumped out by the close of 1996. Instead of selling the oil now, pay the cost of transferring and storing the oil in other facilities, and after 6 years of storage, pump it out of these facilities and sell it as part the plan to reach balance in 2002.
- Naval Petroleum Reserve -- delay sale until 2002. Defense Authorization Act calls for the sale within two years.

Step 5: Muddle Welfare Reform

- Work Last -- Do not require welfare recipients to be enrolled in "Work First" until October 1, 2003 so the burden of paying the new education and training mandate begins in Fiscal Year 2004!
- Cut spending for child care and job training in 1997 through 1999 and reduce work requirements from current law.

Step 6: Invent New Creative Accounting Devices!

- Debt Management -- Assume that because Treasury will be financing less debt than under the baseline scenario, finance a smaller share of long vs. short term debt. This will save on interest payments since short term debt carries a lower interest rate that long term debt. Trouble is, Treasury announced last week that they were adding more long term debt to the portfolio.
- Claims and Judgements Fund -- Estimate away $1.5 billion per year of potential claims against the US Treasury by assuming that the federal government will win its "goodwill" case against savings and loan institutions that is to be decided by the Supreme Court, even though the appeals court ruled against the government's position 9-2. CBO's reestimate of this plan puts deficits $9 billion greater than the President.

Step 7: Claim Balanced Budget

- **Balance in 2002. When all else fails claim CBO "says" we balanced the budget and ignore steps 1 through 6.**

REMEDIAL MATH FOR HOSPITALS

- The American Hospital Association, Catholic Health Association, Association of American Medical Colleges, and Federation of American Health Systems were the major signatories of a May 16 letter to all Senators.
- This letter claimed that in the Committee-reported Senate budget resolution, "the reductions in Part A have increased by approximately $25 billion...these are unprecedented reductions, and they would have a disproportionate adverse impact on hospitals. To achieve reductions of this magnitude, Congress may need to adopt policies that would freeze or actually reduce payment rates per beneficiary."
- The Medicare reform package contained in the vetoed Balanced Budget Act of 1995 (BBA) contained Medicare part A savings of $116 billion over the period 1996-2002. The Congressional

Budget Office has said that a part A spending stream that keeps the hospital insurance trust fund solvent for a decade produces $123 billion in savings over the seven-year period. The budget resolution currently being considered on the Senate floor assumes this $123 billion in part A savings. The resolution also assumes $10 billion of spending for graduate medical education and teaching hospitals.

- Simple Math: ($123 - $10 billion) - $116 billion = - $3 billion. Part A and graduate medical education savings assumed in the 1997 budget resolution are $3 billion **lower** than in last year's Medicare reform package, not $25 billion higher. The *Bulletin* does not think this constitutes "unprecedented reductions".

- The BBA would have saved $54.2 billion through maintaining the monthly part B premium at 31.5% of program costs and reducing the premium subsidy for high-income beneficiaries. The President vetoed both the BBA and a continuing resolution containing the premium extension policy claiming he would not allow Republicans to "increase" premiums. This political move initiated a wave of continuing resolutions and government shutdowns.

- Congress will not need to "adopt policies that would freeze or actually reduce payment rates per beneficiary." Medicare spending per beneficiary under the Committee-reported resolution increases from $5,300 per beneficiary per year in 1996 to $7,000 per beneficiary in 2002. Contrary to the hospital lobbyists' claims, the BBA allowed hospital payment rates per beneficiary to *increase* between 1.3 and 1.5 percent per year, and the part A savings assumed this year are less than the savings in the BBA.

- The 1997 budget resolution assumes $10 billion of spending for graduate medical education and teaching hospitals. While the resolution contains no other specific Medicare policy assumptions, specific policies assumed last year might be possible under this year's aggregates. For example, the BBA *increased* spending on rural hospitals by $700 million, including $300 million for critical access hospitals, and $200 million to establish the REACH (Rural Emergency Access Care Hospitals) program. Rural hospitals would also have been helped by the Medicare Plus provisions in the BBA which would have increased payn[...] Plus plans in rural areas.

- Perhaps the hospita[...]ions should be more worried about the Medicare hospital insurance trust fund going bankrupt. If the trust fund goes bankrupt, there will be no authority to pay for any hospital services. CBO Director June O'Neill has certified the hospital insurance trust fund will go bankrupt:

  - in 2001 under current law;
  - in 2002 under the President's budget without the home health transfer gimmick;
  - in 2005 under the President's budget with the gimmick;
  - in 2007 under the Committee-reported Senate budget resolution.

ECONOMICS

PUTTING GROWTH IN PERSPECTIVE

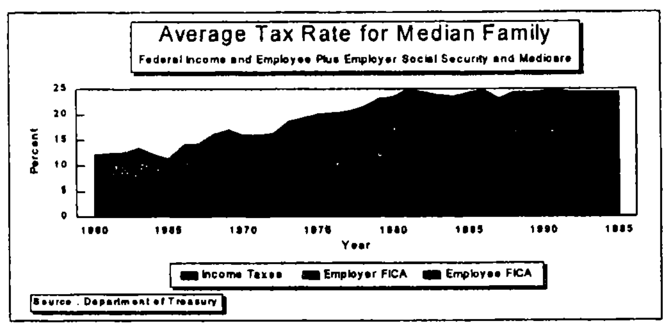
- First Quarter 1996 GDP came in above expectations at 2.8 percent positive growth, causing markets to fret about the prospect of resurgent growth into the second half of the year. The paltry 2,000 job employment gain in the April non-farm payrolls tempered some of these concerns. However the underlying employment situation does look more positive than April's numbers suggest. These short-term developments notwithstanding, the present recovery still leaves much to be desired relative to previous ones.

Annualized Growth in Recent Recoveries
(in percent)

	91.Q4	82.Q4	75.Q1	70.Q4	61.Q1
Real GDP	2.4	4.5	4.3	5.2	6.2
Employment	1.7	3.1	3.6	3.3	3.3
Productivity	1.3	1.8	1.6	3.0	4.4
Real hourly comp.	0.7	0.8	0.7	2.2	2.6

- Some of the lackluster performance is due to the fact that there was less slack in the economy in 1991 than there was in 1982 and 1975. However, there is a deeper force behind increasingly tepid growth on a trend basis - low productivity.

- The desire to boost productivity and trend growth is really the end goal to all of our current deficit-cutting efforts. By reducing government dissavings, private savings and investment are encouraged, leading to improved growth and overall living standards. It is not accidental that the slowdown in productivity since 1973 has been accompanied by steadily rising tax burdens and government outlays. Of note, the average tax burden on the median family has doubled from 1960 to 1995 as seen in the following graph. This has discouraged private savings, with the household savings rate being halved over this same period.



- By balancing the budget by 2002 and undertaking ge[...] entitlement reform, this trend can be reversed. This w[...] best economic news on the horizon.

CALENDAR

<u>May 24 - June 3, 1996:</u> The Senate is scheduled to adjourn for Memorial Day recess.

<u>Week of June 3-7, 1996:</u> Conference on 1997 Budget Resolution.

<u>June 11, 1996:</u> Majority Leader Dole resigns from the United States Senate after serving 28 years in the Senate, and 12 years as the Republican Leader.

<u>June 14, 1996:</u> Tentative: reconciled savings from Medicaid/ Welfare reform must be submitted to the Budget Committee.

<u>July 12, 1996</u>: Tentative: remaining entitlement savings in Budget Resolution must be reconciled to the Budget Committee.

<u>September 18, 1996:</u> Tentative: reconciled tax cuts reported directly to the Senate floor.

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