AMSA Health Policy Speech

I. The Budget & Policy -- Medicare, Medicaid, & Discretionary Spending

A. Background on the Budget

- President Clinton has focused on reducing the deficit
- This results in tightening spending which directly affects policy
- There are two forms of spending in the President's Budget:
- Discretionary Spending
  - accounts for 33 percent of spending
  - requires annual action, laws must be passed
- Mandatory Spending
  - accounts for 67 percent of federal spending
  - authorized by permanent laws
  - includes entitlement programs like Medicare & Medicaid
- Because of the increasing beneficiary populations and deficit reduction efforts, President Clinton supports health care reform

B. The Budget Process -- Discretionary Spending

- Health Resources Services Administration (HRSA) is an example of health care spending on the discretionary side.
- HRSA's funding comes through the money allocated for HHS
- HHS submitted its budget on Oct. 1 of last year for the 1997 budget
- During Oct. and Nov. OMB decided how much funding HRSA & HHS really needed.
- OMB briefs the President -- "HHS will only receive..."
- OMB and HHS compromise and reach figure by January

C. The Budget Process -- Mandatory Spending

- This includes Medicare & Medicaid
- Primarily involves estimating and forecasting sizes & need of beneficiary populations
- Medicare
  - comprises 11 percent of total budget
  - completely federally funded
- Medicaid
  - provides health coverage to poor
  - accounts for 6 percent of total budget
  - expenses are shared with the states
- What is used in economic forecasting?
  - interest rates
  - economic growth
  - rate of inflation
  - employment levels
  - size of affected populations

- Additionally, the President relies on OMB, the Council of Economic Advisors, and the Treasury Department

D. **Final Points on Health Policy & the Budget Process**
- Law requires President to submit budget by Oct. 1
- During January, numbers are compiled
- President's budget provides a starting point for debate
- It also provides the economic forecast used during the process

II. "48 Hours" -- An Example of How Policy is Implemented

A. **Background Facts**
- Average length of stay has decreased from 4 days (1970) to 2 days (1992)
- Now some insurance companies refuse to pay for more than 24 hrs
- This can be fatal -- brain damage, dehydration, feeding problems
- Mothers are often also not prepared -- exhausted & overwhelmed

B. **Two Examples**
- Michelle Bauman's daughter died of a step in; went home after 28 hrs
- Susan Jones' son died of a heart defect that could have been noticed

C. **How the President Influences "48 Hours" Policy**

Observation
- Adminstration carefully observed action in NJ General Assembly
- Also followed Sen. Bradley's bill & its introduction
- Description of what White House staff members did

Gathering Information
- Administration collects information on different House bills
- Many of the House bills vary substantially
- National Medical Organizations assist the White House

Taking a position and speaking in favor of the issue
- HHS played a key role in providing information & clarification
- The Administration assumed a broad position in favor of the concept
- President focused on 48 Hours in radio address before Mother's Day
- First Lady wrote a newspaper article also voicing support
- The overall significance of Presidential support

Update on 48 Hours & what the President & First Lady are doing

Memorandum on June 19 Health Policy Speech

TO: Jennifer Klein

FROM: Mandy Biles

RE: Health policy speech for AMSA; Wed. 6/19

Enclosed you will find the following:

- A short outline covering most of the information I put together
- A longer, detailed explanation of the budget process and a description of the President's influence over policy as exemplified by " 48 Hours"
- The complete set of OMB's numbers for Medicare, Medicaid, and HRSA
- "A Citizen's Guide to the Federal Budget"

I realize that some of what I went ahead and wrote down is very basic, but I was not sure how much the students you are speaking to already know.

Good luck and let me know if there is anything else I can do.

Health Policy Speech before the AMSA on Wed. June 19

THE BUDGET -- MEDICARE, MEDICAID, & DISCRETIONARY SPENDING

BACKGROUND

One of the President's key focuses during this administration has been reducing the deficit. Consequently, how the President decides to control resources will directly affect how much money is allocated to each agency and program and thus how he will formulate health policy.

For example, the president's budget plan of 1993 has cut the budget deficit in half -- from $290 billion in 1992 to $164 billion in 1995. In order to do continuing this, the President's 1997 budget will save $297 billion in discretionary spending, $124 billion in Medicare, and $59 billion in Medicaid.

How did this happen and how does this represent the President's control in steering health policy?

How does this influence health policy?

As you may already know, all spending in the budget is divided into two Categories: Discretionary and Mandatory spending.

Discretionary spending accounts for *33 percent of all federal spending* and requires annual action. That is, each year, the President must submit his budget with specific designations as to how much funding programs such as the FBI, the Coast guard, housing, education, space exploration, defense and foreign aid will receive.

Discretionary spending requires action; laws must be passed.

Mandatory Spending accounts for *67 percent of federal spending* and is authorized by permanent laws. This includes entitlement programs (like Medicare, Medicaid, Social Security, welfare, and food stamps) which require that the federal government pay benefits to any person that meets the eligibility requirements.

Although entitlement programs require appropriations before funds can be sent , they differ from other authorizations because the federal government is *legally committed* to fund these programs for all qualifying beneficiaries.

Mandatory spending does not require legislative action unless the President and Congress decide to change the overall spending on the programs.

As you can see, because the federal government is legally required to spend "x" dollars to cover every person entitled to funding, the costs of Medicare and Medicaid will continue to soar so long as the beneficiary populations entitled to Medicare and Medicaid continue to increase. This is one of the reasons why President Clinton has been such a strong proponent of health care reform.

2. Terms - economic assumptions - OMB v CBO

COMPILING THE PRESIDENT'S BUDGET -- DISCRETIONARY

One example of discretionary spending that will likely have an effect on your entire audience is the Health Resources and Services Administration (HRSA).

HRSA administers over 30 Health Professions Curriculum Assistance grants which help support curriculums at medical education institutions for the training of various health professions, including primary care physicians.

HRSA's funding comes through the discretionary funding provided for HHS; an executive branch agency meaning that HHS budget officials will have to lobby OMB (the President's budget office) very hard.

Although FY97 will begin on Oct.1, HHS (as part of the President's cabinet) was required to submit its budget by Oct.1 of last year with a preliminary total number of requested funding. (In a sense, HHS is saying, "we want 'x' dollars to fund HRSA.")

During October and November of last year, OMB analysts compared HHS's requests with their own estimates of how much total funding the department should receive.

Eventually, after consulting with different analysts within OMB, the director of OMB briefs the president on the decisions it has made. ("HHS is asking for....to fund HRSA, but we can really only afford to give them...")

At this point, budget experts from OMB and HHS will meet in an effort to compromise; here the President and the Secreatary of HHS may need to intervene if difficult conflicts arise.

By January, a settlement is generally reached on the exact number. Remember, Discretionary spending comprises only 33 percent of all federal spending.

COMPILING THE PRESIDENT'S BUDGET -- MANDATORY

Decisions on Mandatory spending (and thus Medicare and Medicaid) involve less interaction with other departments and are more a process of estimating and forecasting as there are specific populations which are legally entitled to receive funding..

Medicare consists of two parts. Part A -- hospital insurance -- and Part B -- insurance for physician costs and other services. Medicare is responsible for providing health care coverage to the elderly and people with disabilities and comprises 11 percent of the President's total budget.

Medicaid provides health coverage to the poor and the senior citizens in nursing homes. It accounts for 6 percent of the President's total budget.

A big difference between Medicare and Medicaid is that Medicare is entirely funded by the federal government while the federal government shares the cost with the states for Medicaid.

Interest rates, economic growth, the rate of inflation, employment levels, and the size of beneficiary populations are some of the estimates that must be made -- small changes in these assumptions can affect budget estimates by billions of dollars.

For this reason, the President's decisions concerning mandatory spending are not only strongly influenced by a continuous stream of economic forecasts from OMB, but those made by the Council of Economic Advisors and the Treasury Department.

Diff in CBO & OMB assumptions in this years budget debate. diff assump = diff results. Ours more optimistic meant didn't balance.

SOME FINAL POINTS ON HEALTH POLICY AND THE BUDGET PROCESS

The law requires that by the first Monday in February, the President submit to Congress his proposed federal budget for the next fiscal year which begins Oct.1.

During the month of January, all of the numbers from the different departments are assembled and put into the budget as discretionary spending.

Similarly, the mandatory spending numbers are also compiled. Here, if conflict arises, it is often a result of underestimating the cost of an entitlement program (like Medicare, Medicaid, or Welfare).

In terms of affecting policy, once the President's budget is submitted to Congress, it serves as more than just half of the overall product by providing a starting point for debate.

Baseline projected to increase $100 to 105 and goes to 106 - thats a $ increase but a $1 increase over baseline. Emp. in Medicare discussion of whether something was an increase or a cut.

Additionally, the President's budget provides the economic forecast used throughout the rest of the budget process. Virtually all congressional budget activities that take place over the rest of the process generally are initiated by the President's budget.

One example of this control has evolved in the continuing debate surrounding what has come to be known as "48 Hours."

Describe President's 1997 budget.

Kassebaum-Kennedy bill

48 HOURS -- AN EXAMPLE OF HOW POLICY IS IMPLEMENTED

BACKGROUND FACTS

In 1970, the average length of stay for an uncomplicated hospital delivery was four days. By 1992, it had declined to two days.

Now a large number of insurance companies are refusing to pay for anything more than a 24 hour stay, except in the most extreme circumstances, and some have recommended releasing women as early as eight hours after delivery.

This cost containing can be dangerous if not fatal -- early release of infants can result in numerous problem including feeding problems, severe dehydration, brain damage, and stroke.

Additionally, many mothers are not physically capable of providing for a newborn's needs 24 hours after giving birth. Often, they are exhausted, in pain, and faced with an overwhelming set of new responsibilities.

TWO EXAMPLES

Michelle Bauman testified before a Senate committee that she was told to go home 28 hours after her daughter was born. Her baby died within one day of returning home due to a strep infection -- had she been in the hospital for 48 hours, her daughters symptoms would have appeared while still there.

Similarly, Susan Jones and her healthy newborn were discharged approximately 24 hours after birth, believing that he was healthy. However, her son had a heart defect which was not noticed by the hospital until a visit on the third day. The baby eventually died. Susan is convinced, had she been around for an additional day, the problem would have remained.

HOW THE PRESIDENT INFLUENCES POLICY

Observation
Initially, the Administration will frequently watch an issue carefully on the state level. In this case, the New Jersey General Assembly passed a bill in June of 1995 requiring insurers to pay for a second day of hospital care for mothers and their newborns. It also extended the minimum insurance financed hospital stay to 96 hours after a C-section. Maryland had already passed a similar bill.

The immediate result of this was additional pronounced lobbying to the President for national legislation that would create a national standard out of the state's law. Members of the state legislature wrote to he President urging him to assume his leadership position and support the "48 Hour Bill."

In the same week Sen. Bill Bradley (D-NJ) introduced a similar bill relating to the 48 hour minimum stay; thus taking the laws of his own state and attempting to extend them nationwide.

Again, members of the administration continues to keep a close watch on Sen. Bradley's bill, carefully studying the specified provisions. (You might want to describe a little bit more here about what you specifically did during the recent discussion of 48 hours.)

Information Assimilation
During the next several months, several different versions of what has now come to be known as the "48 Hour Bill" are introduced on the House side. All of the federal bills require health insurers to allow mothers and their newborns to remain in the hospital for up to 48 hours following a normal birth and 96 hours following a cesarean section.

However, the bills vary substantially. One permits early discharge only if home visits and parental education are arranged. Others, only if neither the mother nor her provider object. Another, only if specific medical criteria are met. The bills also applied to different populations (uninsured vs. the privately insured).

In order to help differentiate among the proposals, the Administration uses studies and recommendations made by many prominent National Medical Organizations (AMA, ACOG, etc.) for knowledgeable reference.

These organizations will also assist the President by keeping careful tabs on legislative action throughout the states so that his staff can have up to date information within minutes.

Take a Position and Speak in favor or against an issue
As part of the President's cabinet, HHS is a key resource during this time as well. Its specialization helps funnel and obtain information, provides clarification, and helps develop the Administration's stand on an issue.

In this particular case the Administration did the following:
(1) Took a position on the issue "in favor of the general concept."
(2) Followed congressional actions closely without ever endorsing a specific house bill because each contained various provisions the adminstration was not wholly in favor of.

Additionally, the President will often wield his power by appealing to the people directly through speeches. One excellent example of this occurred this past Mother's Day. With several different bills introduced and being discussed, the President used his radio address the day before Mother's Day to stress the importance of guaranteeing quality care for newborns and their mothers.

Similarly, the First Lady also "expressed concerns about early discharge" and wrote a syndicated newspaper column arguing for "government safeguards" in this area.

By publically endorsing the general concept of a 48 hours bill, the administration is able to provide statements for other legislatures to refer to, perpetuate the debate, and encourage action in Congress by expressing definitive interest.

UPDATE
At this point, it might be good to provide an update on the status of 48 Hours as well as what the President is continuing to do in terms of influencing the health policy surrounding it.

Major Steps in the President's Budget Process -- A Timeline

An example of how the President's budget for FY '97 was created in conjunction with HHS

Spring 1995	OMB takes the President's guidelines and provides HHS with a target figure for spending for FY '97
June 1995	ASMB personnel at HHS begin meeting and discuss their budget for FY '97
October 1, 1995	HHS submits FY '97 proposal to OMB; FY '96 begins
Thanksgiving, 1995	President and OMB "pass back" revised proposal to HHS
December 1995	HHS battles with OMB over budget for FY '97
End of December 1995	HHS and OMB (and the President) reach an overall figure for spending in FY '97
January 1996	OMB officials compile President's budget for FY '97
February 1996	President transmits his budget to Congress
March - Sept. 1996	Congressional action on the budget
October 1, 1996	The 1997 fiscal year begins
Oct. 1996 - Sept 1997	HHS program managers execute the budget provided in law
October 1997	Data on actual spending for the completed fiscal year becomes available

"In the Beginning.... The President's Budget Proposal" -- An Outline

I. What is the Budget?

- primary focus is on the budget year
- covers four years following the budget year to reflect long term decisions
- includes data on the most recently completed fiscal year
- Budget process has three main interrelated phases:
  1 - Formulation of the President's Budget
  2 - Congressional Action on the Budget
  3 - Budget Execution

II. Where Does the Money Go? (Spending)

- There are two forms of spending in the President's budget:
- Discretionary Spending
  - accounts for 33 percent of all federal spending
  - requires annual action
  - funds FBI, housing, education, space program, etc.
- Mandatory Spending
  - accounts for 67 percent of all spending
  - is authorized by permanent laws
  - funds entitlement programs & interest on national debt
- A big difference in terms of budgetary conflicts is what drives the baseline for entitlement programs vs. discretionary spending

III. Formulation of the President's Budget

Step One -- Executive Branch Agencies Develop Budget Proposals

- Agencies are required to submit their budgets to OMB by Oct. 1; one year prior to the beginning of the fiscal year.
- Executive Branch establishes spending guidelines for agencies
- OMB takes guidelines and establishes target limits for each agency
- Agencies begin meeting around June for deliberations over their budgets; different groups bring proposals to the table

Step Two -- Agencies Submit Proposals to the President

- Agencies submit proposals by Oct.1 to OMB
- OMB analysts compare agencies requests with initial target figures
- OMB analysts identify issues requiring discussion with agencies
- PADS (Program Associate Directors) make additional decisions
- Budget Review Divisions provide overall outlooks and suggestions
- Director of OMB briefs the President on all decisions
- President and advisors provide further input

Step Three -- "Passback" (Executive Branch Responds)

- Agencies typically hear back by Thanksgiving
- Agencies consider President's proposal and appeal
- OMB and President deliberate/compromise with agencies
- Overall number is reached for spending for each agency
- This process is completed by late December

Step Four -- Compiling the President's Budget

- Law requires the President to submit his proposal by the first Monday in February
- January is essentially spent compiling numbers into readable form
- This year was unusual due to efforts to create a balanced budget; the President submitted his budget in two parts

IV. The Rest of the Process in Brief

- From its submission in February through September, Congress reviews the President's proposed budget
- Congress develops its own budget and approves spending and revenue bills
- The President's budget is significant in the rest of the process
  - provides starting point for debate
  - provides the economic forecast used for the rest of the budget process
  - provides an adjusted cap for discretionary spending
- The fiscal year begins on October 1
- Agency program managers execute the budget Oct through Sept.
- Data on actual spending for the completed fiscal year is available the following October -- 2 years after the process was formally initiated.

MEMORANDUM ON JUNE 10 BUDGET SPEECH

TO: Jennifer Klein

FROM: Mandy Biles

RE: "In the Beginning... The President's Budget Proposal"

Enclosed you will find all of the information I could assimilate as follows:

- A longer detailed explanation of the President's budget process
- A shorter, more concise outline with most of the same information
- A timeline (which I put together for myself in order to follow the process)
- OMB's number for Medicare, Medicaid, and HRSA. (These are complete for 1996; the rest of 1997 should be forthcoming but I didn't want to wait any longer.) I am also enclosing the fax sent over by OMB on the discretionary numbers.
- "A Citizen's Guide to the Federal Budget" -- somewhat helpful.
- Excerpts from <u>The Guide to the Federal Budget</u>. (Very basic, but good if you want to make some distinctions.)

If there is anything else you need done -- revised talking points, more information, charts, overheads, etc. -- do not hesitate to ask and I will do my best to help you ASAP.

I hope this is helpful.

"In the Beginning... The President's Budget Proposal" -- In Depth

WHAT IS THE BUDGET?

The primary focus of the budget is on the budget year (the next fiscal year for which Congress needs to make appropriations.)

The budget may propose changes to funding levels already provided for the current year, and it covers the four years following the budget year in order to reflect the effect of the budget decisions over the longer term.

The budget also includes data on the most recently completed fiscal year so that the budget estimates can be compared to actual accounting data.

For more general description of "What is the Budget" -- see p.1 of "A Citizen's Guide..."

The budget process has three main interrelated phases:

1 - Formulation of the President's Budget***
2 - Congressional action on the budget
3 - Budget execution

WHERE DOES THE MONEY GO?

Spending designated in the President's budget generally comes is allocated in two forms -- discretionary and mandatory.

Discretionary spending accounts for 33 percent of all Federal spending and is what the President and Congress must decide to spend for the next year through the 13 annual appropriations bills.

This includes money for activities such as the FBI and the Coast Guard, for housing and education, for space exploration and highway construction, and for defense and foreign aid.

Mandatory spending which accounts for 67 percent of all spending, is authorized by permanent laws, not by the 13 annual appropriations bills.

This includes entitlement -- such as Social Security (22 percent), Medicare (11 percent), Medicaid (6) and Food Stamps as well as interest on the national debt. Veterans

For these reasons, debate between agencies and OMB is generally more centered around discretionary spending rather than mandatory.

In mandatory entitlement programs, (like Medicare and Medicaid), the baseline is generated by the number of recipients involved. Whereas legislative policy resulting from legislative decisions (i.e. balancing the budget) drives discretionary spending.

FORMULATION OF THE PRESIDENT'S BUDGET

Step One -- Executive Branch Agencies Develop Budget Proposals

The process of formulating a budget, from the President's standpoint, begins at least nine months before the budget is transmitted to Congress (in February)and at least 18 months before the fiscal year begins (in October).

This means that agencies are required to submit their budgets to the President (via OMB) by October 1; one year prior to the beginning of the fiscal year.

The Executive Branch however must provide the agencies with guidance as they create their budgets for the upcoming year; thus during late Spring, the President (in conjunction with his advisors) establishes general budget and fiscal policy guidelines.

Agencies begin meeting early to develop proposals. For example, the budget personnel at HHS, begin meeting now in June of 1996 for deliberations in order to submit their budget to the President in October of '96 as part of FY '98.

OMB uses the President's guidelines to work with federal agencies in order to establish specific policy directions and planning levels for the agencies in order to help guide their budget requests.

The result is that OMB provides overall guidelines generally in the form of a single target number to the agencies.

This number generally equates to economic planning in the form of OMB telling the agencies to "Please plan for 1997 by assuming your 1996 budget plus inflation" or "1996 with more programs and fewer dollars."

During the deliberations on the agency level, different agencies which will receive grants and bring their own proposals with them to the table. (For example, HHS will consider Head Start's budget during their own budget process.)

Step Two -- Agencies Submit Proposals to the President and OMB

The submission of the agencies' budgets by Oct.1 to OMB initiates the deliberative process from the President's standpoint. Here, budget analysts compare agencies' requests with initial target figures provided by OMB.

Budget analysts will also identify the issues with the agency's budget requiring discussion with the agencies.(The agencies will also submit justifications explaining why their requests are larger than expected.)

After reviewing proposals, budget analysts assist PADS (Program Associate Directors) in OMB who continue the analysis process making additional considerations and decisions. (Generally, they decide to cut the amount requested by the agencies.)

PADS are helped by further analysis done through Budget Review Divisions which look at the whole picture and make estimations such as "with these allocations, the deficit will be..."

More decisions are made by the PADS and the Director of OMB in the form of agreements which eventually will respond to the budgetary requests of the agencies.

After the OMB officials have made all of the decisions they can, the Director of OMB briefs the President on all decisions; here is when he intervenes. (Meetings with the President may involve the Director and the Cabinet Secretary.)

In addition to OMB, decisions concerning the President's budget are typically influenced by projections of the economic outlook that are prepared jointly by the Council of Economic Advisors and the Treasury Department.

Step Three -- "Passback" (Executive Branch Responds)

In a typical year (which last year was not), the Executive Branch agencies hear back by Thanksgiving with a preliminary estimate designated by the President. During the next few days, the agencies will consider the president's proposal.

Agencies will typically appeal the decisions (which generally include cuts in requested funding) to anyone who will listen to them, be that a PAD, the Director, or White House official.

During the next month, HHS and the other agencies deliberate and compromise with OMB, attempting to settle on agreements. (Stronger disagreements are settled between the Secretary of the agency and the President and White House policy officials.)

Each agency must reach an overall budgetary number in terms of total dollars it will receive at the end of this negotiation stage. However, rarely are all of the expenses within the agency's budget set by this point.

This decision making process is usually completed by late December, still 10 months before the beginning of the next fiscal year. At this time, the final stage of developing detailed budget data and the preparation of the President's budget documents begins.

Step Four --Compiling the President's Budget:

The law requires that by the first Monday in February, the President submit to Congress his proposed federal budget for the next fiscal year, which begins on Oct.1.

Consequently, the month of January is essentially spent compiling the numbers into a very large readable document

This year, the President faced unusual challenges in submitting his budget on time due to the fact that when OMB would have normally prepared the budget, President and congressional leaders of both parties were negotiating a plan to balance the budget over seven years. Congress had not yet finished the necessary spending bills for 1996.

As a result, the President complied with the February legal deadline by submitting a brief budget document on Feb. 5 and the rest of the budget documents with the traditional amount of back-up detail, in March.

THE REST OF THE PROCESS IN BRIEF

From its submission on the first Monday in February through September, Congress reviews the President's proposed budget and develops its own budget and approves spending and revenue bills.

Once it is submitted to Congress, the President's budget serves as more than just half of the overall product by providing a starting point for debate.

The President's budget provides the economic forecast used throughout the rest of the budget process. It also includes an adjusted cap for discretionary spending.

This becomes important because if Congress does not pass its budget resolution by April 15, the cap included in the President's budget can be used to provide the appropriations committee with their allocations so that debate may begin.

Virtually all congressional budget activities that take place over the rest of the process generally are initiated by the President's budget.

The fiscal year begins on Oct.1 and data on actual spending for the completed fiscal year is available the following October.

President's Budget Numbers on Medicare, Medicaid, and HRSA

MANDATORY	**1996**	**1997**
Total Spending for Benefits	$194 billion	
Part B	$69 billion	
Physicians	$42.2 billion	
Primary Care	Not Available	
Federal Share of Medicaid Spending	$94.9 billion	

DISCRETIONARY		
Health Resources Services Adminstration	$372 million	$366 million
Primary Care Medicine	$75 million	$80 million
Other Health Professions	$297 million	$286 million

Jem
The rest of the numbers will be forthcoming; sorry about the delay.

June 5, 1996

Health Division

Office of Management and Budget
Executive Office of the President
Washington, DC 20503

Please route to:

Richard Turman RJT
Barry Clendenin BC
Amanda Biles

Decision needed ___
Please sign ___
Per your request _X_
Please comment ___
For your information ___

With informational copies for HPS and HD Chrons, Min

Subject: **Discretionary Primary Care Training Funds in the FY97 Budget**

Phone: 202/395-7791
Fax: 202/395-3910
Room: #7026

From: Greg White GW

Primary Care Health Professions (HP) Curriculum Assistance Grants in the FY97 Budget
BA $ in Millions

	FY96 Enacted	FY97 Budget	+/- over FY96
Primary Care Medicine and Public Health Training Cluster*	75	80	+5
4 Other Health Professions Clusters**	297	286	-11
Total HRSA Health Professions	372	366	-6

*Curriculum assistance Grants included in the Primary Care cluster are Family Medicine, General Internal Medicine/Pediatrics, Public Health/Preventive Medicine grants.

**The 4 other HP clusters are the Health Professions Workforce Development cluster, Enhanced Area Health Education Centers (AHEC) cluster, Nursing Education/Practice cluster and the Minority/Disadvantaged HP cluster.

On behalf of Jennifer Klein, you asked for information on discretionary funding in the FY 1997 Budget for primary care physician training. The Health Resources and Services Administration (HRSA) administers over 30 Health Professions Curriculum Assistance grants, which help support curriculums at medical education institutions for the training of various health professions, including primary care physicians.

To ease administrative burdens on grantees and the Federal government, the FY 1997 Budget grouped these 30-odd grants into 5 Health Professions "clusters," one of which is titled the "Primary Care Medicine and the Public Health Training Cluster." Funding for this cluster, as well as the four other clusters is detailed in the table above.

As you know, HRSA funds for primary care physcian training are very small in comparison to the funds made available through Medicare.

Chapter One

THE FEDERAL BUDGET AS A SECOND LANGUAGE

Before anyone attempts to understand the budget process or to analyze individual budget documents, it is important to master the following key terms and concepts. (For further information on the language of the budget, refer to the updated glossary at the end of the book.)

AUTHORIZATION VERSUS APPROPRIATION

Two steps must usually occur before the federal government can spend money on an activity. First, an authorization must be passed allowing a program to exist. The authorization is the substantive legislation that establishes the purpose and guidelines for a given activity and usually sets the limit on the amount that can be appropriated. The authorization does not, however, provide the actual dollars for a program or enable an agency or department to spend funds in the future.

Second, an appropriation must be passed. The appropriation enables an agency or department to make spending commitments that eventually lead to dollars being spent.

Except in the case of entitlements, an appropriation is the key determinant of how much will be spent on a program. In almost all cases, however, an appropriation for a given activity is not supposed to be made until the authorization is enacted. No money can be spent on a program unless it first has been allowed (authorized) to exist. Conversely, if a program is authorized but no money is provided (appropriated) for its implementation, that activity cannot be carried out. Therefore, both an authorization and an appropriation are necessary for an activity to be included in the budget.[1]

A particularly confusing aspect of these two legislative requirements is that both authorizations and appropriations often describe an activity in dollar terms. For example, the fiscal 1982 authorization for the administrative expenses of the United States Railway Association stated: "There are authorized to be appropriated to the Association for purposes of carrying out its administrative expenses under this Act not to exceed $13,000,000 . . . ."[2] whereas the fiscal 1982 appropriation for the same organization stated: "For necessary administrative expenses to enable the United States Railway Association to carry out its functions . . . $13,000,000."[3]

Despite the fact that both seemed to be providing $13 million, only the appropriation was actually doing so. The dollar figures in the authorization served only as an upper limit on what could be appropriated. An appropriation is not supposed to exceed the authorization.

An entitlement is a particular type of authorization that requires the federal government to pay benefits to any person or unit of government that meets the eligibility requirements it establishes. An entitlement differs from other authorizations because it constitutes a legally binding commitment on the federal government. Although, like all other programs, an entitlement requires an appropriation, that appropriation is often permanent and indefinite so that the amount spent each year is not determined through the annual appropriations process. The amount needed to pay all the eligible beneficiaries is provided automatically.[4]

In fact, eligible potential recipients may sue the federal government if entitlement benefits are denied to them because funds are not appropriated. The authorization, therefore, is the key legislation in deciding how much will be spent on an entitlement and relegates the appropriation to little more than a formality. Examples of entitlement programs are Medicare and Social Security.

BUDGET AUTHORITY VERSUS OUTLAYS

The dollar amounts listed in both authorization and appropriation bills are stated in terms of "budget authority." Budget authority (BA) is the permission granted to an agency or department to make commitments to spend money—such as hiring workers and signing contracts to purchase some item. In most cases, budget authority is not the amount of spending that will occur but the level of new spending commitments that will be made. Although budget authority will lead to the spending of money, it is not the actual exchange of cash.

Outlays (O) are the actual dollars that either have been or will be spent on a particular activity. Outlays are the direct result of budget authority, that is, the permission to enter into a commitment to spend money, made either this year or in previous years. The overall level of outlays compared with the overall level of revenues determines whether the budget is in surplus or deficit.

Figures for both budget authority and outlays are needed because many federal activities are not completed within a single fiscal year and it is important to know both what the total cost will be (budget authority) and what will have to be spent this year (outlays). By looking beyond this year's spending requirements to the overall cost of the activity, the president and Congress can know the future spending commitments they are making as well as the cash required immediately.

Knowing future spending commitments is particularly important for activities that take several years to complete. For example, when the government decides to procure an aircraft carrier, outlays in the first year will be relatively small because it takes a long time to start construction. The budget authority in the first year, however, will be large because it will reflect the full cost of the ship. In the second year there will be no new budget authority because the full cost was provided in the previous year's budget. Outlays, however, will begin to increase in the second year as construction continues and accelerates. This pattern of outlays but no new budget authority will continue each year until the procurement is completed.

A good analogy is the purchase of an automobile with a three-year loan. When the purchase of the car (at a total cost of $20,000, for example) is arranged, the buyer and seller sign a contract for the full amount and the "budget authority" is $20,000. But the actual amount spent, that is the "outlays" in the first year, is only equal to the down payment ($5,000, in this example) plus the monthly payments (another $5,000). In the second year no new budget authority is needed because the loan already has been arranged and the commitment made, but there are outlays, in this case equal to the monthly payments ($5,000). In the third and final year again there would be no new budget authority, but the outlays again would equal $5,000, at which point the loan would be repaid. Table 1 shows how the federal budget typically depicts this situation.

It should be clear from table 1 that neither budget authority nor outlays alone are sufficient to tell the full budgetary consequences of purchasing this car. By looking only at budget authority in fiscal 1996, the program might seem too expensive to undertake because the full

Table 1 PURCHASE OF AUTOMOBILE (in thousands of dollars)

	Fiscal Year		
	1996	1997	1998
Budget Authority (BA)	20.0	0.0	0.0
Outlays (O)	10.0	5.0	5.0

cost of the car appears to be needed in that year. Yet by looking only at the budget authority in fiscal years 1996 and 1997, the car looks too good to pass up because it appears to cost nothing even though substantial spending is, in fact, required. But if you look only at the outlays in a particular year you will not know the full cost of the car because only the yearly spending requirement is obvious.

Some federal activities, notably the payment of salaries and entitlements, usually "spend out" within the fiscal year in which the budget authority is provided. In these cases, budget authority and outlays are approximately equal. In some cases, however, the level of outlays appears to be greater than the level of budget authority. This situation generally is the result of budget authority that was provided in previous years but is only now being spent. The level of outlays for a particular year is, therefore, a combination of budget authority provided that year and in previous years.

It is difficult, however, to determine simply by looking at the tables in the budget whether outlays are the result of budget authority provided this year or in previous years; usually some knowledge of the program is necessary. Take the previous example of an automobile purchased with a three-year loan. Table 2 shows how the federal budget typically would depict the situation if a second car is purchased in a similar manner and at the same cost in fiscal 1997.

It would be wrong to assume that the $15,000 in outlays in fiscal 1997 is the result of the $20,000 in budget authority provided in fiscal 1997. In fact, only $10,000 comes from this new budget authority. The remaining $5,000 comes from budget authority provided in fiscal 1996 that is now coming due (the monthly payments from the automobile purchased in that year). Even if the decision was made not to buy the

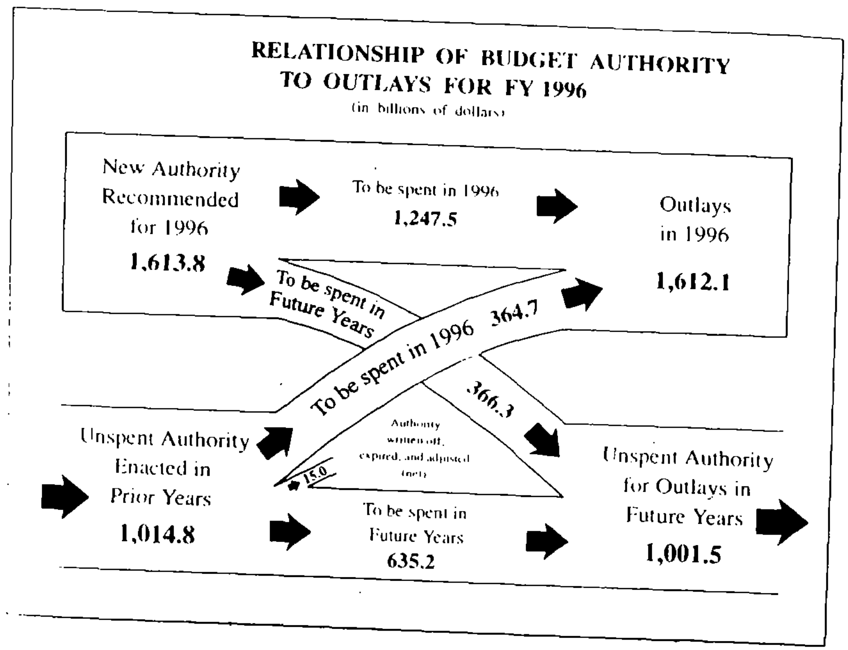
Table 2 PURCHASE OF TWO AUTOMOBILES (in thousands of dollars)

	Fiscal Year		
	1996	1997	1998
Budget Authority (BA)	20.0	20.0	0.0
Outlays (O)	10.0	15.0	10.0

second car in 1997 and the entire $20,000 in budget authority was cut from the 1996 budget, $5,000 still would be spent in fiscal 1997 as the result of the previous spending decision. Fiscal 1998 spending, however, would drop to $5,000.

Figure 1 depicts the relationship between budget authority and outlays in the Clinton fiscal 1996 budget as a whole. The president proposed a budget with outlays of $1,612.1 billion (upper right-hand corner). Only 77.4 percent of that amount, or $1,247.5 billion, was projected to result from the requested fiscal 1996 budget authority of $1,613.8 billion (upper left-hand corner), however. The remaining 22.6 percent, or $364.7 billion, was the result of unspent budget authority granted in previous years (lower left-hand corner). The $366.3 billion in budget authority requested for fiscal 1996 that was not expected to result in fiscal 1996 outlays was to be added to the $635.2 billion in budget authority provided in previous years that was expected to continue to remain unspent. This $1,001.5 billion was the total

Figure 1 RELATION OF BUDGET AUTHORITY TO OUTLAYS



Source: Office of Management and Budget (OMB), *Budget of the United States Government, Fiscal Year 1996, Analytical Perspectives* (Washington, D.C.: U.S. Government Printing Office, 1995), p. 278.

amount of unspent budget authority that was projected to result in outlays in fiscal 1997 and beyond (bottom right-hand corner).[5]

CONTROLLABLE VERSUS UNCONTROLLABLE SPENDING AND DISCRETIONARY VERSUS MANDATORY SPENDING

The $1,001.5 billion in unspent budget authority is a significant part of what is classified as "relatively uncontrollable" spending. Such spending is not out of control in the literal sense. It consists of outlays that result from prior-year commitments of the federal government, including previously granted budget authority, entitlements, open-ended programs, and permanent appropriations (interest on the national debt, for example) that require no further action by Congress and the president to be spent. For example, of the $1,151.8 billion in outlays in the Clinton fiscal 1996 budget, approximately $864 billion—75 percent—can be classified as relatively uncontrollable.

"Controllable" spending is spending that will occur only if Congress passes and the president signs an appropriation for it.

"Uncontrollable" is something of a misnomer; if Congress and the president choose to act, in many cases they can change laws to alter the amount expected to be spent or to stop such spending entirely. In other words, controllable spending will occur only if Congress and the president take some action (such as an appropriation) to cause it. Uncontrollable spending will occur unless Congress and the president take some action to stop it.

The difference between controllable and uncontrollable spending took on new importance because of passage of the Budget Enforcement Act (BEA) of 1990.[6] The act drew a sharp distinction between "discretionary appropriations," which are virtually the same as controllable spending, and "mandatory spending," which is virtually the same as uncontrollable spending, and created different limitation mechanisms for each (see chapter 2).

BEA states that discretionary appropriations are "budgetary resources provided in appropriations acts." This means that Congress must pass and the president must sign legislation each year allowing these funds to be spent. BEA defines mandatory spending as budget authority provided by laws other than appropriations (primarily authorizations), entitlement authority, and the food stamp program. This means that, for the most part, the funds will be spent even if Congress does not pass and the president does not sign new legislation this year.

ECONOMIC ASSUMPTIONS

The federal budget is very sensitive to changes in the economy. The levels of many spending programs change as interest rates, inflation, and unemployment increase or decrease. Similarly, the amount of revenues collected by the government changes as the economy, usually measured by the gross domestic product (GDP),[7] declines or grows because businesses and individuals pay taxes according to their income. Whenever the president and Congress formulate the budget, therefore, they must make certain assumptions about how well or how poorly the economy is likely to do.

Economic assumptions frequently have been a source of constant confusion and controversy. Because the president, the House and Senate Budget Committees, and the Congressional Budget Office (CBO) often use different economic projections, the budgets are not always comparable. In addition, the same budgets with different economic assumptions produce different results. For example, the Bush fiscal 1996 budget projected a balanced budget using economic assumptions that many believed were optimistic. Using its own forecast that differed substantially from the president's, CBO re-estimated the Bush deficit to be $120 billion, $27.5 billion higher. Both of these estimates were for the same budget and included the same spending and tax proposals. Economic assumptions were again a major point of contention during the fiscal 1996 budget debate. Congress used CBO's economic forecast and the deficit projections it produced when it put together a seven-year deficit elimination plan. The Clinton Administration, however, used its own forecast to compile its own balanced budget plan. Because the White House used a slightly more optimistic estimate of annual economic growth than CBO (2.5 percent vs. 2.3 percent), the required spending cuts in the Clinton plan appeared to be less onerous than those in the congressional plan. In addition, when the CBO forecast was substituted, the administration's plan did not appear to achieve a balanced budget.

Table 3 shows the differences that existed between the Clinton Administration and CBO economic assumptions for 1995 and 1996.

Table 3 CLINTON VERSUS ORIGINAL CBO 1996 ECONOMIC ASSUMPTIONS

	Actual	Forecast		Projected			
	1994	1995	1996	1997	1998	1999	2000
Nominal GDP (Billions of dollars)							
CBO	6,735	7,127	7,456	7,847	8,256	8,680	9,128
Administration	6,735	7,117	7,507	7,921	8,361	8,832	9,310
Real GDP (Percentage change, year over year)							
CBO	4.0	3.1	1.8	2.4	2.3	2.3	2.3
Administration	4.0	2.8	2.5	2.5	2.5	2.5	2.5
GDP Deflator (Percentage change)							
CBO	2.1	2.6	2.8	2.8	2.8	2.8	2.8
Administration	2.1	2.8	3.0	3.0	3.0	3.0	3.0
Consumer Price Index (Percentage change, year over year)							
CBO	2.6	3.1	3.4	3.4	3.4	3.4	3.4
Adminstration	2.6	3.1	3.2	3.2	3.2	3.1	3.1
Civilian Unemployment Rate (Percent)							
CBO	6.1	5.5	5.7	5.8	5.9	6.0	6.0
Administration	6.1	5.8	5.9	5.8	5.8	5.8	5.8
Three-Month Treasury Bill Rate (Percent)							
CBO	4.2	6.2	5.7	5.3	5.1	5.1	5.1
Administration	4.2	5.9	5.5	5.5	5.5	5.5	5.5
Ten-Year Treasury Note Rate (Percent)							
CBO	7.1	7.7	7.0	6.7	6.7	6.7	6.7
Administration	7.1	7.9	7.2	7.0	7.0	7.0	7.0
Nominal Income (Percentage of GDP)							
Wage and salary disbursements							
CBO	48.7	48.8	48.9	48.8	48.7	48.6	48.5
Administration	48.7	48.2	48.1	48.0	47.9	47.8	47.7
Other personal income							
CBO	36.0	36.4	36.9	37.2	37.6	38.0	38.4
Administration	36.0	36.4	36.7	37.0	37.4	37.7	38.0
Corporate profits							
CBO	7.8	7.5	7.2	7.1	7.0	6.9	6.8
Administration	7.8	7.6	7.6	7.6	7.5	7.5	7.7

Source: U.S. Congress, Congressional Budget Office, *An Analysis of the President's Budgetary Proposals for Fiscal 1996* (Washington, D.C.: U.S. Government Printing Office, 1995), pp. 11–12.

Appendix C provides estimates for the impact of several changes in the economy on revenues, outlays, and the deficit.

BUDGET FUNCTION

The president's budget and the congressional budget resolution are supposed to present each program according to the principal national need it is intended to serve.[8] These needs constitute general areas of federal activity (agriculture, health, community and regional development, and so on) and are referred to as "functions." Every program, regardless of the agency or department that administers it, is placed in the one function of the budget that best describes its most important purpose.

A function is not the same as the budget of a particular department. The National Defense function, for example, is different from the Department of Defense budget because the function also includes several nuclear weapons programs administered by the Department of Energy. In addition, a department's budget often is divided among several functions. The Treasury Department, for instance, administers programs in a number of functions, including Commerce and Housing Credit, General Government, and International Affairs. A function also does not correspond precisely to an authorization or appropriation bill, which usually deals with parts of several functions at the same time. Finally, a function is not the same as the three categories of discretionary spending—defense, international, and domestic—that were established by the Budget Enforcement Act for fiscal years 1991–1993, or for the two categories—defense and nondefense—that Congress imposed for fiscal years 1996–2002 in the fiscal 1996 congressional budget resolution.

Each function is separated into subfunctions, which divide the programs according to the "major mission" they fulfill. The first two digits of a subfunction are the same as the digits for the main function; only the last digit is different. For example, function 400, Transportation, contains the following four subfunctions—401, Ground Transportation; 402, Air Transportation; 403, Water Transportation; and 407, Other Transportation.

Table 4 provides a list of the 20 functions. Appendix D of this book describes each function and includes a list of its major agencies, departments, and programs.

Table 4 FUNCTIONS OF THE FISCAL 1996 BUDGET

Number	Title
050	National Defense
150	International Affairs
250	General Science, Space, and Technology
270	Energy
300	Natural Resources and Environment
350	Agriculture
370	Commerce and Housing Credit
400	Transportation
450	Community and Regional Development
500	Education, Training, Employment, and Social Services
550	Health
570	Medicare
600	Income Security
650	Social Security[9]
700	Veterans Benefits and Services
750	Administration of Justice
800	General Government
900	Net Interest
920	Allowances
950	Undistributed Offsetting Receipts

SEQUESTERS VERSUS IMPOUNDMENTS[10]

The Balanced Budget and Emergency Deficit Control Act of 1985[11] (commonly known as Gramm–Rudman–Hollings, or "GRH") created a new budget procedure—sequestration.

The Budget Enforcement Act substantially revised sequestration. Under BEA, federal spending originally was divided into four categories for fiscal 1991–1993—domestic discretionary, defense discretionary, international discretionary, and all mandatory programs. For fiscal 1994 through 1998, BEA combined the three discretionary categories into one (see chapters 2 and 7).[12]

The 1996 congressional budget resolution (H. Con. Res. 67) revised the discretionary spending caps and, therefore, the programs subject to a sequester. Through fiscal 1998, discretionary spending is divided into two categories—defense and nondefense—so two different discretionary sequesters can occur in those years.[13]

For discretionary programs, the president must issue a sequester order to cut spending if the director of the Office of Management and Budget determines that the limit or "cap" has been "breached."

For mandatory spending and revenues, over the entire 1991–2002 period the president must issue a sequester order if a law has been

enacted that will increase the deficit and that deficit increase is not offset with either an equal mandatory spending cut or a revenue increase or a combination of both.

This is very different from another budgeting tool that can be used to reduce spending—impoundments. An impoundment is when the president proposes not to spend all or part of an enacted appropriation. The president has the total authority to determine whether and when an impoundment will be proposed and which programs will be affected to what extent. However, under the provisions of the Congressional Budget and Impoundment Control Act of 1974,[14] Congress has the responsibility to review and pass judgment on all proposed impoundments. Without congressional approval, an impoundment cannot become effective and, therefore, spending will not be cut.

BASELINES

A baseline is a projection of what will happen to spending and revenues based on certain assumptions.[15] For example, suppose the federal government spent $100 on a certain program in fiscal 1996 and the baseline assumption is that it will grow every year by 5 percent. This could be based on anything—an automatic cost of living adjustment that is included in the law that created the program, an informal assumption that enough funds will be provided to keep the program even with inflation, an expected increase in the number of people eligible for the program, and so on. Regardless of the reason, as table 5 shows, a 5 percent annual increase means that the baseline for this program would grow from $100 in 1996 to almost $122 four years later if the specified assumptions were realized.

A baseline is important because it provides a way to determine the impact of a proposal on what is expected to happen under certain assumptions. In the example shown in table 5, suppose that in 1997 the president proposes to increase spending in this program to $106. This is a $6 increase over the amount spent in 1996. However, it is an

Table 5 HYPOTHETICAL BASELINE BASED ON ASSUMED 5 PERCENT PER YEAR GROWTH

1996	1997	1998	1999	2000
100.0	105.0	110.3	115.8	121.6

increase of only $1 over the baseline—the amount that is assumed would be spent anyway.

Baselines are not unique to federal budgeting; they are actually part of everyday life. For example, workers who complain that they did not get enough of a raise in their salaries to stay even with inflation are actually using a baseline that is based on an assumption that their earnings would or should grow by that amount each year.[16] Similarly, a golfer who gets a "birdie" is said to be "one below par," that is, one less than the baseline for the hole.

Federal budget baselines were intended to be used to show how a proposal compared to the amount needed to keep a program at a constant level of services. The problem is that over the years the original purpose for baselines has often been forgotten or ignored and the comparisons of a proposed level of spending with the baseline often have been misused. For example, a member of Congress who wants to defeat a proposed funding level for the coming year that is at the baseline might refer to it as a budget "freeze" when in fact it represents an increase over the amount expected to be spent in the current year. Or a member who wants to cut a program below the amount expected to be spent this year might find that opponents make the proposed reduction look larger by comparing it to the baseline rather than the prior year.

In 1989, baselines became increasingly controversial because of OMB Director Richard Darman's attempt to avoid using the current services baseline and instead to compare everything to what was actually spent the previous year. Current services not only assumes an increase for inflation in most programs, for entitlements it also assumes additional increases to cover such changes as increased numbers of people who are expected to be eligible to participate. In these programs, the baseline amount, therefore, can be significantly above the amount that was spent the previous year, even though there is no change in policy.

Darman was upset because the Bush Administration's proposals to spend more than the previous year looked like cuts in comparison to the baseline. When compared with the previous year's actual amount, however, the proposals appeared to be rather generous.

What Darman really wanted to do was play the same game that he was accusing others of playing by using a different baseline, one that would show the president's proposals in the best possible light. Those that preferred the current services baseline wanted to be able to claim that the administration was cutting spending even though the amount that would be spent was more than was spent the previous year.

Darman wanted to claim that the president was increasing spending even though the amount to be spent under the administration's proposal was less than was needed to maintain the same level of services.

The baseline controversy erupted again in 1994 and 1995. In 1994, the House—led by Reps. Charles Stenhom (D-TX), John Kasich (R-OH), and Tim Penny (D-MN)—voted to eliminate the use of the baseline and to instead use the prior year's level as a base to judge all proposals. The Senate did not act on the change, however, so the existing baseline continues to be the standard. In 1995, the House changed its own rules to require that CBO use the prior year rather than the baseline when making its comparisons. This change only applies to the House, however. The baseline controversy was also important in 1995 as Democrats and Republicans sparred over whether the proposals for Medicare were a cut or an increase. The answer? It depended on the baseline being used.

What is most interesting is that, using different baselines, both sides in a dispute will agree completely on what was spent last year and what is being proposed to be spent this year. However, the baselines they use will allow the two sides to reach very different conclusions about exactly the same budget figures.

It is important to remember that baselines are not forecasts of what is going to happen. All they do is show how spending or revenues will change if the assumptions hold true.

The Budget Enforcement Act uses baselines extensively. The most important use is for the "pay-as-you-go" sequester system for mandatory spending and revenues. If spending on mandatory programs rises above its baseline or revenues fall below its baseline because of new legislation enacted by Congress and the White House and that change is not offset by either an equal mandatory spending cut or revenue increase or both, then a sequester is triggered.

ON-BUDGET VERSUS OFF-BUDGET

Not everything the federal government spends money on is reflected in the budget totals. Certain federal entities, programs, and some parts of programs have been specifically excluded from the budget. The Budget Enforcement Act, for example, excluded the receipts and disbursements of Social Security[17] (the Old-Age and Survivors Insurance Fund and the Disability Insurance Fund) from the president's budget and the congressional budget resolution. Programs that have been excluded like this are called "off-budget." Because the spending on these programs is not included in the budget totals, the deficit is not affected by it.

There is no standard list of reasons as to why some program is off-budget; the decision is almost always political and can be changed depending on the year and situation. For example, until 1981 the purchase of oil for the strategic petroleum reserve was "on-budget," that is, any spending was included in the budget and the deficit was affected accordingly. In 1981, the Reagan Administration proposed and Congress agreed to take this spending off-budget. There was no specific reason for this other than the fact that the price of oil had increased and the White House did not want the deficit growing by as much as would have occurred. Rather than propose to increase revenues or cut other programs to control the deficit, Reagan proposed to take the spending off-budget. In 1985 this program was put back on the budget again when Gramm–Rudman–Hollings was enacted.

The issue of on-budget versus off-budget spending became a somewhat more popular issue in 1989 because of the savings and loan bailout legislation. The Bush Administration wanted the expected $50 billion in spending between fiscal 1989 and 1991 to be off-budget, while Congress wanted it to be on-budget but to exempt it from the GRH deficit calculations. The compromise was that the first $20 billion would be on-budget and the next $30 billion would be off-budget.

DEFICIT VERSUS DEBT

The federal "deficit" and the national "debt" are often incorrectly used interchangeably.

A ***deficit*** occurs when the federal government spends more in any fiscal year than it receives in revenues. The fiscal 1995 deficit was $164 **BILLION**.

The national ***debt*** is made up of two different components. The first is the amount the federal government has had to borrow whenever it has not had enough cash in a fiscal year to meet its obligations, that is, when it has run a deficit. The second is the amount lent to the government by the federal trust funds which, by law, must invest in U.S. securities when they have a surplus. The combination of the amount borrowed to finance the deficit plus the amount invested by the trust funds is called the "debt subject to statutory limit." The amount of federal indebtedness for these two reasons is limited by law by what, appropriately, is called the debt limit or, more commonly, as the debt "ceiling."

Even if the federal government has a balanced budget, the amount it has to borrow will still increase each year for two reasons. First, if any of the almost 170 federal trust funds has a surplus, it must be invested in federal securities so the Treasury will be borrowing the surpluses and the overall amount of federal debt will increase. Second, although the federal budget accounts for the loans and loan guarantees the government makes on a net present value basis, the amount actually disbursed in a year is current-year dollars. This means that the government's borrowing needs will be greater than will seem apparent from the budget totals.

Therefore, all of the rhetoric about the end of federal borrowing once the budget is balanced is wrong. Even if there is a balanced federal budget for a period of years, trust fund surpluses mean that gross federal debt will continue to grow and the debt ceiling will have to be increased.

The best way to think about federal debt and borrowing is to compare it with the spending practices of an individual who has a credit card with a borrowing limit of $1000. Assume that this person has no savings account, mattress stuffed with dollar bills, or other source of cash. When she or he spends more than they earn in any month, they might use their Master Card or Visa to get through to the next paycheck. In this sense they have run a monthly deficit of say, $100. If they do not pay off the full amount they borrowed when the bill comes in next month, they will have a credit card bill or debt of the amount remaining on the card. If they then repeat the same process for the next few months, they will eventually reach the limit on their credit card and will be unable to borrow any more.

Reaching the limit on a credit card does not mean that this person must stop living. It does mean, however, that she or he will have to live for the next month on their paycheck plus any other source of cash that they may have—relatives, for example. They will not be able to use their credit card again until they have paid off some of what they have already borrowed, unless their bank increases their credit limit.

Whenever the federal government runs a deficit it also uses its credit card to meet its obligations. However, Washington's borrowing limit is set not by a bank, but by a law that must be passed by Congress and signed by the president. The statutory limit on the national debt was reached in October 1995. When Congress and the Clinton Administration could not agree on a new ceiling, the federal government did not have had enough cash to meet its obligations and had to do the equivalent of borrowing from its family, that is, take extraordinary steps, to make sure that its bills were paid, such as selling government assets to raise cash and disinvesting one or more of the federal trust funds.

There are essentially two ways that debt is limited—permanent and temporary.

Permanent Debt Ceiling. Congress usually sets by statute a permanent dollar amount that acts as a ceiling on the total amount of federal debt. Once the ceiling is reached, the Treasury cannot issue new debt but can refinance existing debt as long as the total amount of outstanding debt stays below the permanent limit. This is the equivalent of what happens when someone reaches the limit on their credit card and then makes a payment. At that point they can use the card again until their personal debt ceiling is reached.

Temporary Debt Ceiling. Occasionally the debt ceiling has been increased temporarily, that is, until a specific date. If a new debt limit is not passed prior to the expiration of the temporary debt ceiling, the ceiling falls back to its previous permanent limit. This creates even more serious problems for the Treasury than when a permanent ceiling is reached because not only is the government unable to issue new debt, but it also is unable to refinance existing debt until the total amount of outstanding federal debt falls below the prior lower ceiling, a very unlikely situation.

Congress has most often used the temporary debt ceiling during budget negotiations, postponing a permanent increase in the debt until legislation to control or reduce the deficit has passed. This has put additional pressure on everyone to conclude the negotiations or threatens to throw federal finances into chaos.

Ironically, the statutory debt ceiling has become largely irrelevant to controlling federal spending. Since the current form of the debt ceiling was created in 1941, the content of the budget and the budget process itself has changed dramatically. In 1941, most of the budget was appropriated annually and Congress had no process to review, much less control, the overall amount of federal spending or deficit. A debt ceiling, therefore, served as a control on what could be spent.

Since then, however, the total amount of the budget that is appropriated has fallen precipitously. It was less than 36 percent of the budget in fiscal 1995. Federal spending is now driven by entitlements and interest on the national debt and the debt ceiling does nothing to ease the government's obligation to make these payments. The ceiling simply prevents the Treasury from borrowing the cash to pay its obligations.

Indeed, the debt ceiling is one of the most contradictory statutes that exists. Through appropriations and entitlement legislation, Congress, in essence, requires the federal government to enter into obligations. The failure to increase the debt limit does not change the requirement for the federal government to enter into these obligations It simply prevents the Treasury from paying them off. In other words the Treasury must issue checks that it knows will bounce.

In 1995, the required increase in the debt ceiling became controversial when Congress threatened to withhold the legislation until President Clinton agreed to its plan to balance the budget within seven years. That threat forced many budget watchers to review in great detail the options available to the Treasury to deal with this type of problem.

In the past, Treasury has suspended the sales of nonmarketable debt, such as savings bonds, and state and local government series. It has also trimmed or delayed auctions of marketable securities. These actions are relatively typical in the months before the debt ceiling is reached. As the borrowing margin thins, the Treasury has often found that it must underinvest the federal trust funds, that is, hold back from issuing interest-bearing securities to the funds which would then count against the debt ceiling. Instead, the trust funds are credited with uninvested balances. The Treasury can also sell some federal assets—gold, for example—to raise cash. It could also decide not to meet its financial obligations.

It is important to note, however, that not increasing the debt ceiling does not shut down the government. Assuming that appropriations or a continuing resolution (see chapter 5) have been enacted, agencies and departments still have the authority to enter into obligations and the Treasury is still be able to issue checks. However, the government might not have enough cash to honor the checks when they are presented for payment.

Interest on the national debt is an on-budget expenditure and is displayed in the "Net Interest" function. Therefore, a reduction in the amount of interest paid by the government is listed as a reduction in spending.

BALANCED BUDGET VERSUS BALANCED BUDGET AMENDMENT

Technically, a balanced federal budget is one where spending exactly equals receipts, that is, where "outlays" equal "revenues." These days, however, the budget is frequently said to be "in balance" if revenues equal *or exceed* outlays. In other words, a balanced federal budget is often considered to be a budget that is not in deficit.

A balanced budget is different from the proposed balanced budget amendment to the U.S. Constitution. If passed by the required two-thirds majority in each house and ratified by 38 states, the amendment would establish a constitutional requirement that the federal budget be balanced each year. It would not, however, actually balance the budget; that would still have to be done by Congress adopting and the president signing legislation that would result in the necessary spending cuts and revenue increases.

Therefore, having a balanced budget requirement (be it constitutional or statutory) is not the same as having a balanced budget. The first might lead to the second, but there is no guarantee.

The concept of a constitutional requirement for a balanced budget became newly popular during the debate on the fiscal 1993 budget when both houses of Congress seriously considered but failed to adopt any of the plans that were proposed by various representatives and senators. At least one of the proposed amendments received a majority of votes in both the House and Senate. They did not, however, receive the two-thirds majority required of all proposed constitutional amendments. A balanced budget amendment was considered again in 1994. It failed to get a two-thirds majority in the Senate or even a simple majority in the House. In 1995, the House voted 300 to 132 in favor of the amendment. The effort failed when the Senate voted 65 to 35 in favor of a similar proposal, two votes short of the required two-thirds majority.

Notes

1. The reasons for this dual requirement are mostly political. For a good discussion of how this process came to be, see Allen Schick, *Congress and Money: Budgeting, Spending, and Taxing* (Washington, D.C.: Urban Institute Press, 1980).

2. Public Law 97-35.

3. Public Law 97-102.

4. If Congress and the president failed to enact all of the 13 regular appropriations by the start of the fiscal year and government functions were shut down, entitlement programs would not be affected because they are funded permanently rather than annually. Furthermore, in 1981, Attorney General Benjamin Civiletti ruled that federal employees responsible for processing entitlement payments would continue to work

even in the absence of a regular appropriation because their functions are essential t the payment of the permanently funded entitlement benefits.

5. Theoretically, if the federal government stopped all new spending, budget authorit and outlays could eventually be reconciled so that they would equal each other. How ever, budget authority that was unused for some reason (unspent appropriations, r scissions, and so on) would also have to be taken into account.

6. Public Law 101-508.

7. The Commerce Department substituted "gross domestic product" or "GDP" for gro national product starting in 1992.

8. The budgets produced by the Bush and Clinton Administrations have not follow this requirement as strictly as previous administrations. Although the budgets ha included tables that have displayed the budget by function, the narrative discussi has generally ignored the functional scheme entirely. This has made it far more diffic to understand and analyze the proposals.

9. Social Security was removed from the budget by the Omnibus Budget Reconciliati Act of 1990 (Public Law 101-508). The Social Security function may not, therefo show up in every functional table.

10. See chapter 6 for a further discussion of sequesters and chapter 7 for furtl explanation of impoundments.

11. Public Law 99-177.

12. Under the Budget Enforcement Act of 1990, the caps on discretionary spendi were established through fiscal 1995. The Omnibus Budget Reconciliation Act of 19 (P.L. 103-66) extended the caps through fiscal 1998.

13. Legally, these revised categories of discretionary spending do not apply to t president because they were changed in a concurrent resolution which technically o affects congressional actions. If the new caps are subsequently enacted in a statu that is, legislation passed by Congress and signed by the president, they would tl apply to the executive branch as well. Of course, even in the absence of a statut change, the administration could decide to operate as if the new caps had been enact

14. Public Law 93-344.

15. Section 13101 of the Budget Enforcement Act of 1990 modified section 257 of Balanced Budget and Emergency Deficit Reduction Act of 1985, which provide description of how the baseline is to be calculated.

16. It is important to note that this assumption need not be written in a contract the baseline to be used. Similarly, there is no requirement that a baseline be speci in law for it to be used in the federal budget debate.

17. The administrative expenses of Social Security continue to be "on-budget" beca of a ruling by the Office of Management and Budget which, according to the Bu Enforcement Act, makes the final decision about such questions.