INFORMED BUDGETEER

PRIORITIES, PRIORITIES...

- The Budget Agreement reached between the Administration and the Congress last month, and then formalized in the budget resolution conference report adopted last week, sets an overall level for discretionary spending for 1998, as usual.

- What's unusual is that the agreement names a handful of programs as "Protected Domestic Discretionary Priorities" to be "funded at levels proposed in the President's 1998 budget." In addition, the document presents an "Agreement on Discretionary Funding" that states for five "protected functions...implementing legislation will protect the function levels" as specified.

- What does it mean to be a "priority program" or a "protected function" given that funding decisions are made by appropriation subcommittees -- not at the function level. While most of the "priorities" include Head Start, NIST, CDFI fund, and programs in EPA and the Departments of Education, Interior, and Labor, protection is also provided to larger aggregations of spending in functions 150, 300, 400, 500, and 750: International Affairs, Natural Resources, Transportation, Education, and Justice, repectively.

- The tables below illustrate the effect the agreement will have on other areas of the budget if the protected areas are indeed funded at the levels assumed in the agreement.

- More than half of the non-defense discretionary outlays in 1998 are in protected areas under the agreement. Funding those programs at the protected levels ($145 billion in outlays) while remaining within the overall amount set for non-defense discretionary spending ($286 billion) means that "unprotected" programs will face a 4% reduction in real terms (in budget authority) relative to the baseline level for those programs-- by the year 2002, this reduction would grow to over 17%.

1998 Budget Resolution- Totals
(Non -Defense Discretionary -- Dollars in Billions)

		1998	1999	2000	2001	2002	Total
Non-Priority	BA	130	132	132	132	131	657
	OT	141	141	140	139	134	695
Priority, Protected	BA	128	129	130	129	130	646
	OT	145	151	155	154	154	761
Total	BA	258	261	262	260	261	1303
	OT	286	293	295	294	288	1456

1998 Budget Resolution- Compared to Baseline
(Non -Defense Discretionary -- Dollars in Billions)

		1998	1999	2000	2001	2002	Total
Non-Priority	BA	-6	-9	-16	-22	-28	-80
	OT	-3	-6	-10	-15	-24	-58
Priority, Protected	BA	4	2	-1	-6	-9	-10
	OT	2	3	2	-3	-8	-3
Total	BA	-1	-7	-17	-28	-37	-90
	OT	-1	-3	-8	-17	-32	-61

1998 Budget Resolution- Compared to Baseline
(Non -Defense Discretionary -- in Percent)

		1998	1999	2000	2001	2002	Total
Non-Priority	BA	-4%	-7%	-11%	-14%	-17%	-11%
	OT	-2%	-4%	-7%	-9%	-15%	-8%
Priority, Protected	BA	4%	2%	-1%	-5%	-6%	-2%
	OT	1%	2%	2%	-2%	-5%	-0%
Total	BA	-0%	-3%	-6%	-10%	-12%	-6%
	OT	-0%	-1%	-3%	-6%	-10%	-4%

MEDICARE RECONCILIATION: WAYS AND MEANS HEALTH SUBCOMMITTEE

- According to CBO, theWays & Means Health Subcommittee plan hits the $115 billion target, but falls short of the $40 billion target for 2002 and the $434 billion target for ten years.

- The Medicare trust fund would be kept solvent for roughly 10 years under this plan, with the trust fund going broke in 2007. The plan would not transfer as much home health spending to the part B trust fund as proposed by the President. The President transferred $86.4 billion in the first five years; the plan proposes to transfer $40.4 billion. However, the Ways & Means plan sticks to the 7 year phase-in for including the transferred home health spending into the 25% part B premium.

- Provider Sponsored Organizations and Preferred Provider Organizations would be allowed to enroll Medicare beneficiaries, in addition to HMOs. An FEHB-style annual selection process would be phased-in over several years.

- Medicare payment rules and balance billing limits would apply to private transactions for beneficiaries enrolled in Preferred Provider Organizations.

- In general, private plans would get the 1997 payment rate increased at the growth in fee-for-service costs per capita minus 0.5 percentage point for each year 1998 to 2002. However, there is also a minimum payment rate and a blending of local and national rates to narrow regional differences. Each county would also be guaranteed at least 2 percent growth over the previous year's rate.

- A demonstration of Medicare MSAs, limited to 500,000 beneficiaries nationwide, is proposed in this plan. CBO estimates this provision would cost about $2.2 billion over five years.

- The plan includes new preventive benefits for mammography, pap smears and pelvic exams, prostate screening, colorectal screening, diabetes self-management, and vaccine outreach, costing $4.4 billion over five years. In addition, the plan would spend $2.2 billion over five years and $18.1 billion over ten years to reduce coinsurance for outpatient services.

- The plan maintains part B premiums at 25% of program costs permanently. Comparison follows.

Monthly Part B Premium

	2002	2007
W& M Plan	$66.40	$107.90
President's Budget	$61.20	$95.80
Current Law	$51.50	$59.70

- Other provisions in the plan include: Medical malpractice, non-economic damages are capped at $250,000 and a uniform statute of limitations is established. Hospital payment rates would be frozen in 1998 and with increases equal to market basket minus 1% through 2002. A prospective payment systems for skilled nursing, home health, and outpatient services is established. Indirect medical education adjustments for hospitals is cut by $6.7 billion over five years.

Ways and Means Health Subcommittee- Chairman's Mark
(CBO Estimates -- Savings in $ Billions)

	2002	Total 98-02	Total 98-07
Preventive Benefits	0.9	4.4	8.6
Outpatient coinsurance buy down	1.2	2.2	18.1
Medicare Plus payments	-7.0	-19.1	-85.3
Hospital update: freeze minus 1%	-5.4	-17.6	-48.6
Indirect Medical Education	-1.8	-6.7	-19.1
Hospital capital	-1.5	-5.8	-14.1
Hospital outpatient	-2.7	-12.0	-26.7
Skilled nursing facilities	-3.2	-9.4	-31.6
Home health	-4.6	-15.7	-48.2
Physician payments	-1.5	-4.4	-11.8
Medicare secondary payer	-2.0	-8.9	-20.6
Part B premium	-6.3	-12.8	-92.9
Other	-2.6	-9.8	-27.3
TOTAL	**-36.5**	**-115.6**	**-399.5**

WHO OWNS CAPITAL ASSETS & WHO PAYS CAPITAL GAINS TAXES?

- Two debates surround capital gains taxation: the economic debate about the effect of capital gains taxation on productivity and the deficit and the political debate on who realizes capital gains and the kinds of assets that are likely to be subject to capital gains tax.

- On the political front, opponents of cutting capital gains taxes argue that it amounts to a tax cut for the wealthy who can afford to pay taxes on their "profits." Supporters say that capital gains taxes hit middle income people who only *seem* to be affluent in the year when realization of the gain occurs and that capital gains taxes are imposed to a great extent on inflationary, not real, gains.

- A new study from CBO's Tax Analysis Division found that there is truth in both claims. The study examines data from four sources to assess who owns assets that produce capital gains and who realizes (and therefore pays taxes on) capital gains.

- About three-fourths of families own assets that might produce capital gains or losses. If homes are excluded, about one-half of families own assets such as stocks, bonds, other real estate and businesses. Over a ten-year period, about one-third of taxpayers report at least one transaction with a capital gain or loss.

- About half of the total capital asset wealth (other than homes) and more than 75 % of capital gains realized in any one year accrue to families with annual incomes of $100,000 or more.

- However, most people who have taxable capital gains do not have high incomes. Nearly two-thirds of tax returns reporting capital gains are filed by people whose incomes are under $50,000 a year. On average, the amounts of reported capital gains for lower income taxpayers are less than gains of high-income taxpayers.

- When CBO examined longitudinal data over a seven year period (1979-1985), they found that *in any one year* families with incomes over $100,000 accounted for a range of between 75 and 87% of all capital gains. However, when families' incomes and gains are averaged over the period, families with incomes over $100,000 account for about 70% of realized gains. The difference is due to deviations between annual and long-term income, and realized gains are a significant source of such deviations.

- CBO also examined the effect of inflation on capital gains. Taxable capital gains were $81.4 billion in 1993, but only $39.5 billion represented real gains after inflation. Since inflation-adjusted gains were only about one-half of nominal gains, the tax rate that taxpayers paid on real gains was effectively about double the rate applied to nominal gains.

- Older people account for a disproportionate share of capital gains taxpayers. People 65 years old and older made up 12% of all taxpayers in 1993, but they realized 30% of total net capital gains and paid 30% of the tax on capital gains.

CHECKING UP ON RESULTS ACT IMPLEMENTATION

- Last week GAO released its statutorily required report on the implementation of the Results Act (GPRA). GAO found that initial strategic and performance plans will not be of consistently high quality and many agencies will be unable to answer the fundamental Results Act question: What are we accomplishing?

- GAO continues to support the basic premise of the Results Act and noted that significant performance improvements were possible. Using performance information to guide improvements, the Veterans Health Administration lowered its mortality rate for cardiac procedures by an average of 13% over the last eight years.
- GAO found that the Results Act faces five significant challenges: First, overlapping and fragmented programs can undermine efforts to establish clear missions and goals. For example, the 342 economic development programs to assist urban communities have intertwined missions, while the Forest Service has conflicting internal goals such as promoting timber sales and protecting wildlife.

- Second, the federal government often has limited or indirect influence on the desired results. Third, agencies' performance data is often of questionable quality or is not results-oriented. Fourth, an inadequate amount of managers are using performance information to improve programs. Finally it is often difficult to link performance information directly to the budget structure.

ECONOMICS

STRONG EMPLOYMENT PICTURE

- Last Friday's jobs report showed the unemployment rate has dipped to 4.8%, its lowest level since 1973. Furthermore, this fall was not accompanied by a large rise in the number of discouraged workers, as had been the case in April's report. The payroll job reports painted a less positive picture in May, there was an enormous upward revision to April's job gains. If April and May employment gains are averaged, the economy is still producing a robust 230,000 jobs a month.

- Labor market strength can also be seen in the employment to population ratio, which hit an all-time high in May at 63.9%, up 0.8% since May 1996 alone. Both full-time and part-time workers have seen their unemployment rates drop markedly over this period.

- The health of the current jobs market has been a main catalyst in pushing consumer confidence to its highest level since 1969. In turn, this has led to a sharp increase in the number of voluntary job leavers - they totaled 12.2% of all unemployed in May 1997, up from 9.4% in May 1996, providing further evidence that job insecurity is fading.

- The key question going forward is whether such robust employment gains are consistent with non-inflationary growth. The inflation optimists argue that increased foreign competition, declining unionization and greater outsourcing are acting as a natural cap on wages. Indeed, the relatively flat performance of the overall employment cost index would seem to bare this out, although subdued increases in the costs of benefits have camouflaged some increased growth in wages and salaries.

- Nonetheless, there are only a few economists who would argue that the non-inflationary unemployment rate is below 4.8%, which warns of mild inflation risks ahead. However, given continued Federal Reserve vigilance, this is unlikely to pose an undue threat to the present economic expansion.

CALENDAR

Reconciliation Dates:

June 13: Senate and House Spending Reconciliation-- Bill #1

June 14: House Revenue Reconciliation-- Bill #2

June 20: Senate Revenue Reconciliation-- Bill #2

Tentative Committee Reconciliation Mark-up Dates:

June 11: Labor & Human Resources, 9:30 am, Dirksen SOB 430.
June 11: Energy, 9:00 am, Dirksen SOB 366.

June 12: Veterans Affairs, 2:00 pm, Russell SOB 214.

June 17: Government Affairs, Commerce, and Finance (spending provisions) Committees.

June 18: Banking Committee.