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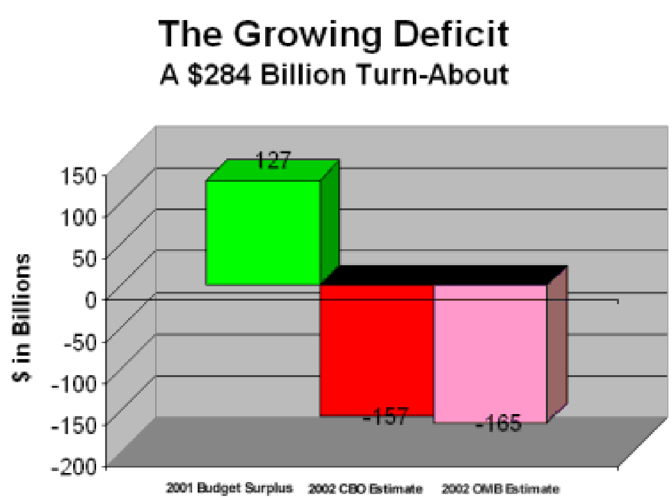
No Roses In CBO's Garden – New CBO Estimates of Increased Deficit, Uncertain Future

The Congressional Budget Office (CBO) has released two analyses of the country's current budget picture that anticipate a deficit even larger than that predicted in March and confesses to a great deal of uncertainty for the long-term budget forecast.

In its Monthly Budget Review released August 9, CBO estimates a $157 billion deficit for FY2002, which ends September 30 of this year – as compared with the $100 billion FY2002 deficit it predicted in March of this year and the $127 billion surplus for the previous fiscal year. The administration's budget analysts at the Office of Management and Budget (OMB) are predicting a slightly larger FY2002 deficit of $165 billion (see this July 22 OMB Watcher story for more). The chart below shows how these estimates compare.



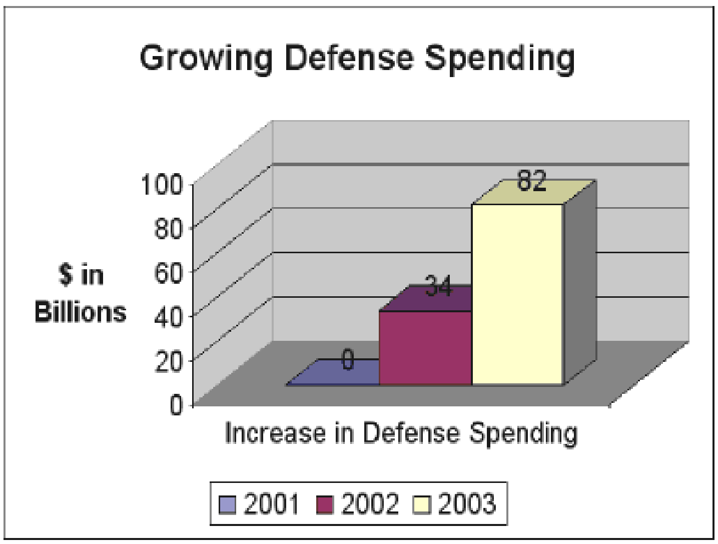
It is dramatic changes like these that may have necessitated a second CBO report, "Where Did the Revenues Go?," on August 13. In this report, CBO almost seems to be coming to terms with the cumulative $284 billion drop since last year's surplus estimates. CBO concludes that this year's massive increase in the deficit is due in great part to so-called "technical changes," which are closely linked to "economic changes" (such as a recession or an increase in unemployment). These technical changes, to which CBO attributes $103 billion of the total $157 billion loss in revenue this year, occur when CBO adjusts its estimates and calculations for new developments in how individual and corporate tax payers respond to the external economic changes. Thus while CBO notes that, "the most obvious explanation for what happened to the receipts is the recession, which has reduced the level of economic activity – the main determinant of tax collections," this most recent revision of the deficit numbers is also a factor of CBO's better understanding how taxpayers have responded to the recession.

These adjustments reflect a steep drop in capital gains, the relatively slowed growth of incomes among the highest earners in the country, and individual decisions about withholding of taxes. Thus while CBO's report points out that, "more of the explanation for why receipts have come in low rests with the overall behavior of the economy than indicated by CBO's own [current] estimates," the report explains that the reason these numbers have taken everyone by surprise is, quite simply, because "the recession was worse than it first appeared."

It is likely that the Administration and other supporters of the June 2001 $1.35 trillion tax cut and future tax cuts will take CBO's report as a sort of vindication, since the report does state that this year's drop is not directly related to either the June 2001 tax cut or the "economic stimulus package" of March 2002. But while this CBO report does acquit last year's tax cut of this year's budget deficit, the March 2002 CBO budget report and last year's revised outlook showed that over the second half of the tax cut, from 2005-10, the tax cut's role in creating the projected budget deficit will grow into the trillions of dollars. A recent Economic Policy Institute (EPI) brief by Max Sawicky estimates that, over the course of the lifetime of the tax cut, it will be responsible for 67% of the drop in our country's revenues. And even this technically-minded recent CBO report notes that $51 billion of FY2002's drop in corporate income tax revenue is "mostly due to the recent stimulus bill" – which many have argued is doing little to help diminish the current 5.9 percent unemployment rate.

CBO will issue its annual revised "Budget and Economic Update" 10-year forecast on August 27 this year. But already, the picture from the White House is not encouraging. OMB Director Mitch Daniels, speaking at the president's "Economic Summit" in Waco, TX, last week said that, "the lesson I submit to you is very clear. We have to control what we can control, and that is spending" – Daniels held up the president's veto of $5.1 billion from last month's emergency supplemental as one example of such control.

As the chart below shows, not all spending is being targeted by Daniels. For example, defense spending jumped from $239 billion in 2001 to $273 billion this year and will likely top $355 billion next year.



OMB Watch is part of a coalition of nonprofit organizations working to educate about the necessity of and advocate for freezing the tax cuts at current levels to help preserve precious revenue for the country's many priorities. We must recognize that the country cannot go forward with costly tax cuts aimed almost entirely at the rich while we face this growing deficit, a slowed economy, and a very real need for a prescription drug benefit for the country's seniors, a Social Security system that continues to earn our trust, improvements and investments in our children's education and our environment – not to mention this year's increased need for strengthened domestic security or the whole host of other improvements Americans consistently rank far above tax cuts. We certainly cannot allow the White House and other supporters of more tax cuts to hide behind numbers and this year's technicalities to excuse current and future tax cuts.

Congressional Letter to HHS Sparks Fears of Retribution for Advocacy Activities

Twelve members of Congress, including Rep. Mark Souder (R-IN), have requested that the Health and Human Services (HHS) administration provide them with a list of individuals from organizations that receive any federal funds that attended July's International AIDS Conference in Barcelona. HHS Secretary Tommy Thompson was noisily heckled by members of more than a dozen AIDS service organizations while giving a speech at the conference. The protesters handed out flyers signed by twelve organizations criticizing the US for not spending enough money on AIDS in developing countries.

While the letter to HHS was primarily to complain about the Members' perception of a slighting of religion at the conference, they also asked for the total amount of federal money that went into the conference. There is a fear that the members may be looking for a way to retaliate against federal grantees who spoke out against US policy. In a Washington Post article on the request, Terje Anderson, Director of the National Association of People With AIDS, sums up this fear: "Groups that do advocacy and get public money are always concerned that there's an awkwardness in that situation. But I can't think of another time there's been talk of retaliation." While federal grantees are prohibited from lobbying with federal funds, there are no such restrictions on private funds.

The request may be enough to have a chilling effect on the advocacy activities of federal grantees. Claude Allen, deputy secretary of HHS, while saying the department does not want to engage in a witch hunt, is quoted by the *Post* as saying that protestors "need to think twice before preventing a Cabinet-level official" from speaking. Allen fears that Congress may mandate that HHS not participate in future conferences because the protesters did not allow Secretary Thompson to deliver his speech.

GAO Report Recommends IRS Improve PAC Disclosure Web Site

The "Stealth PAC" law of 2000 was meant to inform the public about the sources and uses of soft money in federal elections. It required political action committees (PACS) to disclose their existence and to report soft money contributions and expenditures. It also requires the IRS to post information returns filed by political action committees on the web. However, the information has not been posted in a searchable, useful format.

The General Accounting Office (GAO) issued a report, Data Disclosure and IRS's Oversight of Organizations Should Be Improved on August 16 recommending that the IRS:
· Consult with users of PAC soft money disclosure reports and improve the usability of the information posted on the web;
· Ensure that PACs comply with filing requirements; and
· Improve public accessibility to disclosure information by making electronic information more available.

See our previous article on problems with compliance with this law.

Church Electioneering Bill Introduced in Senate

Sen. Bob Smith (R-NH) has introduced a Senate version of the "Houses of Worship Political Speech Protection Act" (S. 2886) which is sponsored in the House by Rep. Walter Jones (R-NC) (H.R. 2357). This legislation would allow churches to engage in express electoral advocacy, which is currently prohibited for all 501(c)(3) charities, including churches.

There is widespread concern that this would turn churches into political campaign machines -- as well as undermine campaign finance reform by turning them into clearinghouses for campaign contributions, which would be tax deductible because of churches' charity status. While there are 128 co-sponsors of the House version, including several Democrats, so far the Senate version only has two other sponsors (Sens. Jesse Helms (R-NC) and Tim Hutchinson (R-AR)). For more information on this legislation, click here.

Experts Divided on the Digital Divide

For the past few months, a steady stream of articles, studies, and analyses have suggested evidence that digital divide skeptics say underscores their contention that technology access gaps are not a policy problem, while also suggesting that if it were a problem, the problem's really not that bad. Read this NPTalk discussion -- Is there legitimate cause for celebration, or is more evidence suggesting a problem whose actual implications are more difficult to pinpoint than previously thought?

Bush Makes Controversial Recess Appointment to USDA

President Bush took the opportunity while Congress was in recess to appoint controversial nominee Thomas Dorr as undersecretary of the U. S. Department of Agriculture (USDA), which will allow him to serve for a year without Senate confirmation. Recess appointments are not uncommon for contentious nominees that lack bipartisan support when the Senate and executive branch are controlled by opposing parties. Yet President Bush went even further than most presidents in appointing Dorr, because Dorr did not even have the support of fellow Republicans. Only one Republican on the 21-member Senate Agriculture Committee showed up to vote on his nomination.

The Senate Agriculture Committee sent Dorr's name to the floor with no recommendation. At the time, Rep. Tom Harkin (D-IA), chairman of the committee, said, "Mr. Dorr lacks the judgment, outlook and temperament for this very important position for rural America…The record also shows that as the CEO of a corporation, Mr. Dorr, in filing false information with USDA, does not meet the standard set by President Bush when he signed a new law on corporate responsibility just last week."

Harkin warned the administration not to give a recess appointment, and threatened to reopen an investigation into the finances of the Dorr family's farm operations, as reported in the DesMoines Register. Harkin also reportedly threatened to issue subpoenas to the USDA for records that it has refused to give to the Senate Agriculture Committee surrounding Dorr's repayment to the government of $17,000 for violations of government payment rules in 1994 and 1995. Dorr's family reportedly agreed to repay another $17,000 for other violations revealed during the USDA investigation following the nomination.

Such controversial nominations are hardly new to the Bush administration, which is littered with former industry lobbyists -- who must now be counted on to regulate their former employers -- and others who have spent their lives questioning the very existence of the agencies they now represent. Click here for more information on the backgrounds of those now controlling the administration's top environmental, health, and safety posts.

Administration Issues Weakened Medical Privacy Rules

Over the objections of privacy advocates, the Bush administration on August 14 issued new standards on the handling of patient medical records, replacing protections adopted in the last month of the Clinton administration that were strongly opposed by HMOs, insurance companies, and pharmaceuticals.

Unlike the Clinton rules, which the Bush administration immediately suspended upon taking office, the revised standards do not require health care providers to obtain patients' written permission before sharing medical records with hospitals, pharmacies, and insurance companies. Instead, they merely require that entities handling medical records inform patients of privacy practices. By removing the written-consent requirement, the Bush administration has shifted control of sensitive medical information from the patient to the provider and opened the door for the use of medical records for marketing purposes.

Although pharmacists may not sell patients' medical information directly to drug companies, the rule will permit drug companies to pay pharmacists to recommend that patients switch from one drug to another without divulging details of the financial arrangement. The new rules use such a narrow definition that this type of activity would not be classified as "marketing."

Under the Clinton rules, marketing based on medical records was permitted and broadly defined but protections were in place to enable patients to opt out of promotional mailings. The old rules also mandated full disclosure of financial support behind marketing activities. Patients will now be left in the dark in determining the origins of health-related promotions and have no way to halt the flow of record-based marketing.

The Bush administration and industry representatives claim the revised rules will ensure privacy and result in better medical care, but privacy advocates view the rules as a setback. Janlori Goldman, Director of the Health Privacy Project at Georgetown University, said the rules "undermine patient control over private medical information."

The rules, which establish the first comprehensive federal policy on medical record privacy, will apply only to electronic medical records and will require compliance by April 2003.

Bush Signs E.O. on Regulatory Impacts on Small Business

On August 14, President Bush signed a new executive order that directs federal agencies to establish "written procedures and policies" to "thoroughly review" the potential impacts of new regulation on small businesses, small governmental jurisdictions, and small organizations.

These written procedures are meant to promote compliance with the Regulatory Flexibility Act (RFA) of 1980, which requires agencies to perform a special analysis when proposing rules that would have a "significant" economic impact on small entities to look for ways to minimize burden. Agency procedures must be submitted to the Small Business Administration's (SBA) Office of Advocacy -- which oversees enforcement of the RFA -- within 90 days for review and comment, and issued within 180 days.

Currently, many agencies already have established procedures under the RFA, and it's possible these may simply be recycled for submission to the Office of Advocacy. If that's the case, Bush's order is unlikely to mean much, as it generally restates what is already required under current law.

Previously, in March of this year, the Office of Management and Budget's Office of Information and Regulatory Affairs signed a memorandum of understanding to further reduce regulatory burdens on small business.

"Small business" often receives such special consideration in rulemaking deliberations, and is frequently held up as a reason for easing off regulatory protections, as Bush's E.O. seems to do. Yet as discussed in detail here, the legal definition of "small business" encompasses 99 percent of American businesses employing 51 percent of the private-sector workforce, according to the SBA. Under such an expansive definition, it's impossible to have strong health, safety, and environmental protections without asking small business to do its part.

The Need to Reduce Risks Demonstrated

A recent chemical accident reinforced the importance of Sen. Jon Corzine's (D-NJ) pending legislation, the Chemical Security Act (S.1602). In Crystal City, MO, a hose used to remove chlorine from freight cars ruptured creating a toxic cloud that sickened dozens. The leak began around 9:30 in the morning on August 14, 2002 and was stopped around noon.

Even though light wind and steady rain kept the cloud from spreading beyond the relatively sparsely populated area near the leak, hundreds of people were evacuated and over 50 people were treated for exposure.

The company that had the spill, DPC Enterprises, packages chlorine into canisters for use in water-treatment. It was reported that the facility had another chlorine accident in January 1999, when a 2,000-pound canister of chlorine burst after being dropped from a crane.

Under Corzine's bill, chemical plants must submit plans to the Environmental Protection Agency (EPA) showing how they will address their vulnerabilities. One of the primary aims of the bill is to reduce or remove risks at chemical plants to make them safer, not just from terrorists, but also in the case of a "standard" accident. This could rely on substituting safer chemicals or storing smaller quantities of hazardous chemicals on site.

The Senate Environment and Public Works Committee unanimously passed the bill at the end of July. The bill now waits for consideration by the full Senate and may be offered as an amendment to the Senate's National Homeland Security and

Combating Terrorism Act of 2002 (S. 2452), which would create a cabinet level Department of Homeland Security.

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