
CAPITOL ANALYSTS NETWORK, INC.

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BIN LADEN ASSAULTS THE FEDERAL BUDGET

The terrorist attacks of September 11 will cost Osama bin Laden his life. It will also cost American taxpayers \$230 billion over the next 24 months, and almost \$800 billion over the next decade. These projections originate from the consensus work product of bipartisan Congressional experts drawn from the staffs of the House and Senate Budget Committees. The indirect victims of terrorism, however, may be seniors who won't get as expansive a Medicare pharmaceutical program as they thought, students in failing schools who may not get as much in additional resources as once hoped, and farmers who will have to settle for smaller federal support payments. These three groups, along with the Defense Department, were competing over the federal spoils before the World Trade Center collapsed. Washington's decision to confront mass murderers will be expensive, and it will preempt other claimants. The Defense Department won't be the loser.

The senior Congressional Budget Committee staff foresees that \$23 billion per year, and \$229 billion over ten years, will be spent responding to terrorism. No doubt these funds will be split between military operations, intelligence gathering abroad, greater federal domestic surveillance, and federalizing security details at airports and elsewhere. A less obvious source of higher federal spending, amounting to \$167 billion over the next decade, comes from a loss of willpower. President Bush has decided not to open a second war front – this one with Congressional Democrats who favor higher federal spending. Consensus has led to an agreement to spend \$686 billion in discretionary accounts in fiscal year 2002, \$10 billion more than expected. The budget staff believes that it is unlikely that Washington will reverse the largesse it will distribute this fall in later years. They are probably right. Once claimants have federal checks in hand, they will fight very hard to keep them coming. With cost-of-living raises calculated, this \$10 billion in 2002 spawns \$167 billion in new spending over the next decade.

By spooking American consumers into staying home and deflating board room expectations, the terrorists have almost guaranteed there will be a recession. The staff doesn't envision it being lengthy or deep. Still, higher unemployment causes individual income and payroll taxes to fall while boosting outlays on unemployment insurance, medicaid, food stamps, and supplemental security income. Corporations facing lower sales also forward less revenue to the Treasury. The fiscal impact of the recession is expected to end in about 24 months, but weaken the federal fisc by \$144 billion in the meantime. No one envisions boosting taxes to pay for these changes. Instead, budget surpluses that would have been used to retire federal debt will be diverted to fund them. Over a decade, this diversion adds up, jacking up payments on the national debt by \$236 billion.

In total, never has so much damage been done, to so many, by so few.

BIPARTISAN/BICAMERAL BUDGET COMMITTEE CONSENSUS BUDGET PROJECTIONS
FY 2002-2011 DRAFT CIRCULATED WEEK OF 10/1 (\$ in billions)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2002-11
CBO Surplus (8/01 Outlook) -- Baseline	\$176	\$172	\$201	\$244	\$289	\$340	\$389	\$450	\$507	\$628	\$3,397
<u>Changes Estimated To Date</u>											
Economic slowdown	(\$80)	(\$56)	(\$8)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$144)
Increased discretionary spending	(\$10)	(\$14)	(\$16)	(\$17)	(\$17)	(\$18)	(\$18)	(\$19)	(\$19)	(\$20)	(\$167)
Emergency spending	(\$25)	(\$22)	(\$21)	(\$21)	(\$22)	(\$22)	(\$23)	(\$23)	(\$24)	(\$25)	(\$229)
Airline assistance	(\$6)	(\$4)	(\$6)	(\$2)	\$0	\$0	\$0	\$0	\$0	\$0	(\$17)
Higher federal debt interest	(\$4)	(\$10)	(\$15)	(\$19)	(\$22)	(\$25)	(\$29)	(\$33)	(\$37)	(\$41)	(\$236)
Total	(\$124)	(\$106)	(\$66)	(\$59)	(\$61)	(\$65)	(\$70)	(\$75)	(\$80)	(\$86)	(\$793)
Revised Baseline Surplus Estimate	\$52	\$65	\$135	\$186	\$228	\$275	\$318	\$375	\$427	\$543	\$2,604

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2002-11
<u>Pending Tax/Spending/Reserve Changes</u>											
Expiring tax provisions -- 1 yr. extension	(\$1)	(\$2)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$3)
Farm bill	(\$7)	(\$8)	(\$8)	(\$8)	(\$7)	(\$7)	(\$6)	(\$6)	(\$7)	(\$7)	(\$74)
Expanded health coverage	(\$8)	(\$10)	(\$10)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$28)
Prescription drugs	\$0	\$0	(\$10)	(\$21)	(\$28)	(\$39)	(\$44)	(\$47)	(\$52)	(\$58)	(\$300)
Other	(\$6)	(\$8)	(\$5)	(\$10)	(\$9)	(\$10)	(\$11)	(\$11)	(\$10)	(\$11)	(\$93)
<u>Bills Passed By One House that Further Impact Spending</u>											
Faith-based initiative (House)	\$0	(\$1)	(\$1)	(\$1)	(\$1)	(\$1)	(\$2)	(\$2)	(\$2)	(\$2)	(\$13)
Railroad retirement (House)	(\$16)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$15)
Energy (House)	(\$2)	(\$3)	(\$4)	(\$5)	(\$5)	(\$4)	(\$3)	(\$3)	(\$2)	(\$2)	(\$34)
Patients Bill of Rights (Senate)	\$0	(\$1)	\$0	\$0	(\$2)	(\$3)	(\$3)	(\$3)	(\$3)	(\$4)	(\$18)
Education (Senate)	\$0	(\$6)	(\$10)	(\$13)	(\$15)	(\$18)	(\$20)	(\$21)	(\$21)	(\$22)	(\$145)
<u>Anticipated Other Changes</u>											
Natural disaster emergencies	(\$2)	(\$4)	(\$5)	(\$6)	(\$6)	(\$6)	(\$6)	(\$6)	(\$7)	(\$7)	(\$55)
Expiring tax provisions -- perm. extension	(\$1)	(\$2)	(\$4)	(\$9)	(\$13)	(\$17)	(\$20)	(\$22)	(\$25)	(\$29)	(\$142)
Alternative Minimum Tax revisions	\$0	\$0	\$0	(\$2)	(\$12)	(\$22)	(\$30)	(\$39)	(\$48)	(\$54)	(\$208)
Eliminate 2001 Tax Bill sunsets	\$0	(\$1)	(\$1)	(\$1)	(\$1)	(\$2)	(\$1)	(\$2)	(\$3)	(\$100)	(\$113)
Additional 9/11 recovery payments	not estimated -----										
Economic stimulus package	not estimated -----										

Long Run Impacts

Adam Smith once said, “There is a lot of ruin in a nation.” The same precept applies to federal finances. The \$800 billion in 10 year damages caused by terrorists will reduce the claims of seniors, students, farmers, and overburdened taxpayers. Prior to the attacks, and the recession they caused, Washington was expected to take in \$3.4 trillion in surpluses over the next decade before these groups pressed their claims. Now that figure is more likely to be \$2.6 trillion before they try – and with less success.

If there are no further ugly surprises, admittedly a big “if,” then the U.S. government is still on a glide path toward retiring the entire national debt around 2012. It’s true that the Bush stimulus package that should clear Congress by November 1 is likely to have a static cost this fiscal year in excess of \$52 billion. This is the magic number for cost accountants who evaluate the federal budget on a cash accounting basis. If the stimulus package exceeds this amount, in this fiscal year only, they literally will see red. No doubt this fact will be amplified tirelessly in the press, obscuring two much larger facts: first, that the years 2003 to 2017 will see the most rapid retirement of national debt in our history, and second, it won’t prevent a brutal reversal of this trend, the largest *build up* in the nation’s history that will immediately follow.

For some time, we’ve known that Social Security has an unfunded liability of \$9 trillion. We’ve also known that we’d have to pay an investor \$4 trillion today, plus give him a lien on all the system’s payroll tax revenues, to take the Medicare system off our hands. The present value of unfunded bills for Medicaid and the federal retirement system adds another \$3 trillion to the tab. Rubbing Aladdin’s lamp won’t pay these bills. Future taxpayers will. When our children tire from carrying this load, they will have the federal government borrow it from the debt markets.

One unremarked tragedy from the bombings is that progress toward reforming Social Security and Medicare has ceased. Yet, the first baby boomer turns 62 in seven years, the age when reduced Social Security benefits are available. If it takes four more years until America begins this discussion in earnest, then there will be many more generations of victims from the season of bin Laden.

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