

Congressional Closeup by Carl Osgood

Stock Market Collapse Implodes Federal Budget

Office of Management and Budget Director Mitch Daniels admitted the degree to which the Federal budget has become dependent on the financial markets, in a preview of the mid-session budget review on July 12. Daniels told reporters that tax revenues, which have risen and fallen historically with the economy, "have been weaker than we expected, and this is due apparently almost entirely to what I call stock market-related income," that is, income from taxes on capital gains, mutual fund distributions, stock options, and bonuses tied to stock performance. The result of this unanticipated drop in tax revenue is a revision of the FY 2002 projected budget deficit to \$165 billion, from an earlier projection of \$106 billion, and a 2003 deficit of \$109 billion from an earlier projection of \$80 billion.

These figures include the Social Security trust fund, so the actual "on-budget" deficits will be much larger. Daniels claimed, however, that, since the recession is "milder than expected," there should be a recovery in revenues and the Federal budget will be back in balance by 2005.

Senate Budget Committee Chairman Kent Conrad (D-N.D.) and Rep. John Spratt (D-S.C.) blamed the budget collapse on last year's tax cut. Conrad said, "The markets are voting every day on the credibility of this economic team and they're giving a thumbs down to this economic plan." Conrad added that the balance the Bush Administration is claiming in 2005 will come only by "raiding" the Social Security fund.

More to the point, however, is the projected recovery. Spratt said that since Daniels is arguing that the fall-off in tax revenue is the result of a reversal in the upward trends of the

1990s, "Where do you get the recovery that they're projecting? Where do you get the turnaround in the budget that they're projecting . . . when they're making the case that you've had a reversal in revenue pattern?"

Conrad and Spratt avoided the fact that the run-up in the stock markets in the 1990s was the result of deregulation policies that were supported by Democrats and GOPers. Now that that bubble has burst, Democrats blame the GOP tax cut—which was intended to support the bubble—rather than take responsibility for a policy that would generate a real economic recovery.

Corporate Accountability Bill Clears the Senate

On July 16, the Senate passed, by a vote of 97 to 2, a bill to tighten auditing guidelines for public corporations. The bill, largely authored by Banking Committee Chairman Paul Sarbanes (D-Md.), would establish an independent oversight board to oversee auditors of public companies that would have the authority to impose sanctions for violations of applicable auditing rules. It would also place limits on consulting services that auditors can provide to their public company clients, make senior company officials responsible for the financial statements of their firms, make transparent the conflicts of interest of securities analysts, and increase the annual budget of the Securities and Exchange Commission.

The unfolding wave of corporate accounting scandals was the primary driver behind the bill. As Sarbanes said, "Unless we come to grips with the current crisis in accounting and corporate governance, we run the risk of seriously undermining our long-

term world economic leadership."

While broadly supporting the bill, Republicans tried to tweak it in the amendment process. The most significant change made to the bill was the addition of criminal penalties for individuals who destroy evidence related to certain Federal investigations. The amendment, sponsored by Judiciary Committee Chairman Pat Leahy (D-Vt.), was a response to the trial of accounting firm Arthur Andersen for shredding documents related to the Enron collapse.

Within minutes of the July 10 Senate vote, the House rushed through a bill, by a vote of 391-28, to strengthen the penalties in the Senate bill. The bill was introduced by House Judiciary Committee Chairman James Sensenbrenner (R-Wisc.) and passed under suspension of the rules. It may have been the result of panic over the precipitous decline in the stock markets the previous week.

House Votes To Arm Airline Pilots

One issue that has been simmering since Sept. 11 is whether to allow airline pilots to carry guns in the cockpit. When Congress passed the Aviation Security Act last November, the decision whether to allow pilots to carry guns was left to the Transportation Department and the new Transportation Security Administration. However, the decision by Transportation Secretary Norman Mineta and Transportation Security Administrator John Magaw, against allowing pilots to carry guns, triggered a lobbying campaign by the pilots' unions, which resulted in a July 10 House vote of 310-113 to create a "Federal flight deck officer" program which would train and arm

pilots who volunteer for the program, once issues relating to the safety and security of firearms on board passenger aircraft are addressed.

Transportation and Infrastructure Committee Chairman Don Young (R-Ak.), the lead architect of the bill, said that it "will provide the last line of defense against terrorist hijackings." Aviation Subcommittee Chairman John Mica (R-Fla.) said that "allowing pilots to defend themselves and their passengers, their aircraft, is absolutely fundamental to the safety and security of our aviation system." Supporters of the bill point out that Air National Guard fighter jets patrolling American skies have standing orders to shoot down passenger jets that have been taken over by hijackers. "To me," Young said, "that is a ridiculous solution when it can be stopped at the cockpit."

In the Senate, Commerce, Science, and Transportation Committee Chairman Ernest Hollings (D-S.C.) has refused to hold hearings on a companion bill. An unusual alliance led by conservative Bob Smith (R-N.H.) and liberal Barbara Boxer (D-Calif.) is vowing to attach the Senate bill to any appropriate vehicle that comes along. Boxer told reporters on July 10, "I am far from satisfied that the travelling public is being protected as they should be." She said that she and Conrad Burns (R-Mont.) have been unable to get a briefing from the Transportation Department on the status of the air marshall program for seven weeks.

Supplemental Spending Conference Collapses

Congressional appropriators cancelled a meeting with White House officials on July 12, when Office of Management and Budget Director Mitch

Daniels refused to back down from threats of a Presidential veto of the FY 2002 supplemental appropriations bill. The White House has been demanding that Congress pare about \$2 billion from the bill to bring it closer to the original \$27 billion request as opposed to the near \$30 billion the bill is set at now.

Sen. Ted Stevens (R-Ak.) said, "This is blind, blind adherence to a line that was established, a crazy line in my opinion, without regard to the needs of the country."

Aggravating the conflict is the continuing feud between Daniels and Congress. Senate Appropriations Committee Chairman Robert Byrd (D-W.V.) said, "He's always meddling. Not only that, he's always lecturing the Congress."

Various parts of the government are warning that if they do not get the money it provides them, certain activities will grind to a halt. Pentagon Comptroller Dov Zakheim told reporters on July 12 that if the Defense Department does not get the \$14 billion in the bill by Aug. 1, aircraft maintenance will suffer, battalion rotations through the Army's National Training Center at Fort Irwin, California will be cancelled, and up to 35,000 civilians will be furloughed, among other things. Transportation Secretary Norman Mineta, in a letter to House Appropriations Committee Chairman Bill Young (R-Fla.) on July 11, warned that the Federal Aviation Administration will furlough up to 35,000 air traffic services workers, half of them controllers, in September, if the \$100 million in the Senate bill was not provided.

But, Senate Minority Leader Trent Lott (R-Miss.) told reporters on July 15, "I'm beginning to question whether we need a supplemental at all." He suggested that the Bush Ad-

ministration could get through the remaining less than three months of the fiscal year by moving money around among different accounts. He also suggested that because four months have passed since the money was requested, not nearly so much of it is still needed now.

Democrats: Debate GOP Social Security Plans

On July 12, House and Senate Democratic leaders appeared before reporters to demand that Republicans bring up their Social Security privatization proposals for debate and a vote before the November elections. Democrats complain that Social Security privatization is high on the GOP agenda, but with the markets dipping to five-year lows, they do not want the issue to come up in an election year.

"There's one reason Republicans are sweeping Social Security privatization under the rug," said House Minority Leader Richard Gephardt (D-Mo.). "They understand that the American people are deeply suspicious of any proposal that rolls the dice with the greatest retirement program that's ever been created. . . . The privatization proposals that the President's commission has put forward talk about cuts that average about 25% for future retirees." Given that, plus the risks of investing in the financial markets, "we need this debate . . . before the elections this fall," he said.

House Democrats are circulating a discharge petition to try to force the GOP bill onto the floor, but may not get the required 218 signatures. That would leave it to the Senate, where Majority Leader Tom Daschle (D-S.D.) has not ruled out the possibility of a debate.