

COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

Memo to: Board and Members
From: Carol Wait
Date: January 31, 2001

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**SUBJECT: BUDGET ISSUE UPDATE
NEW ECONOMIC AND BUDGET PROJECTIONS
ELECTRONIC VERSION OF *EXERCISE IN HARD CHOICES*
20TH BIRTHDAY DINNER**

ECONOMIC AND BUDGET UPDATE

It may seem counterintuitive, but the new CBO *Economic and Budget Outlook* projects growing budget surpluses, notwithstanding slower growth projections and despite the spending spree at the end of the last Congress. The new projections rest on the following key assumptions:

- The dip in the economy is expected to be short-lived. Real GDP growth (inflation-adjusted) is projected to slow to about 2.4 percent this calendar year, but CBO expects it will rebound to about 3.4 percent in calendar 2002. Over ten years, 2002-2011, CBO anticipates that real GDP growth will average a little over 3 percent per year—three tenths of one percent higher than their July projections. That increase reflects a change in CBO's method of calculating the contribution of capital to growth, revised data showing greater investment for the past three years, and higher projected levels of investment.
- Recent economic conditions and Federal Reserve actions led CBO significantly to reduce their interest rate forecasts in 2001 and 2002.
- Increased growth boosts revenue projections by about \$800 billion over ten years. Lower interest rates and reduced debt levels combine to increase surplus estimates by \$140 billion over the same period.
- Baseline estimates assume discretionary spending will grow to keep pace with inflation. The baseline assumes revenue losses associated with most revenue provisions due to expire during the 10-year budget window.

Bottom Line: New Projections

	Surplus	Actual	Estimates				
			2000	2001	2002	2002-06	2007-11
Carol Cox Wait President		86	125	142	987	2,135	3,122
	On-Budget	86	125	142	987	2,135	3,122
	Off-Budget*	150	156	171	1,019	1,468	2,488
	Total	236	281	313	2,007	3,603	5,610

***More than 95% of off-budget surpluses are OASDI Surpluses**

Budget First

The CBO projections represent the midrange of possible outcomes for the economy and the budget based on past and current trends and assuming that current laws and policies do not change. Current year forecasts tend to be more accurate than longer-term projections. Five-year numbers are iffy at best and ten-year projections best can be described as guesstimates.

Therefore, prudent budget practice suggests that Congress and the President should first decide the allocation of surpluses among competing priorities before they pass laws to commit those amounts to specific revenue and spending priorities.

The Committee for Responsible Federal Budget supports a Joint Budget Resolution because we believe that would encourage agreement between the two policy branches of government on the big important pieces of the budget that, taken together, comprise federal fiscal policy.

We think Congress and the President should reach an agreement or agreements including but not necessarily limited to—

- Aggregate spending and revenues;
- On-Budget surpluses available each year (and aggregates for five and ten years) for tax cuts and for direct spending increases. Those amounts should be put on the PAYGO scorecard—available for uses consistent with the budget without offsets and without threat of sequestration. Almost everybody at both ends of Pennsylvania Avenue agrees that Social Security Surpluses should not be “on the table”.
- Discretionary spending caps, and direct spending targets;
- “Rainy Day Fund”, i.e., amounts to be available for so-called emergencies and to provide a cushion against exogenous events that could adversely affect the amount of actual (as compared to projected) surpluses; and
- Amounts to be used to reduce debt held by the public each year.

We would also include *Expedited Rescission* to take the place of item veto. The courts declared Item veto unconstitutional, but we think Congress was right to attempt to give the President authority to cancel specific items in appropriations bills. Expedited rescission is a constitutional approach to the same problem—albeit weaker than item veto.

Whatever you call such framework agreements Joint budget Resolutions or something else, they are better reached at the beginning of the budget process than at the end.

Congress and the President should not pass budget-busting legislation. If they cannot live within the agreed limits, Congress should pass and the President should sign a law to change the framework before they pass bills that would bust the budget.

In 1981, Congress cut taxes about 30% more—and cut spending less—than President Reagan proposed. The impacts of those actions contributed substantially to the subsequent deficit crisis that dominated fiscal policy debates over the next decade. The best way to avoid repeating the mistakes we made in 1981 is to build on the lessons of the Budget Enforcement Act and insist on an enforceable budget agreement before moving on to specific spending and tax legislation.

Electronic Version of the *Exercise in Hard Choices*

We begin a very exciting project this year, working with Oklahoma State University to produce a real time, interactive, on-line version of the *Exercise in Hard Choices*.

This calendar year, we will update the *Exercise*. The new hard copy version will help audiences understand the impact of short-term budget choices on longer-term issues such as Social Security, Medicare and tax reform. It will promote public understanding of the options under consideration in Washington to reform Social Security and Medicare. It will continue to present these issues and choices in a broader economic and budgetary context.

There will be five live *Exercises* this year to test the new version.

OSU will produce a CD-ROM version of the *Exercise* this year. OSU will also design and maintain a web site for the project. A subdivision of the web site will focus on the Committee. We will provide updates, reports on the live *Exercises*, audience evaluations and media feedback for the web site. Heretofore, we have been reluctant to establish a web site because proper maintenance seemed a daunting task. This makes that task seem manageable and we are very excited about it.

As the year progresses, we will work with OSU to identify existing distance learning and IT products and technologies that may be adaptable toward the development of the real time interactive on-line version. Next year, we will work with OSU on the actual interactive version. Subsequently, we will work together to develop curriculum modules for post-secondary—and eventually for secondary—schools.

This is the culmination of a lot of work, over many years. We began more than five years ago, after a discussion in which you directed us to work to develop funding and identify technological resources to produce a version of the *Exercise* that can reach far more people than the live events around the country can do. We believe that this project will fulfill that ambition.

We will keep you posted, at the annual meeting, throughout the year, and in the future.

20th Birthday Dinner

The Committee will celebrate our 20th birthday at a dinner April 24th at the Washington Court Hotel. Please put this on your calendar: reception at 6:00 PM and dinner at 7:00.

You will receive more information about the dinner in a separate memorandum. Suffice it to say here: we look forward to a fun and financially rewarding reunion of the budget community as this will be our major fundraising activity this year.