

COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

Co-Chairmen

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Memo to: Board and Members
From: Carol Wait
Date: February 28, 2001

SUBJECT: THE PRESIDENT'S BUDGET FOR FY 2002

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The President sent his proposed budget framework to Congress today. By and large it is very straightforward. People may disagree with the President but they should have no difficulty understanding the proposed allocation of resources and impacts on projected surpluses.

Highlights

- The promised \$1.6 trillion/ten-year tax cut. (See table at Attachment 3).
- Significant spending increases for education and other priorities largely offset by cuts in other programs and agencies. Cuts are assigned to specific agencies and budget functions. But some program-level detail has not been determined.
- A contingency fund and an allowance for additional debt service. Some may question whether these amounts are sufficient. They will point to pressure for additional defense and other discretionary spending, and the fact that FEMA budget authority goes down \$1 billion 2001-2002. They may also argue that Social Security and/or Medicare reforms and debt service may prove to be more costly than the amounts anticipated by the budget framework.
- There is no allowance for Alternative Minimum Tax repeal or reform. Benefits from increases in the child tax credit, tax rate reductions and elimination of the marriage penalty could be offset to a significant degree by AMT. AMT reforms could add about \$8 billion per year to the cost of the President's tax cut proposal. AMT repeal would add about \$300 billion over ten years.

Senior Advisors

Henry Bellmon
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The table below illustrates the Presidents 10-Year Plan

President's 10-year Plan (\$ in billions--may not add due to rounding)

	Total 2002-2011
Carol Cox Wait President	
Baseline budget projection	5,644
Social Security Surplus	2,591
Tax Relief	1,620
Additional needs, debt service and contingencies	
Helping Hand and Medicare Modernization	153
Additional spending and other	20
Debt service	417
Contingencies	842
Subtotal	1,432

The table at “Attachment 1” compares the President’s Budget to the CBO January baseline. “Attachment 2” contains year by year costs of the President’s proposed tax cut. The table at “Attachment 3” contains changes in discretionary spending. The Table at “Attachment 4” shows proposed savings in Medicaid and Veterans’ programs, proposed new/increased user fees and other receipts shown in the budget as negative outlays.

The plan sets aside 100% of Social Security Surpluses. It anticipates annual debt reduction greater than Social Security Trust Fund surpluses in every year through 2011.

The contingency fund is a good idea—but it also could be subject to abuse. In the few instances where President’s Budgets contained contingency funds in years past, Congress allocated those amounts at the beginning of the budget cycle. That of course belies the purpose of an unallocated reserve.

The Budget and the “Outyears”

The ten-year surplus projections are needed for budget enforcement in the Senate. They can show trends and disclose provisions of law that are not supposed to take effect until after the five-year budget window. But ten-year aggregate numbers are worse than meaningless. They tend to be so large that there is no sense of reality about them. Spending and tax laws will not remain frozen for a decade. It is important, therefore, to focus on year-by-year numbers in the budget. Take somewhat more seriously policies due to go into effect in the next five years and somewhat less seriously those that kick-in near the end of the ten-year period covered by the budget estimates. And understand that the ten-year aggregates easily could be off as much as \$500 billion due to a rounding error.

Where Does the Debate Go From Here?

Congress and the President must agree on a budget framework. In the section of the budget document devoted to process reform, the President promises to work toward such an agreement as a precursor to a binding budget resolution that would be written into law. It is impossible to overstate the importance of agreement on a budget outline before Congress and the President proceed to compromise specific revenue and spending priorities. In the absence of a framework agreement, the sum of the parts almost certainly would exceed total available resources.

We are not worried that government will reduce debt too much or too fast. It is true that Treasury could be forced to pay very substantial premiums to retire debt in excess of amounts that reach maturity each year. But we are convinced that surpluses in excess of Social Security (and perhaps Medicare) Trust Funds almost certainly will be subsumed by spending increases and revenue reductions. Given that reality, we do not anticipate a debt management crisis anytime in the next five years. Nonetheless, debt reduction should be treated as a serious policy issue. When Congress adopts a budget, they should decide on spending caps for discretionary appropriations, targets for mandatory spending, the amount to be devoted to tax cuts and the amounts they plan to set aside for debt reduction.

The President and Congress probably can compromise the tax cut issue in one of three ways—

- They could agree to a truly huge tax cut—if the number gets big enough (\$2.5 trillion/ten years?) they could buy the votes necessary for passage.
- They could go down to about \$1 Trillion/ten years and compromise with moderate Democrats; or
- They could probably strike a deal somewhere between \$1 Trillion and \$1.6 Trillion, if it included a trigger tied to revenue estimates, i.e., delay the implementation of provisions that have not yet taken effect if actual revenues fall short of projections underlying the budget.

There will be considerable pressure for defense increases above the amounts in the President's budget framework. But we commend the President for insisting on a thorough review of defense strategies and priorities before proposing larger increases.

Democrats already are arguing for higher education spending. One can only hope that we do not try to pump so much Federal money into the system so fast that it cannot be absorbed efficiently and/or it begins a movement toward federalization of K-12 education.

Members of Congress undoubtedly will argue for increases in other areas, compared to the President's budget. Time will tell whether the Bush Administration successfully can arrest or reverse recent trends.

Budget Process Reform

We are very pleased to see the emphasis in the President's Budget on budget process reform. The budget framework makes the point that the problem lies not in the integrity of the budget process but in the deterioration of adherence to existing rules. The President proposes two sets of actions—

Immediately—

- Restore an atmosphere of order and respect for the legally established process.
- Abide by the budget. Once Congress adopts a budget, it should abide by the limits established therein. Ultimately, the President proposes that the resolution be a law, requiring his approval. Until that time, the President wants to work with the Congress to adopt and abide by a budget that contains total spending within a reasonable limit determined in advance.
- Establish an emergency reserve for true budget emergencies.
- Eliminate advance appropriations except where clearly justified.
- Complete appropriations bills in an orderly and timely fashion.
- Curtail congressional earmarking, especially for special interest spending.

Structural reforms—

- Enforce and extend spending limits and pay-as-you-go or “PAYGO” requirement.
- Convert budget resolution to a biennial cycle.
- Make concurrent non-binding budget resolution and binding law.
- Restore President’s line-item veto authority.

The President would support a commission to eliminate pork barrel spending and legislation to create a sunset review board to review agencies and programs periodically.

The President’s proposed reforms are substantially similar to the recommendations contained in a report the Committee published earlier this year. We look forward to working with the Administration toward enactment of these important changes.

Attachment #1																								
Baseline Category Totals (dollars in billions)																								
																						Totals		
2001		2002		2003		2004		2005		2006		2007		2008		2009		2010		2011		02-11		
Pres.	CBO	Pres.	CBO	Pres.	CBO	Pres.	CBO	Pres.	CBO	Pres.	CBO	Pres.	CBO	Pres.	CBO	Pres.	CBO	Pres.	CBO	Pres.	CBO	Pres.	CBO	
Outlays:																								
Discretionary:																								
Defense	300	301	311	314	319	323	330	332	341	344	351	350	360	356	370	369	381	379	392	388	403	399	3,557	3,855
Non-Defense	349	345	373	368	388	387	396	398	405	407	416	416	427	426	439	435	450	446	462	456	475	468	4,232	4,552
Subtotal	649	646	684	682	707	710	726	730	746	751	767	766	787	782	809	804	831	825	854	844	878	867	7,789	8,407
Mandatory																								
Social Security	430	430	451	452	474	474	498	498	524	523	553	550	584	578	618	608	656	642	698	679	744	719	5,800	6,153
Medicare	216	238	226	252	239	270	252	290	271	317	279	333	301	363	320	391	342	421	365	456	396	492	2,990	3,823
Medicaid	129	130	143	141	154	153	167	160	182	180	198	194	216	211	234	229	254	248	276	271	300	295	2,125	2,212
Other Man.	223	291	246	312	247	322	257	348	281	358	286	364	293	368	309	386	322	402	334	414	348	428	2,923	3,993
Subtotal	998	1,089	1,066	1,157	1,114	1,219	1,174	1,296	1,258	1,378	1,316	1,441	1,394	1,520	1,481	1,614	1,574	1,713	1,673	1,820	1,788	1,934	13,838	16,181
Net Interest:																								
Interest Earnings		0							-3		-14	-1	-32	-12	-56	-38	-85	-68	-119	-104	-159	-146	-468	-369
Other	206	205	187	179	170	163	150	142	128	116	113	90	101	72	92	65	85	58	78	53	74	51	1,177	1,194
Subtotal	206	205	187	179	170	163	150	142	125	116	99	89	69	60	36	27	0	-10	-41	-51	-85	-95	709	825
Total Outlays	1,853	1,940	1,937	2,018	1,991	2,092	2,050	2,168	2,129	2,245	2,182	2,296	2,250	2,362	2,326	2,445	2,405	2,528	2,486	2,613	2,581	2,706	22,336	25,413
Receipts	2,137	2,135	2,221	2,236	2,324	2,343	2,438	2,453	2,569	2,570	2,698	2,689	2,836	2,816	2,979	2,955	3,131	3,107	3,302	3,271	3,483	3,447	27,981	30,022
Unified Surplus	284	281	283	313	334	359	387	397	440	433	516	505	586	573	652	635	726	710	814	796	904	889	5,644	5,891
On-budget	127	125	112	171	141	171	176	196	203	212	263	267	315	316	363	359	422	417	490	484	560	558	3,045	3,276
Off-budget	157	156	171	188	194	188	211	201	237	221	253	238	272	257	289	276	304	294	324	312	344	331	2,599	2,662
The President proposes no changes in policy that would reduce Medicare outlays. The President's Medicare numbers are lower than CBO's due to baseline differences --mainly assumptions about the rate of growth in health care costs generally.																								

Committee for a Responsible Federal Budget

Attachment 2

Update—President's Budget

February 28, 2001

Table S-9 Effect of Proposals on Receipts													
(In millions of dollars)													
Attachment # 2													
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Totals	
												2002-06	2002-11
President's tax Plan presented to Congress on February 8th:													
Increase the child tax credit ¹		-1,238	-7,506	-11,455	-16,347	-20,963	-25,296	-26,277	-27,098	-27,876	-28,602	-57,509	-192,658
Create new 10-percent bracket		-5,678	-13,847	-21,932	-29,849	-37,407	-39,734	-40,281	-40,602	-40,685	-40,603	-108,713	-310,618
Reduce individual income tax rates		-11,793	-21,047	-33,493	-42,306	-57,299	-63,741	-65,454	-67,020	68,550	-69,963	-165,938	-500,666
Reduce the marriage penalty		-1,423	-4,801	-7,700	-10,243	-12,549	-13,983	-14,501	-15,008	15,509	-16,033	-36,716	-111,750
Provide charitable deduction for non-itemizers		-482	-1,690	-2,963	-4,448	-6,065	-6,988	-7,087	-7,306	-7,500	-7,642	-15,648	-52,171
Permit tax-free and penalty-free withdrawals from IRAs for charitable contributions		-53	-181	-195	-210	-225	-241	-258	-277	-299	-322	-864	-2,261
Raise the cap on corporate charitable contributions		-85	-136	-136	-143	-149	-159	-169	-178	-202	-222	-649	-1,579
Increase and expand education savings accounts		-3	-25	-88	-204	-373	-593	-829	-1,037	-1,206	-1,287	-693	-5,645
Permanently extend the R&E tax credit				-1,056	-3,431	-5,414	-6,542	-7,388	-8,020	-8,567	-9,158	-9,901	-49,576
Phase out death tax	-169	-6,008	-10,534	-11,998	-14,804	-16,840	-20,682	-30,477	-42,651	-54,721	-57,872	-60,184	-266,587
Total, President's Tax Plan presented to Congress on February 8th¹	-169	-26,763	-59,767	-91,016	-121,985	-157,284	-177,959	-192,721	-209,197	-225,115	-231,704	-456,815	-1,493,511
Additional tax incentives^{1 2}	-14	-2,246	-5,183	-7,995	-11,113	-12,579	-14,758	-15,985	-16,986	-17,835	-18,567	-39,116	-123,247
One year extension of provisions expiring in 2001²		-1,614	-1,356	-169	-93	-65	-37	-21	-18	-18	-18	-3,297	-3,409
Tax reduction^{1 2}	-183	-30,623	-66,306	-99,180	-133,191	-169,928	-192,754	-208,727	-226,201	-242,968	-250,289	-499,228	-1,620,167

¹ The proposal has both receipt and outlay effects. Only the receipt effect is shown here; the outlay effect is shown in Table S-8.

² Net of income offsets.

Attachment #3 Table S-6 (President's Budget)									
Discretionary Budget Authority by Agency									
(Dollar amounts in billions)									
	Actual			Estimate		Change:		Average	
	1998	1999	2000	2001	2002	to 2002		Growth: 1998	
Agency						Increases	Cuts	Increase	Decline
Agriculture	15.8	16.5	17.1	19.4	17.9		-1.6	3.1%	
Commerce ¹	4.2	5.4	8.7	5.1	4.8		-0.4	3.3%	
Defense	259.8	274.6	287.3	296.3	310.5	14.2		4.6%	
Education	29.8	28.8	29.4	39.9	44.5	4.6		10.6%	
Energy	16.8	17.9	17.8	19.7	19.0		-0.7	3.1%	
Health and Human Services	37.1	41.5	45.5	53.9	56.7	2.8		11.2%	
Housing and Urban Development ²	20.1	22.5	21.2	28.5	30.4	1.9		10.9%	
Interior	8.1	8.0	8.5	10.2	9.8		-0.4	5.0%	
International Affairs Programs ³	18.2	22.3	22.7	21.9	23.1	1.2		6.2%	
Justice	17.6	18.4	18.8	20.9	19.9		-1.0	3.1%	
Labor	10.7	11.0	8.8	11.9	11.3		-0.6	1.3%	
Transportation	15.0	12.9	14.5	18.4	16.3		-2.1	2.0%	
Treasury	11.5	12.8	12.5	14.0	14.7	0.7		6.4%	
Veterans Affairs	18.9	19.2	20.9	22.4	23.4	1.0		5.5%	
Corps of Engineers	4.2	4.1	4.1	4.5	3.9		-0.6		-1.7%
Environmental Protection Agency	7.4	7.6	7.6	7.8	7.3		-0.5		-0.2%
Federal Emergency Management Agency	2.4	2.9	3.9	2.4	2.0		-0.5		-5.4%
National Aeronautics and Space Administration	13.6	13.7	13.6	14.3	14.5	0.3		1.5%	
National Science Foundation	3.4	3.7	3.9	4.4	4.5	0.1		6.8%	
Small Business Administration	0.7	0.8	0.9	0.3	0.5	0.3			-6.9%
Social Security Administration	5.5	5.5	5.6	6.0	6.4	0.3		3.9%	
Legal Services Corporation	0.3	0.3	0.3	0.3	0.3	0.0		3.8%	
National Endowment for the Arts	0.1	0.1	0.1	0.1	0.1	0.0		1.7%	
National Endowment for the Humanities	0.1	0.1	0.1	0.1	0.1	0.0		2.2%	
Smithsonian Institution	0.4	0.4	0.4	0.5	0.5	0.0		5.3%	
Other Agencies	10.2	11.4	10.4	11.7	12.8	1.1		5.8%	
National Emergency Reserve					5.6	5.6			
Total	531.9	562.4	584.6	634.9	660.8	34.1	-8.4		

¹ 2000 Commerce data includes funding for Census 2000.

² 1998 and 1999 have been adjusted for reclassification of Federal Housing Administration receipts.

³ International Affairs Program totals do not include P.L. 480 Title II food aid, which is included in the totals for

Agriculture; 1999 data is also adjusted to remove \$18.2 billion in one-time funding for the International Monetary Fund.

(in millions of dollars)													
Attachment #4												Totals	
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2002-06	2002-11
IRS income verification on means tested veterans and survivors benefits				-6	-6	-6	-6	-6	-6	-6	-6	-18	-48
Round-down disability benefits to nearest dollar after COLA			-15	-37	-60	-85	-107	-133	-163	-188	-208	-197	-996
Limit VA pensions to Medicaid recipients in nursing homes (includes Medicaid offsets)									-127	-138	-149		-414
Continue current housing loan fees									-275	-280	-286		-841
Eliminate "Vendee" loan program		19	-9	-13	-21	-26	-29	-34	-38	-36	-41	-50	-228
Army Corps of Engineers:													
Recreation user fee increase		-10	-5	-5	-5							-25	-25
FCC:													
Shift spectrum auction deadlines and promote clearing		2,600	1,000	-5,100	-2,000	-4,000						-7,500	-7,500
Analog spectrum lease fee		-198	-200	-200	-200	-200	-175	-150	-75	-25		-998	-1,423
FDIC													
State Bank Examination fees:													
Reduction in FDIC outlays		-92	-97	-101	-106	-112	-118	-123	-129	-136	-143	-508	-1,157
Additional governmental receipts (net of income offsets)		-70	-74	-76	-80	-84	-88	-92	-96	-101	-105	-384	-866
FEMA:													
Phase out subsidized premiums for non-primary residences in the flood insurance program		-12	-40	-92	-194	-410	-415	-419	-423	-423	-423	-748	-2,851
Reform flood insurance program for repetitive loss properties that experience chronic flooding		-32	-65	-65	-65	-65	-65	-65	-65	-65	-65	-292	-617
OPM:													
Extend Higher Agency Contributions to the Retirement Fund			-315	-372	-326	-286	-241	-191	-137	-76	-22	-1,299	-1,966
Total, offsets		1,538	-1,031	-8,814	-4,945	-7,193	-3,144	-3,234	-3,694	-3,764	-3,817	-20,444	-38,096
Total, mandatory proposals	2,500	12,869	14,607	8,215	10,585	8,860	13,946	15,755	16,457	19,345	23,002	55,136	143,641
Outlays	2,500	12,939	14,681	8,291	10,665	8,944	14,034	15,847	16,553	19,446	23,107	55,520	144,507
Revenues (net of income offsets)		-70	-74	-76	-80	-84	-88	-92	-96	-101	-105	-384	-866