COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

Memo to: Board and Members
From: Carol Cox Wait
Date: March 21, 2001

SUBJECT: BUDGET ISSUE UPDATE
CBO RE-ESTIMATES OF PRESIDENT'S *BLUEPRINT and*
HOUSE BUDGET COMMITTEE ACTION

The Congressional Budget Office this week released a partial re-estimate of the policies contained in *Blueprint for New Beginnings,* the budget framework document that the President sent to Congress on February 28th.

Also this week, the House Budget Committee reported the Congressional Budget Resolution for FY 2002. The House expects to complete action on the budget next Wednesday.

The Senate is expected to take up the budget the week of April 2. The Senate Committee may or may not mark-up the resolution. Chairman Domenici probably will not schedule a mark-up unless he expects a majority of Committee Members to vote for a resolution compatible with the President's budget *Blueprint*. On April 1, all budget resolutions previously introduced and referred to the Budget Committee will be discharged. If there is no resolution reported from the Committee, the Majority Leader may call up the discharged resolution of his choice—and that resolution will enjoy the privileged status of one reported from the Committee under the Budget Act.

The table at page 4 compares the numbers in the Administration *Blueprint* to the CBO re-estimates and the House Budget Committee reported resolution. The Democrats introduced an amendment in committee, but they have not released sufficient detail for us to include that amendment in our comparisons.

There are two significant differences between the House Chairman's Mark and the President's *Blueprint*: the timing of the tax cut and energy exploration in Alaska. These differences should make the resolution more acceptable to some Democrats.

> Ten-year aggregate receipts are essentially the same in the HBC reported resolution and the President's *Blueprint*. But the HBC proposes to cut taxes about twice as much as the President in FY 2002 (which begins September 1) and about 25% more in FY 2003.
>
> The HBC resolution does not address the question of energy exploration in Alaska. Chairman Nussle says that the budget is not the place to have that debate.

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The table at page 5 compares the Administration's proposed allocation of resources across broad categories within the budget to CBO baseline projections. The table shows a whopping *$1.4 trillion* over ten years that the *Blueprint* does not allocate to any specific spending or tax policy. The contingency reserve averages about $20 billion per year in 2002-2004, shrinks in 2005 and goes negative for a couple of years thereafter. In 2008-2011 contingency funds plus "excess balances" grow into the hundreds of billions per year. Sixty four percent (64%) of projected surpluses, sixty-nine percent (69%) of revenue losses due to tax cuts; and seventy two percent (72%) of unallocated resources are concentrated in the last five years of the budget projections.

Unbelievably Large Numbers

We are concerned that using ten-year aggregates to describe surplus projections and policy changes does little to illuminate budget debates and may prove to be downright misleading.

The numbers that Congress and the President must deal with in the current budget debate are literally mind-boggling.

> The Non-Social Security, Non-Medicare surplus in 2002 and every year thereafter is larger than the entire budget of the State of California which, in turn, is 56% larger than the New York State budget (next largest to California).
>
> The amounts that the President proposes to spend each year for his *Helping Hand* prescription drug program are equal to the total budget of the State of Connecticut.
>
> The table at page 6 illustrates the growth in discretionary spending since implementation of the Congressional Budget Act. Putting aside the Reagan defense build-up and the growth in non-defense spending in the last five years, the President's proposed increases are as large as any of the historical comparisons.

For the first time in more than twenty years, I don't know what budget policies I would adopt if somebody made me queen for a day.

In part that is due to uncertainty about the economy. It seems unlikely that surplus projections will go down very much, if at all, when we get new numbers this summer. If there is a change, any short term reductions likely will be offset by higher estimates in the out-years. And it is by no means certain that the short-term estimates will go down. But a deep, prolonged economic downturn could change that.

And there seems to be no strong correlation between public service needs and proposed spending increases/tax cuts. There is no objectively or analytically right level of public spending or taxation. But folks are talking about percent growth and multiples of the President's proposals rather than what will contribute to sustainable economic growth and/or what is needed to fund specific priorities and programs.

Long-Term Reforms

It makes sense to deploy some part of near-term surpluses to help fund transitions in Social Security reform, Medicare reform and/or tax reform. But there is no consensus around such reforms. We cannot sensibly fund transitions until we know what the new systems will be and what it will take to get from here to there.

In the final instance, we must reduce statutory Social Security and Medicare benefits in future years and/or increase taxes a lot. There is much discussion of individual accounts or investing a portion of current surpluses in private equities/debt instruments—proposing to close some of the gap through investment returns. But few want to discuss the kinds of benefit changes that will be needed to avoid huge tax increases and/or mega-deficits once the baby boom generation retires. And arbitrage will not solve the problem.

Notwithstanding the recent Trustees' report, Medicare will experience negative cash flows within a decade—and Social Security not much later. The financial crisis arises when outlays exceed receipts—no matter how large the trust fund balances we may be carrying on the books at that time. Redressing the imbalance will require adjustments in benefits and/or taxes. Those adjustments best should be phased in over a long period of time. But do not expect much progress on that front this year.

Tax reform means different things to different individuals and groups. And the tax changes under consideration this year could make a system that already is impossibly complex even more so.

Focus on the Near-Term

Focus on the budget numbers one year at a time. Give more weight to the 3-year estimates than the 5-year projections. Discount heavily both surplus projections and policies due to go into effect in the second five years. Ten-year estimates are useful to discourage policymakers from enacting new policies first effective one year after the "budget window"; and they are useful to help us understand budget trends.

But we have to look at policy change one year at a time. Policy changes in the budget year are the only changes Congress and the President control directly. This year's changes are built into the baseline in the out-years. The out-year costs may be greater or less than anticipated due to inflation, growth or any number of technical factors. Very small changes in the budget year can make very large differences over time. For example, increasing discretionary spending 1% above the baseline would increase spending $359 billion over ten years.

We can be reasonably certain—in the absence of an uprising such as was caused by catastrophic health insurance for the elderly—that new spending programs and tax cuts enacted this year will remain on the books for a while. On the other hand, does anyone really believe that spending and tax policies will remain unchanged for a decade?

Policy changes this year will affect surplus projections for the out-years, as will changes in the economy. Changes in the medium- to long-term outlook may trigger policy changes in future years. Policies that are not due to go into effect until five years or more into the future could change before they affect anybody in any real way.

Oddly, all of this may make this year's budget debate seem easy. It isn't hard to increase spending and cut taxes. This debate is about spending increases v tax cuts. Republicans and Democrats, the Administration and Congress almost certainly will find a way to use any and all on-budget surpluses for tax cuts and spending increases. The debate is not really about how much debt to retire. Congress and the President almost certainly will use all Social Security (and maybe Medicare) surpluses to retire debt. Gridlock might drive Treasury to buy back larger amounts of debt held by the public—but we do not anticipate gridlock this year.

House Budget Committee Compared to President's Budget Framework

fiscal years--$ in billions--totals may not add due to rounding

	2001			2002			2003			2004			2005			2006			Total 2002-06			Total 2002-2011		
	P(F)	P(CBO)	HBC	P(F)	P(CBO)	HBC	P(F)	P(CBO)	HBC	P(F)	P(CBO)	HBC	P(F)	P(CBO)	HBC	P(F)	P(CBO)	HBC	P(F)	P(CBO)	HBC	P(F)	P(CBO)	HBC
Total Outlays	1856	1857	1857	1959	1941	1941	2012	2004	2007	2071	2074	2086	2164	2166	2176	2221	2222	2237	10,427	10,407	10,447	22,929	22,906	23,004
Total Receipts	2137	2134	2129	2190	2205	2168	2258	2277	2260	2339	2354	2344	2436	2437	2437	2528	2519	2521	11,751	11,792	11,730	26,362	26,267	26,248
Surplus	281	278	272	231	264	227	246	272	253	268	280	259	273	270	261	307	297	285	1,325	1,383	1,284	3,433	3,261	3,244
Off Budget	157	na	156	171	na	171	193	na	188	211	na	202	237	na	222	252	na	238	1,064	na	1,021	2,591	na	2,491
On-Budget/ Contingency	124	na	116	60	na	56	53	na	64	57	na	57	36	na	39	55	na	47	261	na	263	842	na	753
Mandatory Outlays	1207	na	1206	1267	1249	1258	1304	1296	1300	1344	1349	1361	1413	1418	1428	1452	1456	1471	6,780	6,768	6,818	15,110	15,094	15,212
Net Interest	206	na	205	188	181	182	175	167	170	161	152	155	144	133	138	127	117	122	795	750	767	1,127	1,044	1,092
All Other	1001	na	1001	1079	1068	1076	1129	1129	1130	1183	1197	1206	1269	1285	1290	1325	1339	1349	5,985	6,018	6,051	13,982	14,050	14689
Discretionary Outlays	649	na	646	692	692	684	708	708	708	727	725	725	751	748	748	769	766	766	3,647	3,639	3,631	7,819	7,812	7,791
Defense	300	na	301	319	320	320	322	326	326	333	334	334	347	347	347	354	355	355	1,675	1,682	1,682	na	na	3,614
Non-Defense	349	na	344	373	372	364	386	382	382	394	391	391	404	400	400	415	411	411	1,972	1,956	1,948	na	na	4,177

Legend

P(F)	President's Budget Framework
P(CBO)	Partial Re-Estimates by CBO

Notes

CBO estimates of the President's budgetary proposals are based on *Blueprint for New Beginnings,* February 28, 2001. It does not reflect any changes in Administration policies that may have been made since that publication.

The new Administration does not expect to submit to Congress until April comprehensive budget documents and extensive detail that could affect CBO re-estimates.

CBO cannot re-price the Administration's proposed *Immediate Helping Hand,* nor the tax cut proposal. They simply do not have enough information.

As they have done in similar situations in years past, CBO used the Administration's estimates of those proposals.

CBO did re-estimate discretionary outlays by function, based on the amounts of budget authority contained in the *Blueprint.*

President's FY 2002 Budget Framework compared to CBO Baseline Projections January 2001
fiscal years--$ in billions

	Actual	Projections										Totals	
	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2002-06**	**2002-11**
Total Surplus CBO January 2001			313	359	397	433	505	573	635	710	796	889	2007	5610
Discretionary Outlays														
CBO Baseline January 2001			682	710	730	751	766	782	804	825	844	867	3639	7761
President's FY 2002 Budget Framework			692	708	727	751	769	787	811	834	861	880	3647	7820
President +/- CBO Base			10	-2	-3	0	6	5	7	9	17	13	11	62
Mandatory Outlays														
CBO Baseline January 2001			887	951	1032	1142	1226	1322	1416	1516	1620	1737	5238	12849
President's FY 2002 Budget Framework			900	966	1040	1153	1235	1336	1432	1535	1640	1760	5294	12997
President Mandatory Policies + CBO Base			13	15	8	11	9	14	16	19	20	23	56	148
Net Interest														
CBO Baseline January 2001			179	163	142	116	90	72	65	58	53	51	690	989
President's FY 2002 Budget Framework			187	170	150	128	113	101	92	85	78	74	748	1177
Pres +/- CBO			8	7	8	12	23	29	27	27	25	23	58	189
President's Proposed Revenue Reductions			31	66	99	133	170	193	209	226	243	250	499	1620
Tax cut as a percent of non-SS, non-Medicare Surplus			29	50	63	60	62	61	56	51	47	32	56	49
Non SS, Non Medicare Surplus—CBO January 2001*			106	132	155	220	273	316	374	444	520	785	886	3325
Reduction in Debt Held by the Public--President			227	232	252	257	294	328	181	125	71	50	1049	2017
Contingency Fund**			20	27	17	4	-10	-9	4	17	32	56	58	158
Contingency Fund Plus Excess Balances									182	291	407	517	0	1397

* Total Surplus minus Social Security and Medicare Trust Fund Surpluses

** The Framework Document does not break out contingency funds, so this number is really "all other"--CBO Baseline Surplus, minus, the incremental cost of the Administration's Proposals for Discretionary, Mandatory, Net Interest and Debt Reduction/Excess Balances.

Note: This whole Chart is sort of "apples and oranges". The starting point is the CBO January Baseline. The numbers for Administration policies are from the President's *Blueprint*. Nonetheless, we believe this to be a pretty good illustration of the President's policy proposals compared to current laws and policies.

Increases in Federal Discretionary Spending--Fiscal Years--$ in Billions

	Actual					Projections
	1976-80	**1981-85**	**1986-90**	**1991-95**	**1996-00**	**2001-05**
Defense						
current dollars	44.7	95.1	26.3	-46.1	25.2	54.8
constant dollars	14.1	71.5	1.7	-78.5	8.3	49.6
percent of GDP	-0.3	1.2	-1	-1.7	-0.5	0.4
Domestic						
current dollars	50.6	9	34.4	58.1	54.3	63.5
constant dollars	42.8	-25.8	14.8	33.8	65.1	57.5
percent of GDP	0.2	-1	-0.1	0.1	na	0.5

Note: CRFB computed the constant dollar amounts for FY 2001-05 based on CBO estimates of the GDP price index.