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Memo to: Board and Members
From: Carol Cox Wait
Date: June 1, 2001

SUBJECT: CBO ANALYSIS OF THE PRESIDENT'S BUDGET, SMALL CHANGES TO THE BASELINE, AND STATUS REPORT POST PASSAGE OF THE TAX BILL

The Congressional Budget Office released an *Analysis of the President's Budget* in May. They made very small changes to the baseline. The surplus projection is \$5 billion lower 2002-2006 and \$19 billion higher 2002-2011.

The Joint Committee on Taxation provided revenue estimates for the tax cut that passed on Saturday of Memorial Day weekend. These two sets of projections provide the basis for the budget status report at page 3 of this memo.

Some funny things happened on the way to enactment of the tax bill. Senator Jeffords decided to cross the aisle. He will vote with the Democrats to organize the Senate. But he voted with the President on the tax bill. There will be a major brouhaha about reorganization when the Senate returns next week. If nothing happens, Senator Daschle becomes Majority Leader and Democrats become Committee Chairmen but committee assignments revert to what they were in the last Congress giving Republicans majorities that they did not enjoy heretofore in this Congress on all Committees. Thus, it seems certain that the two leaders will strike a deal. Republicans appear to be focused on assurances that the Senate will get to vote on nominations (or maybe just judicial nominations) rather than bottling them up in Committee. Perhaps they put nominations ahead of, for example, scheduling because they do not think that Democrats would give on the latter in any event.

The tax conferees actually left a lot of money on the table in the budget year (FY 2002). Some provisions sunset half way through the ten-year projection period. Some don't start until 2005 or 2006. The reason for the on-again, off-again pattern is to keep the bill within the budget resolution limits. That actually may be a good sign. Surplus projections grow rapidly from 2006. Tax cutters could have gone over the budget without seeming to endanger Social Security or Medicare much less the surplus. But they did not. Finally, folks who usually complain that tax cuts are forever are complaining that the cuts in this bill sunset on 12/31/10. We would expect them to applaud a certain opportunity to reopen the tax debate.

- Congress did not need to shift corporate estimated tax payments from 2001 into 2002. They have taken a lot of heat for that gimmick and it appears to be totally unnecessary. Indeed, doing so actually may raise more revenue in FY 2002 than they really want or need—almost certainly more than the President would prefer. Maybe they want to leave room for another rebate next year? After all, it is an election year.
- AMT relief in the bill sunsets 12/31/04. Extending those provisions through 2011 could cost \$30 billion through 2011.
- The College tuition deduction ends in 2005. Extending it could cost \$15-\$20 billion through 2011.
- Repeal of the phase-out of the personal exemption and cutback of itemized deductions is not due to go into effect until 2006. Implementing those changes in 2002 might have added \$15-\$20 billion to the cost of the bill.
- Marriage Penalty Relief does not begin until 2005. Providing relief from 2002 could have added \$15 billion to the cost of the bill.
- All provisions in the bill sunset 12/21/10. We are having a hard time understanding why opponents of the bill object to this. Certainly, it can be labeled a gimmick. If the cuts had extended through 2011, the bill would have exceeded the budget. On the other hand, this is a pretty risky gimmick for those who espouse the specific policies underlying this legislation. If you assume that tax law will remain unchanged for a decade—and we do not—the sunset provisions would provide an opportunity for opponents of the bill to reargue the policy. This could be viewed as a major victory for those who think that Congress and the Administration ought to revisit tax policy from time to time.

Where do we go from here?

Our Board members struggled when record high deficits made it difficult to find a billion (with a “b”) dollars to spend for new high priority programs. It seems strange to describe the \$4 trillion surplus (with a “t” and after the tax bill) as too little to meet public needs. Of course, “only” about \$1.5 trillion of that amount is available without dipping into the Social Security Trust Fund, and “only” a little over \$1 trillion without touching Medicare Hi Trust Funds. But \$90 billion in on-budget surpluses (\$52 billion not counting HI) over and above inflation and after the tax cut, seems like an awful lot of money. Those are the numbers for FY 2002—the budget year currently under debate. Our great concern is that spending the entire non-HI surplus in 2002 could increase the base so much as to virtually ensure spending in future years in excess of projected on-budget surpluses.

We still would prefer to see more money devoted to debt reduction. But it looks to us as if Congress and the President ought to be able to reconcile their differences within the limits in the budget resolution. Tension between a Republican President and divided Congress might make that more likely. And we will count it in the win column if they stay within the budget whatever causes that outcome.

Budget Status Report—June 1, 2001

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2002-06	2002-11
Surplus													
CBO May	275	304	353	400	437	508	578	641	718	806	883	2002	5629
Baseline													
Off-Budget	156	172	187	202	221	238	256	275	293	311	330	1020	2487
On-Budget	119	132	166	197	215	270	322	366	425	495	553	980	3142
HI	28	38	41	43	42	45	43	42	40	36	28	209	397
On-Budget-HI	92	95	125	155	173	225	279	324	385	459	525	773	2745
Tax Cut													
JTC Estimates	-74	-38	-91	-108	-107	-135	-152	-160	-168	-187	-130	-479	-1275
Debt Service*	2	5	8	14	21	29	38	49	61	74	87	77	385
Surplus effect	-76	-43	-99	-122	-128	-164	-190	-209	-229	-261	-217	-556	-1660
Remaining Surplus													
Total	200	261	255	278	309	345	388	432	489	545	666	1448	3968
On-Budget	44	90	67	75	87	106	132	157	196	234	336	425	1481
On-Budget-HI	16	52	26	33	45	62	89	115	156	198	308	218	1085

*Based on CBO Estimates

Prepared by the Committee for a Responsible Federal Budget—June 2001