COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

Memo to: Board and Members
From: Carol Wait
Date: December 27, 2000

Subject: End of Year Wrap-Up

Surpluses Continue to Rise

	2001	2001-05	2001-10
COB Estimate July 2000*	267.8	1695.6	4561.2
Social Security	165.4	1000.7	2387.7
Medicare	32.1	189.0	360.8
Revenue changes**	2.1	12.9	36.4
Medicare addbacks	3.9	10.9	4.0
Other Mandatory	1.4	24.2	69.8
Appropriations including supplemental***	6.2	151.0	374.0
Debt Service	.6	23.5	116.0
Remaining Surplus****	56.1	283.4	1212.5

* Unified surplus—inflated baseline

** CSRS, Thrift Savings, Tarriff Suspension and Trade Act, FSC, Export Administration Act penalties, Installment Tax Correction Act, Home-Owner and Economic Opportunity Act, Commodities Futures Mod., Community Renewal, and Miscellaneous.

*** Preliminary CBO Estimate

**** Net Surplus Estimate after policy change—but prior to adjustments due to economics and technical change. In fact, the CBO January surplus estimates are expected show economic and technical change more than offsetting the policy changes shown above. The CBO January Surplus estimates are expected to go up by $200-$300 billion compared to the July numbers.

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In Search of a More Effective Budget and Appropriations Process

The much maligned budget process simply was not designed for the current surplus environment. That and the fact that important enforcement provisions in the Balanced Budget Act (BBA) are due to expire in 2002 argue compellingly that it is high time for budget process reform. The discretionary caps in current law (with the exception of the FY 2001 increase enacted in the Foreign Ops bill this year) were part of the 1997 BBA—and almost everyone said then that they probably would prove to be unrealistically tight. It soon became clear that the BBA caps were unnecessary to balance the budget. Appropriations increased $88 billion over three years—3.6%, 7.1%, and 4.4%. The GDP deflator was one and a half to two percent and the CPI between two and three percent over the same period.

Outlays—$ in billions

Fiscal Year	1998	1999	2000	2001(est)
Discretionary Appropriations	555	575	616	643
1997 BBA Caps	553	566	574	575
Cap Increase enacted in the Foreign Ops Appropriations Bill				637
Emergencies				11
Total Available for FY 2001				648

It is interesting to note that as the caps got tighter, and especially if they were viewed as unrealistic, appropriations seemed to grow more rapidly and the overages seemed to get larger. In FY 00, for example, both the rate of growth and the overage were twice as large as any other year since 1997. By contrast, appropriations for the current year are within the new cap and the rate of increase is 3 percent less than a year earlier.

We believe that there is another reason appropriations have grown so rapidly in recent years. Nature abhors a vacuum and Congress and the President have bee able to agree on little else.

Debt Reduction

We are as dismayed as any group in town, when the President and Congress disregard budget rules and overspend their own budgets. But there is a bright spot in all of this: since 1998, the United States Treasury has used more than $400 billion to reduce debt held by the public--$223 billion last year alone.

Not that long ago, deficits were projected to be $300 billion or more. The difference between $300 billion deficits and $400 in surpluses deployed to reduce government debt held by the public represents a huge increase in the amount of money available for productive private investment.

For years, deficit hawks predicted that balancing the budget would lead to reduced interest rates, increased investment and growth. Certainly, many other factors have contributed to prolonged economic expansion—notably favorable demographics and technology. But fiscal policy has made a contribution, and we would be remiss to overlook that fact as we keep beading the drum for budget discipline.

Exercise in Hard Choices

The Committee will commence work this year with Oklahoma State University to develop a real-time, on-line, interactive version of the *Exercise in Hard Choices.*

We look forward to a new version of the ***Exercise*** (hard copy) hopefully to be available by April Fools Day. That version will focus on Social Security and Medicare reform options in the context of broader economic and budgetary issues such as the size of government, debt reduction, etc.

Later this year, we hope to have that version of the ***Exercise*** available on CD-ROM.

If possible, we will try to produce one or more other versions designed to explore other public policy issues, e.g., municipal finance and/or tax reform.

By the end of the year, we hope to be well on the way to solving the programming challenges endemic to producing a truly interactive product. Once that is accomplished, we will work with the University to develop curricula and train teachers, who in turn can train others to use the product in classrooms across America. We hope to develop curriculum modules for high school as well as college.

Clearly, this is not a single year project. But we are really excited about the launch.

Annual Meeting and Dinner

Senators Domenici, Grassley and Stevens and Senator Conrad have agreed to Co-Chair our annual dinner next year. We shall ask the Ranking Members of the Finance and Appropriations Committees—and the counterpart Chairmen and Ranking Members from the House Side—to join them. But we have to wait for the House to select Committee Chairmen. That event, probably in April, will celebrate the Committee's 20^{th} Birthday. (The Senators' schedulers are working to clear one date when all are available.) We hope to hold a half-day symposium the same day as the dinner to discuss the timing and agenda for budget process reform. We hope that all of you will be able to join us and we will publish the date just as soon as possible.