MARK UP BOOK

FY 2003 SENATE BUDGET RESOLUTION

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TABLE OF CONTENTS

The Congressional Budget Resolution 2

Overview of the Federal Budget 4

The Budget Baseline. 7

Economic Assumptions. 8

Debt Levels 13

Social Security 15

Long Term 18

Procedure 20

Views and Estimates 26

Appendix 148

GENERAL NOTES

All years referred to are fiscal years, unless otherwise noted.
Table, text, and chart details may not add to totals due to rounding.
An "(*)" means less than $500 billion, less than $500,000, or less than one-half percent.

THE CONGRESSIONAL BUDGET RESOLUTION

A Congressional budget resolution is a document through which the Congress expresses its collective judgement about the overall path of the federal budget and about priorities within that budget. Although the budget resolution does not directly affect federal spending or revenues, once it has been adopted by the Senate and the House of Representatives it serves as a blueprint that guides Congressional consideration of legislation that does provide appropriations, increase or decrease mandatory spending, or make changes in tax laws.

What is a Congressional Budget Resolution?

The Congressional budget resolution and the procedures that enforce the resolution are provided for in the Congressional Budget and Impoundment Control Act of 1974 (the Budget Act). The nature and content of the budget resolution are set forth in section 301 of the Budget Act. The budget resolution is a concurrent resolution, which is a legislative form used to deal with matters relating to the operations of both Houses of Congress. A concurrent resolution does not have the force of law (which is why it cannot directly affect spending or revenues) because it is not presented to the President to sign or veto as is required by the Constitution for any measure making new law. A concurrent resolution instead takes effect when it is adopted in identical form by the Senate and the House of Representatives (even matters set forth in the resolution that affect only one body do not take effect until both houses have adopted the resolution).

Coverage and Content of a Budget Resolution

Section 301(a) of the Budget Act provides that a budget resolution shall cover *at least* five years – the budget year (the fiscal year starting during the current session of the Congress) and the four succeeding years. In recent years, resolutions have covered the budget year and the nine succeeding years. The resolution may also contain revisions for the current year. Section 301(a) provides that for each of the covered years, the resolution shall set forth appropriate levels for:

- totals of new budget authority and outlays;
- total federal revenues, and the amount, if any, by which revenues should be increased or decreased;
- the surplus or deficit;
- new budget authority and outlays for each of the major budget functions (there are 19 such functions covering broad program areas plus a function for allowances);
- the public debt; and
- Social Security outlays and revenues for purposes of Senate enforcement. (These off-budget outlays and revenues of the Social Security Old-Age and Survivors and Disability Insurance trust funds are explicitly excluded from the amounts in the resolution listed above.)

Section 301(b) of the Budget Act provides that the resolution may include other matters, most notably reconciliation directives that require Senate and House Committees (other than the Budget Committees) to report legislation needed to implement the budget resolution. Legislation reported pursuant to such reconciliation directives is considered under special procedures in the Senate and the House (set forth in section 310 of the Budget Act) that are intended to expedite final disposition of the reconciliation legislation.

Content of the Budget Committee Report on a Budget Resolution

Section 301(e)(2) of the Budget Act requires that any committee report accompanying the budget resolution include:

- a comparison of the spending, revenues, and surplus or deficit set forth in the budget resolution with those in the budget submitted by the President;
- the budget authority and outlays set forth in the budget resolution for each function divided between mandatory and discretionary amounts;
- the economic assumptions underlying the budget resolution;
- information about the basis on which the committee determined the levels of spending, revenues, and surpluses or deficits set forth in the budget resolution;
- the estimated levels of tax expenditures by major items and functional categories; and
- an allocation of the spending set forth in the budget resolution among Congressional committees. This so-called 302(a) allocation is the basis for points of order under the Budget Act against legislation which provides spending within the jurisdiction of a committee in excess of amounts assumed in the budget resolution for that committee.

Section 301(e)(3) provides that the committee report may include other information, including any "other matters, relating to the budget and fiscal policy, that the committee deems appropriate."

The federal budget reflects the spending and tax decisions of the Congress and the President. The unified budget includes the spending of all federal agencies and all federal revenues. The spending and revenues of the two Social Security trust funds (the Old Age and Survivors Trust Fund and the Disability Insurance Trust Fund) and the transactions of the Postal Service are designated by law as off-budget and are excluded from the calculation of spending, revenue, and surplus or deficit totals.

Historical Budget Trends

In fiscal year 2001, the most recently completed fiscal year, there was a unified surplus of $127 billion. However, when the off-budget Social Security surplus and net spending of the Postal Service are excluded, there was actually a deficit of $33 billion.

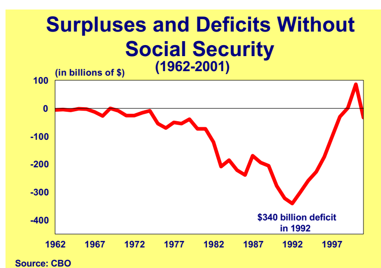

Figure 1

After 28 consecutive years of deficits, fiscal years 1998 to 2001 showed four straight years of unified surpluses, the result of budget reforms enacted in 1993 and 1997. In fact, in fiscal years 1999 and 2000, the budget showed surpluses even when the Social Security surpluses were excluded. These were the first such surpluses since 1960 (Figure 1).

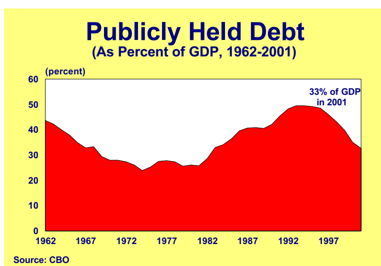

Figure 2

The long period of unified deficits prior to 1998 required borrowing that drove up the publicly held debt from $248 billion in 1962 to nearly $3.8 trillion in 1997. The surpluses in 1998 through 2001 allowed the debt to be paid down by more than $450 billion. As a percent of gross domestic product (GDP), debt held by the public generally declined through the 1960s and 1970s (Figure 2). But large deficits in the 1980s and early 1990s reversed the trend, boosting debt held by the public to nearly 50 percent of GDP by 1993. By 2001, four years of unified surpluses and a fast-growing economy had reduced the debt held by the public to about 33 percent of GDP.

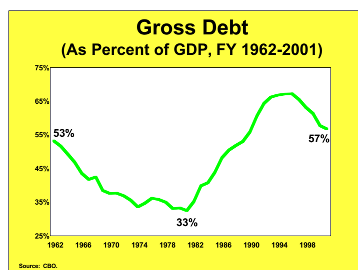

Figure 3

A more complete measure of federal debt is gross debt, which includes debt issued to government accounts like the Social Security trust funds, as well as public debt (Figure 3). In 1962, gross federal debt totaled $303 billion; by 1980, this amount had increased to just over $900 billion. The large budget deficits of the 1980s caused gross federal debt to roughly quadruple over the next decade, hitting $3.6 trillion by 1991. Today, gross federal debt totals $5.8 trillion. Under the Congressional Budget Office's (CBO's) baseline assumptions,

gross debt increases every year from 2002 to 2012, as the growth of debt held in government accounts outpaces the paydown of publicly held debt.

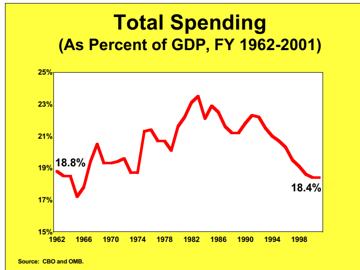

Figure 4

Total federal spending in 2001 was equal to 18.4 percent of GDP, less than in 1962 when it equaled 18.8 percent (Figure 4). But spending did not decline smoothly over that period. Instead, with intermediate ups and downs, spending rose at a moderate pace in the 1960s (to 19.3 percent of GDP in 1969) and then much more rapidly in the 1970s and early 1980s (hitting a postwar peak of 23.5 percent in 1983) before beginning a decline that accelerated in the 1990s. Total revenues in 2001 equaled 19.6 percent of GDP, more than the 17.5 percent in 1962.

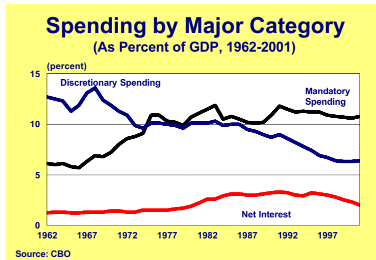

Figure 5

Although total spending as a percent of GDP in 2001 was not very different from the level in 1962, the composition of spending has changed dramatically. In 1962, discretionary spending (spending controlled by annual appropriation bills) was equal to 12.7 percent of GDP, mandatory spending was equal to 4.9 percent of GDP, and net interest was equal to 1.2 percent of GDP (Figure 5). Since 1962, discretionary spending has declined by nearly half, to 6.4 percent of GDP in 2001. Over that same period, mandatory spending more than doubled, rising to 9.9 percent of GDP in 2001. That growth was concentrated in the 1960s and early 1970s. By 1976, mandatory spending equaled 9.7 percent of GDP. Net interest grew slowly in the 1960s and 1970s, increased rapidly in the 1980s, reached a peak of 3.3 percent of GDP in 1991, and then began a decline to 2.0 percent of GDP in 2001.

The Budget Outlook

After four years of unified surpluses, it is likely the budget will once again be in deficit in 2002. If the President's policies are enacted, there will be deficits without Social Security in every year throughout the 2003-2012 budget window.

On March 6, 2002, CBO released baseline projections indicating that there would be a $5 billion unified surplus this fiscal year if policies remain unchanged. However, so-called "stimulus" legislation enacted just days after CBO issued its report will produce a $47 billion unified deficit in 2002 under CBO's assumptions. Take away the Social Security surplus of $163 billion (and the $2 billion deficit of the Postal Service, which is also designated by law as off-budget) and the

projected on-budget deficit for 2002 grows to $204 billion.

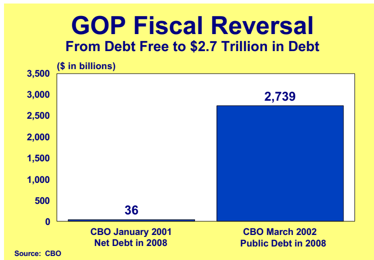

Figure 6

The current outlook is not nearly so bright as it was just one year ago. Last year, CBO projected surpluses without Social Security in every year – with a cumulative surplus of $3.1 trillion in 2002 through 2011. Now under CBO's current baseline assumptions, the deficit without Social Security will now total $590 billion over the 10-year period. Last year, CBO projected that net federal debt would essentially be eliminated by the end of 2008. Now, the projected federal debt held by the public will total $2.7 trillion in 2008 (Figure 6). This increase has driven estimated federal interest costs higher. CBO has boosted its projection of federal interest costs in 2002 through 2011 from just over $600 billion a year ago to $1.6 trillion (Figure 7).

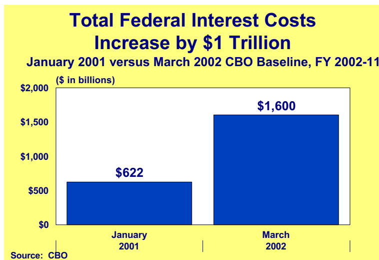

Figure 7

A number of factors produced the deterioration in the budget outlook for 2002 through 2011, including the recession and an increase in defense spending. However, the single biggest factor is the enactment of the President's tax cut, which will cost $1.7 trillion (including increased interest costs) in 2002 through 2011. It accounts for 42 percent of the deterioration in the budget outlook for that 10-year period.

The outlook grows darker when the policies proposed in the President's budget for fiscal year 2003 are taken into account. According to CBO, the President's policies would create a total budget deficit of $90 billion in 2002 and a deficit of $121 billion in 2003.

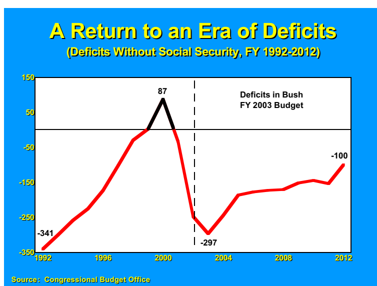

Figure 8

Even more troubling, CBO estimates that enacting the President's policies would result in deficits without Social Security in every year (Figure 8). From 2003 to 2012, the deficits without Social Security would total $1.8 trillion.

THE BUDGET BASELINE

One of the essential tools the Budget Committee uses in determining the budget policies in the budget resolution is a set of baseline budget projections that indicate what the level of spending, revenues, and surpluses or deficits will be if current policies remain unchanged. The baseline used by the Budget Committee is based on projections made by the Congressional Budget Office in its January 2002 *Budget and Economic Outlook: Fiscal Years 2003 through 2012*, as revised and reported in CBO's March 2002 *Analysis of the President's Budgetary Proposals for Fiscal Year 2003*.

In preparing its baseline projections CBO follows the baseline rules laid out in section 257 of the Balanced Budget and Emergency Deficit Control Act. For discretionary spending (which is controlled by annual appropriation bills), the rules provide that the projections should assume that discretionary appropriations are maintained at the level enacted in the current year (in this case, fiscal year 2002), adjusted for inflation, throughout the projection period (currently, 2003 through 2012). For mandatory spending and revenues, which are usually governed by permanent law, the rules generally provide that the projections should assume no changes in current law (any phasing in, or phasing out, of policy changes provided for in current law are taken into account). There are certain specified exceptions. In the case of mandatory spending, any programs in place in 1997 that have outlays of $50 million or more a year are considered to be permanent even if they actually expire under current law. (See Table 4-7 on pages 82-83 of CBO's January 2002 *Budget and Economic Outlook* for a list of programs that the baseline assumes will continue beyond their current expiration dates.) In the case of revenues, any excise tax dedicated to a trust fund is assumed to be continued in the baseline even if it is scheduled to expire under current law. This special rule primarily affects the projections for taxes that finance the Highway Trust Fund, most of which expire on September 30, 2005.

The rules laid out in the Balanced Budget and Emergency Deficit Control Act specify the conceptual basis for baseline projections. They do not tell CBO or anyone else how to make estimates of the level of spending and revenues that will result from the policy assumptions specified in those rules. The level of spending and revenues will depend on innumerable factors, including economic growth, the rate of inflation, the number of people qualifying for entitlement programs such as Medicare, and even the weather. CBO uses its judgement in determining an economic forecast and other assumptions to be used in making its baseline projections.

The baseline used by the Budget Committee in developing the budget resolution for fiscal year 2003 is based on the projections of CBO, with a few adjustments to take account of legislation enacted since CBO issued its baseline, including the stimulus bill signed into law on March 9, 2002.

The Chairman's Mark is built upon CBO's assumptions about the future path of the U.S. economy. CBO has made an economic forecast for 2002 and 2003 that reflects the current state of the economy and business cycle conditions. It has made projections for years 2004 through 2012 that reflect its assessment of average values for that period based on longer-term trends in the economy.

Overview

The country's longest economic expansion on record came to an end in March 2001. The unemployment rate, which had edged up from 4 percent in December 2000 to 4.3 percent in March 2001, jumped to 5.8 percent by the end of the year. Growth in real (inflation-adjusted) GDP, which had moderated substantially starting in the second half of 2000, fell by 1.3 percent in the third quarter of 2001. To date, the recession looks fairly typical in terms of job losses and reductions in hours worked, compared with the median postwar recession. However, strong productivity growth has kept output losses very moderate by the standards of past recessions. Economists' worst fears about the negative effects of the September 11 terrorist attacks were not realized, and recent data suggest that the contractionary phase of the current business cycle has probably ended. GDP rose again in the fourth quarter at a rate of 1.4 percent, after only one quarter of negative growth and the unemployment rate declined in February to 5.5 percent. Although considerable uncertainty remains about how strong and sustainable an expansion we can expect, the short-term outlook has been improving.

The economic expansion of the 1990s was extraordinary for a number of reasons besides its length. For example, inflation remained tame even as the unemployment rate declined to rates that had not been seen in three decades. Usually in the late stages of an expansion, aggregate demand begins to run ahead of aggregate supply and inflation begins to heat up, which, in turn, leads the Federal Reserve to make monetary policy more restrictive. A second notable feature of the expansion was extraordinary business investment in equipment and software, which grew at double-digit rates from 1993 to 2000. In part because of this furious pace of investment, productivity, which usually slows in the mature stages of an expansion, instead accelerated between 1995 and 2000.

The origins of most postwar recessions can be traced to some combination of a loss of consumer confidence and a tightening of monetary policy in response to inflationary pressures. The current recession, however, appears to be more related to a retreat from the exuberance of the late 1990s. After tripling in value between January 1994 and March 2000, the stock market (as measured by the broadly based Wilshire 5000 index), lost

a quarter of its value over the next year and was down nearly a third by the end of September 2001. Business investment in equipment and software has fallen for five straight quarters to a level nearly 9 percent below its peak. Adding to the economy's weakness in the short run, businesses pared back their inventories substantially.

In contrast to many past recessions, when economic policy responses were poorly timed, policy has helped moderate this recession. The Federal Reserve aggressively cut short-term interest rates beginning in January 2001. However, the deterioration of the long-term budget outlook, due in large measure to the deferred provisions of the tax cut, was most likely an important factor keeping long-term interest rates from falling as much as might have been expected as a result of the Fed's substantial easing of monetary policy.

Looking ahead, CBO, like the administration and most private sector forecasters, expects an economic recovery to begin this year. In fact, the most recent data now suggest that the economy bottomed out in the fourth quarter of last year. The preliminary estimate of GDP growth for that quarter was 0.2 percent at an annual rate when most forecasters were expecting a decline of about 1 percent; the revised estimate based on more complete data was 1.4 percent. This stronger-than-expected growth led CBO to revise its January economic forecast when it re-estimated the President's budget in March. CBO is now projecting an even shallower recession, though it has not revised its longer-term economic projections for 2004 and beyond.

Despite this brighter forecast, the economic outlook remains murky. The sharp contraction in inventories, which hurt growth in the short run, means that the economy should get some stimulus simply from a return to normal inventory-building behavior. However, a sustained recovery requires a more broadly based pick-up in demand. The sharp contraction in business investment may have worked off some of the excess capacity that built up at the end of the last expansion, but there are few signs yet of a strong revival in business demand. Household spending held up remarkably well in the recession, but that probably means that there is correspondingly less likelihood of a strong bounce-back in consumption to drive the recovery. Finally, weak performance in the rest of the world means that the United States cannot count on robust demand for our exports as a source of strength in the recovery.

Comparison of CBO's Economic Assumptions and those of the Administration and the Blue Chip Consensus

At the time the administration released its budget, the forecasts of CBO, the Office of Management and Budget (OMB), and the Blue Chip consensus of private forecasters were quite similar and within the normal bounds of error for such forecasts. However, the forecasts were predicated on different assumptions. CBO's baseline assumes no policy changes. In contrast, the administration assumes adoption of the President's policies, including a stimulus package. Individual Blue Chip forecasters make their own assumptions about what policies will or will not be enacted, and such assumptions can vary substantially. Because both the CBO and Blue Chip forecasts have been updated to incorporate new information, they now show stronger real growth in 2002 than OMB does, though the changes mainly affect 2002 and 2003, not the outyears.

Growth

All three forecasts see a recovery in 2002 and even faster growth in 2003. CBO forecasts that GDP in calendar 2002 will be 1.7 percent higher than it was in 2001 and that it will grow a further 3.4 percent from 2002 to 2003. OMB forecasts lower growth in 2002 (with stronger "catch-up" growth in 2003), but by 2012 CBO and the administration have nearly identical projections for real GDP. The February Blue Chip consensus is slightly below CBO in 2002 and 2003.

Inflation

All three forecasts expect inflation to remain tame. CBO forecasts that the GDP price index will grow 1.4 percent in 2002 and 2.0 percent in 2003, a pattern roughly similar to that of the Blue Chip consensus. The administration has a somewhat larger increase in the GDP price index in 2002, which boosts nominal income and, other things equal, expected revenues. The three forecasts are in closer agreement on consumer price inflation, though the administration assumes slightly slower growth in the consumer price index than CBO.

Income Shares

Some types of national income are more highly taxed than others. In particular, corporate profits and wages and salaries are the main tax base. Assuming roughly similar average tax rates, revenues as a share of GDP are higher when taxable income is higher as a share of GDP. CBO's revisions between January and March were all to corporate profits. CBO assumes that corporate profits and wages and salaries fall from 57.1 percent of GDP in 2001 to 56.7 percent in 2002 before rising back above 57 percent thereafter. The administration has a more optimistic course, mainly because corporate profits are not assumed to fall off as much in 2002 and are assumed to bounce back more strongly in 2003.

Interest Rates

CBO assumes three month Treasury bills fall to 2.2 percent in 2002 in the face of economic weakness, but then rise back to 4.5 percent in 2003 and 4.9 percent thereafter. The administration and the Blue Chip forecast the same drop in 2002, but both assume a more modest increase in 2003. Thereafter, the administration is the most optimistic about short-term interest rates and CBO is the most pessimistic. CBO assumes 10-year Treasury notes yield 5.1 percent in 2002, with the yield rising to 5.5 percent in 2003 and 5.8 percent thereafter. The Blue Chip consensus has a similar path, but the administration assumes long-term rates do not rise much above their 2002 level.

Sensitivity to Economic Changes

To illustrate the impact of economic uncertainty on the budget, CBO has computed the baseline surplus under alternative assumptions about when the recovery takes place (using the January baseline, not the revised March baseline). In the “Faster Recovery” scenario, both GDP and taxable income start to grow rapidly from the beginning of 2002. CBO reports that such rapid bouncebacks occurred in 1968 and 1972. In the “Deeper Recession” scenario, CBO assumes that recovery does not begin in 2002 but rather that the recession mimics the average of postwar recessions.

Surpluses/Deficits Under Illustrative Economic Scenarios

($ billions)

	2002	2003	2004	2005	2006	2002-2006
Faster Recovery	50	99	146	176	193	664
CBO Baseline	-21	-14	54	103	128	250
Deeper Recession	-89	-143	-64	10	50	-236

Over the first 5 years, the Faster Recovery scenario produces unified surpluses that are $414 billion higher than in the CBO baseline. The Deeper Recession scenario produces a cumulative deficit of $236 billion, $486 billion less than the $250 billion cumulative surplus in the CBO baseline.

Comparison of Economic Assumptions

	Estimate	Forecast		Projected Annual Average	
	2001	2002	2003	2004-2007	2008-2012
Nominal GDP (year or end of period, billions of dollars)					
CBO (March)	10,206	10,52	11,092	13,639	17,532
CBO (January	10,193	10,42	11,063	13,639	17,532
OMB	10,197	10,48	11,073	13,614	17,404
Real GDP (percentage change)					
CBO (March)	1.2	1.7	3.4	3.2	3.1
CBO (January	1.0	0.8	4.1	3.2	3.1
OMB	1.0	0.7	3.8	3.4	3.1
Blue Chip	n.a.	1.5	3.5	3.3	3.2
GDP price index (percentage change)					
CBO	2.2	1.4	2.0	2.0	2.0
OMB	2.3	2.0	1.8	1.8	1.9
Blue Chip	n.a.	1.4	1.8	2.1	2.2
Consumer price index (percentage change)					
CBO	2.9	1.8	2.5	2.5	2.5
OMB	2.9	1.8	2.2	2.4	2.3
Blue Chip	2.9	1.5	2.4	2.7	2.6
Unemployment Rate (percent)					
CBO	4.8	6.1	5.9	5.2	5.2
OMB	4.8	5.9	5.5	5.0	4.9
Blue Chip	4.8	6.0	5.6	4.9	4.9
Three-month treasury bill rate (percent)					
CBO	3.4	2.2	4.5	4.9	4.9
OMB	3.4	2.2	3.5	4.2	4.3
Blue Chip	3.4	2.1	3.4	4.6	4.7
Ten-year treasury note rate (percent)					
CBO	5.0	5.0	5.5	5.8	5.8
OMB	5.0	5.1	5.1	5.2	5.3
Blue Chip	5.0	5.1	5.6	5.7	5.8
Taxable Income Share (corporate profits plus wages and salaries as share of GDP)					
CBO	57.1	56.7	57.1	57.2	57.1
OMB	56.9	57.0	57.5	57.8	57.5

Sources: Office of Management and Budget;Congressional Budget Office; Blue Chip Economic Indicators, Aspen Publishers, Inc.
Notes: February Blue Chip consensus for 2001-03; Blue Chip for 2004-2012 based on October 2001 long-run survey.

DEBT LEVELS

The table on the following page compares debt held by the public and debt subject to the statutory limit (which includes both debt held by the public and debt issued to the federal trust funds) under the President's budget and CBO's March baseline.

The situation has deteriorated dramatically over the last year. A year ago, the President's budget estimated that there would be $2 trillion available for debt redemption in 2002 through 2011 under the President's policies. The administration now estimates there will be only $0.5 trillion available to pay down the debt if the President's policies are adopted, and as a result the government will spend nearly $1 trillion more on interest payments over the same period.

Last year's projections that the ceiling on statutory debt would not be reached until 2008 have been dashed. In December, the administration asked Congress to increase the ceiling by $750 billion to $6.7 trillion, the second largest increase in history.

Debt Levels Under the President's Budget and CBO's March Baseline

(in billions of dollars)

Debt	2002	2003	2004	2005	2006	2007
CBO Baseline						
Held by Public	3.355	3.361	3.314	3.219	3.099	2.938
Subject to Limit	5.985	6.259	6.533	6.789	7.040	7.269
Public Debt as a Percent of GDP	32.2%	30.7%	28.7%	26.5%	24.2%	21.8%
President's Budget (as estimated by OMB)						
Held by Public	3.478	3.570	3.600	3.548	3.470	3.379
Subject to Limit	6.099	6.489	6.856	7.172	7.472	7.770
Public Debt as a Percent of GDP	33.6%	32.7%	31.2%	29.2%	27.1%	25.1%
Memorandum: Debt under CBO Reestimate of the President's Budget						
Held by Public	3.453	3.587	3.650	3.641	3.608	3.552
Public Debt as a Percent of GDP	33.2%	32.8%	31.6%	29.9%	28.2%	26.4%

Social Security is the largest federal government program, with projected outlays of $456 billion in 2002. In 2002, Social Security will provide benefits to an estimated 46.4 million retirees, disabled workers, their spouses, and dependents.

Social Security Trust Funds

The Social Security program is divided into two trust funds: the Old-Age and Survivors Insurance (OASI) trust fund and the Disability Insurance (DI) trust fund. The Social Security program is funded primarily through payroll (FICA) tax contributions of current workers and their employers and taxes on the benefits of current beneficiaries. In 2002, employers and employees will each contribute 6.4 percent in payroll taxes on the first $84,900 of earnings. Payroll tax revenues are estimated to total $518 billion in 2002; revenues from the taxation of benefits are projected to total $12.5 billion in 2002. Workers qualify for benefits based on their length of time in the workforce and their Social Security-covered earnings.

Current Social Security tax contributions fund the benefits of current beneficiaries. When income into the Social Security program exceeds outgo (benefit payments and administrative costs), the excess is credited to the trust funds in the form of special-issue, “non-marketable” Treasury bonds. The trust funds earn interest on these assets. The effective interest rate on all assets in the trust funds was 6.6 percent in 2001. Nearly $69 billion in interest was credited to the trust funds in the form of special-issue Treasury bonds in 2001. In 2003, the federal government is projected to credit the trust funds with $85 billion in interest on these assets.

Since 1983, the balances in the Social Security trust funds have increased dramatically. In 1983, in response to the imminent insolvency of the Social Security trust funds, Congress enacted a number of significant changes to the program’s tax and benefit structure. As a result of these changes, the Social Security trust funds have been accumulating large balances. In December 2001, trust fund assets totaled $1.2 trillion. By 2005, trust fund balances are expected to reach $2.0 trillion. According to projections by the Social Security Administration actuaries, trust fund balances are projected to reach their peak in 2024 at $6.5 trillion. These balances will deteriorate as the retirement demands of the large baby boom generation increase significantly. Assets in the trust funds are projected to be depleted by 2038.

Social Security and the Federal Budget

In the 1990s, Congress adopted special budget and budget enforcement procedures related to the Social Security program and its trust funds. These procedures include: off-budget status, exemption from PAYGO sequestration, and supermajority (60-vote) points of order against budget resolutions which decrease the Social Security surplus and against reconciliation bills which make changes to the Social Security program.

More on "off-budget" status

In 1990, the income and outgo of the Social Security trust funds were taken "off-budget" and are no longer included in the calculations of the surplus or deficit. These changes have made the size of budget deficits more transparent.

Due in part to this new transparency, Congress and the administration worked toward the goal of reducing deficits throughout the 1990s. By 1998, the federal government had recorded its first unified budget surplus in 20 years of $69 billion. In 1999, the federal government recorded its first surplus without counting Social Security since 1960 of $1.8 billion. As a result of these efforts, debt held by the public dropped from $3.8 trillion in 1997 to $3.3 trillion at the end of 2001.

In order to preserve the fruits of this labor of fiscal discipline, both parties sought to enact "lockbox" legislation which would prevent "off-budget" surpluses from being used to finance the other operations of the federal government. These lockboxes were designed to help reduce publicly held debt – a policy which held out the triple promise of increasing national saving, boosting economic growth, and freeing up future resources to meet the pension and health needs of the large baby boom generation.

Because of the Bush tax cut, economic downturn, and additional spending needs due to the tragic events of September 11, the federal government has since reversed course in its effort to save the Social Security surpluses. In 2001, the federal government recorded a $33 billion deficit excluding Social Security. Under the policies proposed in the President's budget, substantial deficits without counting Social Security will occur in every year over the next 10 years. The consequence of running large deficits is the inability to save the Social Security surpluses. Many economists and policy analysts have argued that failing to save trust fund surpluses will severely limit Congress' ability to address the looming pension and health needs of the baby boomers and will shift a larger debt and tax burden onto future generations.

Long-Term Outlook for the Social Security Program

Over the short-term, the Social Security trust funds are bringing in substantially more than is needed to pay benefits. However, over the long-term, as the large baby boom generation begins to retire, the demands on the Social Security program will exceed revenues and will put significant pressure on the rest of the budget.

According to the most recent report from the trustees of the Social Security trust funds, demographic pressures will cause the combined balances in the trust funds to be depleted in 2038. The trustee's report also notes that the trust funds will begin running cash deficits in 2016 (the trust funds will still accumulate balances until 2024 due to interest payments on previous

surpluses). According to the trustees' report, the Social Security program's reliance on general revenues will increase from $28 billion in 2016 to $1.2 trillion in 2040. As a result, the federal government may be required to run substantial budget deficits (thus increasing debt held by the public), increase revenues, or reduce spending in the rest of the budget.

Last year, the Congressional Budget Office (CBO) projected unified budget surpluses of $5.6 trillion over the next ten years. The 2002 budget resolution debate centered on the critical issue of how best to use these hard-won surpluses. Many policy analysts encouraged Congress to take into account the impact our budget decisions would have on longer-term fiscal pressures. As a result, a concerted effort was made to save projected surpluses attributable to the Social Security and Medicare Hospital Insurance trust funds.

In March, CBO revised its ten-year budget surplus projection downward to $1.7 trillion – a nearly $4 trillion decrease in just one year. While the surplus numbers may have changed, long-term fiscal pressures, driven by significant demographic shifts, have not. Decreasing birth rates and increasing longevity have already combined to drive down the worker to retiree ratio from 16:1 in 1950 to 3:1 today. The ratio is expected to decline further to 2:1 when the baby boom generation begins to retire in six years. Between now and 2035, the number of persons over the age of 65 will double.

This demographic shift will drive significant cost increases for the three largest entitlement programs for seniors: Social Security, Medicare, and Medicaid. According to the trustees of the Medicare program, between now and 2030, Medicare expenditures (including Part A and Part B) will double as a share of GDP from 2.2 percent to 4.5 percent. According to the trustees of the Social Security program, between now and 2030, Social Security expenditures will increase from 4.2 percent to 6.5 percent as a share of GDP. By 2075, Social Security expenditures will reach 6.7 percent of GDP.

Although current Social Security and Medicare HI payroll tax revenues exceed current costs, both the Social Security and Medicare HI trust funds are projected to run cash deficits as early as 2016. When these cash deficits begin to occur, additional general revenues will be required to fund promised benefits. According to the trustees' report, the Medicare Part A and Social Security programs' claim on general revenues will increase from $35 billion in 2016 to $2.1 trillion in 2040. As a result, the federal government may be required to run substantial budget deficits (thus increasing debt held by the public), increase revenues, or reduce spending in the rest of the budget.

The net present value of the combined liabilities of the Social Security and Medicare Part A programs' so-called "unfunded liabilities" is $6.5 trillion – $3.8 trillion of this liability is attributable to Social Security and $2.7 trillion to Medicare Part A. As CBO Director Dan Crippen noted in recent testimony

before the Senate Budget Committee:

> "Put more starkly, the extremes of what will be required to address our retirement are these: We'll have to increase borrowing by very large, likely unsustainable amounts; raise taxes to 30 percent of GDP, obviously unprecedented in our history; or eliminate most of the rest of the government as we know it. That's the dilemma that faces us in the long run and these next ten years will only be the beginning."

In recent testimony before the Senate Budget Committee, GAO Comptroller David Walker presented an analysis which demonstrated that at current tax levels, by 2050, Social Security benefit payments and interest on the national debt would consume 100 percent of federal tax revenues – crowding out spending on all other federal programs. Comptroller Walker noted:

> "[T]he demographic trends that drive the long-term outlook have not changed. The baby boom generation is still getting older and closer to retirement . . . Absent changes in Social Security and health programs, in the long-term, persistent deficits and escalating debt driven by entitlement spending will overwhelm the budget."

I. A Budget Resolution

Description

A budget resolution takes the form of a concurrent resolution, which means that it is considered by the House and Senate, but is not presented to the President and does not become law. However, the budget resolution does govern the internal procedures of the House and Senate, once it is adopted by both Houses in identical form.

A budget resolution sets forth total levels of new budget authority, outlays, revenues, deficit (or surplus), and public debt. The aggregate amounts of new budget authority and outlays are then broken down among the 20 budget functions, such as Defense, International, Agriculture, and General Government (see Appendix I). These functional levels are the sum of discretionary and mandatory spending for each fiscal year covered by the resolution.

Section 302(a) of the Congressional Budget Act requires the joint statement of managers that accompanies the conference report on a budget resolution to allocate new budget authority and outlays among the various committees, based on the programs within their jurisdictions. The budget authority and outlays associated with direct spending programs are allocated to the appropriate authorizing committees for each of the fiscal years in the budget resolution. The budget authority and outlays associated with discretionary programs are allocated to the Appropriations Committee for the first fiscal year in the resolution. Section 302(b) of the Budget Act requires the Appropriations Committee to divide its 302(a) allocation among its 13 subcommittees in keeping with the categories and limits set forth in section 251(c) of the Balanced Budget and Emergency Deficit Control Act of 1985.

Periodically, Congress adopts a budget resolution that will require changes in the projected levels of direct spending or revenues under current law. In order to facilitate enacting these changes in direct spending and revenues, the budget resolution may contain reconciliation instructions. The instructions require committees with jurisdiction over direct spending programs or revenues to report changes to existing law to meet specified levels of mandatory spending and revenues. Once the conference report on the budget resolution is adopted, the reconciliation instructions become binding. If more than one authorizing committee receives reconciliation instructions, then the authorizing committees must forward their legislative recommendations to the Budget Committee which then consolidates that legislation (without substantive change) and reports the omnibus reconciliation bill to the full Senate.

In addition to the aggregates, functional levels, and the reconciliation instructions, section 301(b) of the Budget Act permits the budget resolution

to include other matter relating to the budget. This section has permitted the inclusion of language amending the budget process, creating new enforcement mechanisms, and clarifying existing provisions of budget laws and rules. Such language may be temporary or permanent, and may affect only the Senate, only the House, or may affect both houses of Congress. In the past, such language has included reserve funds (which permit revisions to the budget resolution in order to accommodate certain legislation), points of order and sense of the Senate provisions.

Enforcement

The aggregate spending and revenue levels and the committee allocations contained in the budget resolution form the enforcement parameters within which Congress considers subsequent legislation that affects the fiscal years covered by the resolution. The cumulative effect of spending and revenue legislation, once it has passed both Houses of Congress and is ready to be presented to the President, is tracked and reported by the Senate Budget Committee in the current level report that is printed in the Congressional Record periodically. The budgetary effects of subsequent legislation considered in the Senate are compared to this report. If the effect of any legislation would be to cause total spending to exceed the level set forth in the budget resolution for the first year; or to cause total revenues to fall below the levels set forth in the budget resolution for the first year, the first five years, or for the total of the fiscal years covered by the resolution, that legislation would be subject to a point of order under section 311 of the Budget Act. This point of order may be waived only by an affirmative vote of 60 Senators.

Similarly, the budgetary effects of each bill, amendment, and conference report are assigned to the relevant committee. The cumulative effects of a committee's legislation that has passed both chambers of Congress is tracked by the Senate Budget Committee and compared to that committee's allocation contained in the joint statement of managers on the budget resolution. Any legislation that would cause the committee to exceed its allocation for the first fiscal year, the first five years, or the total of the fiscal years covered by the resolution would be subject to a point of order under section 302(f) of the Budget Act. With respect to appropriations bills, the discipline is applicable to each subcommittee's bill relative to the subcommittee's 302(b) allocation, and only for the first fiscal year. This point of order may be waived only by an affirmative vote of 60 Senators.

In addition to points of order that were established in the Budget Act, section 207 of the budget resolution for 2000 (H. Con. Res. 68) modified the "pay-as-you-go" point of order which was first established by the 1993 budget resolution. This provision prohibits consideration of legislation that would cause or increase an on-budget deficit in year one, years one

through five, or years six through ten. This provision may be waived only by an affirmative vote of 60 Senators.

Social Security

The Budget Act provides special treatment and critical protections for Social Security. These protections derive from both the process by which a budget resolution is created and the subsequent enforcement of it through supermajority points of order.

The Budget Enforcement Act (BEA) of 1990 took Social Security off-budget for purposes of both a congressional budget resolution and the President's submission (section 13301), and provided protections for the Social Security surplus (sections 13302 and 13303). First, the Congressional Budget Act was amended such that a budget resolution is prohibited from including the receipts or disbursements in the budget surplus or deficit totals (section 301(a)). Second, the Budget Act was amended to prohibit the consideration of a budget resolution (or any amendment thereto or conference report thereon) that would decrease the Social Security surplus in any of the years covered by the resolution (section 301(i)). Lastly, the budget resolution sets aggregate levels of Social Security outlays and revenues that are enforced through provisions of the Budget Act prohibiting consideration of legislation that decreases Social Security surpluses (or increases Social Security deficits) in the first fiscal year, the first five fiscal years, or the total of the years covered by the budget resolution. Any legislation that would violate these prohibitions is subject to a point of order that may be waived only on an affirmative vote of 60 senators.

II. Amendments to the Congressional Budget Act and the Balanced Budget and Emergency Deficit Control Act in the Balanced Budget Act of 1997

Current budget enforcement mechanisms have their origins in the Congressional Budget and Impoundment Control Act of 1974, the Balanced Budget and Emergency Deficit Control Act of 1985 and the Budget Enforcement Act of 1990. It was in 1990 that the two-tiered enforcement regime under which we operate today was put into place. This regime established caps on discretionary spending which are enforced through sequestration of discretionary programs at the end of the fiscal year by OMB, and a "pay-as-you-go" provision requiring mandatory spending and tax legislation that reduces surpluses or increases deficits to be fully offset with mandatory savings or revenue increases in order to avoid an OMB sequestration of mandatory spending at the end of the fiscal year. In 1993, the discipline of discretionary caps and paygo in the Budget Enforcement Act of 1990 were extended through the end of 1998.

Title X of the Balanced Budget Act of 1997, known as the Budget

Enforcement Act of 1997 (BEA '97), implemented the budget process provisions of the Bipartisan Budget Agreement. This agreement extended the Budget Enforcement Act of 1990 through 2002 with some modifications. As a result, Congress and the President are constrained through 2002 with respect to discretionary spending caps set out in section 251(c) of the Balanced Budget and Emergency Deficit Control Act of 1985.

Subsequently, the Transportation Equity Act for the 21st Century ("TEA-21") was enacted in 1998. This Act created new categories within the discretionary spending limits for highway and mass transit outlays through 2003. In addition, the Interior Appropriations Act for 2001 added new discretionary spending limits for budget authority and outlays in the conservation category, through 2006.

BEA '97 also extended the "pay-as-you-go" sequestration discipline to legislation enacted prior to the end of 2002. This will apply through 2006.

BEA '97 created a new section 314 in the Congressional Budget Act. This section provides the Chairmen of the House and Senate Committees on the Budget with the authority to adjust (where appropriate) the discretionary spending limits, committee allocations, and spending aggregates contained in a budget resolution for legislation which provides emergency spending, additional funding for continuing disability reviews, and adoption incentive payments.

III. Committee Rules Affecting Mark Up and Reporting of the Budget Resolution

The Rules of the Senate Budget Committee do not specify the procedures under which the Committee will consider the budget resolution. However, in accordance with Committee Rule III, **no Member may vote by proxy during the deliberations on Budget Resolutions.**

As in the case in normal committee proceedings, a quorum shall consist of eight (8) Members for all business except the *reporting* of the budget resolution. For that action, a quorum shall consist of twelve (12). Proxies are not counted for a quorum.

IV. Miscellaneous Provisions

The Constitution reserves to each House of Congress the authority to determine the rules governing its procedures. The Congressional Budget Act, which contains several titles and sections that affect the internal procedures of the House and Senate, was enacted under the Constitutional rulemaking power. In addition, Congress enacted the Budget Act with full

recognition that the houses could change these rules at any time, consistent with applicable practice. Rules changes are usually accomplished upon adoption of either a simple resolution (for a change that affects one house) or a concurrent resolution (for changes that may affect both houses).

Since the budget resolution is a concurrent resolution, it can be the vehicle for rules changes. However, the type of rules changes that may be included in the budget resolution is limited by section 301 of the Budget Act. Paragraph (b)(4) permits the budget resolution to “set forth other matters, and such other procedures, relating to the budget, as may be appropriate to carry out the purposes” of the Budget Act. Therefore, budget resolutions can change or establish rules and procedures relating to the budget. This authority has been exercised broadly in the past, and budget resolutions have included numerous provisions making changes in the budget process. Some examples of these provisions are discussed below.

Pay-As-You-Go

The 1994 budget resolution (H. Con. Res. 64) established a “pay-as-you-go” point of order in the Senate that prohibited consideration of direct spending and tax legislation that would increase the deficit or decrease the surplus in the first fiscal year of the budget resolution, the first five fiscal years, or the succeeding five fiscal years. This point of order could be waived only by an affirmative vote of three-fifths of the Senate. The 1995 budget resolution modified and extended this point of order through 1998. The 1996 budget resolution (H. Con. Res. 67) modified and extended this point of order through September 30, 2002. The 2000 budget resolution (H. Con. Res. 68) further modified this point of order so that it now applies only to direct spending and tax legislation that would cause or increase an on-budget deficit in any of the three relevant time periods.

Other Points of Order

Previous budget resolutions have provided other new points of order such as the one found in section 205 of the 2001 resolution which provided a 60-vote point of order against the use of the “emergency designation” with respect to non-defense spending.

Reserve Funds and Other Budget Procedures

The budget resolution’s spending aggregates, revenue aggregates, and committee allocations are binding, and each level is enforced separately. To allow for the consideration of specific legislation that might otherwise be subject to a point of order, budget resolutions have included “reserve funds.” A reserve fund authorizes the Chairman of the Budget Committee to revise aggregates, allocations, and other levels in the resolution so that certain legislation will not be subject to Budget Act points of order.

Every budget resolution since 1987 has contained reserve funds. Reserve funds have varied in scope. Some reserve funds have been limited to

specific amounts and could only be triggered for specific legislative initiatives. Others have been open-ended for very broadly defined initiatives.

In addition to reserve funds, past budget resolutions have also contained other provisions pertaining to budget procedures and scoring.

Sense of the Congress Provisions

Budget resolutions frequently contain non-binding “Sense of the Congress” or “Sense of the Senate” provisions.

VIEWS AND ESTIMATES

Section 301(d) of the Congressional Budget Act of 1974 requires each Committee to provide a views and estimates report to the Budget Committee. These reports contain each Committee's views and estimates with respect to budget authority, outlays, and revenues in its jurisdiction, and information regarding legislation each Committee may consider that is likely to have a significant budgetary impact. The reports may also include a Committee's views on the President's budget request or other aspects of the budget. The Budget Committee uses the information provided in these reports as it prepares a budget plan for consideration by the full Senate.

Appendix I

FUNCTION DESCRIPTIONS

FUNCTION NUMBER	DESCRIPTION
050	National Defense
150	International Affairs
250	General Science, Space and Technology
270	Energy
300	Natural Resources
350	Agriculture
370	Commerce and Housing Credit
400	Transportation
450	Community and Regional Development
500	Education, Training Employment, Social Services
550	Health (Discretionary)/Medicaid
570	Medicare
600	Income Security • Federal Employees • Housing Assistance • Unemployment & Welfare
650	Social Security
700	Veterans Benefits and Services
750	Administration of Justice
800	General Government
900	Net Interest
920	Allowances
950	Undistributed Offsetting Receipts

Appendix II

TIMETABLE

On or before:	Action to be completed:
First Monday in February................	President submits his budget.
February 15....................................	Congressional Budget Office submits report to Budget Committees.
Not later than 6 weeks after President submits budget..............	Committees submit views and estimates to Budget Committees.
April 1...	Senate Budget Committee reports concurrent resolution on the budget.
April 15...	Congress completes action on concurrent resolution on the budget.
May 15...	Annual appropriation bills may be considered in the House.
June 10...	House Appropriations Committee reports last annual appropriation bill.
June 15...	Congress completes action on reconciliation legislation.
June 30...	House completes action on annual appropriation bills.
October 1..	Fiscal year begins.