AN ANALYSIS OF THE PRESIDENT'S BUDGETARY PROPOSALS FOR FISCAL YEAR 2000: A PRELIMINARY REPORT

Prepared by the
Congressional Budget Office
at the request of the
Senate Committee on Appropriations

March 3, 1999

NOTICE

This preliminary report is not available for public release until 10:00 a.m. (EST), Wednesday, March 3, 1999.

NOTE

The numbers in the text and tables of this report may not add up to totals because of rounding.

The President's budgetary proposals for fiscal year 2000 fall into three categories:

- A group of basic policy proposals, including recommended levels of discretionary appropriations for fiscal year 2000, that are to be enacted whether or not agreement is reached on Social Security reform,

- Proposals that are contingent on adoption of what the President calls his framework for Social Security reform, and

- Additional proposals that are mentioned in the budget document or the State of the Union message but are not included in the budget numbers.

As requested by the Senate Committee on Appropriations, the Congressional Budget Office (CBO) has estimated the effects of the President's budgetary proposals using its own economic and technical estimating assumptions. Although a few of the estimates in the President's budget extend for 15 years, the Administration provides no details of its policies after 2009, and CBO's analysis also covers only 10 years.

CBO estimates that the Administration's budget—including both the basic policies and the Social Security framework—would reduce projected surpluses by $53 billion in 2000 and a total of $436 billion over the 2000-2004 period. Those figures do not include the additional proposals that the Administration has not clearly specified.

Under its basic policies, the Administration would increase discretionary spending above the levels allowed under the current statutory caps and would pay for that increase by raising revenues and cutting mandatory spending. CBO estimates, however, that those policies would increase discretionary spending by an amount that is only partly offset by higher revenues and lower mandatory spending. In 2000, the basic policies would reduce the surplus by $20 billion compared with CBO's current-policy projections (see Table 1). Over the 2000-2004 period, the Administration's basic policies would reduce the projected surpluses by a cumulative total of $73 billion.

The President's budget also contains several proposals that are contingent on a legislative agreement that would extend the life of the Social Security trust funds. Those proposals include providing further increases in defense and nondefense discretionary spending, subsidizing new Universal Savings Accounts, making transfers from the general fund to the Social Security and Medicare trust funds, and using about one-fifth of the transfers to Social Security to purchase corporate stock. In total, the policies in the President's Social Security framework would reduce the surplus by $32 billion in 2000, more than $360 billion over the 2000-2004 period, and almost $1.1 trillion over the next 10 years. Because the general revenue transfers are intragovernmental, they would have no effect on total federal spending, revenues, or surpluses, but they would delay the projected date on which the Social Security trust funds would become insolvent. The Administration estimates that its Social

Security framework would postpone the exhaustion of the Social Security trust funds from 2032 to 2055.

Finally, the Administration indicates that it will work with the Congress to develop additional proposals that will keep Social Security solvent for the next 75 years. In the context of those changes, the President has expressed his desire to eliminate Social Security's retirement earnings test and to reduce the rate of poverty among elderly widows and other elderly groups. In his State of the Union message, the President also suggested including a prescription drug benefit in Medicare. Because the Administration has not spelled out these additional proposals, CBO cannot estimate how much they would cost, and they are not included in this analysis.

To the extent that the federal government runs budget surpluses, it is able to pay down the amount of federal debt held by the public. Under current laws and policies, CBO projects that debt held by the public would decline from $3.6 trillion at the end of 1999 to $1.2 trillion in 2009 (see Table 2). Under the President's policies, debt held by the public would decline to an estimated $2.3 trillion in 2009. At that point, debt held by the public less Social Security's holdings of corporate equities would total $1.9 trillion, or nearly $800 billion more than in CBO's baseline.

As part of his basic proposals, the President is requesting $564 billion in total discretionary budget authority for fiscal year 2000. CBO estimates that the resulting outlays would exceed the current statutory cap by $33 billion. The President is also proposing various tax increases and tax reductions that would, on balance, raise revenues by $11 billion in 2000. The Administration's mandatory spending proposals would reduce outlays in 2000 by a net of $1 billion, according to CBO’s estimates.

CBO’s Estimates of the President’s Policy Proposals

Under the President’s proposals, total discretionary spending will increase significantly above the levels allowed under the existing statutory caps on such spending that are in place through 2002. But the budget also proposes increases in revenues and reductions in mandatory spending that the Administration estimates are sufficient to offset the increases in discretionary spending.

The President’s request for discretionary appropriations will result in outlays that exceed the existing Deficit Control Act caps by almost $33 billion in 2000, according to CBO’s estimate (see Table 3). Under CBO’s assumptions, the proposed policy changes affecting revenues and mandatory spending will offset less than $13 billion of the increase in discretionary spending in 2000. Thus, the surplus will decline relative to CBO's baseline by $20 billion in that year. Net changes in revenues and mandatory spending will offset an estimated $44 billion of the $116 billion discretionary increase relative to CBO's baseline in 2000 through 2004, producing a cumulative reduction in the surplus of $73 billion over that period.

CBO estimates that the President's request for discretionary budget authority for fiscal year 2000 totals $564 billion—$282 billion for defense and $282 billion for nondefense programs. (In addition, he is requesting approximately $33 billion in obligation limits that control spending for discretionary transportation programs but do not count as budget authority.) Although that budget authority is $3 billion below the inflation-adjusted 1999 level of total appropriations (excluding funding for emergencies and the International Monetary Fund), CBO estimates that the resulting outlays would be $7 billion higher (about $3 billion in defense and $5 billion in nondefense programs) than the outlays that would result from providing an appropriation for each account equal to the 1999 appropriation adjusted for inflation. The outlays resulting from the President's plan would be $18 billion higher than those that would result from freezing discretionary budget authority at the 1999 dollar level in 2000 (excluding funding for emergencies and the International Monetary Fund), with the excess equally divided between defense and nondefense programs.

The Administration's proposals for the Department of Defense (DoD) represent a reduction of $7 billion in 2000 and $2 billion over the 2000-2004 period compared with the 1999 enacted level (including emergencies) adjusted for inflation. By the Administration's reckoning, however, its request represents an increase of $86 billion over the next five years. The Administration bases its claim on a comparison with its budget request of a year ago. The fiscal year 1999 budget slated $64 billion less for the Department of Defense over the 2000-2004 period than does the current budget. It also included $21 billion for price growth that the Administration's new price forecast would indicate is unnecessary. Nevertheless, the Administration proposes redirecting that funding to other purposes, thereby bringing its current budget to about $86 billion over last year's request as adjusted for the new economic forecast.

After taking into account adjustments to the caps (primarily for emergency appropriations) that would be required under current law if the President's proposals were enacted, CBO estimates that the President's discretionary spending would exceed the caps by $22 billion in budget authority and $30 billion in outlays (see Table 4). The President proposes to change current law to allow a number of revenue and mandatory spending proposals to count as offsets to discretionary spending. Under the Administration's assumptions, those offsets would keep discretionary spending from exceeding the caps. CBO has not yet separately identified its reestimates of those changes, but it estimates that the total net savings from all of the

President's revenue and mandatory spending proposals would not be sufficient to bring discretionary spending down to the level of the caps.

The President has proposed a number of changes in tax laws that together would produce a net increase in revenues of $11 billion in 2000 and $52 billion in 2000 through 2004 (see Table 3). A proposed increase in tobacco taxes, including an increase of 55 cents a pack in the tax on cigarettes, accounts for almost half of the revenue increases. Other provisions that increase revenues include a change in the sale-source rules for multinational firms. Revenue-reducing provisions include proposals for a new tax credit to assist taxpayers with long-term health care needs, an increase in the credit for child and dependent care, and the elimination of the harbor maintenance tax, the effects of which are more than offset by a proposed new harbor maintenance fee that would be recorded as a negative outlay rather than a revenue.

Proposed changes in mandatory programs would reduce outlays by $1 billion in 2000 but increase them by $8 billion over the 2000-2004 period (see Table 3). Additional funding for child care ($1 billion in 2000 and $9 billion in 2000 through 2004) represents the budget's largest proposed increase in mandatory spending. Proposed changes in Medicaid would increase spending by $1 billion a year by 2003, and changes in a variety of programs would boost spending by a total of $7 billion in 2000 through 2004. Proposals to alter the Medicare program would reduce spending by $1 billion in 2000 and $9 billion in 2000 through 2004. The new harbor maintenance fee would increase offsetting receipts by $5 billion over the same period, but the repeal of the existing harbor maintenance tax would reduce revenues by $3 billion. Offsetting receipts would be increased by $6 billion in 2000 through 2004 because proposed increases in military and federal civilian employee pay and military retirement benefits would trigger increases in agency (employer share) payments to the military and civil service retirement funds. That estimate reflects the receipts into the funds. The increased payments to the fund are reflected in estimates of discretionary appropriations for civilian and military personnel costs.

<u>Differences with the Administration's Estimates</u>

CBO estimates that total budget surpluses will grow less rapidly over the next five years under the President's policies (excluding proposals that are contingent on agreement on Social Security reform) than they would under CBO's baseline. However, because CBO's economic and technical assumptions produce higher projected baseline surpluses than the Administration projects under current law, the total surpluses projected by CBO under the President's policies are $52 billion higher in 2000 through 2004 than the Administration estimates (see Table 5). Only in 2000 does CBO estimate a lower surplus than the Administration does.

Baseline Differences. CBO estimates that surpluses under current policies will be $125 billion higher over the 2000-2004 period than the Administration estimates. That difference represents less than 1.5 percent of the total outlays projected by CBO over that period. Estimated higher revenues and lower outlays are almost equally responsible for the cumulative upward reestimate. In 1999, however, lower outlays account for about two-thirds of the $31 billion difference (see Table 5).

CBO's estimates for discretionary and mandatory spending in 1999 are lower than those of the Administration. CBO projects that discretionary outlays will be $7 billion lower in 1999, with the difference about equally divided between defense and nondefense programs, and that mandatory spending will be $16 billion below the Administration's estimate. About two-thirds of that difference stems from CBO's lower estimate of spending for Medicare, a program that has experienced no growth for more than a year. CBO and the Administration agree that the growth in spending for Medicare will pick up, but the Administration's estimates assume that will happen more quickly. CBO also assumes that a variety of income security programs—including unemployment insurance, the earned income tax credit, the Food Stamp program, and Temporary Assistance for Needy Families—will spend about $5 billion less in 1999 than the Administration estimates.

Revenues will be an estimated $8 billion higher in 1999 than the Administration projects, largely because CBO expects taxable income to be slightly higher. The economic forecasts of CBO and the Administration are quite similar overall (see Table 6). But CBO's slightly higher projections of taxable income also explain most of the difference in baseline revenue projections for all years through 2004 except 2000, when CBO's technical assumptions offset the effects of different economic assumptions and produce a downward reestimate of $2 billion. Altogether, small differences in economic assumptions account for $58 billion of CBO's higher revenue estimate for the 2000-2004 period, but the effect on the surplus is offset by increases in outlays that result from the higher growth in the consumer price index and slightly higher interest rates that CBO projects.

The baselines of both CBO and the Administration assume that discretionary spending will comply with the statutory caps that constrain appropriations in 2000 through 2002. CBO's projected discretionary spending for 2000 is $2 billion lower, however, because CBO does not include adjustments (primarily for emergency appropriations) that would be made under current law at the end of this year if the President's proposed appropriations are enacted. CBO's projected mandatory spending for 2000 is $16 billion lower than the Administration's (see Table 5). Estimates of spending for Medicare again account for the bulk—$9 billion—of the reestimate because CBO's estimate of low spending in 1999 holds outlays down relative to the Administration's estimates through 2003. Spending for income security programs under CBO's assumptions is $6 billion lower, but spending for Medicaid is $2 billion higher.

In addition, CBO's baseline estimate of mandatory spending in 2000 is $3 billion lower than the Administration's because the Administration assumes in its baseline projection that the pay-as-you-go balance for 2000 will be spent. (The Administration's baseline also assumes that pay-as-you-go balances for 2001 through 2003 will be spent.) Since legislation would be required to increase spending or reduce revenues, CBO did not assume those costs in its current-policy baseline.

The differences between CBO's and the Administration's estimates of baseline outlays continues to shrink after 2000 (CBO's estimate is only $4 billion lower than the Administration's in 2004), but the excess of CBO's revenue projections over the Administration's grows (to $27 billion in 2004), and the difference in estimates of the surplus returns to $31 billion in 2003 and 2004.

<u>Differences in Estimates of Proposed Policies</u>. Whereas the Administration estimates that proposed policy changes will have essentially no net effect on the surplus through 2004, CBO estimates that those changes will reduce cumulative surpluses for 2000 through 2004 by $73 billion. That reduction is the result of CBO's estimate that the President's proposed increases in spending will be larger than the Administration estimates (see Table 5). Revenues only partially offset that higher estimate of spending—the Joint Committee on Taxation and CBO estimate that the President's tax proposals will increase revenues $6 billion more than the Administration estimates in 2000 through 2004.

CBO's largest reestimate of the President's policies occurs in 2000. About three-fourths, or $16 billion, of the $21 billion difference between CBO's and the Administration's estimates of outlays in 2000 is accounted for by CBO's higher estimate of the outlays that would result from enactment of the President's requests for discretionary appropriations. Of that $16 billion, $2 billion stems from the anticipated adjustments to the caps (such as the increase required under the Deficit Control Act if emergency funding requested by the President is appropriated) that the Administration included in its baseline. CBO, however, does not include that amount in its baseline because the adjustments depend on enactment of the President's requested appropriations; the $2 billion is included in CBO's reestimate of the policies proposed by the President.

Of the remaining $14 billion difference in estimates of discretionary outlays for 2000, $10 billion is attributable to CBO's higher estimate of outlays for defense programs. In every year since 1994, CBO's estimates of outlays from defense appropriations have exceeded the Administration's but have proved to be lower than the outlays that actually resulted. The difference between CBO's and the Administration's estimates of defense outlays for 2000 is larger than in recent years (it was $5.7 billion in 1998 and $3.7 billion in 1999). Of the $10 billion, about $6 billion can be attributed to the differences in analytic judgments about spendout rates for new appropriations and assumptions about the timing of disbursements of unexpended balances that have generated differences in the past. The remaining $4 billion difference can be traced to the Administration's not including in the defense budget the outlays from 1999 contingent emergency appropriation funding that had not been released at the time the budget was presented to the Congress, and to different estimates of the effect of an assortment of proposed changes in Department of Defense practices. Those changes would deny interim or progress payments for contracts between $1 million and $2 million in value, reconfigure the accounting of spending for maintenance of real property, allow the Secretary of Defense to cancel up to $1.7 billion of enacted budget authority, and request appropriations only for the first-year costs of certain construction projects.

Unlike the Administration, CBO estimates that these proposed changes would produce little or no reduction in outlays. For instance, the Administration requests that $5.3 billion in funding for some construction projects be split into two parts: an appropriation of $2.3 billion in 2000 for the first-year costs of the projects and $3 billion in advance appropriations for 2001 to cover the remaining costs. However, the Administration applied the same spendout rate to the first-year funding that had previously been applied when the total funding was all provided in the first year. CBO assumes that the first-year funds will be spent much more quickly since they are sufficient to cover only the first-year costs of the projects, pushing CBO's estimate of outlays in 2000 up by $0.4 billion compared with the Administration's.

CBO estimates that the President's nondefense discretionary outlays are $4 billion higher than the Administration estimates. Two reestimates account for the bulk of that difference. The President's budget proposes that legislative language be included in the Commerce, State, and Justice appropriation bill for 2000 that would accelerate an auction of a portion of the electromagnetic spectrum that current law prohibits the Federal Communications Commission (FCC) from beginning before January 1, 2001. The Administration estimates that this action will produce an offset to discretionary spending of $2.6 billion in 2000 (and offsetting costs of $1.3 billion in 2001 and in 2002). Under current laws and policies, changes in mandatory spending (including timing shifts) resulting from legislation included in an appropriation bill are counted as discretionary spending for purposes of compliance with the caps. CBO assumes, however, that the FCC is highly unlikely to be able to move quickly enough on the proposed auction to produce any effect on outlays in 2000. CBO therefore estimates that accelerating the auction would produce a $1.6 billion increase in receipts in 2001 and a corresponding loss of receipts in 2002, when CBO assumes the auction would be completed under current law.

More than $1 billion of CBO's higher estimate of nondefense discretionary outlays is attributable to estimates of spending for highways and mass transit. The difference partly reflects CBO's assessment of the effect on highway spending of the delay in enactment of the Transportation Equity Act for the 21st Century in 1998. Because the funding provided by that bill did not become available until the summer of 1998, outlays for highway programs were lower in 1998 than had been anticipated. CBO assumes that the spending that did not occur in 1998 will carry over to subsequent years and has therefore increased its estimate of prior-year outlays that will occur in 1999 and 2000.

In the years from 2001 through 2004, CBO also estimates that discretionary outlays resulting from the President's proposals will exceed the Administration's estimates, although by smaller amounts than in 2000.

About three-fifths of CBO's total reestimate of mandatory spending for 2000 is attributable to the Administration's treatment of the pay-as-you-go balances. The Administration assumed $3 billion in savings relative to its baseline since it included the costs of spending increases or revenue reductions equal to the pay-as-you-go balance in its baseline but did not propose legislation to achieve those changes. By contrast, CBO—following the baseline rules of the Deficit Control Act that provide that revenues and mandatory spending are to be projected at current-law amounts, with a few specific exceptions—did not include costs equal to the pay-as-you-go balance in its baseline. Thus, CBO does not count any savings from the absence of legislative proposals to spend the balance. The other significant reestimate of a mandatory policy in 2000 is in student loans. The Administration estimates that a variety of proposed changes in the student loan program (such as establishing a national database of new employees to track students with outstanding loans) will yield net savings of about $2 billion in 2000 compared with CBO's estimate of about $1 billion.

On the mandatory side, the largest reestimate over the 2001-2004 period is for the President's proposed tobacco recoupment policy. According to the Administration, "U.S. taxpayers paid a substantial portion of the Medicaid costs that were the basis for much of the State settlement with the tobacco companies, and Federal law requires that the Federal Government recoup its share." The budget proposes to "waive direct Federal recoupment, if States agree to use a portion of funds from the settlement to support shared national and State priorities." The Administration assumes that this policy would reduce costs for those unspecified programs by $16 billion in 2001 through 2004. CBO assumes that any reduction in spending for the unspecified programs that might occur will be offset by the loss of the Medicaid funds that could have been recovered under current law—CBO's baseline assumes recoveries of less than $1 billion a year in 2001 through 2009—and therefore attributes no savings to the proposal.

THE PRESIDENT'S FRAMEWORK FOR SOCIAL SECURITY REFORM

The budget includes a number of proposals as part of a package to reform Social Security and extend the life of the Medicare Hospital Insurance (HI) Trust Fund.

Some of the proposals, such as a proposed increase in discretionary spending, are not directly related to Social Security or Medicare but are described as contingent on agreement being reached on Social Security reform. CBO estimates that together the proposals will reduce the total budget surplus by $1,076 billion in 2000 through 2009 (see Table 7). Some of the proposed changes would not affect the total budget surplus but would affect on- and off-budget surpluses and balances held by the Social Security and Medicare Hospital Insurance trust funds.

The proposals are to:

- Increase defense and nondefense discretionary spending above the levels assumed by the President's basic policies by $318 billion in 2001 through 2009.

- Provide seed money and matching funds totaling $272 billion in 2000 through 2009 for Universal Savings Accounts (USA accounts).

- Make transfers from the general fund to the Social Security trust funds totaling $1,332 billion in 2000 through 2009.

- Make transfers from the general fund to the HI trust fund totaling $350 billion in 2000 through 2009.

- Use $280 billion of the money transferred to the trust funds to purchase corporate stock to be held by the trust funds. The proposal assumes that any returns on those investments will be reinvested in stocks.

- Change the budget accounting rules so that certain amounts transferred to the Social Security trust funds would reduce the reported total budget surplus.

CBO's reestimate of the President's proposals does not reflect the proposed change in budget accounting. Following long-standing practice and scorekeeping rules agreed to by the Congress and the Administration, CBO uses current budget concepts and rules to estimate the President's proposals and will adopt the proposed change only after it is agreed to by the Congress and the Administration.

Because the Administration has provided little detail about the Social Security framework proposals, CBO's estimates are based on the costs of the programs included in the President's budget (except for CBO's own estimate of the resulting changes in interest costs). For instance, the budget does not specify which discretionary programs are to receive the proposed additional funding that is contingent on Social Security reform. Therefore, CBO cannot reestimate the outlay effect of the funding.

Similarly, the Administration has provided little information about how the proposed USA accounts would work, and CBO has simply assumed a program that will cost the amount specified in the budget. The budget does not indicate whether the costs of the USA program will be reflected as an increase in outlays or a loss of revenues. At least some of the costs will almost certainly be counted as outlays even if the program operates through the tax code (for instance, refundable portions of tax credits are shown as outlays), but part of the costs may be shown as a loss of revenues. In the absence of details, CBO has assumed that the costs will be divided equally between outlays and revenues.

CBO also assumes that the transfers from the general fund to the Social Security trust funds will equal the amounts included in the President's budget since the budget did not provide details about how the transfers would be calculated. The transfers themselves would have no effect on the total budget surplus (or debt held by the public) since they represent intragovernmental transfers. They would, however, affect the on- and off-budget surpluses. As shown in Table 7, the transfers (and the resulting increases in interest paid to the trust funds) and the costs of additional discretionary spending and USA accounts turn projected on-budget surpluses of $729 billion in 2000 through 2009 into on-budget deficits of $1,634 billion. The transfers of $350 billion from the general fund to the HI trust fund in 2000 through 2009 affect the fund balances but not the total or on-budget surplus since they represent a transfer from the general fund to an on-budget trust fund.

Using $280 billion of the transferred funds to purchase corporate stock to be held by the Social Security trust funds reduces the total and off-budget surpluses for 2000 through 2009 by that amount. CBO, like the Administration, treats the costs of those purchases as an outlay. The appropriate treatment of federal purchases of corporate stock was not addressed by the 1967 President's Commission on Budget Concepts or in subsequent efforts to determine budget concepts and rules. However, in at least one case, the Administration, CBO, and the Congressional budget committees have treated a federal transaction in corporate stock as an outlay. Stock held by the District of Columbia's pension funds was taken over by the federal government pursuant to provisions of the Balanced Budget Act of 1997. Administration and Congressional estimates of those provisions showed that the assumed sale by the federal government of that stock would produce offsetting receipts for the federal government, implying that the purchase of stock should be recorded as an outlay. That treatment, which is consistent with the basic assumption that budget transactions should be recorded on a cash basis, seems reasonable until the issue can be carefully considered and agreement reached on whether some other treatment would be more appropriate.

The value of the stock accumulated in the Social Security trust funds (including additional stock that will be purchased with any dividends) would affect the balances in the Social Security trust funds and should be taken into account in assessing the financial position of the federal government. The money borrowed from credit markets to purchase the stock is immediately returned as an investment in the private sector. Thus, the purchase of stock can be viewed as merely an exchange of financial assets and would have little economic effect. For purposes of determining the federal government's demand on private financial markets, therefore, the value of the stock should also be considered as an offset to debt held by the public. However, although the anticipated increase in the value of the stock above the costs of borrowing to purchase the stock appears to make the government better off, it does not represent an improvement in the economy.

CBO'S REVISED BASELINE

In the course of preparing its annual analysis of the President's budget, CBO typically updates its baseline projections to take account of new information from that budget and other sources. The revised March projections then usually become the starting point for the budget resolution baseline.

CBO's new March projections are only slightly different from those issued in its January 1999 report, *The Economic and Budget Outlook: Fiscal Years 2000-2009* (see Table 8). Projected surpluses are slightly higher in every year—by an average of less than $4 billion a year. CBO now projects that the total budget surplus will be $111 billion in 1999 and will grow to $383 billion in 2009 (see Table 9). It still projects that when the off-budget transactions of Social Security and the Postal Service are excluded, small on-budget deficits will remain in 1999 and 2000. But, as in January, CBO projects on-budget surpluses starting in 2001.

The largest change in CBO's projections since January is a reduction in Medicare outlays—by $6 billion in 1999 and lesser amounts in subsequent years—reflecting the continuation through the first months of 1999 of an unprecedented period of no growth in spending for that program (see Table 8). CBO assumes that the rate of spending for Medicare will pick up in the remaining months of 1999 but that outlays will remain a little below the levels projected in January until 2008. CBO's revised projections of Medicaid spending are also lower—by a little more than $1 billion a year, on average, for the 1999-2009 period. The projections for a number of other programs are slightly higher than in January, resulting in a total reduction in projected outlays of $41 billion in 1999 through 2009. CBO has made no change in its projections of revenues.

Under CBO's baseline assumptions, federal revenues are expected to total about $1.8 trillion this year—or approximately 20.7 percent of gross domestic product (see Table 9). As a percentage of GDP, projected revenues fall gradually to 20.2 percent in 2003 and hold steady at that level through 2009. Total spending is expected to be slightly more than $1.7 trillion this year—or 19.4 percent of GDP. Spending is projected to increase in dollar terms—to more than $2.3 trillion in

2009—while falling as a percentage of GDP to 17.3 percent in that year. If there are no changes in current policies, debt held by the public is projected to fall from $3.7 trillion at the end of 1998 (44.3 percent of GDP) to less than $1.2 trillion (8.6 percent of GDP) in 2009.

Table 1.
CBO Estimate of the Effect on the Surplus of the President's Budgetary Policies
(By fiscal year, in billions of dollars)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2000-2004
Baseline Total Budget Surplus[a]	111	133	156	212	213	239	263	309	338	358	383	952
Effect on the Surplus of the President's Budgetary Policies Excluding Social Security Framework Proposals[b]	-1	-20	-7	-14	-17	-15	-7	-2	c	-5	-4	-73
Surplus Under the President's Budgetary Policies Excluding Social Security Framework Proposals	109	113	149	198	196	224	255	307	338	353	379	880
Effect on the Surplus of the President's Social Security Framework Proposals[d]	0	-32	-60	-88	-87	-96	-109	-131	-146	-156	-171	-364
Surplus or Deficit (-) Under the President's Budgetary Policies Including Social Security Framework Proposals												
Total Budget	109	80	89	110	109	128	146	176	192	198	208	516
On-budget	-17	-126	-116	-124	-137	-146	-156	-166	-189	-223	-251	-648
Off-budget	127	206	205	234	245	274	301	342	381	421	459	1,164

SOURCE: Congressional Budget Office.

a. Assumes that discretionary spending will equal the statutory caps on such spending in 2000 through 2002 and will increase at the rate of inflation thereafter.

b. See Table 3 for details.

c. Less than $500 million.

d. See Table 7 for details.

Table 2.
CBO Estimate of Debt Held by the Public and Corporate Stock Held by Social Security Under the President's Budgetary Policies Including the Social Security Framework Proposals (By fiscal year, in billions of dollars)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Federal Debt Held by the Public Under CBO's Baseline Projections	3,628	3,512	3,372	3,176	2,979	2,756	2,508	2,212	1,886	1,540	1,168
Effect of the President's Budgetary Policies on Federal Debt Held by the Public	1	53	119	220	323	432	548	679	823	982	1,155
Federal Debt Held by the Public Under the President's Budgetary Policies	3,630	3,565	3,491	3,396	3,302	3,189	3,055	2,891	2,710	2,522	2,324
Value of Corporate Stock Held by Social Security Under the President's Budgetary Policies	0	19	36	60	85	118	156	204	262	331	413
Federal Debt Held by the Public Net of Corporate Stock Held by Social Security	3,630	3,546	3,455	3,336	3,217	3,071	2,899	2,687	2,448	2,191	1,911
Memorandum: Net Change in Debt Held by the Public and Corporate Stock Held by Social Security	1	35	83	161	238	314	392	475	562	651	742

SOURCE: Congressional Budget Office.

NOTE: All amounts refer to debt or stock held at the end of the fiscal year.

Table 3.
CBO Estimate of the Effect on the Surplus of the President's Budgetary Policies Excluding Social Security Framework Proposals (By fiscal year, in billions of dollars)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2000-2004
Revenues												
Revenue-Increasing Provisions												
Raise tobacco taxes	a	8	7	7	7	7	7	7	7	7	7	36
Change sale-source rules for multinational firms	a	1	2	2	2	2	2	2	3	3	3	9
Other	a	6	8	8	8	8	10	8	9	9	10	39
Revenue-Reducing Provisions												
Assist taxpayers with long-term health care needs	0	a	-1	-1	-1	-1	-2	-2	-2	-2	-2	-5
Increase child and dependent care credit	0	a	--1	-1	-1	-1	-1	-1	-1	-1	-1	-5
Eliminate harbor maintenance tax	0	a	-0	-1	-1	-1	-1	-1	-1	-1	-1	-3
Other	a	-4	-4	-3	-4	-4	-5	-6	-7	-6	-5	-19
Total	a	11	11	11	10	9	10	7	7	9	10	52
Outlays												
Discretionary	1	33	17	22	23	21	14	6	3	10	9	116
Mandatory												
Child care	0	1	2	2	2	3	3	3	3	3	3	9
Medicaid	0	a	a	a	1	1	1	2	2	2	3	2
Medicare	0	-1	-2	-2	-2	-2	-2	-2	-2	-2	-3	-9
Supplemental Security Income	0	a	a	a	a	a	1	1	1	1	2	1
Employer share of employee retirement	0	-1	-1	-1	-1	-1	-2	-2	-2	-2	-3	-6
Customs user fees	0	0	0	0	0	-1	-1	-2	-2	-2	-2	-1
Harbor maintenance fees	a	1	1	1	1	1	1	1	1	1	1	-5
Net interest	a	a	1	2	2	3	4	4	4	5	5	9
Other	a	a	2	2	2	1	a	a	a	-1	a	7
Subtotal	-1	-1	a	2	4	3	3	4	4	4	5	8
Total	1	31	18	25	27	24	18	10	7	14	14	124
Total												
Total Change in Surplus	-1	-20	-7	-14	-17	-15	-7	-2	0	-5	-4	-73

SOURCES: Congressional Budget Office; Joint Committee on Taxation.

a. Less than $500 million.

Table 4.
Discretionary Caps and Proposed Spending for Fiscal Year 2000 (In billions of dollars)

	CBO Estimate		Administration Estimate		CBO Minus Administration	
	Budget Authority	Outlays	Budget Authority	Outlays	Budget Authority	Outlays
Baseline Caps[a]	537	573	538	574	-1	-2
Adjustments Under Current Law If President's Proposals Are Enacted	5	3	b	b	5	3
Caps with Current-Law Adjustments	542	575	538	574	4	1
President's Budget Request[a]	564	605	556	592	8	14
President's Budget Request Minus Baseline Caps	27	33	18	17	9	16
President's Budget Request Minus Adjusted Caps	22	30	18	17	4	13
Offsets That Would Require a Change in Law	c	c	-18	-18	c	c
Discretionary Spending Net of Offsets	c	c	538	574	c	c
Discretionary Spending Net of Offsets Minus Adjusted Caps	c	c	d	-1	c	c

SOURCES: Congressional Budget Office; Office of Management and Budget.

a. Includes an upward adjustment for mass transit budget authority that is not subject to the caps.

b. The Administration's baseline caps include adjustments the Administration assumes will be made if the President's proposals are enacted.

c. CBO did not attempt to separate out its reestimates of the portion of proposed changes in revenues and mandatory spending that the Administration counts as offsets to discretionary spending.

d. Less than $500 million.

Table 5.
CBO Reestimate of the President's Budgetary Policies Excluding Social Security Framework Proposals (By fiscal year, in billions of dollars)

	1999	2000	2001	2002	2003	2004	2000-2004
Administration Estimate							
Surplus Under the President's Budgetary Policies	79	117	134	187	182	208	828
Sources of Differences							
Baseline							
Revenues	8	-2	6	17	24	27	72
Outlays							
Discretionary	-7	-2	-1	a	-1	-2	-5
Mandatory	-16	-16	-15	-9	-5	-2	-48
Subtotal	-23	-18	-16	-9	-6	-4	-53
Total	31	16	22	26	31	31	125
Estimates of Proposed Policies							
Revenues	a	a	2	2	1	1	6
Outlays							
Discretionary	1	16	4	9	7	6	42
Mandatory	-1	5	5	7	11	10	37
Subtotal	1	21	9	15	18	16	79
Total	-1	-21	-7	-14	-17	-15	-73
Total Differences							
Revenues	8	-2	8	18	26	28	77
Outlays							
Discretionary	-6	14	3	9	6	4	36
Mandatory	-16	-11	-10	-2	5	8	-11
Subtotal	-22	3	-7	6	12	12	26
Total	30	-5	15	12	14	16	52
CBO Reestimate							
Surplus Under the President's Budgetary Policies	109	113	149	198	196	224	880

SOURCES: Congressional Budget Office; Joint Committee on Taxation.

a. Less than $500 million.

Table 6.
Comparison of Economic Projections, Calendar Years 1999-2004

	Forecast		Projected			
	1999	2000	2001	2002	2003	2004
Nominal GDP (Billions of dollars)						
CBO	8,846	9,182	9,581	10,015	10,476	10,960
Administration	8,833	9,199	9,582	10,004	10,456	10,930
Nominal GDP (Percentage change)						
CBO	4.1	3.8	4.3	4.5	4.6	4.6
Administration	4.0	4.1	4.2	4.4	4.5	4.5
Real GDP (Percentage change)						
CBO	2.3	1.7	2.2	2.4	2.4	2.4
Administration	2.4	2.0	2.0	2.2	2.4	2.4
GDP Price Index[a] (Percentage change)						
CBO	1.7	2.0	2.1	2.1	2.1	2.1
Administration	1.5	2.1	2.1	2.1	2.1	2.1
Consumer Price Index[b] (Percentage change)						
CBO	2.5	2.6	2.6	2.6	2.6	2.6
Administration	2.2	2.3	2.3	2.3	2.3	2.3
Unemployment Rate (Percent)						
CBO	4.6	5.1	5.4	5.6	5.7	5.7
Administration	4.8	5.0	5.3	5.3	5.3	5.3
Three-Month Treasury Bill Rate (Percent)						
CBO	4.5	4.5	4.5	4.5	4.5	4.5
Administration	4.2	4.3	4.3	4.4	4.4	4.4
Ten-Year Treasury Note Rate (Percent)						
CBO	5.1	5.3	5.4	5.4	5.4	5.4
Administration	4.9	5.0	5.2	5.3	5.4	5.4
Taxable Income[c] (Billions of dollars)						
CBO	5,178	5,351	5,562	5,795	6,054	6,328
Administration	5,166	5,354	5,551	5,778	6,037	6,308

SOURCES: Congressional Budget Office; Office of Management and Budget.

NOTE: Percentage change is year over year.

a. The GDP price index is virtually the same as the implicit GDP deflator.

b. The consumer price index for all urban consumers.

c. Taxable personal income plus corporate profits before tax.

Table 7.
Estimate of the Effect on the Surplus of the President's Social Security Framework Proposals
(By fiscal year, in billions of dollars)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2000-2009
Surplus or Deficit (-) Under the President's Budgetary Policies Excluding Social Security Framework Proposals as Estimated by CBO												
On-budget	-17	-25	4	45	34	53	71	113	134	140	160	729
Off-budget	127	138	145	153	162	171	184	194	204	213	218	1,782
Total	109	113	149	198	196	224	255	307	338	353	379	2,512
Effect on the Surplus of the President's Social Security Framework Proposals[a]												
On-budget												
Additional discretionary spending	0	0	-26	-41	-36	-34	-38	-41	-39	-33	-30	-318
Universal Savings Accounts	0	-14	-16	-22	-21	-24	-26	-32	-36	-39	-43	-272
General fund transfers to Social Security trust funds	0	-85	-70	-92	-90	-109	-121	-152	-177	-205	-232	-1,332
Interest paid to Social Security trust funds	0	-2	-5	-8	-12	-17	-22	-29	-37	-46	-57	-235
Net interest	0	-1	-3	-6	-11	-15	-21	-26	-33	-41	-49	-206
Subtotal	0	-101	-120	-169	-171	-199	-227	-279	-323	-364	-412	-2,363
Off-budget												
General fund transfers to Social Security trust funds	0	85	70	92	90	109	121	152	177	205	232	1,332
Purchase of stock by Social Security trust funds	0	-18	-15	-19	-19	-23	-25	-32	-37	-43	-49	-280
Interest paid to Social Security trust funds	0	2	5	8	12	17	22	29	37	46	57	235
Subtotal	0	68	60	81	84	103	117	149	177	208	241	1,287
Total Budget Effect	0	-32	-60	-88	-87	-96	-109	-131	-146	-156	-171	-1,076
Surplus or Deficit (-) Under the President's Budgetary Policies Including Social Security Framework Proposals as Estimated by CBO												
On-budget	-17	-126	-116	-124	-137	-146	-156	-166	-189	-223	-251	-1,634
Off-budget	127	206	205	234	245	274	301	342	381	421	459	3,069
Total	109	80	89	110	109	128	146	176	192	198	208	1,435

SOURCE: Congressional Budget Office.

NOTE: Because the budget did not provide a detailed description of the proposed Social Security framework proposals, CBO has used the Administration's estimates of all effects except the changes in interest payments.

a. Spending increases are shown with a negative sign because they reduce the surplus.

Table 8.
Changes in CBO Baseline Surpluses Since January 1999

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
January 1999 Baseline Total Budget Surplus	107	131	151	209	209	234	256	306	333	355	381
Technical Changes											
Revenues	0	0	0	0	0	0	0	0	0	0	0
Outlays											
Discretionary	-1	-2	-1	a	a	a	a	a	a	a	a
Medicare	-6	-3	-2	-2	-2	-3	-5	-1	-2	a	2
Medicaid	-1	-1	-1	-1	-1	-1	-1	-1	-2	-2	-2
Other mandatory	4	3	-1	-1	a	-1	a	-1	-1	-1	-1
Subtotal	-3	-2	-5	-4	-3	-5	-7	-3	-4	-3	-2
Total	3	2	5	4	3	5	7	3	4	3	2
March 1999 Baseline Total Budget Surplus	111	133	156	212	213	239	263	309	338	358	383

SOURCE: Congressional Budget Office.

a. Less than $500 million.

Table 9.
CBO Baseline Budget Projections, Assuming Compliance with the Discretionary Spending Caps (By fiscal year)

	Actual 1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
					In Billions of Dollars							
Revenues												
Individual income	829	863	893	919	958	990	1,035	1,085	1,138	1,195	1,258	1,323
Corporate income	189	193	188	191	202	214	226	238	250	259	267	273
Social insurance	572	610	640	666	691	717	746	783	816	852	885	923
Other	133	148	148	154	164	170	177	182	188	194	200	208
Total	1,722	1,815	1,870	1,930	2,015	2,091	2,184	2,288	2,393	2,500	2,611	2,727
On-budget	1,306	1,368	1,402	1,443	1,508	1,563	1,634	1,711	1,791	1,871	1,956	2,046
Off-budget	416	446	468	488	506	527	550	577	602	628	654	681
Outlays												
Discretionary spending	555	574	573	573	568	583	598	614	630	646	663	680
Mandatory spending	939	979	1,027	1,081	1,136	1,205	1,273	1,357	1,419	1,505	1,603	1,704
Offsetting receipts	-84	-78	-80	-86	-97	-93	-96	-101	-106	-112	-118	-125
Net interest	243	229	218	207	195	183	170	156	140	123	104	85
Total	1,653	1,704	1,737	1,775	1,802	1,878	1,946	2,025	2,083	2,162	2,253	2,344
On-budget	1,336	1,384	1,407	1,432	1,449	1,512	1,567	1,632	1,675	1,737	1,810	1,880
Off-budget	317	320	330	343	353	366	379	393	408	425	442	464
Deficit (-) or Surplus	69	111	133	156	212	213	239	263	309	338	358	383
On-budget	-30	-16	-5	11	59	51	68	79	116	134	146	165
Off-budget	99	127	138	145	153	162	171	184	193	204	212	218
Debt Held by the Public	3,720	3,628	3,512	3,372	3,176	2,979	2,756	2,508	2,212	1,886	1,540	1,168
					As a Percentage of GDP							
Revenues												
Individual income	9.9	9.9	9.8	9.7	9.7	9.6	9.6	9.6	9.6	9.6	9.7	9.8
Corporate income	2.2	2.2	2.1	2.0	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.0
Social insurance	6.8	7.0	7.0	7.0	7.0	6.9	6.9	6.9	6.9	6.9	6.8	6.8
Other	1.6	1.7	1.6	1.6	1.7	1.6	1.6	1.6	1.6	1.6	1.5	1.5
Total	20.5	20.7	20.6	20.4	20.3	20.2	20.2	20.2	20.2	20.2	20.2	20.2
On-budget	15.5	15.6	15.4	15.2	15.2	15.1	15.1	15.1	15.1	15.1	15.1	15.1
Off-budget	4.9	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.0
Outlays												
Discretionary spending	6.6	6.6	6.3	6.0	5.7	5.6	5.5	5.4	5.3	5.2	5.1	5.0
Mandatory spending	11.2	11.2	11.3	11.4	11.5	11.6	11.7	12.0	12.0	12.1	12.4	12.6
Offsetting receipts	-1.0	-0.9	-0.9	-0.9	-1.0	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
Net interest	2.9	2.6	2.4	2.2	2.0	1.8	1.6	1.4	1.2	1.0	0.8	0.6
Total	19.7	19.4	19.1	18.7	18.2	18.1	18.0	17.9	17.6	17.4	17.4	17.3
On-budget	15.9	15.8	15.5	15.1	14.6	14.6	14.5	14.4	14.1	14.0	14.0	13.9
Off-budget	3.8	3.6	3.6	3.6	3.6	3.5	3.5	3.5	3.4	3.4	3.4	3.4
Deficit (-) or Surplus	0.8	1.3	1.5	1.6	2.1	2.1	2.2	2.3	2.6	2.7	2.8	2.8
On-budget	-0.4	-0.2	-0.1	0.1	0.6	0.5	0.6	0.7	1.0	1.1	1.1	1.2
Off-budget	1.2	1.4	1.5	1.5	1.5	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Debt Held by the Public	44.3	41.4	38.6	35.6	32.1	28.8	25.4	22.1	18.7	15.2	11.9	8.6
Memorandum:												
Gross Domestic Product	8,404	8,762	9,095	9,476	9,904	10,358	10,837	11,337	11,855	12,391	12,946	13,521

SOURCE: Congressional Budget Office.