

## Office of Management and Budget News Release

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### OMB Releases Budget Update: \$158 Billion Surplus Is Second Largest In U.S. History; Social Security and Medicare Benefits and Trust Funds Fully Protected

#### \$37 Billion Increase for Medicare Reform and Prescription Drug Coverage

**Washington, DC, August 22, 2001** – The FY 2001 budget surplus is \$158 billion, the second largest in U.S. history, according to the Mid-Session Budget Review released today by the Office of Management and Budget. The projected FY 2002 surplus is \$173 billion and the estimated 2002 – 2011 total surplus is \$3.1 trillion. The review projects \$190 billion for Medicare reform including prescription drug coverage. This is a \$37 billion increase over the April budget and reflects the President’s Medicare reform framework announced in July.

“The government’s finances are in extraordinarily strong shape. Despite a weak economy, 2001 will see the second largest surplus in history. The size of future surpluses, as well as continued strong growth of Social Security and Medicare Trust Funds, all depend on a return to sustained economic growth. All relevant policies – fiscal, trade, regulatory, and others – should share this primary objective,” said Mitchell E. Daniels, Jr., director of the Office of Management and Budget.

The Surplus: The total FY 2001 surplus is \$158 billion, the second largest in U.S. history. The “off-budget” surplus, consisting of Social Security and the U.S. Postal Service, is \$156 billion, leaving an “on-budget” surplus of \$2 billion. The President has committed to use the Social Security surplus for debt reduction. The small size of the on-budget surplus means that any new spending items beyond those assumed in this budget update must be off set to preserve the Social Security surplus for debt reduction.

Social Security Funding: The budget review shows that the Social Security Trust Fund increases by \$2.5 trillion over the next ten years, from \$1.2 trillion to \$3.7 trillion.

Medicare Funding: In FY 2001 Medicare revenue from payroll taxes and premiums is \$197 billion, while outlays are \$242 billion. Consequently, after spending all Medicare receipts on Medicare, the general Treasury must contribute more than \$45 billion to make up the shortfall. The President has proposed a unified trust fund to make it easier to understand Medicare, as part of reforming the program. President Bush’s budget:

- Increases Medicare spending \$196 billion over the next 10 years, rising from \$228 billion in 2002 to \$423 billion in 2011.
- Increases Medicare Hospital Insurance Trust Fund by \$537 billion over the next ten years, from \$200 billion to \$737 billion.

Defense Spending: The review projects additional spending above the April budget plan of \$18.4 billion on national defense in FY 2002 – \$198 billion additional over ten years. These funds,

along with the \$15 billion new defense spending proposed in April, make up the first installment of the President's national defense rebuilding program.

Accurately Measuring Social Security Receipts: Due to the intense interest in the relative size of the Social Security surplus, the Mid-Session Review presents the most accurate figures possible. 2001 Social Security receipts minus expenditures equal \$157 billion, \$1 billion less than the total surplus.

Debt Repayment: From 2002 – 2011 surpluses will allow a total of \$2.0 to \$2.2 trillion in debt repayment. At the end of 2011, the public debt will total around \$1.1 trillion. At 6.1 percent of GDP, this will represent the lowest debt burden since 1917. Public debt will fall to \$3.3 trillion at the end of the current year, from a high of \$3.8 trillion in 1997.

Economic Assumptions: The extent of the economic slowdown, which commenced in the third quarter of 2000, is greater than most forecasters anticipated. Nonetheless, the economy seems poised to recover, with the tax cut and lower interest rates providing timely stimulus to growth. The Administration projects real GDP growth this year to be 1.7 percent, down from 2.4 percent in April, and projects 3.2 percent growth in 2002, down from 3.3 percent in April. The Conference Board, winner of the Annual Blue Chip Economic Forecasting Award, similarly projects 3.2 percent real GDP growth for 2002.

From 2002 – 2011, the Administration projects real GDP growth will average 3.2 percent per year, the same as in the April Budget, and slightly below the Blue Chip consensus of private-sector forecasts published in March, the latest consensus long-range projections.

Accounting for the Surplus: The FY 2002 Budget released in April projected a surplus for FY 2001 of \$281 billion. The new FY 2001 surplus projection is \$158 billion. The \$123 billion decrease is due to a variety of factors:

1. Decreased revenue from the year long economic slowdown – \$46 billion, about 2 percent of revenues;
2. FY 2001 tax rebates – \$40 billion;
3. Corporate tax timing shift – \$28 billion (corporate tax revenues for the fourth quarter of FY 2001 were shifted to the first quarter of FY 2002);
4. Additional FY 2001 defense and farm spending – \$9 billion.

The decline in the surplus due to factors other than congressional action is approximately 16 percent.

It should be noted that the largest single factor reducing the 2001 surplus was the extraordinary increase in spending, \$50 billion over FY 2000 levels, enacted in last December's appropriations bills.

Document Online: Mid-Session Review, Budget of the United States Government, Fiscal Year 2002 (August 2001) is available online at [www.omb.gov](http://www.omb.gov).