

Budget Outlook for FY 2002

**Senator Kent Conrad
Senate Committee on the Budget**

February 8, 2001

Table of Contents

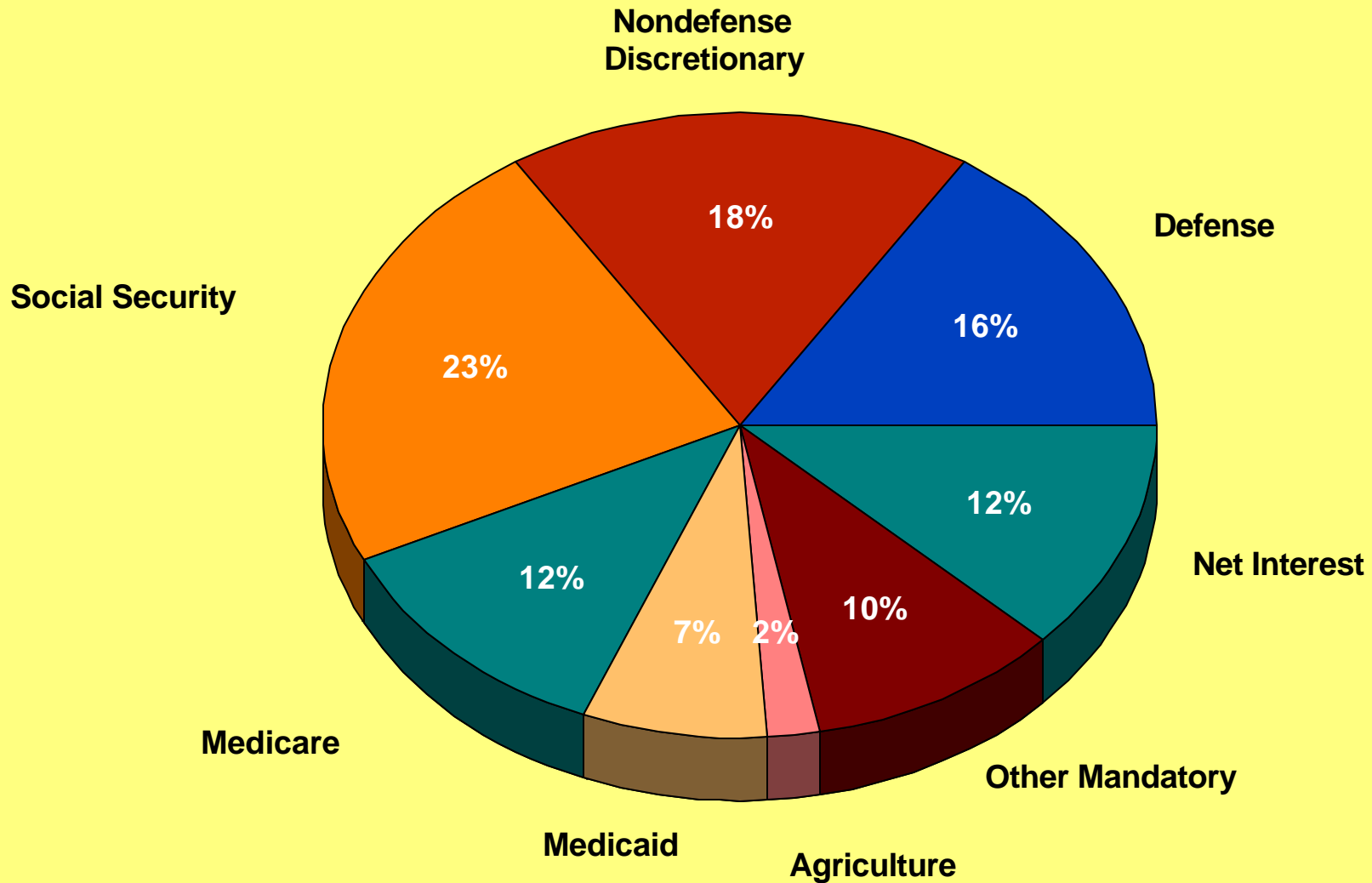
-) Budget Background**
-) The Budget Outlook**
-) Uncertainty in the Outlook**
-) The Bush Tax Cut**
-) A Balanced Democratic Plan**

Budget Background

How did we spend \$1.8 trillion in FY 2000?

-) More than one-third of total spending is for defense and domestic appropriations**
-) Mandatory spending and offsetting receipts account for about half of federal spending**
-) Social Security is the largest mandatory program and makes up 23% of spending. Medicare makes up 12% of total spending.**
-) About 12% of federal spending goes to pay interest on the debt.**

Federal Spending in FY 2000

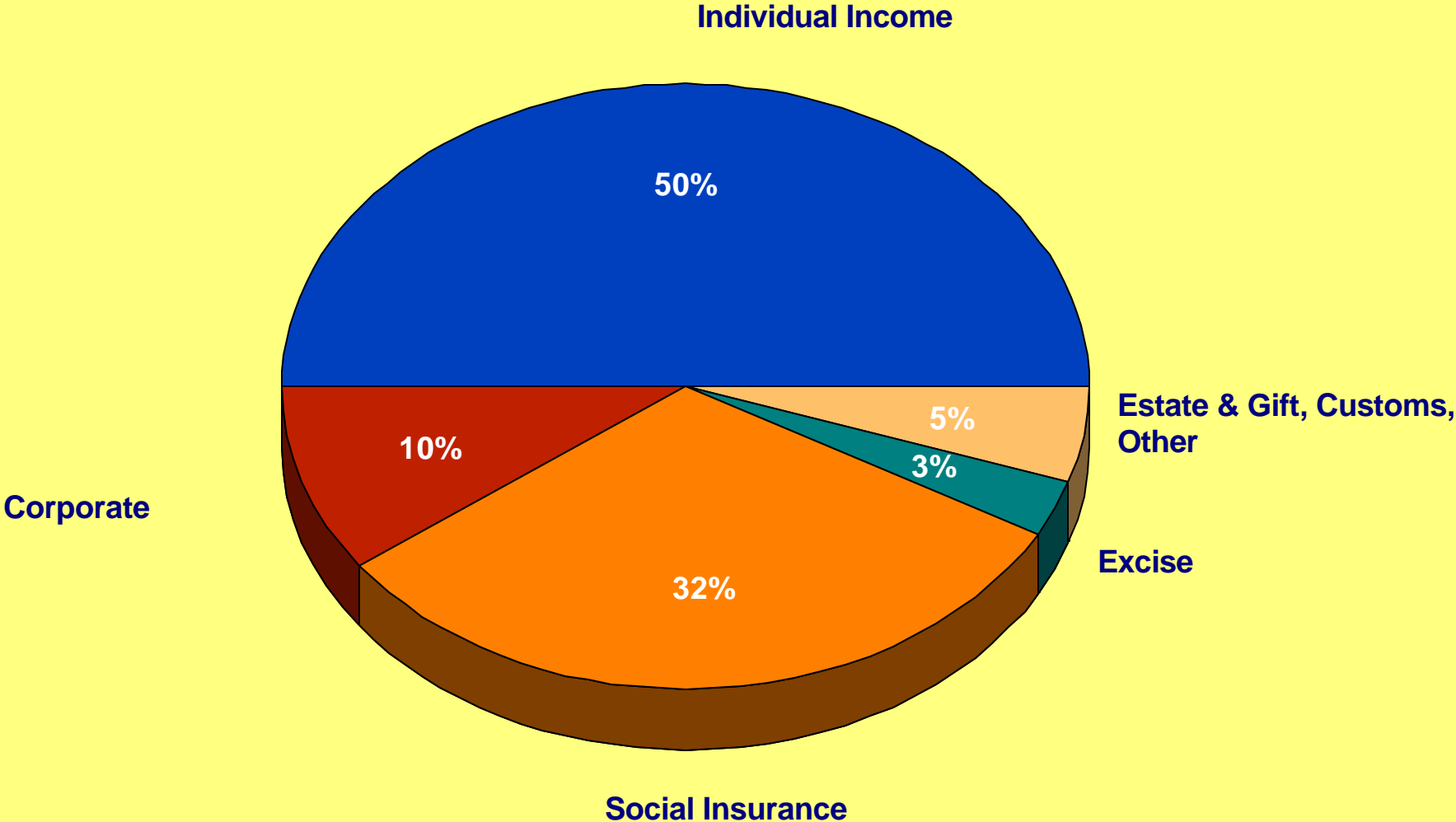


Budget Background

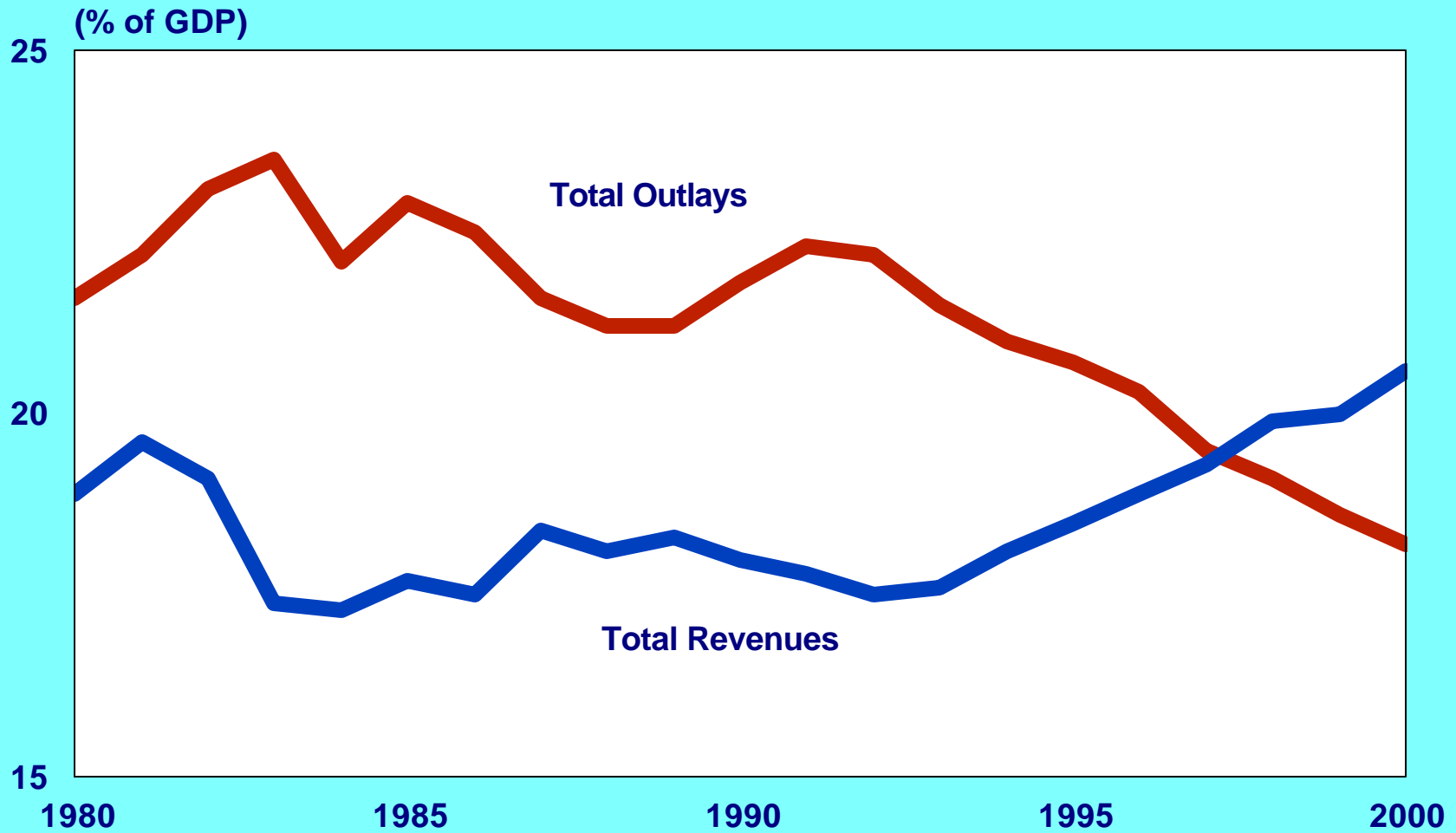
Where do we collect \$2 trillion in taxes?

-) Individual income taxes account for about half of all tax receipts.**
-) Social insurance taxes make up about 32% of total tax receipts.**
-) Corporate income taxes (10%) and excise taxes (3%) are the next largest categories.**
-) Other tax collections come from estate and gift taxes, customs duties, and miscellaneous.**

Federal Revenues in FY 2000

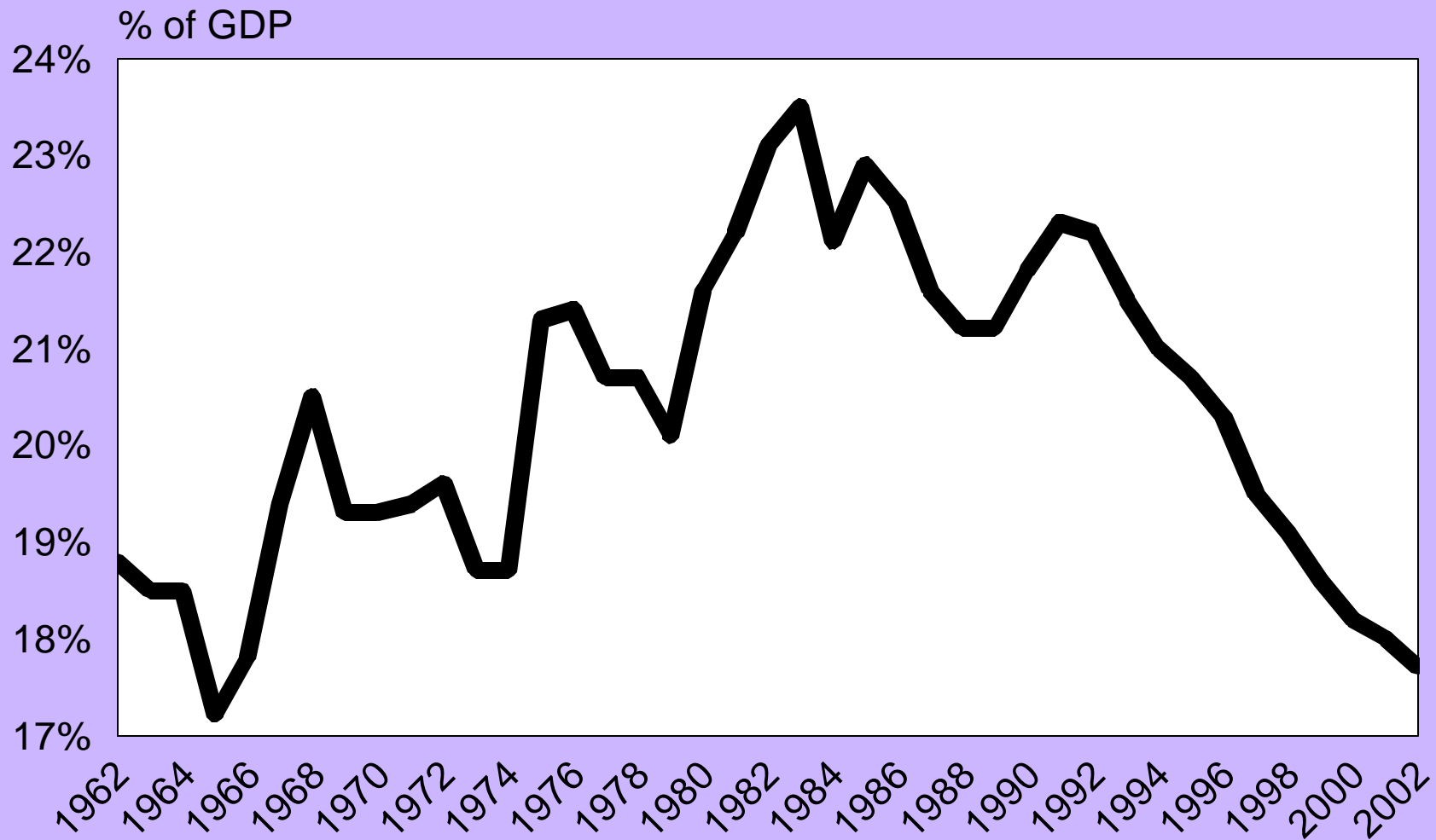


Trends in Spending and Revenues



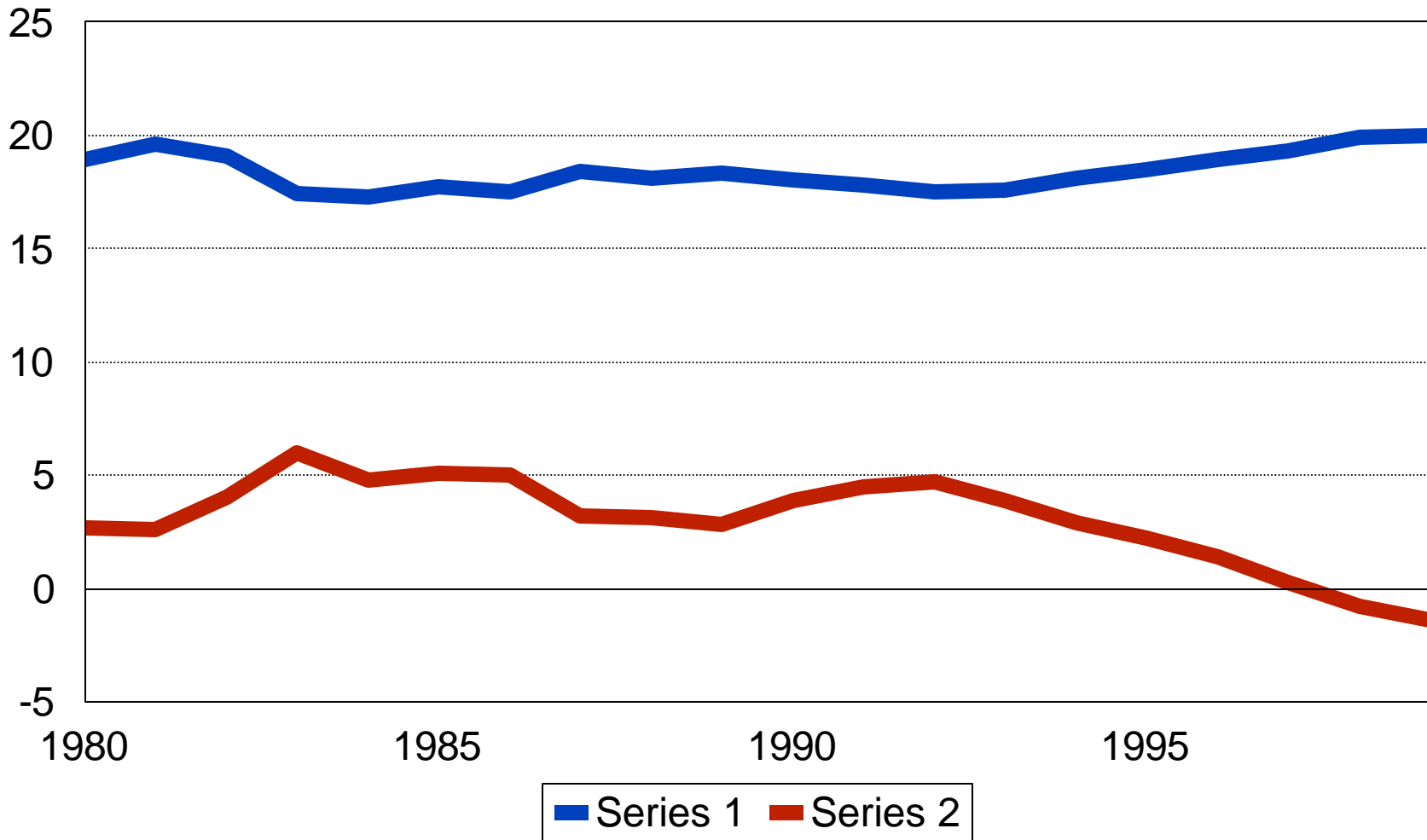
Source: CBO

Federal Spending Lowest Level Since 1966

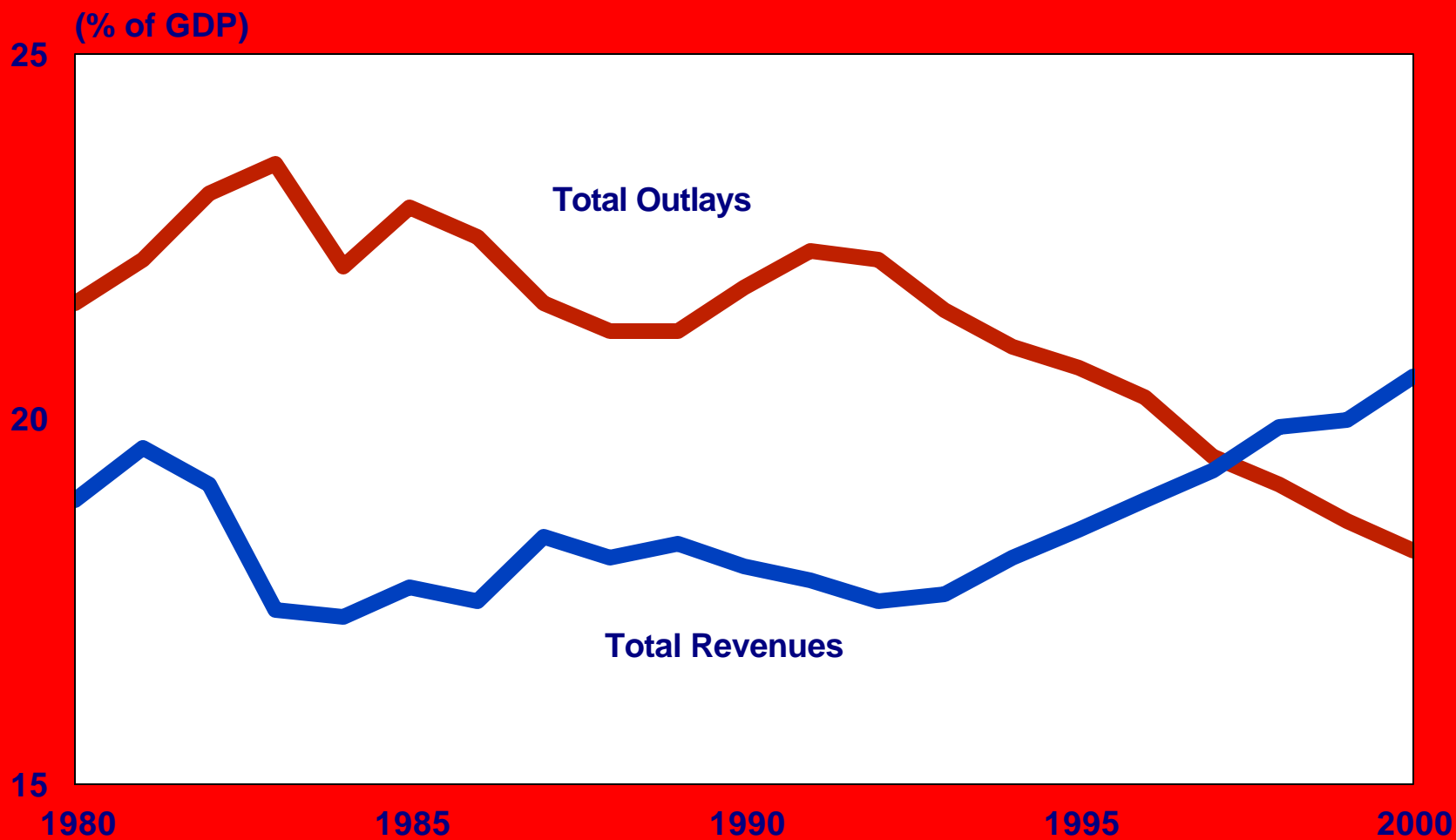


Source: CBO

Revenues and Deficits

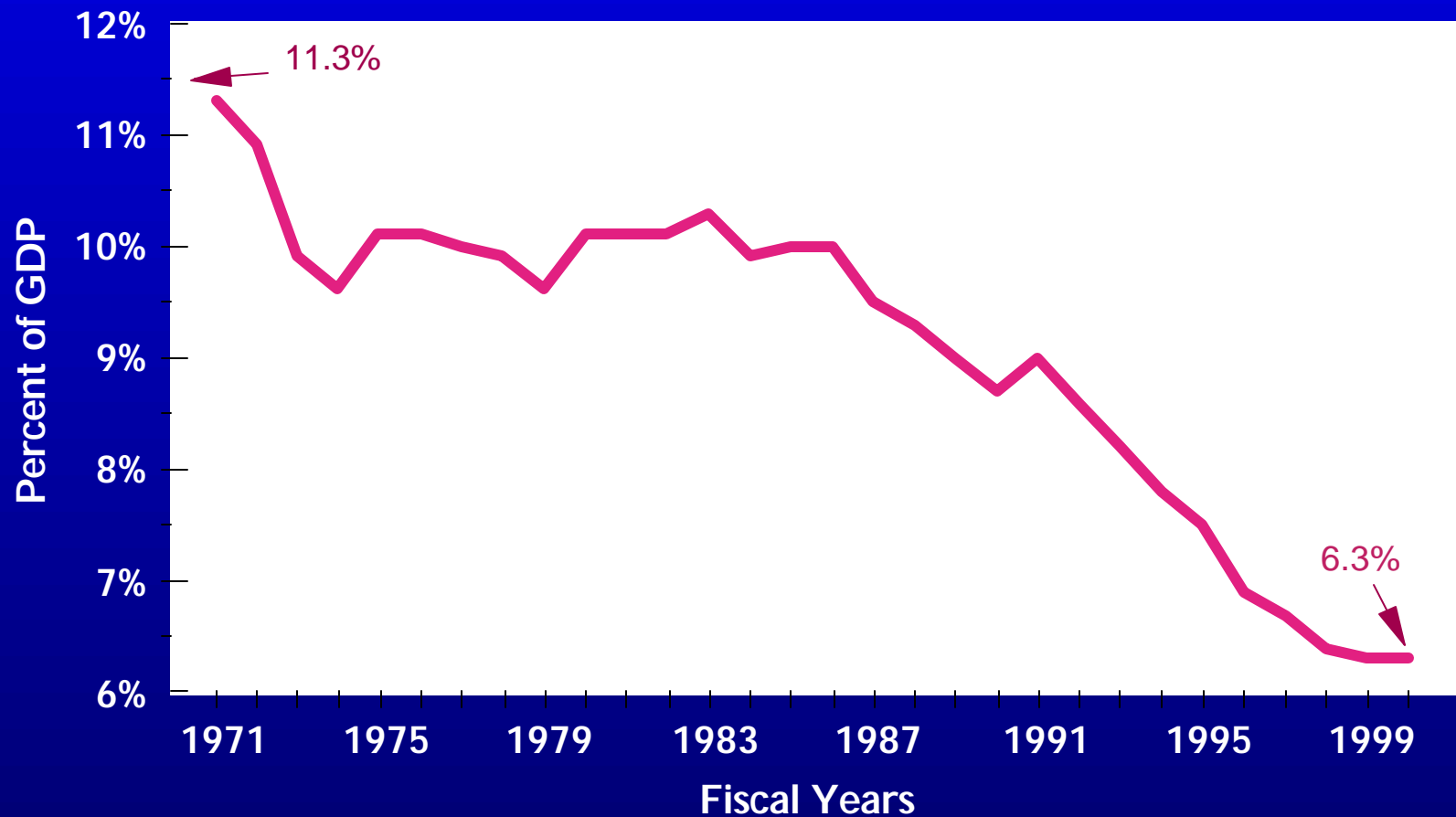


Trends in Spending and Revenues



Source: CBO

Discretionary Spending Has Declined As a Percent of GDP



The Budget Outlook

CBO Surplus Projections for FY 2002-2011

-) CBO is projecting a unified surplus of \$5.6 trillion over the next ten years (2002-2011).
-) The on-budget surplus, excluding Social Security, is \$3.1 trillion over ten years.
-) The on-budget surplus excluding both Social Security and the Medicare HI trust fund is \$2.7 trillion.
-) The surplus excluding all federal trust funds is \$2.2 trillion.

CBO Budget Projections -- January 2001

(Ten-year totals -- FY 2002-2011)

Total Surplus	\$5.6 Trillion
Social Security	\$2.5 Trillion
Medicare	<u>\$0.4 Trillion</u>
Subtotal	\$2.7 Trillion
Other trust funds	<u>\$0.5 Trillion</u>
Projected remaining surplus	\$2.2 Trillion

The Budget Outlook

If the economy is slowing, why are surpluses growing?

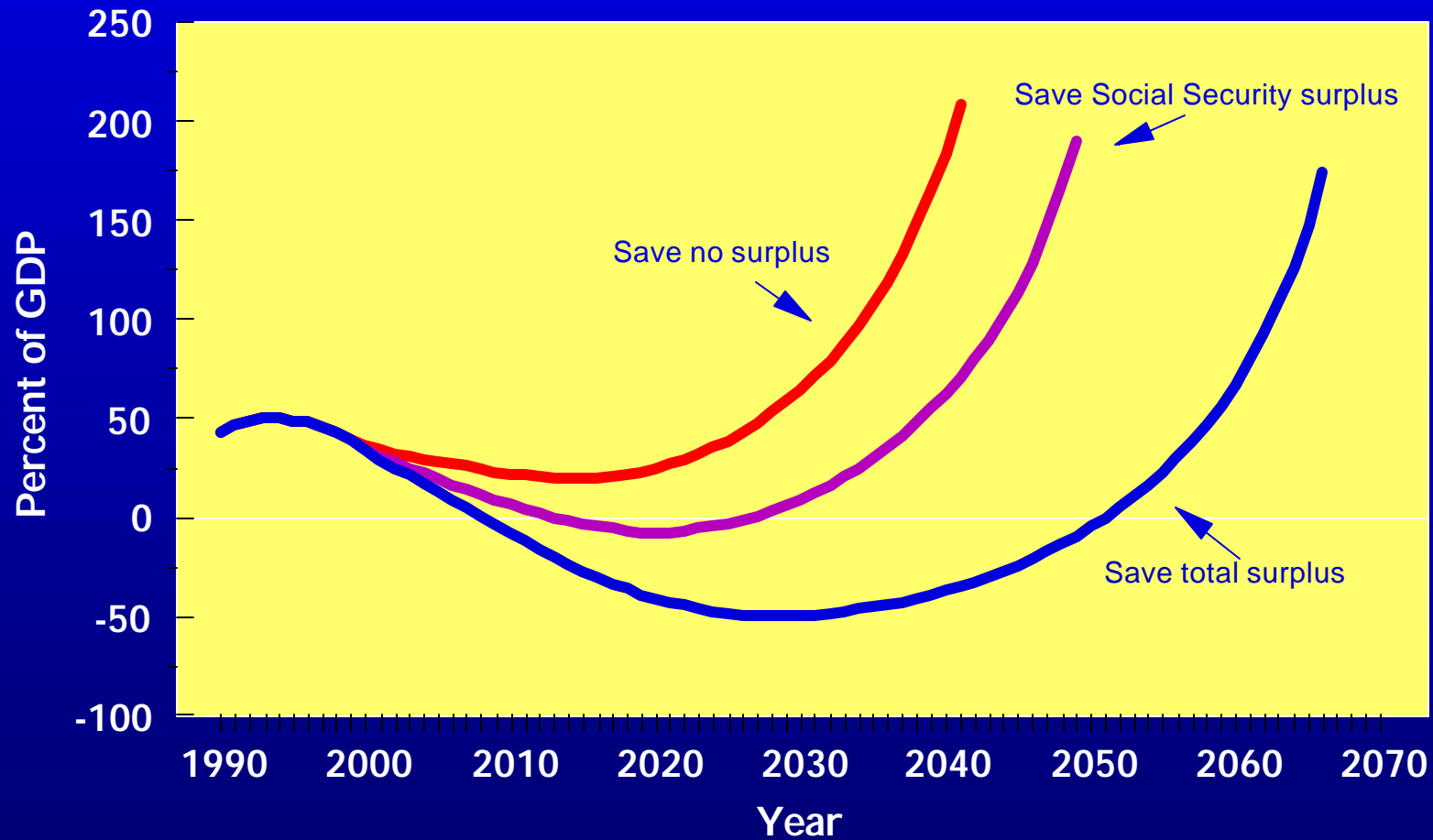
-) Larger surpluses are projected because productivity growth has led to increases in long-term GDP
-) The economy may grow at about 3% over the next 10 years, instead of 2.8% projected last year
-) The current cyclical slowdown is not at odds with a long-term potential GDP rate of 3%
-) Changes in the near-term forecast illustrate how quickly short and long-term economic projections can change

The Budget Outlook

Is There Still a Long-Term Problem?

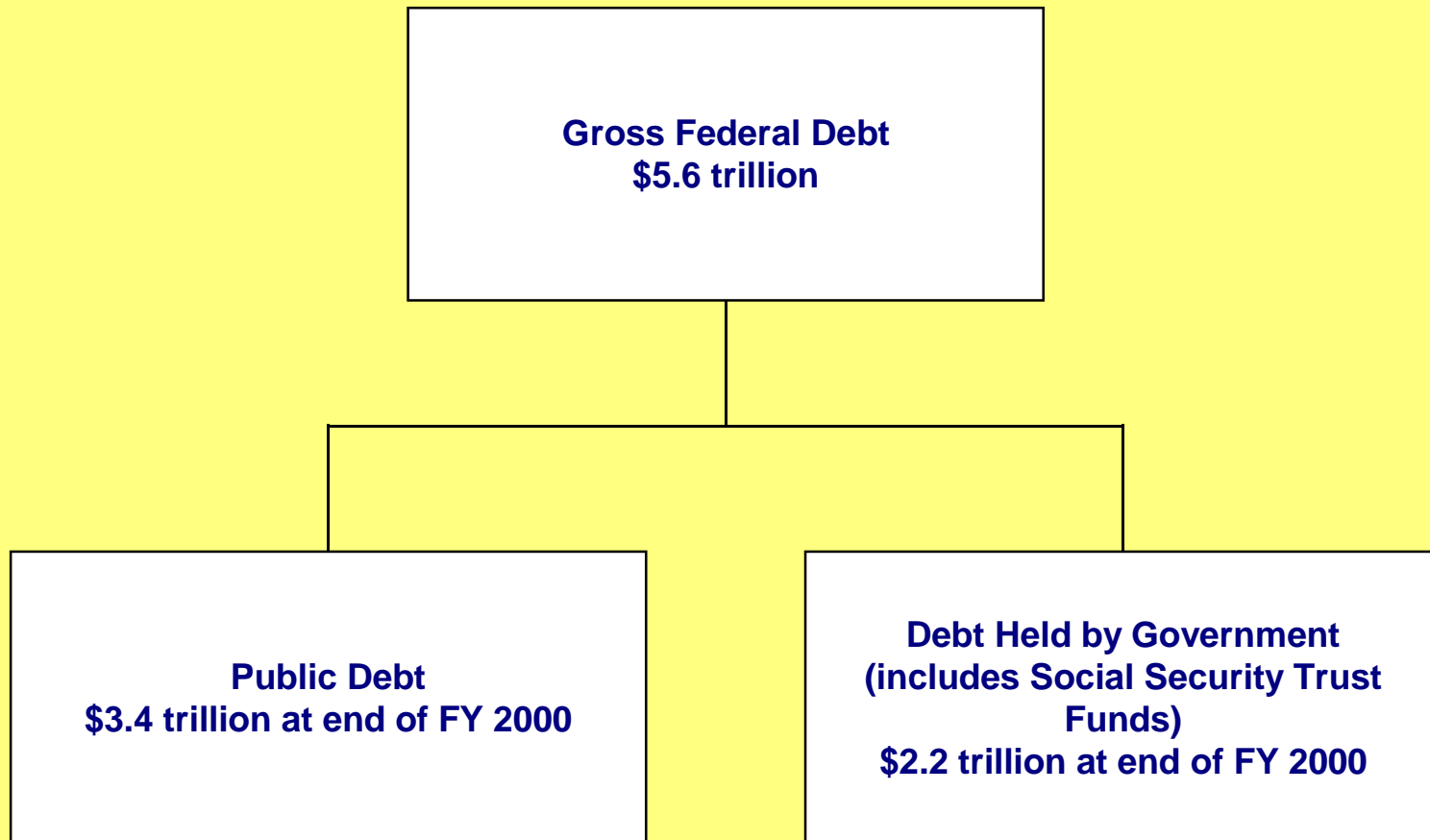
-) Budget surpluses are not permanent**
-) Budget deficits return in 2019 if we spend the entire non-Social Security surplus**
-) The retirement of the baby boomers will increase costs for Social Security, Medicaid, and Medicare**
-) Should we reserve surplus dollars to prepare for our long-term debt?**

Long Term Budget Outlook (Debt as a percent of GDP)

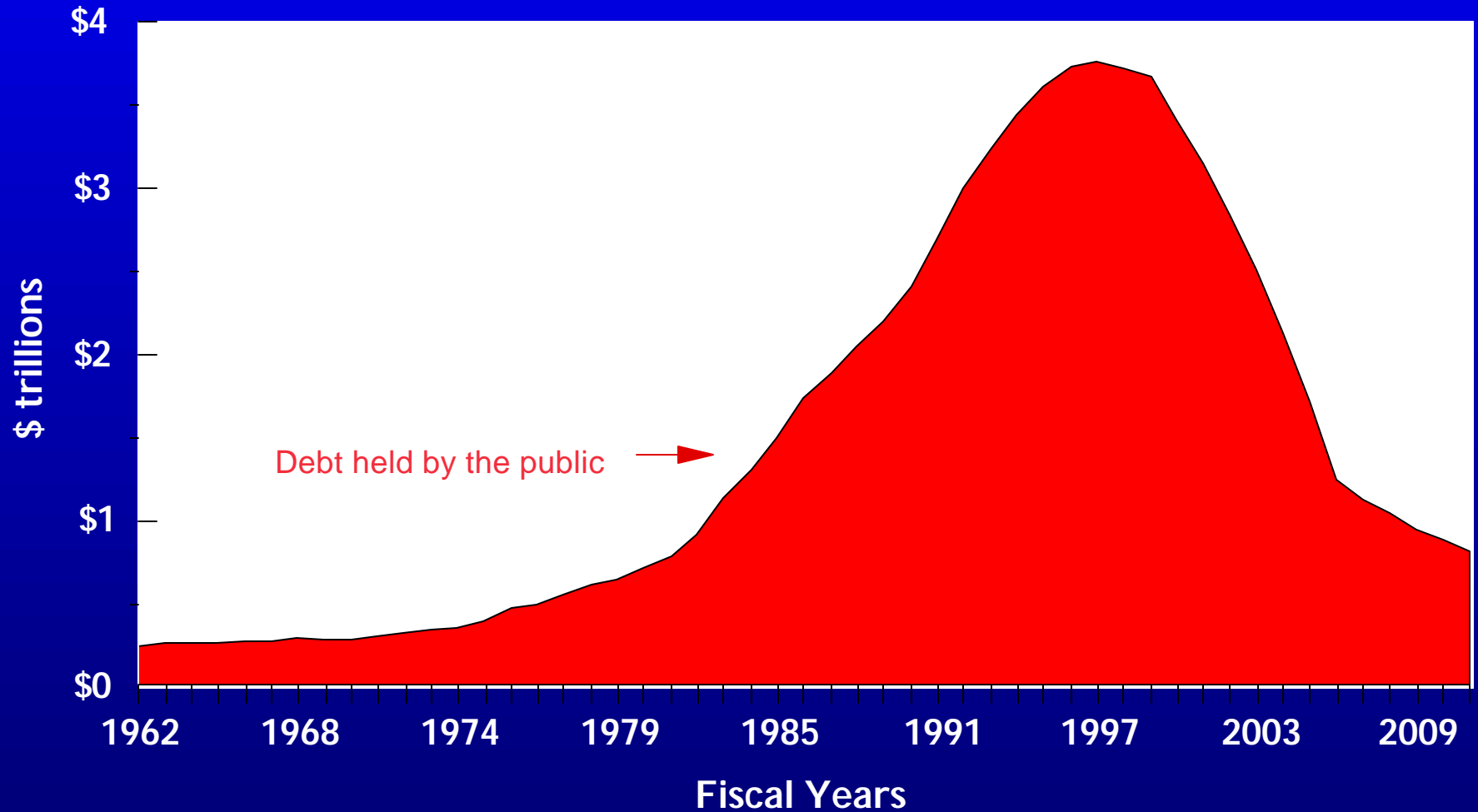


Source: CBO

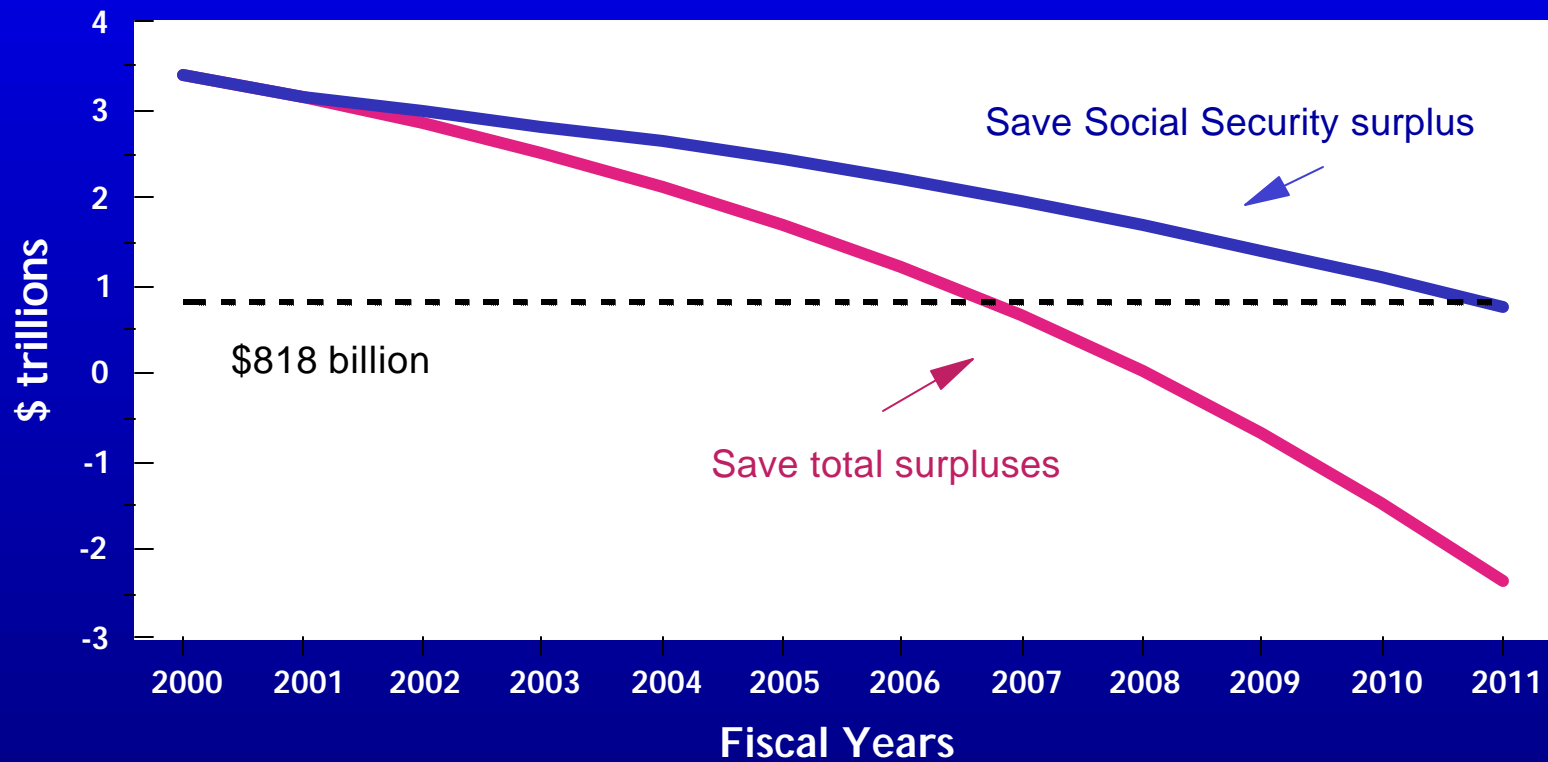
Components of National Debt



A Mountain of Debt



Decline in Debt



CBO January 2001 baseline estimates

Budget Uncertainty

How uncertain are these projections?

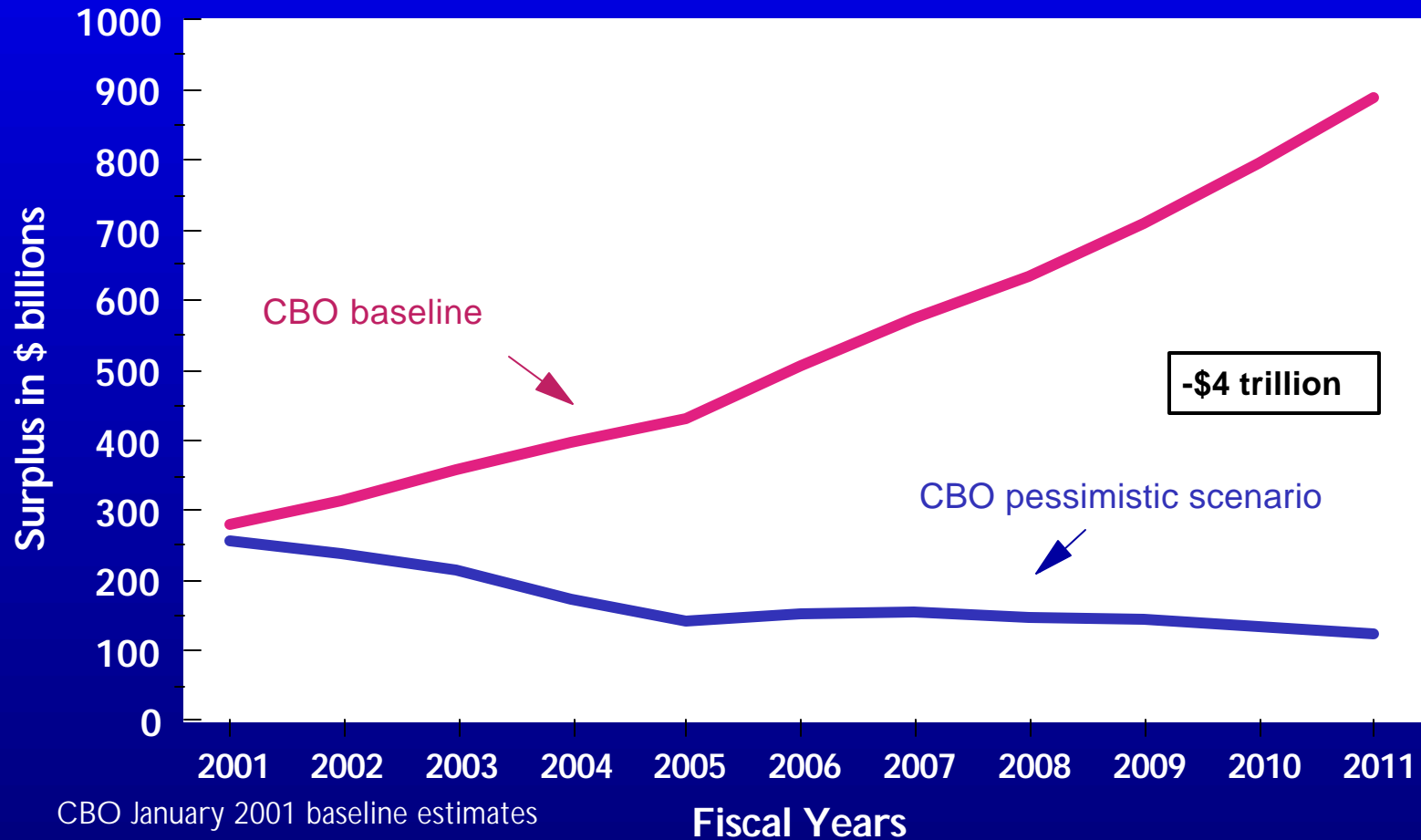
-) **The surplus drops by \$242 billion if economic growth is 0.1% lower**
-) **The surplus drops by \$4 trillion under CBO's pessimistic budget scenario.**

Budget Surplus Considerations

Projected Surplus	\$5.6 Trillion
Social Security	-\$2.5 Trillion
Medicare	-\$0.4 Trillion
<u>Other Trust Funds</u>	<u>-\$0.5 Trillion</u>
True Surplus	<u>\$2.2 Trillion</u>

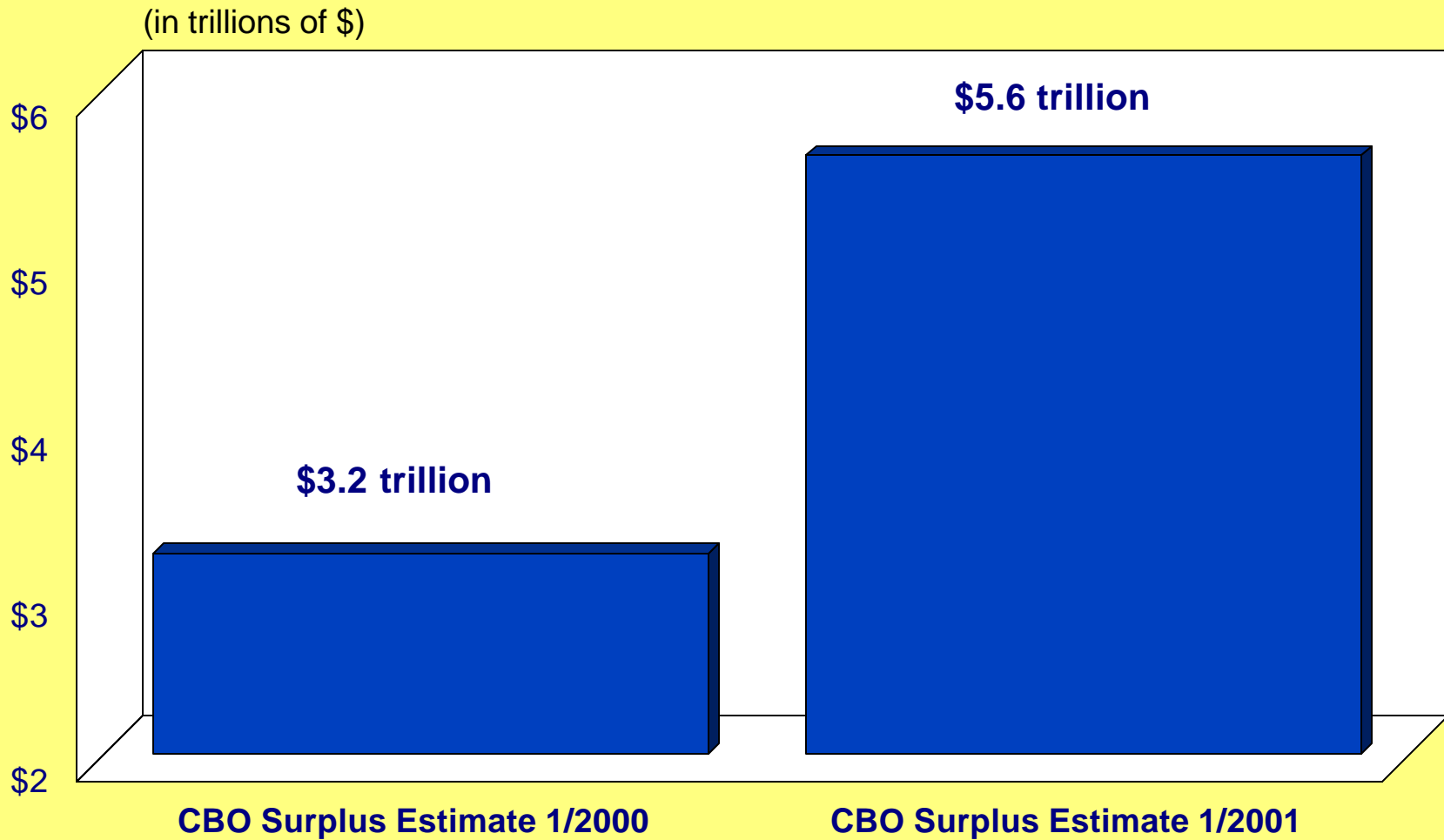
What if Surplus Estimates are Wrong?

Impact of more pessimistic economic assumptions



Uncertainty in CBO Surplus Estimates

\$2.4 Trillion Change in 1 Year



Source: CBO

The Bush Tax Cut

Parliamentary Issues

-) Republicans can enact full Bush tax cut without filibuster or any Democratic votes**
-) Budget Committee automatically discharged of budget resolution on April 1**
-) Appointment of conferees on budget resolution and reconciliation cannot be filibustered**

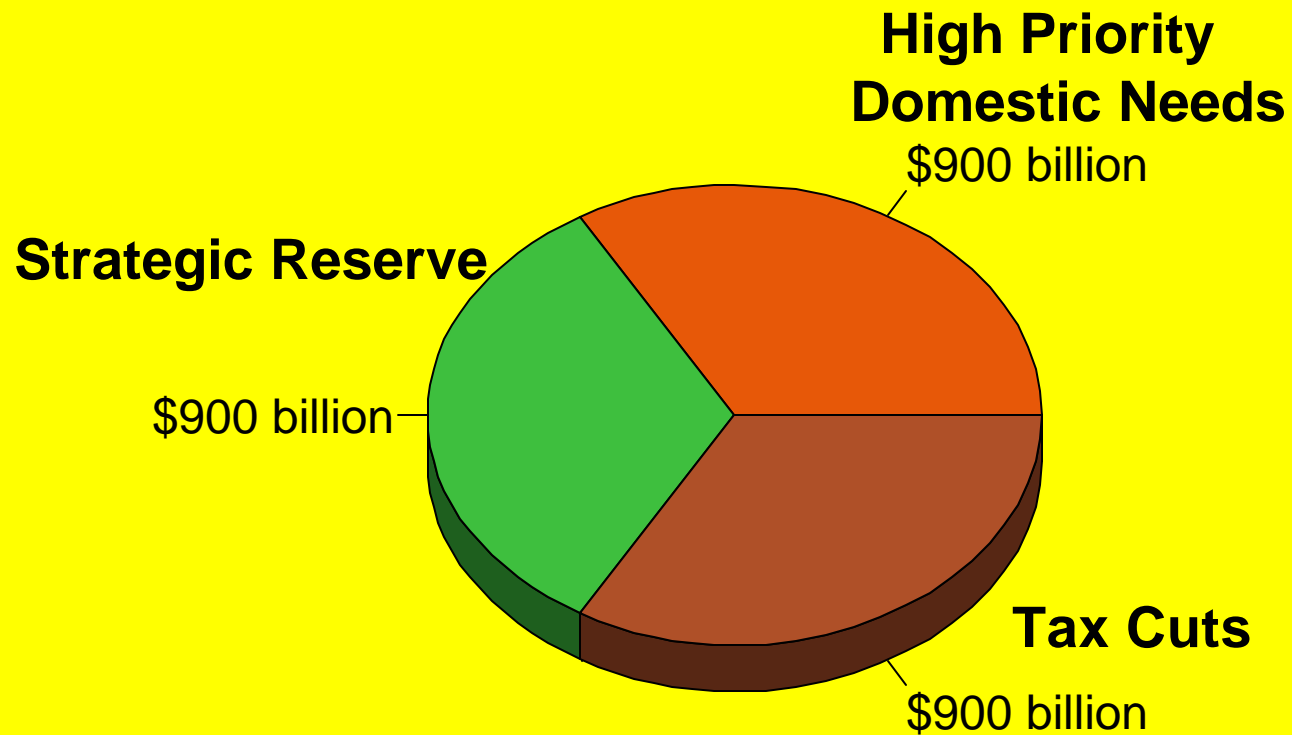
Possible Compromise

Projected Surplus	\$5.6 Trillion
Social Security	-\$2.5 Trillion
Medicare	<u>-\$0.4 Trillion</u>
Non Social Security/Non Medicare	<u>\$2.7 Trillion</u>

1/3 Tax Cut	\$750 B Net Tax Cut <u>\$150 B Interest</u> \$900 Billion Tax Cut
1/3 High Priority Domestic Needs	\$350 B Prescription Drugs/Health \$200 B Infrastructure/Education \$100 B Defense \$100 B Agriculture <u>\$150 B Interest</u> \$900 Billion High Priority Needs
1/3 Long Term Debt	Strengthen Social Security <u>Strengthen Medicare</u> \$900 Billion Long Term Debt

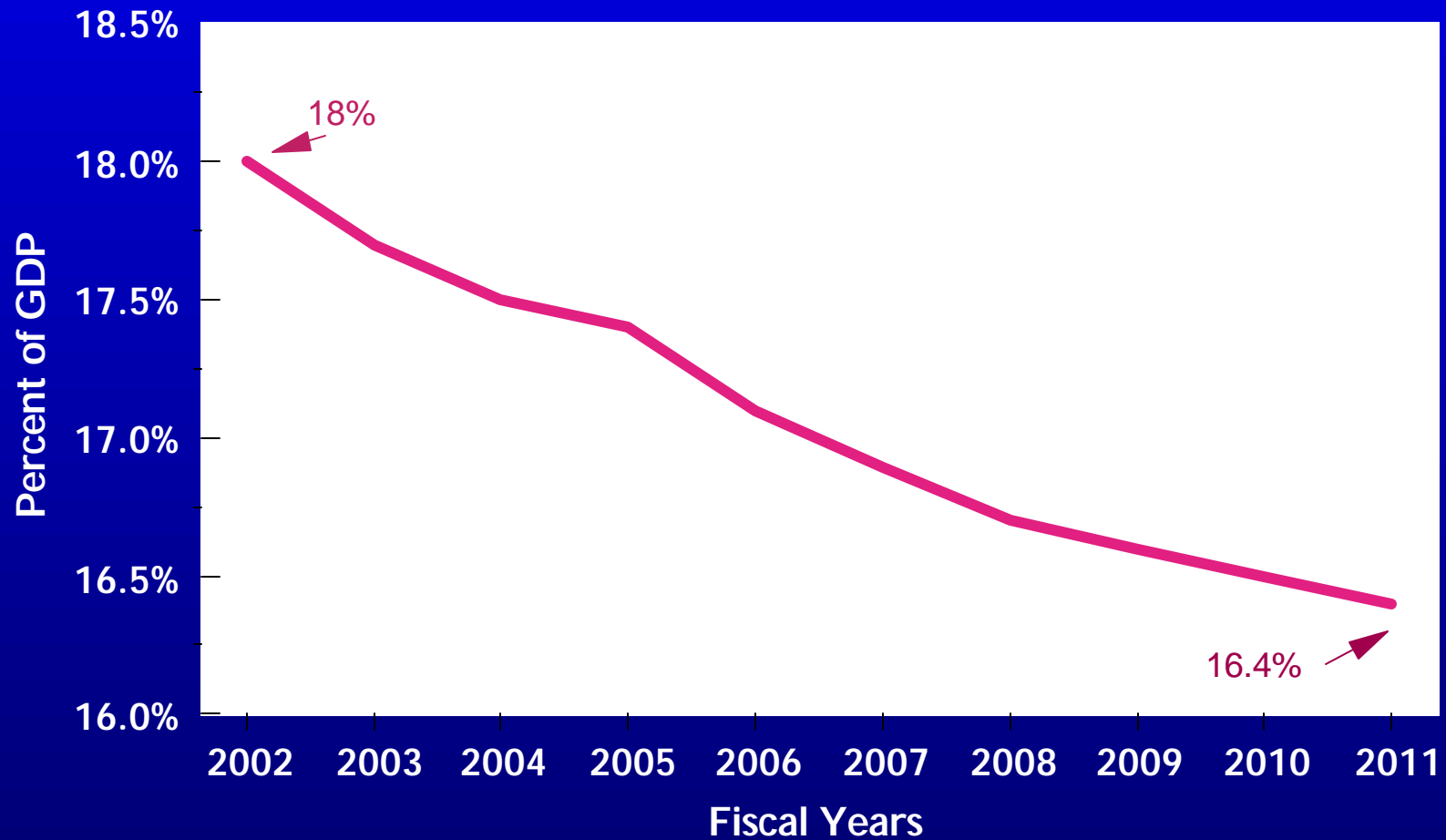
A Balanced Plan

**Reserve Social Security and Medicare Surpluses,
Divide Remaining Surplus in Thirds**



Total Spending in 1/3 Plan

Lowest Level of GDP Since 1951



Discretionary Spending in 1/3 Plan *Lowest Level of GDP in History*

