INFORMED BUDGETEER:

@ End of 106th Congress Countdown @ Calendar Days to Sine Die: October 6 (From July 24)	
Total Days	75
Less:	
Scheduled Non-Leg. Periods (39 days)	36
Fridays & Mondays before/after Non-Leg. Periods (1)	35
Remaining Saturdays & Sundays (8)	27
Mondays & Fridays in Leg. Periods (8) ; =	19
Memo: Days to Beginning of FY 2001	16

UP, UP AND AWAY: COMPARISON OF CBO SURPLUSES FROM MARCH AND JULY

• Last week, the Congressional Budget Office (CBO) released the summer update to their *Budget and Economic Outlook*. CBO's new ten-year estimates of the unified budget surplus total $5,744 billion, if one assumes that discretionary spending is frozen at the level enacted for 2000. Under this scenario, the on-budget surplus is $3,349 billion and the off-budget surplus is $2,395. The baseline (or starting point) for the 2001 Budget Resolution assumed that spending was frozen at the level enacted for 2000.

• Assuming that discretionary spending is frozen at the level enacted for 2000, CBO's ten-year estimates of the unified budget surplus have increased by $1,540 billion since the release of their analysis of the President's budget in March. Under CBO's frozen baseline scenario, the on-budget surplus has increased by $89 billion in 2001 and $1,458 billion over ten years, whereas the off-budget surplus has not increased in 2001 and has increased by $82 billion over ten years. The off-budget surplus decreased by $4 billion in 2000 due to the effects of the Social Security earnings test repeal.

Surplus: Discretionary is Frozen at the 2000 Enacted Level:
Comparison of CBO March & July Estimates, ($ in billions)

	2000	2001	2001-2005	2001-2010
On-budget surplus:				
July	84	116	969	3349
March	26	27	396	1891
Difference	57	89	572	1458
Off-budget surplus:				
July	149	166	1003	2395
March	153	166	978	2313
Difference	-4	-0	25	82
Total:				
July	232	281	1971	5744
March	179	192	1374	4204
Difference	53	89	597	1540

Source: CBO

• If one assumes that discretionary spending grows with inflation after 2000, CBO's new ten-year estimates of the unified budget surplus total $4,561 billion.

Surplus: Discretionary Grows with Inflation after 2000:
Comparison of CBO March & July Estimates, ($ in billions)

	2000	2001	2001-2005	2001-2010
On-budget surplus:				
July	84	102	695	2173
March	26	15	171	893
Difference	57	87	524	1281
Off-budget surplus:				
July	149	165	1001	2388
March	153	166	976	2307
Difference	-4	-0	24	81
Total:				
July	232	268	1696	4561
March	179	181	1147	3199
Difference	53	87	548	1362

Source: CBO

• Under this scenario, the on-budget surplus is $2,173 billion and the off-budget surplus is $2,388 billion. This ten-year unified budget surplus is roughly $400 billion more than OMB's ten-year baseline surpluses in their *Midsession Review*

• CBO's ten-year estimates of the unified budget surplus have increased by $1,362 billion since March, assuming that discretionary spending grows with inflation after 2000. Under CBO's inflated baseline scenario, the on-budget surplus has increased by $87 billion in 2001 and $1,281 billion over ten years, whereas the off-budget surplus has not increased in 2001 and has increased by $81 billion over ten years.

CBO'S REVISED ECONOMIC FORECASTS

• Roughly two thirds of the improvement in the CBO's latest surplus estimates is due to economic factors. At first glance, this might seem surprising since CBO's latest real GDP growth, inflation, and interest rates forecasts are extremely similar to their January's assumptions.

• However, the real driver is the upward revision to nominal GDP level due to much stronger than expected growth in late 1999/early 2000. This revision ranges from $200 billion this year to $650 billion by 2010. Since taxes are calculated from nominal GDP, this led to a sharp increase in projected revenues.

• CBO did raise its estimate of trend productivity growth by roughly 0.1 percentage points over the ten year budget window. However, since it revised its forecasts for labor growth down by a similar extent, its estimate of trend real GDP growth was unchanged.

CBO Economic Assumptions

	2000	2001	2001-05	2006-10
Nominal GDP ($bn)				
July 2000	9,907	10,433	12,508*	15,675**
January 2000	9,692	10,154	12,054*	15,024**
Real GDP Growth (%)				
July 2000	4.9	3.1	2.7	2.7
January 2000	3.3	3.1	2.7	2.8
CPI Growth (%)				
July 2000	3.1	2.7	2.7	2.5
January 2000	2.5	2.4	2.5	2.5
GDP Price Index Growth (%)				
July 2000	2.1	2.1	2.0	1.8
January 2000	1.6	1.6	1.7	1.7
Unemployment Rate (%)				
July 2000	3.8	3.7	4.3	5.1
January 2000	4.1	4.2	4.6	5.2

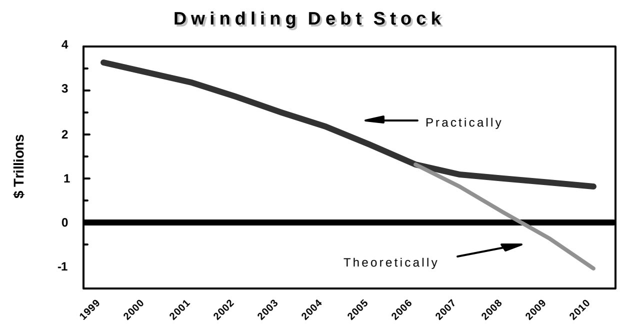
Source: CBO
*Level of GDP in 2005, **Level of GDP in 2010

THE INCREDIBLE SHRINKING DEBT

• One of the consequences of CBO's higher surplus projections is that we are in a position to pay down the publicly held debt more quickly than anyone could have imagined just a few years ago.

• Under CBO's current projections, the debt will be reduced to 14 percent of GDP by 2005, if one assumes that discretionary spending grows with inflation. Indeed, it would be theoretically possible to pay off the entire debt by 2009.

• We say "theoretically" because CBO does not believe it is possible to pay off all of the debt – it seems unlikely that the savings bond program would be abolished and there will likely be outstanding 30 year bonds that owners do not want to sell back to the government.



Source: CBO, SBC calculations
Note: Assumes discretionary spending grows with inflation

- As such, CBO assumes "practically" that we will be unable to bring the publicly held debt below $830 billion by 2010 under any baseline scenario. What happens to the additional surplus dollars? CBO assumes that they go into interest bearing cash holdings.

- The cash holdings are expected to begin accumulating in 2007, before growing to an eye-popping $1.8 trillion or 12 percent of GDP in 2010 under current projections. Many analysts are skeptical about the merits of having the government control such a large share of the economy.

- In the past, such concerns have been dismissed on the grounds that such a possibility was so far in the future as to not be a worry. However, with each CBO revision, the potential date for government involvement in private asset markets grows nearer. As such, there is a need for a thorough debate on this issue now, before the next budget update brings the date any nearer.

REPUBLICAN TAX CUTS
A TINY SHARE OF THE SURPLUS

- Congress has enacted and will send to the President repeal of two tax policies - the estate tax and the tax on married couples.

- The President has indicated he will veto this tax relief. Separate and apart from the policies underlying these tax reforms, the President says the bills are too expensive and too risky. He says the tax relief is so large that, if enacted, the economic future of our country is threatened.

- Has he looked at the numbers? The ten-year total of the tax relief sent to the President is $195 billion, 6 percent of the projected on-budget surplus and only 3 percent of the total projected surplus (assuming a discretionary spending freeze)!

- Over five years, 12 percent of the on-budget surplus would be dedicated to tax relief. This amounts to a little over one thin dime of the surplus dollar. About a nickel's worth of the total surplus dollar over five years is what the President is calling too risky.

CBO July 2000 Projections
Assuming Discretionary Spending Frozen at 2000 Levels
($ in billions)

	2001-2005	2001-2010
CBO Surplus		
On-budget	969	3,349
Off-budget	1,003	2,395
Total	1,971	5,744
Republican Tax Cuts		
Death Tax Elimination Act	-28	-105
Marriage Tax Relief Act	-90	-90
Total	-118	-195
Tax cuts: % of on-budget surplus	12%	6%
Tax cuts: % of total surplus	6%	3%

Source: CBO & JCT

STATE BUDGETS: ITS NOT JUST THE FED!

- The National Conference of State Legislatures has issued its preliminary report on State Budget & Tax Actions for 2000. According to the NCSL's survey, states continue to be in their best financial condition in decades.

- State legislatures lowered taxes for the sixth consecutive year collectively approving a net tax reduction of $9.1 billion for 2001– the largest cut in the 15 year history of NCSL's survey.

- Personal income taxes were reduced by $4.8 billion in 23 states; Corporate and business taxes were reduced by $1.3 billion; states reduced their sales tax by more than $1.6 billion; motor vehicle taxes were reduced by $2 billion; estate taxes, severance taxes, and other miscellaneous taxes were cut by $1.6 billion.

- Aggregate state ending balances were $38.5 billion. This number combines general fund balances with rainy day balances.

- Aggregate state ending balances for the states was in excess of 5 percent of general fund budgets for the sixth consecutive year (8.8 percent). 18 states reported a balance exceeding 10 percent. Wall Street analysts recommend a level exceeding 5 percent.

- States have varied in their approach to their respective budget surpluses - - 22 states made deposits to their rainy day funds or other reserve funds; 16 states used their surplus revenues for capital construction projects; 15 states cut taxes specifically to reduce excess revenue; 13 states targeted certain programs for extra funding increase.

- NCSL's reports that general fund appropriations are budgeted to grow by 7.1 percent over 2000 levels. Medicaid and K-12 education lead the way– both are expected to grow 6.7 percent. Higher education spending is expected to grow 6.4 percent, while funding for corrections is seen to grow by 4.5 percent in 2001.

BUDGET QUIZ

Question: In addition to the post-cloture debate, what other situation in the Senate requires that debate be germane?

Answer: Rule XIX, paragraph 1(b) of the Standing Rules of the Senate, requires that once morning business is over and the pending or unfinished business has been laid before the Senate the 1st three hours of debate must be germane to the pending question. This rule is what causes some Senators to request to "speak out of order" when they want to interrupt the debate on legislation to give a "morning business" type speech.

This rule is known as the “Pastore rule” after Senator John O. Pastore from the state of Rhode Island who passed away last week at the age of 93. Pastore served in the Senate for over 25 years from December of 1950 until his resignation in December of 1976.

O Editor’s Note: This will be the last *Bulletin* until September. The *Bulletin* will be back on September 11. The *Bulletin* wishes all of our readers an enjoyable and productive August recess, and remember if you’re looking for some beach reading you can always find past editions on the Budget Committee website: www.senate.gov/~budget .

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