INFORMED BUDGETEER

NUMBERS, NUMBERS, NUMBERS SUMMERTIME AND THE LIVING'S EASY

- Last week was a Congressional budgeteer's dream -- numbers galore to study over the 4th of July recess week. The President's *Mid-Session Review* was released on June 28 and CBO's *Economic and Budget Outlook: An Update* was released on July 1 -- the date required by this year's budget resolution.

- Unlike many budget reports that sit on shelves to draw dust, these reports won't. What they say will be critical for the rest of the 106th Congress in formulating tax and spending that will carry well into the new century. This *Bulletin,* plus ongoing updates on the Senate Budget Committee Web site, will attempt to help budgeteers summarize these critical reports.

- The table that follows compares the new current services (pre-policy) capped baseline projections from the CBO *Update* and OMB *Review.* "Capped baseline" means that discretionary spending is assumed to equal the statutory caps through 2002 as established in the Balanced Budget Act of 1997. After 2002 these spending limits are assumed to grow at the rate of inflation.

- Comparing the two baselines' surplus projections over the next 10 years -- some budgeteers are excited to find that the two agencies are only $20 billion different in their estimates, CBO being lower.

- It is important, however, to realize that this $20 billion difference around surplus calculations totaling $3 trillion over the next 10 years depends on estimated cash flows that are even larger. With projected revenue nearly $23 trillion and projected outlays nearly $20 trillion over the next 10 years, the $20 billion difference in potential surpluses amounts to less than 0.05 percent of the $43 trillion in cash flows that will determine the actual surpluses over the next 10 years. That means that the merest hiccup of an error in estimating these cash flows--say one-hundredth of a percentage point error could either double or eliminate the difference between OMB and CBO surplus estimates. And usually, estimating errors are significantly larger. Even small, but quite common, and therefore prudently expected errors of one-half or one percentage point can swing surplus estimates by hundreds of billions of dollars.

- So before getting too excited, good budgeteers should take note of two figures not shown in the comparison table that further demonstrate that fragility of estimates. For FY 1999, estimates of the surplus. CBO estimates, with three months left in this fiscal year, a $120 billion surplus. OMB estimates an FY 1999 surplus of $99 billion, **a $21 billion difference! So with three months left in the fiscal year estimates differ by nearly 15%.**

- Moral: be cautious budgeteers (and legislators) about major policy changes that are based on 10-year estimates, let alone 15-year estimates.

SUMMER BASELINE SURPLUS COMPARISON
($ in Billions)

	2000	2000-2004	2000-2009
CBO July 1999			
Unified	**161**	**114**	**2896**
On-Budget	14	294	996
Off-Budget	147	820	1901
OMB Capped June 1999			
Unified	**141**	**1002**	**2916**
On-Budget	3	226	1076
Off-Budget	138	776	1840
CBO Minus OMB			
Unified	**21**	**112**	**-20**
On-Budget	11	68	-80
Off-Budget	9	44	60

SOURCE: OMB Mid-session Review, CBO Summer Update. Prepared by SBC

THE MECHANICS OF THE FY2000 SURPLUS RESERVE FUND

- Section 211 of H.Con.Res. 68 (the FY 2000 Budget Resolution) permits the Chairmen of the House and Senate Budget Committees to make adjustments to specific figures in the budget resolution, provided the CBO estimates an on-budget surplus for FY2000 in its July 1, 1999 update report to Congress. From the table above the **only** number in play then is the $14 billion on-budget surplus estimate for 2000. The Budget resolution had assumed this would be zero.

- What are the figures that the Chairmen **may** adjust? First, each Chairman may reduce the FY 2000 on-budget, budget resolution revenue aggregate by the amount of the projected FY 2000 surplus. Next, the Chairmen may add the amount of the projected FY 2000 surplus to the FY 2000 level on the Senate pay-as-you-go scorecard.

- Finally, each Chairman **may** adjust the revenue reconciliation instructions in the following ways: increase the revenue reduction instruction for FY 2000 by the amount of the projected FY 2000 surplus, increase the five-year revenue reduction instruction by the amount of the projected FY 2000 surplus, and increase the ten-year revenue reduction instruction by the amount of the projected FY 2000 surplus.

REVIEW OF *REVIEW*

- The following analysis of the President's *Review* uses the numbers OMB supplied on the day of its release. They used a pre-social security policy baseline instead of a capped baseline. This will mean that the surplus numbers quoted below will differ very slightly from those listed in the above Summer Baseline Surplus Comparison.

President's New Budget
(June 1999, $ in Billions)

	Surpluses		
	2000-2004	2000-2009	2000-2014
OMB Pre-SS Surplus	**1007**	**2926**	**5936**
On-Budget	231	1084	2868
Off-Budget	775	1843	3067
Minus			
USAs	26	250	540
Added Discretionary*	138	328	522
Debt Service	16	132	469
Medicare Benefits	21	51	71
SS Equity	0	0	543
Total	**201**	**761**	**2145**
Equals			
President Unified Surplus	**806**	**2165**	**3791**
On-Budget	30	323	723
Off- Budget	775	1843	3067
	Change from February		
	2000-2004	2000-2009	2000-2014
OMB Pre-SS Surplus	**+179**	**+517**	**+1083**
On-Budget	+118	+332	+716
Off-Budget	+61	+185	+367
Minus			
USAs	-70	-23	+4
Added Discretionary	0	+10	+41
Debt Service	-8	-4	+82
Medicare Benefits	+21	+51	+71
SS Equity	-105	-339	-222
Total	**-162**	**-305**	**-24**
Equals			
President Unified Surplus	**+342**	**+822**	**+1107**
On-Budget	+281	+637	+740
Off- Budget	+61	+185	+367

*Added discretionary includes military, investments and children/education trust fund.
SOURCE: OMB Mid-session Review, Prepared by SBC

- OMB now projects a 5 / 10 / 15 year surplus of $1.0 / $2.9 / $5.9 trillion respectively -- an increase of $179/ $517 billion/ $1.0 trillion from last February. Of note, the *Review* forecasts an on-budget surplus in every year.

HOW THE PRESIDENT'S JUNE PLAN DIFFERS FROM HIS FEBRUARY SUBMISSION

- The President has more debt reduction now, although he proposes some new spending as well. The President has followed the GOP lead and now saves the Social Security surplus in every year. He also devotes an additional $29 / $323/ $723 billion of the 5/10/15 year on-budget surplus for publicly held debt reduction. Publicly held debt falls to $2.9/ $1.6 trillion / $44 billion over the next 5/10/15 years, versus $3.3 / $2.5 / $1.2 trillion in his February submission.

- Good Budgeteers will note that debt goes down by an even larger amount (relative to February) than the surplus revisions over the first ten years. This is because the President scaled back some of his February proposals. Why did he do this? Even with the surplus revisions, the President would still have spent some of the Social Security surplus over the first five years, thus he had to raise funds internally to avoid that charge. He elected: (1) to reduce his Universal Saving Accounts (USA) tax sharply in the near-term, bringing the five year cost down from $96 to $26 billion and (2) to delay Social Security equity purchases until 2011.

- However, he did not reduce spending in other categories -- indeed, he increased other spending by $21/ $61/ $112 billion over 5/10/15 years. It is telling that when faced with budget constraints, the President chose to reduce his already meager tax cut in order to avoid scaling back his spending initiatives.

- Given his scaled-back USA tax cut, the President's June budget now **raises** taxes on net by $20 billion over five years relative to his pre-policy baseline. Last February, he proposed $51 billion in net tax relief for the same period.

- The President proposes to spend $21/ $51/ $71 billion over the next 5/10/15 years to go primarily toward the costs of providing prescription drug benefits for Medicare.

- The prescription drug benefit is estimated to cost $29/$118 billion over the next 5/10 years. The net cost of the Medicare proposal with prescription drugs is $22/$46 billion over the next 5/10 years.

- The President delays his Social Security proposals (depositing more IOUs in the Social Security Trust Fund and purchasing equities for the Trust Fund) until 2011. This delays the explosion in gross debt until after the visible budget window. In 2011 and beyond, he allocates general revenue funds to the Trust Fund and claims that the transfers match the interest savings achieved by saving the off-budget surpluses -- these transfers grow from $107 billion in 2011 to $189 billion/year in 2015 and beyond. From 2011 to 2014, these transfers all go toward equity purchases. Once the equity mix reaches a certain level, these general government funds go toward IOU build-up.

- The President has changed the duration of these transfers, however. In February, the President said he would only make the transfers until 2014. However, now, he begins them in 2011 and leaves them open-ended. That is how he achieves roughly the same solvency extension to the Trust Fund despite his later and smaller start.

- The President touted the creation of his Children and Education Trust Fund, asserting that it will cost $156 billion over 15 years. This falls into the category of discretionary investments, which also includes military readiness and "investments for a secure future". However, it is interesting to compare this broad category of discretionary investments in the June and February budget submissions -- it is unchanged over five years, up $10 billion over ten years and up $41 billion over 15 years. Thus, this suggests that military readiness and/or "investments for a secure future" must have gotten trimmed $ by 15 billion to make way for the Children and Education Trust Fund.

RAID!

- In light of the release of the *Mid-Session Review*, the *Bulletin* thought it was time again to take a closer look at what the President is really proposing on taxes.

- In his February budget, President Clinton proposed a five-year net tax cut of about $51 billion, if one includes his proposed USA accounts (and uses OMB estimates). Despite the *Review's* upward revisions to baseline revenues to the tune of $166 billion over the next five years, the President is now proposing a net tax *increase* of $21 billion over the next five years.

- The President has dramatically back-loaded his USA account proposal. It costs about the same over fifteen years, but $70 billion less over the first five and $23 billion less over the first ten.

- It's hard to see how the President has moved toward being more accommodative of tax cuts. In fact, he has added two new tax increases to his recommended package -- a proposal to modify foreign tax credit carryback and carryforward rules and a proposal to modify individual estimated tax safe harbors.

- The *Bulletin* suspects the President wanted to avoid spending any of the Social Security surplus to pay for his new spending initiatives, and he didn't scale back his initiatives, so he needed to raise the funds elsewhere. He now raids the US taxpayer instead of the Social Security Trust Fund.

President's Tax Proposals:
February Budget vs. Mid-session Review
(Revenue change, $ in Billions)

	2000	2000-2004	2000-2009
February Budget			
USA Accounts	-14	-97	-273
Other Tax Cuts	-4	-33	-76
Tax Increases	15	79	161
Net Tax Change	-3	-51	-188
Mid-session Review			
USA Accounts	- -	-26	-250
Other Tax Cuts	-5	-33	-76
Tax Increases	17	80	165
Net Tax Change	13	21	-16

Happy Birthday to The Congressional Budget Act:

July 12th is not only the day the Senate returns from the 4th of the July recess, but also marks the 25th anniversary of President Nixon's signing of H.R. 7130 -- the Congressional Budget and Impoundment Control Act of 1974. The conference report passed the Senate on June 21 by a vote of 75 to 25. The Bulletin congratulates the Act and the 8 current members of the Senate who voted for it: all have successfully endured 25 years which saw the cold war, inflation, stagflation, disco and deficits turn to an era of peace, prosperity, a revival of swing and surpluses.

BIRTHDAY BUDGET QUIZ

Question: Who are the 8 current members of the Senate who voted for the Act? And which 2 current members voted against it?

Answer: Voting yea: Biden, Byrd, Domenici, Helms, Hollings, Kennedy, Roth, and Thurmond. Voting nay: Inouye and Stevens.