

## **CBO's Reestimate of the President's 2001 Budget with initial comments on the reported GOP mark**

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On March 9, the Congressional Budget Office (CBO) released a report entitled, *An Analysis of the President's Budgetary Proposals for Fiscal Year 2001*. The report contains preliminary estimates of the effects of the Administration's budgetary proposals using CBO's economic and technical assumptions. It also includes slightly revised baseline projections for 2001-2010.

This fact sheet summarizes the key points in the report. For additional details, consult CBO's web site at [www.cbo.gov](http://www.cbo.gov).

The fact sheet also briefly discusses the FY2001 discretionary spending level in the budget resolution mark that Senate Republicans reportedly have agreed upon.

### **Highlights of CBO's Reestimate**

- ! ***Higher Non-Social Security Surplus.*** CBO's revised baseline estimates add \$55 billion to the on-budget surplus over period 2001-2010, raising the ten-year total from \$838 billion to \$893 billion (if discretionary spending is maintained at inflation-adjusted levels).
- ! ***Debt Reduction in the President's Budget.*** More than 85 percent of the unified surplus and 47 percent of the on-budget surplus is set aside to pay down debt, extend the solvency of Social Security and Medicare, and create a reserve for catastrophic prescription drug coverage. All debt held by the public that is available for redemption would be retired by 2010.
- ! ***Net Tax Cuts.*** The effect of the President's revenue proposals (including refundable tax credits) is a net tax cut of \$191 billion over ten years. Net revenue reductions – excluding refundable tax credits – would amount to \$146 billion over the same period.
- ! ***Discretionary Proposals.*** For 2001, the President's request for discretionary spending is nearly equal to CBO's inflated baseline. Over the period 2001-10, nondefense spending is nearly even with the baseline but the defense request exceeds the baseline by \$31 billion.
- ! ***Prescription Drug Benefit.*** CBO's reestimate of the President's prescription drug benefit is \$149 billion over 10 years, \$11 billion below the President's estimate of \$160 billion.
- ! ***Spending as a percent of GDP.*** Total spending under the President's plan increases by 3.3 percent between 2000 and 2001. As a share of the economy, spending declines from 18.7 percent in 1999 to 16.9 percent of GDP by 2010 – *the lowest percentage since 1956.*

**Table 1: CBO Reestimate of President's Budget**

(\$ billions)	2001	2001-05	2001-10
<b>CBO Non-Social Security Surplus . . . .</b>	<b>15</b>	<b>171</b>	<b>893</b>
<u>Debt Reduction/Medicare</u>			
Catastrophic coverage . . . . .	0	0	35
Other debt reduction . . . . .	<u>24</u>	<u>90</u>	<u>388</u>
Subtotal . . . . .	24	90	<b>423</b>
<u>Revenues</u>			
<i>(With refundable tax credits)</i> . . . . .	(7)	(21)	(191)
Without refundable tax credits . . . . .	-10	5	<b>146</b>
<u>Discretionary</u>			
Defense . . . . .	-1	7	31
Nondefense . . . . .	<u>+(*)</u>	<u>5</u>	<u>1</u>
Subtotal . . . . .	-1	12	<b>32</b>
<u>Mandatory</u>			
Medicare prescription drugs . . . . .	0	34	149
FamilyCare & eligibility expansions . . .	+(*)	16	75
Other mandatory . . . . .	<u>1</u>	<u>7</u>	<u>-8</u>
Subtotal . . . . .	1	57	<b>216</b>
Debt service . . . . .	+(*)	7	<b>75</b>

**CBO's Revised On-Budget Baseline Surplus**

CBO typically updates the January baseline based on new information from the President's budget and other sources. CBO's new March projections of the on-budget surplus for all three baseline variations (inflated, freeze, and capped) are shown in Table 2 below.

- ! The "inflated" variation assumes that budget authority for discretionary programs grows at the rate of inflation each year after 2000.
- ! The "freeze" variation holds discretionary budget authority at the level enacted for the current year plus amounts already enacted for 2001.

! The “capped” variation assumes that discretionary spending equals CBO’s estimate of the statutory caps through 2002 and grows at the rate of inflation thereafter.

**Table 2: CBO Baseline Reestimates: Three Variations**

(\$ billions)	2001	2001-05	2001-10
Inflated baseline:			
On-budget .....	15	170	893
Unified .....	181	1,147	3,199
Freeze baseline:			
On-budget .....	27	396	1,891
Unified .....	192	1,374	4,204
Capped baseline:			
On-budget .....	73	610	1,948
Unified .....	239	1,587	4,255

Table 3 shows the discretionary assumptions for 2001 underlying the three variations above, along with caps levels proposed by the President, CBO’s reestimate of his discretionary totals, and reported levels for the fiscal 2001 Republican budget.

**Table 3: Discretionary Alternatives for 2001**

(\$ billions)	<u>Defense</u>		<u>Nondefense</u>		<u>Total</u>	
	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	BA	O
Capped .....	---	---	---	---	541	579
Freeze .....	290	290	296	335	586	625
Inflated .....	298	296	309	340	607	635
President’s caps .....	---	---	---	---	614	626
President’s budget ...	306	295	318	340	625	635
<b>Republican mark ...</b>	<b>307</b>	<b>296</b>	<b>290</b>	<b>329</b>	<b>597</b>	<b>625</b>

## Reported GOP Mark

The discretionary spending reported to be included in Republican budget exceeds CBO's freeze in budget authority by \$11 billion, *but is exactly at a freeze in outlays*. Relative to a freeze baseline, the GOP mark cuts nondefense spending by \$6 billion in budget authority and outlays. In real terms, the Republican plan cuts nondefense spending by \$19 billion in budget authority, **or 6 percent**, and by \$11 billion in outlays. If congressional Republicans choose to protect education, veteran's programs, the National Institutes of Health, and other high priority programs -- as they have stated they would -- all other nondefense programs would be subject to cuts approaching ten percent in 2001.

For the period 2001-2005, Republicans claim that they intend to provide average annual increases of about 2 percent in overall discretionary spending. However, if defense is assumed at the President's request, holding overall discretionary at 2 percent means that nondefense spending would be allowed to increase by about 1 percent a year in nominal terms -- a cut in real terms. Again, given GOP claims to protect certain favored programs, the real impact on most other programs would be far greater.

These assumed cuts are highly unrealistic and hardly credible, considering that nondefense discretionary spending increased by 5.3 percent between 1998 and 1999 and is currently estimated to increase by nearly 7 percent between 1999 and 2000. The fiscal year 2000 supplemental, which contains as much as \$8 billion in new spending in 2000, would result in a year-to-year increase of more than 8 percent for nondefense and 6 percent for overall discretionary spending.

**Table 4: Historical Growth Rates in Discretionary Spending Compared to Republican Plan for 2001**

(Outlays; \$ billions)	Defense	Nondefense	Total
1998-1999 . . . . .	1.9%	5.3%	3.7%
1999-2000 (current CBO estimate) . . .	2.7%	6.7%	4.8%
1999-2000 (with supplemental) <sup>1/</sup> . . . . .	4.2%	8.1%	6.2%
<b>Republican 2001 Plan vs. 2000 freeze</b>	<b>1.9%</b>	<b>-1.8%</b>	<b>0.0%</b>

<sup>1/</sup> This tentative estimate for 2000 includes the President's supplemental request of \$8 billion in outlays, which is lower than the House-reported supplemental, currently reported as more than doubling the President's request.

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*Prepared by Senate Budget Committee Democratic Staff*  
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