106th Congress, 1st Session: No. 3 February 1, 1999

INFORMED BUDGETEER

CBO BASELINE BUDGET & DEFICIT PROJECTIONS - 1999-2009 (By Fiscal Year, In Billions of Dollars)													
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	5-yr	10-yr
Revenues	1,815	1,870	1,930	2,015	2,091	2,184	2,288	2,393	2,500	2,611	2,727	--	--
Outlays	1,707	1,739	1,779	1,806	1,881	1,951	2,032	2,086	2,166	2,255	2,346	--	--
On-budget	-19	-7	6	55	48	63	72	113	130	143	164	165	787
Off-budget	127	138	145	153	161	171	183	193	204	212	217	768	1777
Unified	107	131	151	209	209	234	256	306	333	355	381	934	2565

NOTE: CBO's baseline assumes that current budgetary policies do not change and discretionary spending equals statutory limits thru 2002 and inflation adjustment thereafter.

CBO ECONOMIC PROJECTIONS FOR CALENDAR YEARS 1999-2009												
	Estimate	Forecast					Projected					
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Real GDP (% change)	3.7	2.3	1.7	2.2	2.4	2.4	2.4	2.4	2.4	2.3	2.3	2.3
CPI-U (% change)	1.6	2.5	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	3.6	3.6
Unemployment Rate(%)	4.5	4.6	5.1	5.4	5.6	5,7	5.7	5.7	5.7	5.7	5.7	5.7
3-month T-bill (%)	4.8	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
10-year T-note(%)	5.3	5.1	5.3	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4

SOURCE: Congressional Budget Office. The Economic & Budget Outlook: Fiscal Years 2000-2009.

ECONOMIC OUTLOOK

- CBO released its new economic numbers along with its updated budget estimates. CBO looks for growth to slow moderately in 1999 and 2000 to a more sustainable pace, while inflation picks up slightly in reflection of tight labor market conditions and recent erosion of the dollar.

- CBO's numbers are largely in line with Blue Chip forecasts. However, it is interesting to note that they are more optimistic than CBO on real GDP growth throughout the budget window.

- Compared to CBO's August baseline, improved economics accounted for $149 billion of the increase in the FY2000-2004 budget projections and $389 billion over FY2000-2009. A more favorable near-term economic outlook and slightly higher wage and salary projections are the main sources for the revision.

US' SHRINKING DEBT

- One of the most remarkable aspects of CBO's new forecasts is the dramatic shrinkage in publicly held debt during the budget window. It is projected from 44% of GDP in 1998 to just 9% by 2009.

- Indeed, by 2012, the US will have eliminated its publicly held debt and will begin to accumulate assets. By 2020, the share of net assets to GDP is expected to hit 12%!!

- Unfortunately, the good news doesn't last forever. As the fiscal strains from the baby boomers retirement increase, these assets are sold off and the US starts to issue debt again. By 2060, publicly held debt is expected to comprise almost 130% of GDP.

- There is another reason why CBO's debt projections are interesting. In his State of the Union address, the President proclaimed that his budget would reduce the publicly held debt to less than 12% of GDP by 2015. Well, CBO's projections show that we would have net assets if we did nothing. This suggests that the President is doing something more than just reducing debt in his budget.

BACK OF THE ENVELOPE CALCULATIONS ON THE PRESIDENT'S BUDGET

- Under the President's budget, over the next 15 years, he would transfer $2.8 trillion (62%) of the unified surplus of $4.5 trillion to the Social Security trust fund.

- The Deputy Chief Actuary of the Social Security Administration recently provided in a memo the amounts that would be transferred from the General Fund to the Social Security trust fund under the President's plan. The Bulletin took the Social Security Administration's estimated transfers and derived the apparent unified surplus that will be in the President's budget. That derivation appears in the table below.

- It is unclear whether these are OMB's estimates of the unified surplus, but it turns out that for FY 2000, CBO's estimate of the unified surplus comes to $131 billion -- the same number as the derived unified surplus in the table below.

President's Social Security Proposal
($ in Billions)

Fiscal Year	General Fund Transfers to Social Security Trust Fund	Derived Unified Surplus
2000	81.4	131.3
2001	67.2	108.4
2002	88.3	142.4
2003	87.2	140.6
2004	105.6	170.3
2005	117.4	189.4
2206	148.6	239.7
2007	174.8	281.9
2008	203.2	327.7
2009	232.5	375.0
2010	256.4	413.5
2011	280.0	451.6
2012	300.0	483.9
2013	316.0	509.7
2014	324.0	522.6
Total	2,782.6	4,488.1

THE 62 PERCENT QUESTION(S)

- According to CBO, the unified budget will produce a surplus of $131 billion in FY 2000. This unified budget includes all transactions of the federal government. Social Security and the Postal Service are off-budget by law. If Social Security and the Postal Service are excluded, there is an on-budget deficit of $7 billion in FY 2000.

- By CBO's estimates, this unified surplus is due to the fact that Social Security's excess revenue collections along with interest earnings will reduce this $7 billion on-budget deficit by $137 billion (with a tiny bit of additional help from the Postal Service) in FY 2000, producing a $131 billion surplus in FY 2000.

- To recap, in FY 2000, the government will deposit $137 billion of additional funds into the Social Security trust fund. This same $137 billion in Social Security funds will produce the $131 billion unified surplus in FY 2000. The President's plan will take $81 billion, or 62% of this unified surplus in FY 2000, and deposit it into the same Social Security trust fund. Now, the Social Security trust fund has $218 billion added to it FY 2000.

- *What happens to the $7 billion on-budget deficit in FY 2000 under the President's plan?* When the general fund makes that $81 billion payment to Social Security, the on-budget deficit increases from $7 billion to $88 billion and the debt subject to limit increases by $81 billion.

- *What about the $131 billion unified surplus in FY 2000?* Since the unified surplus nets out the transactions between the payments from the general fund to the Social Security trust fund, there is no change in the unified surplus. It remains at $131 billion in FY 2000.

- *But, I thought the President wanted to dedicate 62% of the unified surplus to Social Security?* He cannot because the unified surplus is caused by Social Security. If Social Security is removed from the unified calculations, there is no surplus to dedicate to Social Security until 2001. If it is not removed, there is no impact on the surplus.

- *So how does he do it?* The short answer is double counting. For FY 2000, the President proposes to take $81 billion that has already been deposited in the Social Security trust fund and deposit it a second time in the trust fund.

THE COST OF A SOLDIER'S RIGHTS

- On January 27, 1999, the Armed Services committee reported out S. 4, "The Solider's Bill of Rights". The *Bulletin* has put together a rough estimate of the cost of this bill as follows:

Five Year Costs of S.4 as Reported by Armed Services
($ in billions, above CBO Dec. Baseline)

		2000-2004
Pay table reform	BA	3.6
	OT	3.6
4.8% Pay raise	BA	4.1
	OT	4.0
Subsistence allowance	BA	0.1
	OT	0.1
Repeal '86 pension reforms	BA	7.5
	OT	7.5
Thrift Savings Plan (TSP)	BA	0.2
	OT	0.2
TSP lost revenues	BA	0.4
	OT	0.4
Increase montgomery GI ed. benefits	BA	*
	OT	*
TOTAL	BA	15.9
	OT	15.8

*Cost unknown at this time.

THE GOVERNMENT AT RISK

- The GAO released two comprehensive management reports this week: the High-Risk Series and the Performance and Accountability Series. Senator Domenici and others asked the GAO to compile a summary of the major management problems facing the federal government. Together the reports suggest that a significant portion of our government is poorly run.

- The High-Risk Series overviews program areas which are vulnerable to waste, fraud, and abuse. For 1999, twenty-six areas qualify for the distinction, with the IRS, HUD, and DoD being the worst offenders.

- Nearly three-quarters of the programs have been on the list for at least five years. The GAO emphasizes that the impacted areas are not small or inconsequential: "Collectively, these areas affect almost all of the government's annual $1.7 trillion in revenue and span critical government programs and operations. ... Lasting solutions to high-risk problems offer the potential to save billions of dollars, dramatically improve services to the American public, and strengthen confidence in the accountability and performance of our national government."

- The new Performance and Accountability Series, which is broader in scope than the high-risk list, describes the most-significant management challenges across the executive branch. The series suggests that most agencies are still struggling with developing a results orientation, with upgrading information technology, with producing reliable and timely financial statements, and with effectively managing human capital.

- The GAO also emphasized that the federal government is not well coordinated: "In program area after program area, we have found that unfocused and uncoordinated crosscutting programs waste scarce funds, confuse and frustrate taxpayers and other program customers, and limit overall program effectiveness."

CALENDAR

BUDGET COMMITTEE HEARING SCHEDULE

All hearings will be held in Dirksen 608 at 10:00 am unless otherwise noted. Additional hearings may be scheduled.

February 2: **The President's Fiscal Year 2000 Budget Proposal;** Witness: Jack Lew, Director, Office of Management and Budget.
February 3: **The President's Fiscal Year 2000 Budget Proposal;** Witnesses: Robert Rubin, Secretary, Department of the Treasury; and Sylvia Mathews, Deputy Director of OMB.
February 9: **The President's Fiscal Year 2000 Budget Proposal;** Witness: Madeline Albright, Secretary of State.
February 11: **The President's Fiscal Year 2000 Budget Proposal;** Witness: Health & Human Services Secretary Donna Shalala (tentative)*Note time change: hearing will be held at 1pm.
February 12: **The National Defense Budget: Are We on the Right Course?;** Witnesses: Dr. James R. Schlesinger, Chairman, MITRE; Robert Zoellick, President, Center for Strategic International Studies; Dr. Lawrence Korb, Council on Foreign Relations (Rescheduled from January 25).

THANK YOU Director O'Neill; Dr. June O'Neill has served as Director of the Congressional Budget Office since March 1995. She has performed her duties with grace and courage, and we commend her for dedicated and faithful service to her country and the Congress.

✎Reminder: Testimony is available on our web site.