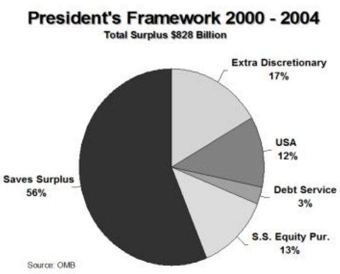
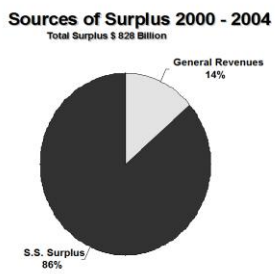
INFORMED BUDGETEER

WHAT DOES THE PRESIDENT'S BUDGET REALLY DO?

- Many people have gotten lost in the maze of the President's Social Security Framework because there are so many intergovernmental transfers and shell games.

- As such, we thought it would be useful to look at the President's framework on a standard, unified budget basis. This accounting shows how the budget will actually impact today's economy.





- There are two main points that stand out from these charts:

  1. OMB projects that Social Security will generate 86 percent of the cumulative surpluses between FY2000-2004. However, the President's framework allocates only 69 percent of the surpluses to this program and debt reduction. **Thus, the President spends $146 billion of Social Security's money on programs unrelated to Social Security.** This is an odd way to "save" Social Security.

  2. The President gives no real money to Medicare, despite his claims. All his framework does is to provide additional intergovernmental debt to the Medicare Trust Fund -- this has no impact on Medicare's cash flow, nor is it a use of the standard unified budget surplus.

- **Some have summarized the current budget debate as "saving Medicare versus tax cuts". These charts show that this is not the case.**

- Both the Administration and Congress want to use most of the surpluses for debt reduction and shoring up Social Security. The point of difference is that the President wants to spend the remaining surpluses on extra discretionary programs and Universal Savings Accounts (USAs), whereas the Congress wants to use them to provide tax relief. The President has not given real money to Medicare.

ONE SIZE FITS ALL?

- The *Bulletin's* head still hurts from trying to figure out in the last issue how the President's budget would expand discretionary spending while not exceeding the tight caps that freeze spending from 1999 to 2000. That *Bulletin* noted that the President's budget (table S-4, p. 368) appears to want to spend $18 billion more than the caps in 2000, using tobacco taxes, the paygo surplus, and mandatory savings as "offsets." Correction: the President's budget would augment the caps by $25 billion instead.

- The reason for the discrepancy is that the President's budget does not highlight all of the offsets that it uses to expand discretionary spending. The budget explicitly identifies only 11 mandatory proposals worth $6.8 billion that the Administration expects would be enacted by authorizing committees, but somehow would be made available to increase discretionary spending through directed scorekeeping or some kind of unspecified appropriations "trigger."

- However, buried in the account-by-account computer detail of the President's budget are 34 proposed user fees ($2.2 billion) and 9 other mandatory program changes ($4.7 billion) that the Administration expects would be directly enacted in an appropriations bill. Such proposals are supposed to make possible an additional $6.9 billion for increased discretionary spending in 2000.

- The largest of these is a proposed acceleration of $2.6 billion in spectrum auction receipts from 2001 and 2002 into 2000, which simply would not occur, even if mandated by law. Another ephemeral item is a $1.6 billion gimmick involving the TANF contingency fund that would have no real budgetary effect.

- This means that the President's budget really proposes to increase appropriations by $25 billion (not $18 billion) above the caps for 2000 without resorting to reductions in existing discretionary programs. The *Bulletin* will continue to root out ways in which the caps in the President's budget may have adjustable straps.

LOOKING AT THE BOOKS: SOCIAL SECURITY ACCOUNTING & SURPLUSES

- The idea of transferring surpluses into the Social Security Trust Fund has gotten a lot of attention in the past few weeks. In the interest of furthering debate on this topic the *Bulletin* has put together a quick review of the Social Security Trust Fund and what transfers would and would not accomplish.

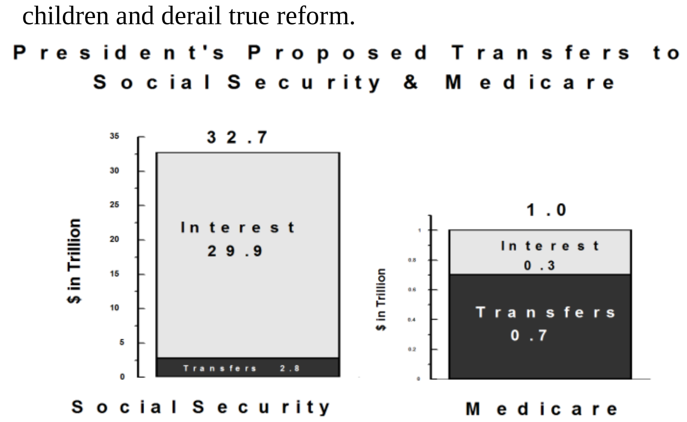
- The Social Security Trust Fund is an intergovernmental accounting system. Therefore, it is not a good measure of government's ability to pay benefits, nor a good measure of the government's promises of future benefits.

- Benefits are defined in law and not directly related to balances in the trust fund. Beginning in 2013, benefits will exceed payroll taxes. The government will have to raise taxes, cut spending, increase borrowing, or use more general fund money — just as if no trust fund existed.

- All budget surpluses reduce the public debt, but do not DIRECTLY help Social Security & Medicare. The President claims to "save" Social Security & Medicare by transferring trillions in new IOUs to these trust funds.

- However, these transfers have nothing to do with the budget surpluses or reducing the debt. The 15 year transfers including interest amounts to: Social Security: $4.3 trillion; Medicare: $0.9 trillion.

- By 2055, the transfers to Social Security total $32.7 trillion. Transfers increase TOTAL debt, pass a huge tax burden to our children and derail true reform.



TAXPAYER DEMOGRAPHICS - DATA FROM JCT

- In 1999, ***48 million*** Americans (35 percent of the public) won't pay any income tax. Generous expansions of the EITC in 1990 and in 1993, combined with the child tax credit enacted in 1997 completely relieved millions of people of the federal income tax burden.

- In 1999, ***19 million*** Americans will receive a check from the government in the form of the refundable EITC. Middle income taxpayers earning between $40,000 and $50,000 will pay nearly ***four times the amount*** of income taxes as taxpayers earning between $20,000 and $30,000 -- $3,566 vs. $935.

- Additionally, in 1999, ***11 million taxpayers, those earning above $100,000*** (8 percent of the total) ***will pay 62 percent of the income tax***.

- Ways and Means ranking member Rangel asked JCT who would receive relief under a 10 percent across-the-board income tax rate cut. Not surprisingly, JCT answered that 48 million Americans would receive no tax reduction -- that's because they pay no income taxes now!

- Representative Rangel also said that higher income taxpayers would benefit most from the proposed cut in marginal income tax rates. JCT data support this, but JCT data also say that higher income taxpayers pay a much higher proportion of total income taxes.

- Think of it this way -- if I overpay into my mortgage escrow account, the mortgage company gives me the refund, not the fellow down the street. Many Americans have overpaid in income taxes; they should be getting their own money back.

ECONOMICS

ARE OUR LONG-TERM FISCAL PROBLEMS FIXED?

- The Administration has fallen back on a very interesting defense of their budget — they argue that their framework constitutes real reform because it will keep the share of GDP going to Social Security and net interest near current levels out to 2050.

- OMB's conclusions run counter to similar long-term simulations by CBO and GAO which show entitlement costs rising sharply by the middle part of the next century even if we save all of today's projected surpluses.

Social Security & Net Interest as a Share of GDP
(By percent)

	2000	2050
OMB	7	5
CBO	7	11
GAO	7	10

- Why is OMB the outlier? It is unlikely to result from the assumed passage of the President's framework, since the framework actually generates lower surpluses than the current services baseline assumes. Indeed, OMB reached basically the same conclusion in last year's analysis, well before the framework's genesis.

- OMB's incongruous results stem mainly from their assumed path for discretionary spending. They assume that such spending falls from 7 percent of GDP today, to just above 3 percent by 2050. This seems very unlikely in light of future population growth and the growing need to refurbish our aging defense infrastructure. CBO and GAO assume that discretionary spending will remain constant as a share of GDP.

- Largely due to their draconian discretionary assumptions, OMB projects that the US will eliminate its publicly held debt by 2015 and will go on to accumulate net assets totaling a staggering 40 percent of GDP by 2050. In contrast, CBO and GAO assumes that we will have net debt exceeding 50 percent of GDP by 2050. That is why OMB forecasts such a plunge in net interest costs over the next century.

- OMB's sole focus on Social Security and net interest is also misplaced. It is impossible to gauge the US' long-term fiscal outlook without considering Medicare and Medicaid. Here, even OMB's results show that we are on an unsustainable long-term fiscal track.

Social Security, Medicare, Medicaid & Net Interest
as a share of GDP (By Percent)

	2000	2001
OMB	11	15
CBO	11	20
GAO	11	20

- Unfortunately, there is little in the President's framework that will improve the existing, bleak long-term fiscal outlook. Indeed, by spending a portion of the projected surpluses, he could even make things worse.

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.

March 2: **President's Fiscal Year 2000 Budget Proposal;** Witness: William Cohen, Secretary of Defense or John Hamre, Deputy Secretary (tentative) and General Henry Shelton, Joint Chief of Staff. *Hearing will be held at 2:00pm.
March 3: **CBO Analysis of the President's FY2000 Budget**; Witness: Dr. Dan Crippen, CBO Director.
March 5: Committee views & estimates reports due to Senate Budget Committee.
March TBA: **President's Social Security Framework,** Witness: Commissioner of Social Security, Kenneth S. Apfel.