

## INFORMED BUDGETEER

## CBO ANALYZES PRESIDENT'S BUDGET

- Last week, CBO Director Crippen testified before the Senate Budget Committee on CBO's reestimate of the President's budgetary proposals for 2003. As is normally the case, CBO estimates higher deficits or lower surpluses for each year than does OMB for the policies proposed by the Administration.
- The President's budget would, according to CBO, yield a deficit of \$43 billion in 2003 (without the economic security package), which is \$40 billion larger than estimated by OMB. As the table below shows, the primary policies that would convert a baseline surplus into a deficit next year are increased spending for defense and the farm bill. Over the ten years, defense spending, extending expiring tax provisions, and medicare account for about 85 percent of the change in the surplus over the next 10 years (not including debt service and the economic security package).

CBO's Reestimate of President's FY2003 Budget (\$ in Billions)				
	2002	2003	03-07	03-12
CBO March baseline surplus(+)/deficit(-)	5	6	489	2,380
Minus cost of budget proposals				
Defense	0	26	170	483
Medicare Reform	0	1	45	169
Farm Bill reauthorization	4	7	36	72
Charitable giving incentives	*	1	11	29
Health tax credits	0	1	35	89
Reform unemployment	0	0	5	20
Extend R&E and 2010 tax provisions	0	1	24	427
Other proposals	1	7	7	-9
Related debt service	*	5	40	250
Subtotal budget proposals	5	49	373	1,530
President's Budget surplus(+)/deficit(-) without H.R. 3090 <sup>a/</sup>	*	-43	116	850
Minus cost of H.R. 3090 <sup>a/</sup>	52	47	73	49
President's Budget surplus(+)/deficit(-) with H.R. 3090 <sup>a/</sup>	-52	-90	43	801

Source: CBO \* = less than \$500 million  
 Note: All surplus/deficit figures are for the total federal budget, including social security surplus.  
 a/ H.R. 3090 is the Job Creation and Worker Assistance Act of 2002 – the economic stimulus bill – which cleared for the President's signature on March 8, 2002; includes associated debt service cost.

- That CBO developed estimates different from OMB's is not surprising, though the difference between the two estimates is quite small – about 1 percent of total outlays and revenues in 2003. What may be more interesting is the companion product – the CBO revised baseline, which updates the January baseline released 6 weeks ago.

Changes in CBO Baseline Projections Since Jan. 2002 (\$ in Billions)				
	2002	2003	03-07	03-12
CBO Jan. baseline surplus(+)/deficit(-)	-21	-14	437	2,263
Increase in revenue projections				
Economic	23	15	18	18
Technical	*	*	2	9
Total increase in revenues	23	15	20	27
Changes to outlay projections				
Legislative - mandatory	*	*	5	12
Economic (debt service)	*	-1	-11	-26
Technical				
Discretionary	-2	-3	-8	-18
Mandatory				
Medicare	-1	-2	-25	-78
Medicaid	3	2	10	21
Debt service	*	*	-5	-25
Other	-3	-2	2	24
Total outlay changes	-3	-5	-32	-90
Total increase in the surplus	26	20	52	117
March baseline surplus w/o H.R. 3090	5	6	489	2,380
Minus cost of H.R. 3090	52	47	73	49
March baseline surplus/deficit(-) w/HR 3090	-47	-41	416	2,331

Source: CBO

\* = less than \$500 million

- Director Crippen testified how surprised CBO was by the strength of economic growth in the fourth quarter (October - December) of 2001, which was reported at an annual rate of 1.4 percent instead of negative growth as had been expected. As a result, CBO updated its growth forecast, which results in the higher revenues and lower debt service costs reflected in the revised baseline figures in the table above.
- In the near term, these economic changes fleetingly turn baseline deficits (estimated back in January for 2002 and 2003) into narrow surpluses – that is until H.R. 3090 is enacted. Over the long term, the largest change in the surplus outlook results from projections of Medicare outlays that are lower by \$78 billion over the 10-year period. Partially offsetting this decrease is a \$21 billion increase in projected Medicaid costs over the next 10 years.
- In total, CBO calls its current budgetary outlook “slightly more favorable than the one published in January.” Despite its observation that the “economy is currently rebounding in remarkable fashion,” CBO adds extra emphasis to its usual caution that uncertainty surrounds the outlook for future growth.

## VIEWS AND ESTIMATES

- Under the Congressional Budget Act of 1974, Congressional committees are required, within 6 weeks of the President's budget submission, to review that budget and submit to the Budget Committees their “views & estimates” on appropriate spending or revenue levels for programs within their jurisdiction. The following summarizes a portion of the letters received by Chairman Conrad and Senator Domenici. Next week's *Bulletin* will summarize the remaining letters.

## ARMED SERVICES

Chairman Carl Levin noted there remains a need for another 2002 supplemental to pay for the continuing costs of the war. Regarding the 2003 budget request, he stated “a concern about the request for \$10 billion in funding for which no specific programs have been identified.” Chairman Levin also noted that the DoD budget includes “approximately \$10 billion in each year beyond fiscal year 2003 for programs described as related to ‘the cost of war.’” Chairman Levin also advocated “business process reforms,” “acquisition reform,” and “improved financial management.”

Chairman Levin also recommended additional mandatory spending for concurrent receipt legislation, which CBO estimated as \$43 billion over ten years. This legislation would spawn \$14 billion in discretionary costs to the National Defense budget function over the same period.

Ranking Minority Member John Warner wrote separately strongly advocating full support for the entire Department of Defense request from the President. While he made no mention of the Department of Energy and other portions of the National Defense budget function, he stated that the function's total should stay at the President's requested level of \$396.8 billion. Apparently within that total, he advocated possible increases for DoD. He argued, "this budget request does not fully address the requirements of our military, as evidenced by lists of 'unfunded requirements' submitted by the services which are in excess of \$23 billion."

Like Chairman Levin, Ranking Member Warner also advocated funding for concurrent receipt legislation. He did address the mandatory and discretionary costs for 2003, \$3.1 billion and \$1.0 billion respectively, and he argued that this funding should be added above DoD's total of \$379 billion, but he did not argue that the function total should be increased in a commensurate manner.

## **FINANCE**

### *Medicare:*

Writing jointly, Chairman Baucus and Ranking Member Grassley support a comprehensive drug benefit as part of Medicare modernization. In addition, they believe that any Medicare reform proposal should address access in rural and other underserved areas, guarantee the availability of benefit options over time, and promote cost containment. They believe that Medicare+Choice requires reform, and that payments under this program should be made on a competitive basis. The Committee plans to consider recommendations for Medicare provider givebacks and to continue its efforts to provide regulatory relief to hospitals, physicians, and other providers. The Chairman and Ranking Member expressed concern about the funding level for the Center for Medicare and Medicaid Services (CMS), noting the Congressionally-mandated workload the agency has taken on without commensurate increases in appropriations.

### *Health Insurance:*

The Chairman and Ranking Member believe that the issue of the uninsured will need to be addressed through a combination of public programs and tax incentives. They support funding for the Family Opportunity Act, which would allow parents of severely disabled children to buy into the Medicaid program.

### *Welfare Reauthorization:*

This year, the Committee intends to reauthorize the 1996 Welfare Reform legislation and review related programs that support low-income workers. The Chairman and Ranking Member oppose any cuts to the welfare block grant and support restoration of the Contingency Fund and the Supplemental Grants to poorer states – both of which expired at the end of 2001. (The stimulus bill, which Congress cleared for the President last Friday, included an extension of both the contingency fund and the supplemental grants, but for 2002 only.) In addition, they support increasing the funding of the Social Services Block Grant from \$1.7 to \$2.8 billion.

### *Trade:*

The Committee will push for enactment of the Andean Trade Preference Act, which was reported last year, and for an extension of

the Generalized System of Preferences, which expired in 2001. The Committee *may* consider legislation on the World Trade Organization dispute over the tax treatment of U.S. companies' overseas operations.

### *Revenues:*

The Committee has reported legislation that provides tax incentives for energy security. The Committee intends to mark up legislation to provide incentives for charitable giving, will review proposals for pension reform, and will promote legislation for rural America economic development. In addition, the Committee expects to consider legislation to address abusive tax shelters.

### *Social Security:*

The Committee may request additional administrative funds for the Social Security Administration if justified by an upcoming report from the new Social Security Commissioner. The Committee also recommends that if the discretionary budget caps are extended, funds for the administration of Social Security, which are off-budget, be excluded from the caps.

## **HEALTH, EDUCATION, LABOR AND PENSIONS (HELP)**

HELP Chairman Kennedy argues for a halt to the "systemic diversion of payroll tax revenue" away from Social Security. By way of a solution, the Chairman proposes to raise \$350 billion in revenue by postponing future marginal tax rate reductions and maintaining the death tax, in addition to closing "corporate tax loopholes." Chairman Kennedy then endorses nearly \$1.6 **trillion** in new spending, including a "universal" prescription drug benefit (\$800 billion), expanding health insurance coverage (\$120 billion), and mandatory full funding of special education (\$180 billion).

In a separate letter, the Committee's Ranking Member, Senator Gregg, supports the President's proposals to increase Title I funding by \$1 billion, provide supplemental funding for the Pell Grant shortfall in 2002, consolidate student aid administration, provide expanded loan forgiveness for teachers, and create a new tax credit to help low-income parents pay for private school tuition for kids in failing schools. Gregg also stresses that funding increases for IDEA "must be linked to fundamental reform."

On the health side, the Ranking Member supports the President's prescription drug card for Medicare and believes that any longer term prescription drug proposal must be coupled with structural reforms that address Medicare solvency. He also endorses the President's plan for tax credits to expand health insurance and supports efforts to expand the number of community health centers and clinics. In addition, he supports the President's \$20 million Healthy Communities Initiative to reduce the incidence of obesity, diabetes, asthma, and heart disease. The Ranking Member supports efforts to prepare for and respond to bioterrorist attacks and cites the need for additional short-term emergency funding at the Federal, State, and local levels. Finally, the Ranking Member supports the reauthorization of the Prescription Drug User Fee Act.

## **ENVIRONMENT AND PUBLIC WORKS:**

In a jointly signed letter from Chairman Jeffords and Ranking Member Bob Smith, the Committee outlined its legislative agenda with budgetary impacts.

*Federal Highways:*

The Committee strongly supports adding at least \$4.4 billion in highway funding to the President's 2003 request. The Administration's budget followed TEA-21, which contains a provision known as revenue aligned budget authority (RABA). The RABA adjustment for 2003 is a negative \$4.4 billion due to lower receipts associated with the weak economy. The Committee also supports the continuation of the highway and transit spending caps in 2003 and beyond.

*Environmental Protection Agency:*

The Committee strongly supports the Administration's request of \$200 million for the Brownfields program, an increase of 104% from the 2002 level. The Committee is concerned that for the first time, 50 percent of the Superfund program will be funded from the general fund, a number that will continue to rise as the Superfund Trust fund is nearing depletion.

The Committee continues to support the State Revolving Loan Funds and would support funding levels at no lower than last year's level. The Committee is concerned that the Administration assumes that the Clean Water State Revolving Fund will not need federal assistance after 2006 when it reaches a capitalization level of \$2 billion. With a backlog of \$300 billion to \$1 trillion in local clean water projects, the Committee feels the requested level is not an adequate level of funding.

*US Army Corps of Engineers:*

The Committee is concerned about the Administration's request to significantly reduce funding for the Corps. Even though funds have been requested to complete 30 construction projects, the Committee is worried about the continuing backlog in Corps projects.