

CBO's Reestimate of the President's Mid-Session Review for 2001

On July 28, the Congressional Budget Office (CBO) released a report entitled, *An Analysis of the President's Mid-Session Review of the Budget for Fiscal Year 2001*. The report analyzes the President's Mid-Session Update of the 2001 Budget based on CBO's economic and technical estimating assumptions. This fact sheet presents some of the key budget data in the CBO report. The complete document can be found at www.cbo.gov.

CBO's estimates of the President's February budget were based on baseline projections made in January. These projections were revised in July. CBO's analysis presents the new projections, and uses them to evaluate the new policies proposed by the President in the Mid-Session Review (MSR).

CBO's July update increased baseline projections of the cumulative unified surplus by nearly \$1.5 trillion over 10 years. The new policies in the MSR allocate one third of this additional surplus for debt reduction, reserve one third in a special fund for unspecified "national priorities," and use the remaining third for an expanded prescription drug benefit, other Medicare-related initiatives, additional discretionary appropriations, and debt service costs.

CBO's Reestimate of the MSR

- ! ***CBO projects larger budget surpluses than OMB.*** CBO estimates that the policies in the President's MSR would result in a cumulative total budget surplus of \$3.2 trillion over the 2001-10 period, \$334 billion higher than the surpluses projected by the Office of Management and Budget (OMB).
 - *On-budget surpluses* (excluding Social Security and the Postal Service) would reach \$863 billion according to CBO — \$268 billion higher than OMB's projection.
 - *On-budget surpluses excluding Medicare's Hospital Insurance (HI) trust fund* are estimated to be \$407 billion by CBO compared to \$49 billion by OMB.
- ! ***Moving Medicare off-budget and Medicare solvency.*** The MSR contains a new proposal to move the entire Medicare HI trust fund off-budget and also proposes to transfer \$115 billion of the on-budget surplus to the HI trust fund to extend solvency through 2030. Shifting the HI trust fund off-budget would increase the off-budget surplus by \$457 billion over the next 10 years — amounts that could be used to reduce debt and strengthen Medicare.
- ! ***Debt reduction.*** More than 70 percent of the total surplus is reserved to pay down debt and extend the solvency of Medicare. All debt held by the public that is available for redemption would be retired by 2009. Total debt held by the public — net of excess accumulated cash — would be eliminated by 2011.

Table 1: CBO Reestimate of President's Budget

(\$ billions; inflated baseline)	2001	2001-05	2001-10
CBO total baseline surplus	268	1,696	4,561
<i>Social Security/Postal off-budget</i>	165	1,001	2,388
CBO on-budget baseline surplus	102	695	2,173
<u>Changes to unified surplus</u>			
Revenues:			
Reductions	5	100	352
Increases	<u>-15</u>	<u>-95</u>	<u>-205</u>
Subtotal	-10	5	147
Discretionary:			
Defense	-2	-14	-37
Nondefense	<u>2</u>	<u>-1</u>	<u>-35</u>
Subtotal	-1	-15	-72
Medicare prescription drug benefit	(*)	98	338
Other Medicare initiatives	4	13	13
Family care	(*)	11	56
Other mandatory health initiatives	(*)	7	22
EITC, Child Care and other refundable tax credits	3	16	45
Other mandatory changes	-3	5	15
Reserve for America's Future	20	123	500
Debt service (including America's Reserve)	<u>1</u>	<u>39</u>	<u>251</u>
Total changes	14	302	1,315
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Total MSR budget surplus	254	1,394	3,246
On-budget MSR surplus	89	395	863
Medicare solvency reserve	31	45	115
Medicare HI off-budget a/	31	178	341
On-budget MSR surplus w/o HI	27	172	407

a/ HI trust fund surplus as modified by proposals in the President's budget.

Note: Detail may not add to totals due to rounding.

- ! **Tax cuts.** The President's tax cut proposals total \$352 billion between 2001-2010 (not counting about \$45 billion in refundable tax credits, which are scored as outlays). Higher excise taxes on tobacco, user fees, and other provisions increase revenues by \$205 billion, leaving a net reduction in revenues of \$147 billion over 10 years. The President did not modify the revenue proposals in the February budget, but noted that a portion of the Reserve for America's Future could be used to augment his package of targeted tax cuts.
- ! **Discretionary proposals.** The President set caps on budget authority and outlays for discretionary spending at levels slightly below those that would allow future discretionary spending to keep pace with inflation. Although these spending levels are about \$30 billion above those proposed in the February budget, they remain \$75 billion below CBO's revised discretionary baseline for the period 2002-2010. Under the President's proposal, discretionary budget authority would grow at an average annual rate of 2.3 percent, significantly below recent trends. For 2001, CBO estimates that the Administration's proposed level of budget authority would be \$83 billion above the current statutory cap on discretionary spending.
- ! **Prescription drug benefit.** Proposals in the MSR expand the President's proposal for a prescription drug benefit to include catastrophic coverage and to begin the benefit in 2002 rather than 2003. CBO estimates that the revised proposal will add \$182 to their previous estimate, bringing the total cost of the benefit to \$338 billion over 10 years.
- ! **Other Medicare.** The MSR eliminated certain provider cuts proposed in the President's February budget and proposed \$40 billion in higher payments to other Medicare providers. These changes total \$79 billion over the 10-year period relative to the February budget. Total spending on Medicare — excluding the prescription drug benefit — exceeds the baseline by \$13 billion over 10 years.
- ! **Family Care.** Spending for the President's Family Care initiative costs \$56 billion over the 10-year period, an estimate unchanged from CBO's earlier analysis.
- ! **Refundable tax credits.** Most of the remaining mandatory changes in the MSR are for refundable tax credits, mainly for the Earned Income Tax Credit (\$22 billion) and the Child and Dependent Care Tax Credit (\$20 billion).
- ! **Reserve for American's future.** The MSR allocates \$500 billion over the 2001-2010 period for unspecified national priorities. These priorities can include retirement savings proposals, targeted tax cuts, investments in education, research, health, and the environment, or further debt reduction. The reserve also provides a margin of insurance in case the long-term budget projections prove overly optimistic.
- ! **Spending as a percent of GDP.** Total spending under the President's plan increases by 3.2 percent between 2000 and 2001. As a share of the economy, spending declines from 18.7 percent in 1999 to 16.5 percent of GDP by 2010 — *the lowest percentage since 1956.*

Table 2: Comparison of CBO and OMB Estimates of the Mid-Session Review

(FY 2001-2010; \$ billions)	OMB	CBO	Difference
<u>Baseline Differences</u>			
Total baseline surplus	4,193	4,561	+368
On-budget baseline surplus	1,873	2,173	+300
<u>Policy Differences</u>			
Revenues:			
Reductions	321	352	89
Increases	<u>-181</u>	<u>-205</u>	<u>-82</u>
Subtotal	140	147	7
Discretionary	0	-72	-72
Health care initiatives:			
Prescription drug benefit	253	338	85
Other Medicare initiatives	9	13	4
Family care	76	56	-20
Other Medicaid/SCHIP	14	20	6
Other Federal health programs	<u>2</u>	<u>2</u>	<u>0</u>
Subtotal, mandatory health	354	429	75
EITC and Child Care refundable tax credits	34	42	8
Other mandatory changes	-4	18	22
Reserve for America's Future	500	500	0
Debt service (with America's Reserve)	<u>257</u>	<u>251</u>	<u>-6</u>
Total changes	1,281	1,315	33
Total MSR budget surplus	2,912	3,246	334
On-budget MSR surplus	595	863	268
Medicare solvency reserve	115	115	0
Medicare HI off-budget a/	431	341	-90
On-budget MSR surplus w/o H I	49	407	358

a/ HI trust fund surplus as modified by proposals in the President's budget

Note: Detail may not add to totals due to rounding.

Comparison of CBO and OMB Estimates of the Mid-session Review

- ! ***Differences in baseline estimates are mainly due to revenues.*** CBO's projections of the total baseline surplus for 2001-2010 exceed OMB's estimates by \$368 billion. About 70 percent of this difference is due to CBO's higher revenue estimates.

- ! ***Economic differences are minor.*** CBO assumes slightly slower growth of real gross domestic product than OMB and lower unemployment rates for the first half of the decade. For 2000 and 2001, CBO assumes higher interest rates but after that, the Administrations forecast of short-term rates is about 1 percent above CBO's. Different assumptions about inflation, however, explain much of the \$72 billion difference between OMB and CBO estimates of discretionary spending. The President holds discretionary spending at about the rate of inflation over 10 years, but since CBO assumes higher rates of inflation, these levels fall below their estimates of the inflated discretionary baseline.

- ! ***Policy reestimates are mainly due to health care initiatives.*** CBO estimates that MSR policies will cost \$33 billion more than OMB over 10 years. The most significant reestimates are related to the President's health care initiatives. CBO's estimate of the prescription drug benefit is \$338 billion, \$85 billion higher than OMB's estimates. This difference is offset in part by CBO's estimate of the President's Family Care proposal, which at \$56 billion is \$20 billion below OMB's estimate.

Prepared by Senate Budget Committee Democratic Staff

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