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MID–SESSION REVIEW AND UPDATE OF THE BUDGET AND ECONOMIC OUTLOOK

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTH CONGRESS

FIRST SESSION

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CONTENTS

MID–SESSION REVIEW AND UPDATE OF THE BUDGET AND ECONOMIC OUTLOOK

WEDNESDAY, SEPTEMBER 5, 2001

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to call, at 10 a.m. in room 210, Cannon House Office Building, Hon. Jim Nussle (chairman of the committee) presiding.

Members present: Representatives Nussle, Sununu, Bass, Gutknecht, Hilleary, Thornberry, Hastings, Granger, Schrock, Culberson, Brown, Putnam, Spratt, McDermott, Bentsen, Clayton, Clement, Moran, McCarthy, Capuano, Honda, and Matheson.

Chairman NUSSLE. Budget Committee will come to order.

I appreciate all of the members coming back slightly early from the August recess to participate in this hearing today.

This is a full committee hearing on the Mid-Session Review and Update on the Budget and Economic Outlook.

We have two witnesses before our committee today, the Honorable Mitch Daniels, the Director of the Office of Management and Budget, and Daniel L. Crippen, the Director of the Congressional Budget Office.

Before I begin, let me make a couple of opening comments, and I would ask unanimous consent that all members be allowed to put in an opening statement, written statement, for the record at this point. Without objection so ordered.

Let me start by saying thank you. When we started this year, Mr. Spratt and I decided that we wanted to make this committee a full-time committee. There has been times in the past when the Budget Committee wrote the budget and went through that whole budget process and then the focus seemed to change, and we didn't always follow up with some of the important economic information that occurs throughout the year—as people know—and to review that and to have an ongoing process of the budget throughout the entire fiscal year. We made a commitment to ourselves this year, that we were going to change that, which is easy for members to do, but not quite so easy for the staff.

While we were out in our districts working, some of us having a needed break from Congress, I took my kids to—in fact my daughter Sarah is with me today, and she is helping me out as an assistant. I took my kids to Springfield, Illinois, to learn a little bit about Abraham Lincoln, that is where I used my $300 check. You got yours, Henry. Spend it. Buy American, will you, please? Stimulate that economy.

But while we were out doing those kind of things, the Budget Committee staff, Republican side and Democratic side, were very busy working, and I want to thank them for all of their hard work.

You see here in the committee room a number of changes. We have a new audio-visual presentation system that we will be making use of today just as a demonstration, but for members' purposes this will be available for use throughout the year.

The staff were busy analyzing the data that was coming in from the Office of Management and Budget and the Congressional Budget Office. They do a tremendous job while we are not here to prepare us so that when we come back from a work period, such as we were on, we can hit the ground running. I want to acknowledge Rich Meade and Tom Kahn and all of the folks at the Budget Committee, on both sides, who do a tremendous job for us and thank them on behalf of all of the members.

I would also like to thank the staffs of the Congressional Budget Office and the Office of Management and Budget for their hard work in helping with all of this information. We are going to have a lot of discussion today, some taking issue with some of the information that they are going to submit. That is fine. These are forecasts. That is in part what we are supposed to do. But that doesn't mean that we don't acknowledge and thank their hard work that they do in putting this hard information together.

I would also like to just mention that during this past week, the staff director for the Democratic side lost his mom, and I just wanted to tell him on behalf of the entire committee, that the entire Kahn family is in our thoughts and prayers—that is not easy to have to go through.

Director Daniels went through that this year as well, and while we are running through all of the politics, we have to remember we are all human beings and we have families and it is not easy to go through that.

You are in our thoughts and prayers, and we appreciate that you would be back here working with us already today.

Now, what we are going to review today is similar to a weather report. At least that is the way I like to look at it. We have got some weather forecasters that try to do a good job in predicting the future and letting us know exactly what the weather is going to look like: Sunny, partly cloudy, stormy.

I related when I came back that my sister had gotten married just a couple of weeks ago, and we hung on every word for the weather report that was coming up for that Saturday because she had an outdoor wedding. Well, it said it was going to be partly cloudy, and it rained out the wedding, and so we had to go inside. And then there was a power outage as a result of that. So it was not only a storm, but it was a pretty big storm. Even though we make forecasts, or we try to make those forecasts, those forecasts are not always right.

These are projections that the Congressional Budget Office has put forward, that the Office of Management and Budget has put forward. What we know is—if we know anything—they are not completely accurate, they are forecasts. They do the best job they can in putting forth good information, and we try and base our decisions on them, as we did in January and again in May. These are forecasts and you can't bet the entire farm on them. But you do have to make decisions based on them.

What we do know is that the budget is tight. That is exactly where we want it to be, and that is exactly where we need it to be because of the softening economy.

We have already heard, because of the tight budget, a lot of hand wringing, and lot of whining. In fact, the "D" word has come back into the lexicon of politics; the word "deficit."

The observation I would make is that the only deficit that I see is the deficit between what people want to spend and what we are going to spend under this budget. We need to stick to this budget. We need to make sure that we enforce this budget, and if we do we will be just fine.

Let's review a few things that happened this year. In front of this committee in January, the Congressional Budget Office came forward and reported three very important concerns. Number one, they said that the economy was softening. They built into their 10-year numbers, in fact, the word "recession," which has not yet occurred according to most economists, but they built that into their numbers.

Second, they said that Washington was running the largest surplus in American history, and that was a concern. And third, that Federal spending was growing at twice the rate of inflation. Up until that point in time, $100 billion were added to the budget over the last 4 years alone.

We had been warning President Clinton about taxes being too high and about spending being too excessive, and in part that is why we built the budget that we did this year.

Before this budget panel we had heard from Director Greenspan. As an example, Chairman Greenspan warned us that the economy would soften, and it has done so. He said large surpluses are as dangerous as large deficits. So we had four budget goals that we put into this budget.

Number one, provide tax relief now. In a softening economy, the family budget is as important, if not more important, than the Federal budget. We agreed to take that into consideration. In fact, our friends on the other side offered to help us with regard to that and suggested that we do the rebate, and some suggested we do it even faster in 2001 than we did.

But the fact of the matter is that we got $41 billion that is heading out of town into the pockets of the American people in order to deal with the economy and in order to get that surplus into the pockets of families.

The second goal of the budget beyond providing tax relief was to pay off the debt in the next 10 years, and in fact we built that into this budget.

Third was to protect every penny of Social Security and Medicare.

Number four was to restrain spending. These were the four budget goals.

I believe that is what we have accomplished based on the review that we have seen thus far. Number one, we have the second largest budget surplus in history. And if you view the chart that we have on our new fancy dancy screens, you can see that from 1995, when we were running actual unified budget deficits through today and beyond. We are running, not only as can you see there for 2001 the second largest surplus in history, but surpluses as far as the eye can see.

Secondly, we provided tax relief to the tune of $41 billion, and we got that out the door.

Third, we have provided already almost half a trillion dollars of debt repayment; $479 billion of debt has already been paid off. That is, if we went home today and did nothing more, already $479 billion of the publicly-held debt has been paid off, and that was the unthinkable as a goal or an achievement just 10 years ago when I came to Congress.

Next, not one penny of Social Security or Medicare is going to be used for anything except Social Security and Medicare. In fact, the focus now I believe should turn toward modernization. The worst enemy of Medicare is Medicare itself. If we don't modernize Medicare—we heard at a GAO report that was right before us just before we went on our district work period—it will completely and totally engulf the budget. In fact, we need to modernize Medicare and we need to consider some modernization for Social Security from the Pay-As-You-Go system, that we have right now into something that can in fact achieve retirement security for generations to come.

So finally, the question is spending, and this is the observation that I make on spending.

If you look at where we have wanted to be over the last 4 years and where we have ended up, we have got a problem. The spending caps suggested a reasonable growth of spending, one that has not been achieved during those 5 years, those last 4 years. As a matter of fact—as you can see there—this year alone, in 2001, we have added about $100 billion of new spending over what was projected—over what was budgeted according to our budget agreement.

Now, you can't sustain that. In fact, you are not going to pay off the debt, you can't protect Social Security, you can't protect anything if in fact you continue to grow spending at that kind of a rate.

When we passed the budget for this year, we decided that the rate of growth needed to slow down to the rate of inflation instead of twice the rate of inflation. So growth and spending will continue, but it will grow at a much slower rate. All of this fits within a budget that pays off the debt in the next 10 years, that provided the kind of tax relief that we have provided that can help jumpstart the economy, and can make sure that we protect Social Security and can modernize Medicare into the future.

So while there will continue to be hand wringing, in fact not only hand wringing, it is even more ostentatious than that, Senate Democrats wield power, feast on pork. Yesterday they had a hearing over in the Senate saying that the budget was in trouble. The next day the headlines confirmed that—but behind the scenes the Senators were cutting up the pie and already adding to it. So don't wring your hands about the budget on the one hand and then add to spending on the other.

Spending is the problem here. We have seen it time and time again. We saw it in 1981, when there was tax relief in a sagging economy. Spending went up, and we ran deficits. We can go down that road again. Spending can cause it, but we have to control it if we want to stick within the budget that we have.

Today we are going to hear from the two experts in the budget. Both have been before the committee before and we appreciate the fact that they would come here and share their expertise.

With that, I would like to turn to my friend and colleague Mr. Spratt who just became a grandfather. Again.

Mr. SPRATT. Again.

Chairman NUSSLE. We congratulate you on that, and welcome back from the break.

Mr. SPRATT. We are glad to have Sarah here today helping us out.

Mr. Chairman, we come back to a very different situation than the one we left just a few weeks before. When we left we were talking about Medicare prescription drugs. We were talking about a plus-up in the defense bill of $18.4 billion. We were talking about a plus-up in education.

The Ag Committee has marked up a new farm bill that adds about $74 billion to the farm program over the next 5 years. What we have got now is a situation where none of this is easily possible.

Director Daniels, if CBO is correct in its prognosis forecasts and analysis of the budget over the next 10 years and the economy, then we are in a situation where the Medicare surplus—which we believe is a legitimate surplus—and the trust fund surplus, will be invaded for the next 4 fiscal years, including the current fiscal year.

In addition, Social Security, which you acknowledge should be held inviolate, will be invaded this year and again in 2003 and again in the year 2004.

The key thing to understand is that the CBO baseline factors in only inflation on top of existing spending; it is running in place with respect to existing programs.

If we want to do the tax cuts that Mr. Daniels and President Bush lay out in the appendices of this book, the unfinished agenda with respect to tax reduction, which include repealing the sunsets in the tax bill just passed, the cost and revenues will be $314 billion. That is using their appendix, their number.

If we want to do the Medicare projection drug proposal which the administration is now advancing, they are proposing $190 billion even though the chairman of the Senate Finance Committee, Senator Grassley, said when that was proposed it was inadequate. $300 billion is the minimum necessary, particularly if there is going to be catastrophic coverage. If we put it in at $190 billion, and if we just put in the $18.4 billion in defense and make a few final minor adjustments, you can see what happens to the bottom line. It goes red. With respect to Medicare and Social Security, we have got an invasion of Medicare and Social Security through 2005, Medicare through 2008.

So, none of the things that we were talking about on the agenda that we thought were doable in the budget we had in January are doable now. There may be a radical reversal of our situation between July and September, particularly if CBO is correct, because CBO only assumes that inflation will be added and anything else has to come on top of that.

So we find ourselves really, Mr. Daniels, I believe, with an inoperative budget. All of those items were anticipated as part of this year's budget and they now seem to be impossible. The Ag Committee was told that they would have $70 billion to $75 billion to add to a new farm bill. That is not included in your budget. It is not doable under the CBO projection or your projection.

The Education Committee was told that there would be more money for education. Mr. Bush, when he delivered his State of the Union message, said, "When you get my budget, you can look at the accounts and you will see that the account that is increased by the most is the account for education." .

It too will be squeezed. In both the CBO budget and your budget, there is barely anything there for a significant increment in education. So we have got a very, very different situation from the situation we left just a few months ago. It reminds us of how fickle these forecasts can be. I don't think they are quite as unpredictable as a weather forecast, Mr. Chairman, but I do think it counsels what we have been trying to counsel since January; that is, caution and relying—overrelying on these particular forecasts, having a substantial margin of error built into any budget.

We appreciate your coming. We appreciate Dr. Crippen coming. We look forward to the answers to our questions and we believe that we have a serious problem on our hands. Over the break, on three different occasions, the Democratic leadership has written the President, and we received back, Mr. Daniels, an answer back today, responding to concerns that we raised in our letter.

You indicated that you wanted to avoid partisanship, and we do too. This is too serious a matter to get into partisanship. We have strongly held beliefs on both sides, but we need to tackle this problem with real earnest and resolution.

We need to sit down and deal with it. We have got to get past denial and recognize that we have got a problem. This is not simply business as usual; we have got a problem. If the economy gets any worse, then we have got an even bigger problem. We don't want it to get worse. We don't want to do anything that is counter-cyclical or counter to the best interests of the economy in anything that we do, and therefore what we do has to be deliberately chosen and we are ready to engage in that respect.

Chairman NUSSLE. Thank you. Director Daniels, welcome back to the Budget Committee. We will accept your testimony in the record as it is written, and you may summarize as you see fit. Welcome.

STATEMENT OF THE HON. MITCHELL E. DANIELS, JR., DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. DANIELS. Thank you, Mr. Chairman.

You want to swear me in, or do you take my word for it this morning?

Chairman NUSSLE. I'll take your word for it.

Mr. DANIELS. Mr. Chairman, I submitted for the record the summary of the mid-session review that we at OMB issued during the

August recess, and let me make just a few very brief comments before welcoming the committee's questions.

I think the format of your hearing is well chosen and important today, because now the committee has the benefit of two reports, independently arrived at about your fiscal condition and our fiscal future, and I would just draw the committee's attention to the remarkable coincidence between them.

There probably has never been two reports, one from OMB and one from the Congressional Budget Office, more similar than these that my colleague Dan Crippen made much reference to in his report and in his Senate testimony yesterday. I will just cite a few examples that struck me as I read through both.

The 2002 surplus forecasts were equivalent within a third of 1 percent. The outstanding debt at the end of the fiscal year was equivalent within one-fifth of 1 percent. The 10-year outlays, mandatory and discretionary and then total, were all equal within less than 1 percent; likewise for receipts.

The Social Security surplus—just to pick another stunning example—over 10 years the forecasts are equal within one-tenth of 1 percent. And if you look behind the projections to the assumptions on which they are based, they are in many cases, inflation, long-term GDP and many other assumptions, not close but identical.

This doesn't make these two forecasts right any more than two of your local channels' weather forecasts are necessarily right just because they are the same. But I do think it gives the committee some confidence that we start from numbers of integrity and numbers that have all of the accuracy that is possible, even looking 1 year ahead, let alone 10.

From these two virtually identical sets of data I would single out just one that I think is of special importance and relevance to the conversation this morning.

Maybe the single most important number in any such projection is receipts for next year as we move through the appropriations process that we hope will honor and give expression to the budget resolution that the members of this committee helped craft.

How much money will the Federal Government have to work with next year? That number is identical within $1 billion out of 2.135 trillion, the equivalent of a dime in 210-plus in one's pocket.

I would submit that the committee can have some confidence that we have—from the reinforcing nature of those two records—some good and I think cautious idea about the resources with which the Congress can work next year.

What conclusions then comes from those two essentially identical reports? They are obvious, and the earlier presentation made reference to some of them. Both confirm we are dealing with the second biggest surplus in American history and that it is going to get bigger in 2002 and in future years.

They confirm that the budget as proposed by the President and the budget resolution that now sits before the Congress, if not exceeded, will allow the funding of our Nation's priorities—defense, education, debt reduction—all consistent with the full protection of the Social Security surplus for debt reduction.

So to me, the meaning of the two reports is clear. We should proceed under the resolution, under the framework that the two budget committees constructed to an orderly set of appropriations bills for this fall that will govern the Nation's spending throughout 2002.

Both reports confirm that the budget of the United States and the fiscal condition of the Federal Government is in excellent shape. It is the economy right now that is not.

To the end of improving it, to the extent insofar as government policy can affect a $10 trillion economy, I recommend to the committee the balanced policy the President proposed. I think the budget resolution captures: A balanced policy that includes regular debt reduction through record surpluses, near-term stimulus through the bipartisanship tax reductions of 2001, support for sustained growth through the future rate reductions to come. All of this ensured by spending restraint, moderating the growth of spending over the year as we are here to talk about it this morning and the years ahead.

So thank you, Mr. Chairman and Congressman Spratt, for the opportunity to be here, and I will submit the mid-session review with those brief comments.

[The information referred to follows:]

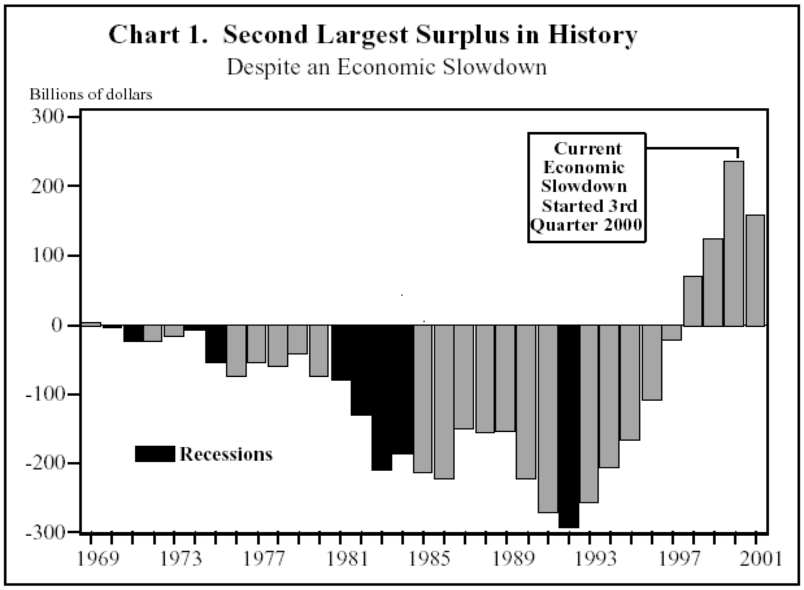
PREPARED STATEMENT OF HON. MITCHELL E. DANIELS, JR., DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

SUMMARY

Despite a nearly stagnant economy, the government's finances are remarkably sound. The budget's enormous surpluses have allowed us to deliver significant tax relief to working Americans, providing badly needed fiscal stimulus to counteract the year-long slowdown in the economy. Even while weathering the slowdown and taking action on tax relief, we continue to take in huge surplus revenues, and to use the extra receipts to steadily reduce the nation's outstanding debt.

The current estimate for the 2001 surplus is $158 billion, the second highest in history. This is lower than the $281 billion surplus estimated in the April Budget. The lower surplus is due largely to the year-long economic slowdown and the decision to incorporate immediate fiscal stimulus, in the Economic Growth and Tax Relief Reconciliation Act. The 2002 surplus projection is $173 billion, compared to April's $231 billion estimate. Over the 10 years from 2002 to 2011, the surplus totals $3,113 billion, down from the $3,433 billion estimated in April.

Both this year and next year, the overall budget surpluses are equal to the surpluses generated by Social Security payroll taxes (and interest earnings). The President and Congress are both committed to preserving the Social Security surplus for debt reduction. As a result, the additional surplus available for new spending or further tax relief in the next few years is limited. In order to fully reserve the Social Security surplus for debt reduction, any further initiatives beyond those included in this review will also have to be accompanied by offsets in other areas.



Tax Relief for Working Americans

From the Administration's first day in office, President Bush worked to deliver on his campaign promise of meaningful tax relief. This package, which was originally crafted to ensure long-term economic growth and to return excess surplus funds to taxpayers, became even more urgent as the extent of the economic slowdown became apparent. Congress moved with exceptional speed in response to the President's plan. On June 7, 2001 the President signed the Economic Growth and Tax Relief Reconciliation Act of 2001.

This historic measure of tax relief reduces the bottom marginal tax rate from 15 percent to 10 percent, delivering savings to every income taxpayer, and reduces the top rate to a maximum of 35 percent. It also doubles the child tax credit from $500 to $1,000, enhances incentives for investment in education, eliminates the marriage penalty, phases out the death tax, and encourages retirement saving.

Of immediate importance, the tax measure includes a rebate provision that puts $38 billion in savings from the new 10 percent bracket quickly and directly back in the taxpayers' hands. The rebate checks, which taxpayers are receiving in the months of July, August, and September, could not have come at a better time to invigorate today's shaky economy. Economic growth has slowed steadily for over a year to a point that it has nearly stopped. The rebate checks will help prevent further deterioration by supporting consumer spending.

Reserving the Social Security Surplus for Debt Reduction

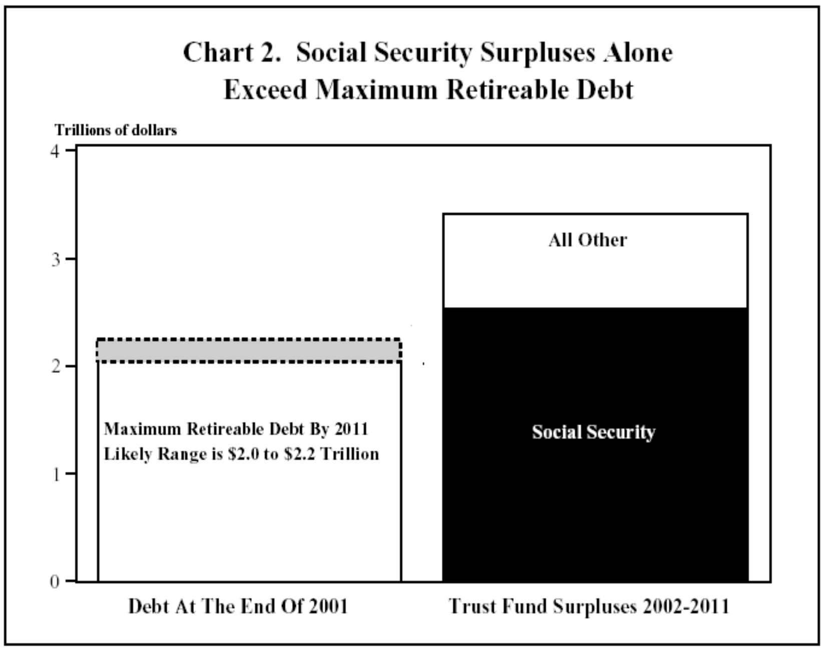
A strong bipartisan consensus has arisen in this country, and in the Congress, to preserve very large surpluses as a threshold condition of public finance. Both parties and both the Legislative and Executive Branches, in this Administration and the previous one, have concurred in maintaining a surplus at least the size of the Social Security surplus.

Some would set the minimum surplus level even higher, using as a target the artificial overage in the Medicare Part A trust fund. This is a relatively modest difference, amounting to a question of whether the minimum surplus should be more like 8.0 percent or 9.5 percent of total receipts. It is also a difference that is completely irrelevant either to the level of future Medicare benefits or to the health of the trust fund financing those benefits, which will be exactly the same size regardless of the level of the overall budget surplus. (For further discussion, see the Medicare section of this document).

There are several reasons that the Social Security surplus makes a good surplus target. First, unlike Medicare, which costs much more than it takes in, Social Security is in true surplus for the moment. Second, the Administration and a majority of Americans hope for reform that converts a portion of Social Security receipts from mere IOUs to real assets, owned by the worker who paid those taxes. At that point, the notion of a Social Security "lockbox" will take on real, literal meaning.

The final reason for choosing this surplus target is that it permits the Treasury to achieve-with some room to spare-the maximum amount of debt retirement possible. Over the next 10 years, Social Security will take in excess funds of $2.5 trillion, whereas maximum debt retireable without incurring unjustifiable premium expenses is between $2.0 trillion and $2.2 trillion. This year, the Treasury will eliminate well over $100 billion of existing debt, marking the fourth year in a row of such reductions. Further, such reductions are scheduled for each succeeding year. This is an important accomplishment for which both political parties, both branches of government, and both the current and prior administrations deserve credit.

The update of the budget outlook in this Mid-Session Review foresees continued large surpluses above the size of the Social Security surplus for all years in the budget horizon. The President is determined to preserve surpluses at this level, and to continue using these funds for the steady reduction of outstanding publicly held debt.



Changes in the Economic and Budget Outlook Since April

Since the President submitted his budget in April, the extent of the economic slowdown has become more evident. In retrospect, its length and depth are clear: the stock market began to fall in March, 2000; manufacturing employment in August, 2000; and GDP growth in the third quarter of 2000. Overall, the economy has grown at only a 1.3 percent rate since the second quarter of last year, including an estimated 0.7 percent annual growth rate in the most recently completed quarter. As discussed in a subsequent section of this review, the Administration-and other forecasters-believe that recent interest rate cuts by the Federal Reserve, coupled with the fiscal stimulus from the Economic Growth and Tax Relief Reconciliation Act, will spur the economy back to solid, sustainable growth by next year.

TABLE 1.—CHANGE IN BUDGET POLICY SURPLUSES

[In billions of dollars]

	2001	2002	[1]2002–2011
April budget estimate of total surplus	281	231	3,433
Social Security surplus	159	175	2,583
Non-Social Security surplus	122	56	850
Change since April:			
Tax rebates and other enacted tax changes	−40	−40	25
Corporate tax timing shift	−28	28	28
Medicare Reform policy	3	11	−37
Tax proposals	....	3	43
Defense requirements	−4	−11	−198
Farm assistance and other policy	−5	−1	1
Economic and technical adjustments	−46	−44	−46
Related debt service	−1	−6	−136
Total, change	−123	−59	−320
Current policy surplus	158	173	3,113
Social Security surplus[1]	157	171	2,538
Non-Social Security surplus[1]	1	575	

[1] The 2001 estimate is adjusted to assign $5.6 billion in prior year receipts to their correct year. See text box on page 9 and Appendix A on page 49.

Economic weakness, coupled with the tax rebate action that is designed to counteract that weakness, results in a lower surplus outlook this year and next year. In the current year, economic revisions and technical factors reduce the surplus $46 billion from the April estimate, a difference of about 2 percent of receipts. Tax rebates and related provisions account for $40 billion, a legislated shift in timing of corporation income tax receipts reduces the surplus another $28 billion, and supplemental spending for meeting national defense and other needs uses $5 billion. This combination of factors and a technical adjustment described below still leaves a very small on-budget surplus for 2001.

In 2002, economic and technical revisions are slightly smaller than in 2001. The effect of the tax relief provisions stays level at about $40 billion, while the shift of corporate receipts is recaptured. The net result is a small on-budget surplus.

One factor artificially reducing the 2001 on-budget surplus from the April estimate is an upward revision to the Social Security trust fund due to reestimates of payroll taxes paid in previous years. As explained in the accompanying box, this practice has the effect of inflating the current Social Security surplus by adding credits during 2001 for taxes actually paid and collected in 2000, 1999, and earlier years. This reduces the apparent 2001 on-budget surplus by $6 billion. Correcting this distortion by assigning the extra revenues to their appropriate year makes clear that there is a small on-budget surplus in 2001. OMB will review with the Department of the Treasury the possibility of prospective changes to record the adjustments in the correct years.

Over the full 10-year budget horizon, the surplus outlook is relatively unchanged from April. The unified surplus total for 2002 through 2011 is now estimated at $3,113 billion, down from the $3,433 billion estimated in the April Budget. The largest factor in the reduction is incorporating the outyear implications of the Administration's $18.4 billion defense amendment for 2002. This is the first installment, totaling $209 billion, of investment in restoring our national defense capabilities after years of neglect. The tax bill, because it was scaled back during Congressional consideration, increases the surplus slightly relative to the April Budget (which assumed the President's proposals), while the 10-year economic and technical adjustments reduce the surplus by $46 billion.

This update to the President's budget increases the resources set aside for Medicare modernization, and an integrated prescription drug benefit, to $190 billion over the period 2004 to 2011. This new estimate is consistent with the Framework to Strengthen Medicare that the President announced on July 12th and is $37 billion more than was allocated in total to additional Medicare spending in the April Budget submission over 10 years.

The President's April Budget proposed a program to help low income seniors and those with particularly high prescription drug costs get immediate assistance while Congress considered comprehensive reform. However, with the President's support, a consensus is now building in Congress which focuses on comprehensive Medicare modernization. The President's Framework to Strengthen Medicare and his budget reflect this emerging agreement, setting aside substantial resources to meet this objective which could be implemented as soon as 2004. The Administration is committed to continuing to work with the Congress on enacting legislation to strengthen Medicare consistent with the President's framework.

Although the Administration is committed to enacting comprehensive Medicare legislation soon, the President believes we must help seniors get the prescription drugs they need at an affordable price now. That is why the Administration has begun the voluntary Medicare Prescription Drug Discount Card program. This program will allow seniors access to the same kinds of drug discounts that other Americans with good private health insurance currently receive. The President believes that seniors, who face the heaviest burden for prescription drug costs, should not also have to pay the highest retail prices for drugs. The discount card is not a substitute for prescription drug coverage in a reformed Medicare system, but it will bring important relief to seniors who need it beginning next year.

Of the current 10-year total surplus, $2,538 billion is from the Social Security trust fund, down slightly from $2,583 billion in April. As noted above, the Administration is devoting as much of this amount as possible to the reduction of publicly held debt. After reserving the Social Security surplus, the remaining 10-year surplus is $575 billion, down from $850 billion in April,

with most of this difference attributed to the $198 billion increase in spending on national defense and the additional commitment to Medicare.

The Best Course Forward

The government's finances are extremely sound. Only persistent, long-term economic weakness can threaten this position. Hence, promoting a return to vigorous growth must be our common objective. The best course forward is clear: first, we must contain spending over the coming year.

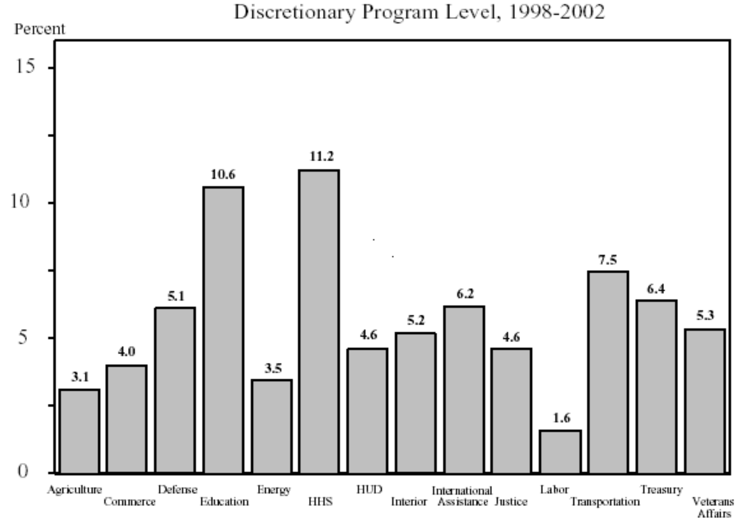
Last year's appropriations, agreed to 8 months ago by the last Congress and the last President, contained the largest oneyear spending increase in history, about $50 billion over 2000. Obviously, a smaller surge in spending last year would have ensured a larger surplus today. The spending growth rates of 1999 through 2001 cannot be repeated if we are to preserve the on-budget surpluses that we have all worked so hard to create. Congress must limit this year's appropriations to the level of the 2002 Budget Resolution, including the defense amendment recently proposed by the President.

Second, Congress and the President must work together to continue restraining total spending in the next few years. Businesses, states, cities, and families do not hesitate to limit their spending when revenues diminish. The fifty state governments recently reported that collectively they are lowering spending growth from 8 percent last year to a more sustainable 3-1/2 percent in 2002. Spending in the Federal domestic agencies exploded during the last 3 years, including growth of 45 percent at the Department of Health and Human Services and 27 percent at Department of Transportation. These departments can benefit from a period of digestion without great growth beyond these expanded levels.

The Administration is prepared where necessary to extend the principle of restraint to its own high priority initiatives. The Administration continues to propose several tax initiatives from the April Budget, with the effective dates delayed 2 years until January 1, 2004. In addition, the Administration proposes to fund other initiatives that can not be delayed within the additional discretionary resources provided in the budget resolution, and will work with Congress to revise these proposals as necessary to ensure their enactment.

Chart 3. Average Annual Percentage Growth by Agency

Discretionary Program Level, 1998-2002



There are a number of other items that may place demands on the budget. Consistent with the requirements of the Budget Enforcement Act, action on these or other items with additional costs to the budget must be accompanied by provisions to offset the costs to ensure that no automatic reductions are triggered. Alternatively additional requirements could be funded within the discretionary levels agreed to in the Congressional Budget Resolution including the defense amendment recently proposed by the President. Living within these constraints will ensure that the Social Security surplus is protected and can be fully reserved for debt reduction. Examples of these further requirements include:

- Farm bill. The costs of the farm bill now moving through Congress, which restructures farm programs through the next several years, will have to be offset where necessary to maintain on-budget surplus.
- Tax provisions. Several long-standing tax credits and other provisions expire at the end of 2001. The Administration supports the extension of these provisions in a fiscally responsible manner and looks forward to working with Congress to achieve that goal. These expiring provisions include Archer Medical Savings Accounts, the work opportunity tax credit, the welfare-to-work tax credit, provisions dealing with the minimum tax for individuals, and the treatment of active financial services income of foreign subsidiaries.
- Response to natural disasters. A high level of disaster related needs could require spending beyond the amounts assumed.
- Railroad Retirement Investment Trust. The House-passed Railroad Retirement and Survivors' Improvement Act (HR 1140) would authorize a new Federal trust fund to purchase stocks and bonds. The purchases could amount to $15 billion. Under long-standing budget scoring rules, these purchases would be scored as outlays, the same as purchases of stocks, bonds, and any other asset by all agencies within the Federal Government. However, section 105 of the House-passed bill directs OMB and CBO not to score outlays for these purchases.

Regardless of how the purchases are scored, Treasury would have to pay for them in the same way-by using some of the budget surplus that otherwise would be used to redeem debt held by the public. If all of the purchases were made in 2002, they would exceed the non-Social Security surplus by $14 billion. Treasury would have to use $14 billion of the surplus generated by Social Security to finance the remainder.

This Mid-Session Review presumes a policy of fiscal restraint, but restraint does not mean paralysis. The President's management initiatives and the on-going review of programs at all levels will result in our ability to do more with the same or similar resources. In government, as in any business or family, the burden of proof must be placed on spending proponents to demonstrate the ongoing value received for whatever money is being spent today. Any healthy organization constantly searches for ways to redeploy money from less efficient to more efficient purposes, and it is past time for the Federal Government to adopt this outlook. We expect that improvements in managing resources that are already underway will pay greater dividends than the exclusive focus on incremental new resources. Excellence is defined by continuing to raise the bar of performance and achievement.

Table 2.—CURRENT SURPLUS TOTALS

[In billions of dollars]

	2001	2002
Overall Surplus	158	173
Social Security[1]	157	171
Postal Service	−1	−3
On-Budget[1]	2	4
1Non-Social Security	1	1
Examples of potential further requirements:		
• Extend expiring tax provisions		
• Farm Bill		
• Funding for natural disasters		
• Railroad Retirement Investment Trust		

[1] The 2001 estimate is adjusted to assign $5.6 billion in prior year receipts to their correct year. See text box on page 9 and Appendix A on page 49.

TABLE 3.—APRIL AND MID–SESSION BUDGET TOTALS

[In billions of dollars]

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2002–2006	2002–2011
April Budget:													
Revenues	2,137	2,192	2,258	2,339	2,438	2,529	2,643	2,771	2,910	3,058	3,233	11,755	26,370
Outlays	1,856	1,961	2,016	2,077	2,169	2,224	2,303	2,398	2,490	2,593	2,706	10,446	22,938
Surplus	281	231	242	262	269	305	340	373	420	465	526	1,309	3,433
Social Security	159	175	193	210	235	251	270	286	301	322	341	1,063	2,583
Non-Social Security	122	56	49	52	34	54	70	87	118	143	186	246	850
Mid-Session Review:.													
Revenues	2,013	2,135	2,220	2,328	2,463	2,553	2,668	2,797	2,941	3,095	3,245	11,698	26,444
Outlays	1,855	1,962	2,025	2,111	2,208	2,272	2,354	2,447	2,543	2,648	2,761	10,578	23,331
Surplus	158	173	195	217	254	281	314	350	398	447	484	1,119	3,113
Social Security[1]	157	171	192	211	236	249	266	280	293	311	328	1,059	2,538
Non-Social Security[1]	1	1	2	6	19	32	47	70	105	136	157	60	575
Change:													
Revenues	−124	−57	−38	−11	25	24	24	27	31	36	13	−58	74
Outlays	−1	2	9	34	40	48	51	49	52	54	55	132	393
Surplus	−123	−59	−47	−45	−15	−24	−26	−22	−21	−18	−42	−190	−320
Social Security	−2	−4	(*)	1	(*)	−1	−3	−6	−8	−11	−13	−4	−45
Non-Social Security	−121	−55	−47	−46	−15	−23	−23	−17	−13	−7	−29	−186	−275

* = $500 million or less.

[1] The 2001 estimate is adjusted to assign $5.6 billion in prior year receipts to their correct year. See text box on page 9 and Appendix A on page 49.

ACCURATE ACCOUNTING FOR SOCIAL SECURITY

The President is committed to reserving the Social Security surplus for debt reduction and Social Security reform. It is evident that there is a widespread, bipartisan consensus that this is the right goal for fiscal policy this year and in the years ahead.

Current estimates indicate the total budget surplus will be $158 billion in 2001, or about $1 billion more than the Social Security surplus.

2001 SURPLUS ESTIMATES

[In billions of dollars]

Total Budget Surplus	158
Social Security Surplus	157
Non-Social Security Surplus	1
On-budget Surplus	2
Postal Service Loss (off-budget)	−1
Non-Social Security Surplus	1

Given the heightened status, real and symbolic, of the Social Security surplus, it is important to measure it accurately. Current budget practices potentially confuse that measurement in two important ways.

First, the shorthand approach of using the off-budget surplus as a proxy for the Social Security surplus combines Social Security transactions with those of the Postal Service, the only other "off-budget" program. The Postal Service is supposed to break even at a minimum, and in most past years it did. But in 2001 it is estimated to lose approximately $1 billion, so the true Social Security surplus is larger than the off-budget figure by that amount.

Second, a large correction to prior year estimates of Social Security payroll tax collections will be booked in 2001, crediting the trust fund balances with an additional $5.6 billion. This correction reflects the fact that the Social Security surplus was larger than previously thought in 1998, 1999, and in 2000. (There is a lag of a year or more before the necessary information is available to determine exactly what portion of tax proceeds stemmed from Social Security payroll taxes). Counting this revenue as though it had been paid in 2001 overstates the Social Security surplus for this year.

Precise accuracy in determining the Social Security surplus in any year requires comparing revenue to actual expenditures.[1] In 2001, the excess of Social Security revenues over expenditures is $157 billion.

SUMMARY TABLES

Table 8.—ESTIMATED SPENDING FROM 2002 BALANCES OF BUDGET AUTHORITY: DISCRETIONARY PROGRAMS[1]

[In billions of dollars]

	Total
Total balances, end of 2002	767.1
Spending from 2002 balances:	
2003	288.7
2004	161.8
2005	100.6
2006	68.9
Expiring balances, 2003 through 2006	....
Unexpended balances at the end of 2006	147.1

[1] This table is required by section 221(b) of the Legislative Re-organization Act of 1970.

[1] This correction has been made in this report for the sake of accuracy. Other official publications may use the historical method and therefore report slightly different figures. OMB will review with the Department of the Treasury the possibility of prospective changes to record the adjustments in the correct years.

TABLE 9.—OUTLAYS FOR MANDATORY PROGRAMS UNDER CURRENT LAW[1]

[In billions of dollars]

	2000 Actual	Estimate										
		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Human resources programs:												
Education, training, employment and social services	10.3	9.0	14.5	15.0	15.5	16.0	17.0	17.8	18.6	19.6	20.7	21.8
Health	124.5	140.3	152.6	170.3	185.4	201.0	217.5	235.7	255.4	276.7	300.7	324.4
Medicare	194.1	214.2	224.3	235.8	248.1	267.4	276.4	297.0	315.9	336.3	357.8	387.0
Income security	206.5	220.0	239.7	248.2	257.1	268.5	278.1	284.5	296.4	306.0	317.8	333.9
Social security	406.0	429.9	452.5	474.4	497.6	522.9	550.3	580.4	613.6	651.5	693.5	738.4
Veterans' benefits and services	26.3	22.8	27.9	29.9	31.5	35.7	34.3	33.3	36.7	38.7	39.8	40.8
Subtotal, human resources programs	967.8	1,036.1	1,111.5	1,173.6	1,235.1	1,311.5	1,373.5	1,448.7	1,536.7	1,628.8	1,730.3	1,846.3
Other mandatory programs:												
International affairs	−4.1	−6.3	−3.3	−3.2	−3.3	−3.2	−3.2	−3.1	−3.0	−2.9	−2.9	−2.9
Energy	−4.0	−3.3	−3.4	−3.2	−3.7	−3.6	−3.6	−3.5	−2.7	−2.4	−2.3	−2.3
Agriculture	32.0	23.5	15.2	11.6	10.9	10.2	9.6	9.3	9.4	9.6	9.5	9.6
Commerce and housing credit	−1.3	−6.8	6.3	5.6	5.4	4.6	3.8	5.4	4.7	5.3	5.0	5.1
Transportation	2.1	2.2	1.8	2.0	2.0	1.9	1.9	1.9	1.9	2.0	2.0	2.0
Undistributed offsetting receipts	−42.6	−47.0	−48.5	−64.0	−64.2	−57.3	−59.2	−61.6	−64.5	−66.7	−69.8	−73.2
Other functions	0.8	1.0	3.2	2.7	4.1	3.5	3.5	3.6	3.7	3.7	3.8	4.0
Subtotal, other mandatory programs	−17.0	−36.8	−28.8	−48.4	−48.8	−43.8	−47.2	−48.0	−50.5	−51.5	−54.8	−57.8
Total, outlays for mandatory programs under current law	950.8	999.3	1,082.7	1,125.2	1,186.4	1,267.7	1,326.3	1,400.7	1,486.2	1,577.3	1,675.5	1,788.6

[1] This table meets the requirements of Section 221(b) of the Legislative Reorganization Act of 1970.

Table 10. MANDATORY PROPOSALS

(In millions of dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2002–06	2002–11
Allowance for Medicare Modernization	....	....	....	**14,000**	**20,000**	**21,000**	**22,000**	**25,000**	**27,000**	**29,000**	**32,000**	**55,000**	**190,000**
Health care tax credit	....	....	....	**419**	**4,104**	**5,517**	**5,910**	**6,061**	**6,224**	**6,392**	**6,564**	**10,040**	**41,191**
Other mandatory proposals:													
Agriculture:													
Long-term recreation fee program with four-year reauthorization	....	....	–25	–13	–2	–2	28	13	1	....	....	–42	....
Energy:													
ANWR, lease bonuses	....	....	....	–1,200	....	....	....	....	....	....	....	–1,200	–1,200
HUD													
FHA mark-to-market extension	....	–218	....	....	....	....	....	....	....	....	....	–218	–218
Interior:													
Use recreation fees to reduce NPS backlog (NPS/FWS/BLM)	....	....	–39	–2	49	80	134	92	44	....	....	88	358
ANWR, lease bonuses:													
State of Alaska's share:													
Receipts	....	....	....	–1,201	–1	–1	–1	–1	–1	–1	–1	–1,203	–1,208
Expenditure	....	....	....	1,201	1	1	1	1	1	1	1	1,203	1,208
Federal share	....	....	....	–1	–1	–1	–1	–1	–1	–1	–1	–3	–8
Treasury:													
Modify and simplify EITC	....	....	....	....	....	....	....	....	....	....	–335	....	–335
Veterans Affairs:													
OBRA Extenders:													
IRS income verification on means tested veterans and survivors benefits	....	....	....	–6	–6	–6	–6	–6	–6	–6	–6	–18	–48
Round-down disability benefits to nearest dollar after COLA	....	....	–15	–37	–60	–85	–107	–133	–163	–188	–208	–196	–996
Limit VA pensions to Medicaid recipients in nursing homes (includes Medicaid offsets)	....	....	....	....	....	....	....	....	–127	–138	–149	....	–415
Continue current housing loan fees	....	....	....	....	....	....	....	....	–275	–280	–286	....	–841
Loan resale loss	....	....	....	....	....	....	....	....	–24	–27	–25	....	–76
Eliminate Vendee loan program	....	19	–9	–12	–21	–26	–29	–34	–37	–36	–40	–49	–225
Army Corps of Engineers:													
Recreation user fee increase	....	–10	–5	–5	–5	....	....	....	....	....	....	–25	–25
FCC:													
Shift spectrum auction deadlines and promote clearing	....	....	3,600	–5,100	–2,000	–4,000	....	....	....	....	....	–7,500	–7,500
Analog spectrum lease fee	....	–198	–200	–200	–200	–200	–175	–150	–75	–25	....	–998	–1,423
FDIC:													
State Bank examination fees:													
Reduction in FDIC outlays	....	–92	–97	–101	–106	–112	–118	–123	–129	–136	–143	–508	–1,157
FEMA:													
Phase out subsidized premiums for non-primary residences in the flood insurance program	....	–12	–41	–93	–194	–334	–410	–416	–421	–421	–421	–674	–2,763

Table 10. MANDATORY PROPOSALS—Continued

(In millions of dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2002–06	2002–11
Reform flood insurance program for repetitive loss properties that experience chronic flooding	....	....	–20	–30	–38	–43	–46	–49	–51	–53	–55	–131	–385
OPM:													
Extend higher agency contributions to the Civil Service Retirement Fund	....	....	–469	–482	–449	–415	–380	–343	–306	–268	–222	–1,815	–3,334
Other:													
Indirect impact of other proposals	....	....	–2	–4	–7	–7	–6	–3	–4	–4	–7	–20	–44
Total, other mandatory proposals	....	–511	2,678	–7,286	–3,040	–5,151	–1,116	–1,153	–1,575	–1,584	–1,899	–13,309	–20,635
Total, mandatory proposals	....	**–511**	**2,678**	**7,133**	**21,064**	**21,366**	**26,794**	**29,908**	**31,650**	**33,809**	**36,666**	**51,730**	**210,557**
Fund with discretionary appropriations:													
Education:													
Expand teacher loan forgiveness	....	11	5	5	5	6	6	6	6	7	7	32	64
HHS:													
Child welfare preventative services	....	30	158	192	196	200	200	200	200	200	200	776	1,776
Education and training for older foster children	....	9	46	58	60	60	60	60	60	60	60	233	533
Charity State tax credit, TANF outlays	....	....	400	300	150	....	....	–200	–200	–200	–250	850	....
Interior:													
Correct trust accounting deficiencies (individual Indian money investments)	....	7	....	....	....	....	....	....	....	....	....	7	7
Justice:													
Radiation exposure compensation	....	97	155	150	108	68	55	40	20	12	5	578	710
Total, fund with discretionary appropriations	....	154	764	705	519	334	321	106	86	79	22	2,476	3,090

Table 11. EFFECT OF PROPOSALS ON RECEIPTS

(In millions of dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2002–2006	2002–2011
2002 Budget Proposals:.													
Incentives for charitable giving:													
Provide charitable contribution deduction for nonitemizers	....	....	....	–527	–1,844	–3,252	–4,879	–6,569	–7,537	–7,568	–7,639	–5,623	–39,815
Permit tax-free withdrawals from IRAs for charitable contributions	....	....	....	–195	–210	–225	–241	–258	–277	–299	–322	–630	–2,027
Raise the cap on corporate charitable contributions	....	....	....	–100	–158	–154	–163	–173	–183	–206	–227	–412	–1,364
Strengthen and reform education:													
Allow teachers to deduct out-of-pocket classroom expenses	....	....	....	–18	–179	–209	–227	–244	–247	–250	–253	–406	–1,627
Assist Americans with disabilities:													
Exclude from income the value of employer-provided computers, software and peripherals	....	....	....	–2	–6	–6	–6	–6	–6	–6	–7	–14	–45
Invest in health care:													
Provide refundable tax credit for the purchase of health insurance [1]	....	....	....	–174	–1,641	–3,445	–3,626	–3,930	–4,029	–4,131	–4,234	–5,260	–25,210
Provide an above-the-line deduction for long-term care insurance premiums	....	....	....	–346	–574	–1,150	–2,007	–2,365	–2,646	–2,945	–3,287	–2,070	–15,320
Allow up to $500 in unused benefits in a health flexible spending arrangement to be carried forward to the next year	....	....	....	–423	–713	–782	–831	–878	–926	–980	–1,036	–1,918	–6,569
Provide additional choice with regard to unused benefits in a health flexible spending account	....	....	....	–22	–39	–45	–52	–60	–69	–81	–94	–106	–462
Permanently extend and reform Archer MSAs	....	....	....	–79	–362	–431	–482	–510	–534	–567	–589	–872	–3,554
Provide an additional personal exemption to home caretakers of family members	....	....	....	–370	–463	–490	–518	–529	–540	–557	–552	–1,323	–4,019
Help farmers and fishermen manage economic downturns:													
Establish FFARRM savings accounts	....	....	....	–88	–230	–161	–116	–85	–65	–50	–41	–479	–836
Increase housing opportunities:													
Provide tax credit for developers of affordable single-family housing	....	....	....	–4	–46	–202	–525	–987	–1,514	–2,020	–2,406	–252	–7,704
Encourage savings:													
Establish Individual Development Accounts	....	....	....	–154	–265	–281	–297	–306	–143	–34	–35	–700	–1,515
Protect the environment:													
Permanently extend expensing of brownfields remediation costs	....	....	....	–236	–373	–364	–355	–344	–333	–321	–310	–973	–2,636
Exclude gains from the sale of property for conservation purposes	....	–1	–3	–49	–102	–115	–132	–155	–187	–231	–292	–270	–1,267

Table 11. EFFECT OF PROPOSALS ON RECEIPTS—Continued

(In millions of dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2002–2006	2002–2011
Energy policy proposals:													
Modify treatment of nuclear decommissioning funds	....	–91	–160	–172	–181	–192	–202	–212	–223	–235	–247	–796	–1,915
Extend and modify tax credit for producing electricity from certain sources	....	–116	–203	–222	–125	–58	–59	–57	–55	–56	–58	–724	–1,009
Provide tax credit for residential solar energy systems	....	–7	–15	–19	–25	–15	–10	–5	....	....	....	–81	–96
Promote trade:													
Extend and expand Andean trade preferences [2]	....	....	....	–154	–214	–55	....	....	....	....	....	–423	–423
Additional Energy Proposals:													
Provide tax credit for purchase of certain hybrid and fuel cell vehicles [2]	....	–22	–81	–180	–358	–615	–1,026	–817	–108	–126	–179	–1,256	–3,512
Provide tax credit for energy produced from landfill gas	....	–23	–51	–75	–103	–138	–156	–158	–161	–164	–66	–390	–1,095
Provide tax credit for combined heat and power property	....	–119	–197	–200	–212	–268	–126	....	6	5	5	–996	–1,106
Provide excise tax exemption (credit) for ethanol	....	....	....	....	....	....	....	....	....	....	....	....	....
Expiring Provisions:													
Permanent extension of provisions expiring in 2010:													
Marginal individual income tax rate reductions	....	....	....	....	....	....	....	....	....	–13,910	–67,757	....	–81,667
Expanded child tax credit	....	....	....	....	....	....	....	....	....	....	–4,639	....	–4,639
Marriage penalty relief [1]	....	....	....	....	....	....	....	....	....	....	–4,532	....	–4,532
Education incentives	....	–1	–5	–10	–15	–20	–26	–32	–39	–45	–890	–51	–1,083
Repeal of estate and generation-skipping transfer taxes, and modification of gift taxes	....	–271	–614	–1,215	–1,792	–2,475	–2,726	–3,226	–4,040	–4,884	–26,651	–6,367	–47,894
Modifications of IRAs and pension plans	....	....	....	....	....	....	....	....	....	–1	–2,371	....	–2,372
Other incentives for families and children	....	....	....	....	....	....	....	....	....	61	–257	....	–196
Permanent extension of R&E tax credit	....	....	....	–1,055	–3,431	–5,415	–6,543	–7,388	–8,019	–8,567	–9,168	–9,901	–49,586
Other Provisions that Affect Receipts:													
Recover State bank supervision and regulation expenses (receipt effect) [2]	....	70	74	76	80	84	88	92	96	101	105	384	866
Total effect of proposals [1 2]	....	–581	–1,255	–6,013	–13,581	–20,479	–25,243	–29,202	–31,779	–48,067	–138,029	–41,909	–314,229

[1] Affects both receipts and outlays; only the receipt effects are shown here. The outlay effects are shown in Table 10.

[2] Net of income offsets.

TABLE 12.—OUTLAYS BY CATEGORY

[In billions of dollars]

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
April estimates:											
Discretionary:											
Defense	299.6	319.2	322.1	333.5	347.6	354.6	361.0	374.1	384.9	396.0	411.4
Non-defense	349.8	372.5	389.7	397.8	406.8	415.8	425.5	435.3	445.1	458.4	465.1
Subtotal, discretionary	649.4	691.7	711.8	731.2	754.5	770.4	786.5	809.5	830.0	854.4	876.5
Mandatory:											
Social Security	430.0	451.6	473.5	498.0	524.3	553.0	584.1	618.0	656.2	698.3	743.6
Medicare	216.0	226.4	238.6	252.2	279.1	292.2	314.0	335.6	358.4	384.3	419.2
Medicaid	128.9	142.4	152.7	166.0	180.5	196.4	213.6	232.2	252.6	274.6	297.9
Other	225.6	260.3	264.3	267.8	285.7	284.8	296.2	312.3	323.9	336.2	349.4
Subtotal, mandatory	1,000.5	1,080.7	1,129.2	1,184.0	1,269.6	1,326.3	1,408.0	1,498.2	1,591.2	1,693.5	1,810.1
Net interest	206.4	188.1	175.2	161.5	144.7	127.2	108.9	90.3	69.1	45.7	19.8
Total, outlays	1,856.2	1,960.6	2,016.2	2,076.7	2,168.7	2,223.9	2,303.4	2,397.9	2,490.3	2,593.5	2,706.3
Mid—session estimates:											
Discretionary:											
Defense	304.0	329.9	335.7	357.0	366.6	376.8	385.3	395.8	406.9	418.5	430.5
Non-defense	347.4	369.5	387.8	395.5	401.9	410.1	419.2	428.5	438.0	450.9	457.4
Subtotal, discretionary	651.4	699.4	723.5	752.5	768.5	786.9	804.5	824.3	844.9	869.4	887.9
Mandatory:											
Social Security	429.9	452.5	474.4	497.6	522.9	550.3	580.4	613.6	651.5	693.5	738.4
Medicare	214.2	224.3	235.8	262.1	287.4	297.4	319.0	340.9	363.3	386.8	419.0
Medicaid	130.3	143.0	155.1	168.9	183.6	199.3	216.5	234.8	255.3	277.1	300.7
Other	224.9	262.4	262.6	264.9	294.8	300.6	311.6	326.7	338.7	351.8	366.9
Subtotal, mandatory	999.3	1,082.2	1,127.8	1,193.5	1,288.8	1,347.6	1,427.4	1,516.0	1,608.8	1,709.2	1,825.1
Net interest	204.2	180.5	174.1	164.8	151.0	137.1	122.3	106.9	88.9	69.0	48.1
Total, outlays	1,854.9	1,962.1	2,025.4	2,110.7	2,208.3	2,271.6	2,354.2	2,447.2	2,542.6	2,647.6	2,761.0
Difference:											
Discretionary:											
Defense	4.4	10.7	13.6	23.5	18.9	22.2	24.3	21.7	22.1	22.5	19.1

Non-defense	−2.4	−3.0	−1.9	−2.3	−4.9	−5.7	−6.3	−6.9	−7.1	−7.4	−7.7
Subtotal, discretionary	2.1	7.6	11.7	21.2	14.0	16.5	18.0	14.8	14.9	15.1	11.4
Mandatory:											
Social Security	−0.1	0.9	0.8	−0.4	−1.4	−2.7	−3.8	−4.4	−4.7	−4.8	−5.1
Medicare	−1.8	−2.2	−2.8	9.9	8.3	5.2	5.0	5.3	4.9	2.5	−0.2
Medicaid	1.4	0.6	2.4	2.9	3.1	2.9	2.9	2.6	2.7	2.5	2.8
Other	−0.7	2.1	−1.7	−3.0	9.1	15.8	15.4	14.4	14.8	15.6	17.5
Subtotal, mandatory	−1.2	1.5	−1.3	9.5	19.2	21.3	19.4	17.9	17.6	15.8	15.0
Net interest	−2.2	−7.6	−1.1	3.3	6.4	9.9	13.4	16.6	19.8	23.3	28.3
Total, outlays	−1.3	1.5	9.2	34.0	39.6	47.7	50.8	49.3	52.3	54.2	54.7

TABLE 13.—RECEIPTS BY SOURCE

[In billions of dollars]

		Estimates									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
April estimates:											
Individual income taxes	1,072.9	1,078.8	1,092.3	1,117.9	1,157.0	1,196.6	1,255.2	1,330.4	1,410.2	1,499.6	1,598.2
Corporation income taxes	213.1	218.8	227.3	235.5	244.2	252.2	259.9	268.1	275.8	283.5	294.3
Social insurance and retirement receipts	689.7	725.8	766.0	806.0	855.8	896.4	942.0	984.4	1,030.8	1,087.9	1,145.1
Excise taxes	71.1	74.0	76.3	78.3	80.5	82.3	84.8	87.3	90.0	92.8	95.7
Estate and gift taxes	31.1	28.7	26.6	28.3	24.9	22.5	20.4	15.7	13.4	0.7	0.7
Customs duties	21.4	22.5	24.3	25.0	26.0	27.7	29.3	30.7	33.0	34.5	36.2
Miscellaneous receipts	37.6	43.1	45.4	47.8	49.3	51.0	51.6	54.1	56.8	59.5	62.4
Total	2,136.9	2,191.7	2,258.2	2,338.8	2,437.8	2,528.7	2,643.3	2,770.6	2,909.9	3,058.4	3,232.6
Mid-Session estimates:											
Individual income taxes[1]	1,014.3	1,024.2	1,068.0	1,115.9	1,171.1	1,215.2	1,281.0	1,356.0	1,439.3	1,529.6	1,627.1
Corporation income taxes	155.4	229.1	221.3	231.0	258.7	259.3	264.2	270.9	277.9	285.8	295.3
Social insurance and retirement receipts[1]	689.4	721.9	768.7	810.1	860.3	897.7	941.5	982.8	1,027.2	1,082.9	1,139.2
Excise taxes	67.6	70.4	72.8	74.8	76.8	78.3	80.5	83.0	85.7	88.4	91.1
Estate and gift taxes	30.0	28.0	23.6	26.9	24.3	27.2	23.8	24.6	25.9	19.6	0.1
Customs duties	19.8	21.5	23.2	24.2	25.3	26.8	28.0	29.2	31.3	32.5	33.7
Miscellaneous receipts	36.2	39.6	42.6	44.6	46.1	48.1	48.7	50.9	53.5	56.0	58.8

TABLE 13.—RECEIPTS BY SOURCE—Continued

[In billions of dollars]

	Estimates										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total	2,012.7	2,134.7	2,220.2	2,327.5	2,462.5	2,552.6	2,667.8	2,797.4	2,940.8	3,094.8	3,245.3
Difference:											
Individual income taxes	−58.6	−54.6	−24.3	−2.0	14.1	18.6	25.8	25.6	29.1	30.0	28.9
Corporation income taxes	−57.7	10.3	−6.0	−4.5	14.5	7.2	4.2	2.9	2.2	2.4	0.9
Social insurance and retirement receipts	−0.2	−3.9	2.7	4.0	4.5	1.3	−0.5	−1.6	−3.6	−4.9	−5.9
Excise taxes	−3.6	−3.6	−3.4	−3.6	−3.8	−4.1	−4.2	−4.3	−4.4	−4.4	−4.6
Estate and gift taxes	−1.1	−0.7	−3.0	−1.4	−0.6	4.7	3.4	8.9	12.6	18.9	−0.5
Customs duties	−1.6	−1.0	−1.0	−0.7	−0.7	−1.0	−1.3	−1.5	−1.7	−2.0	−2.6
Miscellaneous receipts	−1.4	−3.5	−2.8	−3.2	−3.2	−2.9	−2.9	−3.2	−3.3	−3.5	−3.5
Total	−124.2	−57.0	−38.0	−11.3	24.7	23.9	24.5	26.9	30.9	36.4	12.8

[1] The 2001 estimate is adjusted to correct for $5.6 billion in prior year receipts. See text box on page 9 and Appendix A on page 49.

TABLE 14.—OUTLAYS BY AGENCY IN BILLIONS OF DOLLARS

	2000 Actual	April estimates						Mid-session estimates					
		2001	2002	2003	2004	2005	2006	2001	2002	2003	2004	2005	2006
Legislative Branch	2.9	3.1	3.3	3.4	3.4	3.4	3.5	3.2	3.3	3.4	3.4	3.4	3.5
Judicial Branch	4.1	4.3	4.9	5.0	5.1	5.2	5.3	4.3	4.9	5.0	5.1	5.2	5.3
Agriculture	75.7	69.6	63.2	61.4	61.9	63.8	65.9	72.1	65.7	63.6	64.5	65.6	66.7
Commerce	7.8	5.5	5.2	5.4	5.3	5.4	5.5	5.4	5.2	5.4	5.3	5.4	5.5
Defense-Military	281.2	283.9	303.4	306.2	317.2	331.0	337.7	288.3	313.9	319.6	340.5	349.8	359.9
Education	33.9	36.7	45.2	49.6	50.6	51.9	53.3	36.9	45.5	50.2	51.4	52.5	54.0
Energy	15.0	16.7	17.2	17.5	17.7	18.1	18.4	17.3	17.3	17.5	17.7	18.2	18.4
Health and Human Services	382.6	430.5	468.8	498.8	532.7	566.7	594.1	428.3	457.1	486.7	532.7	574.4	602.1
Housing and Urban Development	30.8	37.3	34.8	34.9	33.5	33.4	33.6	35.9	34.4	34.8	33.6	33.7	33.7
Interior	8.0	8.7	9.3	9.6	11.1	10.1	10.3	8.2	9.1	9.7	11.4	10.4	10.6
Justice	19.6	20.7	22.5	25.4	23.9	23.3	23.6	20.9	21.7	25.4	24.0	23.3	23.6
Labor	31.4	38.2	42.0	42.3	43.1	44.8	46.7	39.4	43.7	44.3	45.1	46.2	48.3
State	6.8	9.3	9.7	9.7	9.9	10.1	10.4	8.3	10.0	9.7	10.0	10.2	10.4
Transportation	46.0	50.6	54.9	56.9	59.2	61.7	63.4	50.5	54.6	55.2	54.9	56.3	57.5

Treasury	391.2	388.5	381.5	385.1	388.2	388.9	390.3	387.0	380.9	388.0	395.2	399.9	406.7
Veterans Affairs	47.1	45.2	51.5	53.5	55.7	60.3	59.5	45.0	51.0	53.5	55.7	60.3	59.5
Corps of Engineers	4.3	4.6	4.4	4.2	4.3	4.3	4.2	4.4	4.2	4.0	4.1	4.1	4.2
Other Defense Civil Programs	32.9	34.4	35.4	41.2	42.4	43.7	44.9	34.4	35.6	41.5	42.7	43.9	45.1
Environmental Protection Agency	7.2	7.5	7.6	7.6	7.6	7.6	7.6	7.3	7.5	7.6	7.6	7.6	7.6
Executive Office of the President	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Federal Emergency Management Agency	3.1	3.1	3.2	3.0	2.7	2.4	1.9	3.4	3.2	2.9	2.9	2.3	1.9
General Services Administration	(*)	0.6	−0.2	0.3	0.4	0.4	0.3	0.6	−0.2	0.3	0.4	0.4	0.3
International Assistance Programs	12.1	11.4	12.1	12.4	12.5	12.4	12.7	11.3	12.0	12.3	12.5	12.7	13.0
National Aeronautics and Space Administration	13.4	13.8	14.2	14.7	15.1	15.4	15.8	13.8	14.2	14.7	15.1	15.4	15.8
National Science Foundation	3.5	4.0	4.4	4.5	4.7	4.7	4.8	4.0	4.3	4.5	4.7	4.7	4.8
Office of Personnel Management	48.7	51.0	53.4	56.3	59.5	62.8	66.0	51.0	53.7	56.7	59.8	63.1	66.3
Small Business Administration	−0.4	−1.0	0.7	0.6	0.5	0.5	0.6	−1.0	0.7	0.6	0.5	0.5	0.6
Social Security Administration	441.8	463.0	488.2	511.5	537.4	567.7	595.5	462.6	489.2	512.6	537.2	566.6	593.1
Other Independent Agencies	10.6	4.9	19.0	16.8	17.1	17.8	17.7	1.4	18.7	17.6	18.5	18.2	18.5
Allowances	....	....	2.4	3.9	4.7	5.4	5.7	....	2.4	3.3	4.0	4.9	5.3
Undistributed Offsetting Receipts	−172.8	−190.2	−201.8	−226.0	−251.0	−254.9	−275.8	−189.5	−201.7	−225.4	−250.0	−251.6	−271.0
Total	1,788.8	1,856.2	1,960.6	2,016.2	2,076.7	2,168.7	2,223.9	1,854.9	1,962.1	2,025.4	2,110.7	2,208.3	2,271.6

* = $50 million or less.

TABLE 15.—OUTLAYS BY FUNCTION

[In billions of dollars]

	2000 Actual	April estimates						Mid-session estimates					
		2001	2002	2003	2004	2005	2006	2001	2002	2003	2004	2005	2006
National defense	294.5	299.1	319.2	322.1	333.1	347.2	354.0	303.6	329.8	335.5	356.5	366.0	376.2
International affairs	17.2	17.5	21.0	21.3	21.5	21.6	22.2	16.6	21.4	21.4	21.7	22.1	22.6
General science, space, and technology	18.6	19.7	20.8	21.4	22.2	22.6	23.1	19.7	20.7	21.4	22.2	22.6	23.1
Energy	−1.1	−0.7	−0.3	−0.1	−0.6	−0.4	−0.3	−0.3	−0.4	−0.1	−0.6	−0.4	−0.3
Natural resources and environment	25.0	27.4	27.5	27.7	28.0	28.4	28.7	26.6	27.1	27.6	28.1	28.7	29.0
Agriculture	36.6	25.9	18.6	15.0	14.0	14.1	14.5	28.9	20.7	16.8	16.2	15.5	14.9
Commerce and housing credit	3.2	−0.8	6.9	4.7	3.6	3.5	2.3	−5.2	6.4	5.5	4.9	4.0	3.2
Transportation	46.9	51.1	55.0	57.5	59.7	62.1	63.8	51.0	54.8	55.7	55.3	56.8	57.9
Community and regional development	10.6	10.6	11.7	11.3	10.8	10.5	10.1	10.8	11.8	11.3	11.1	10.5	10.2
Education, training, employment, and social services	59.2	65.3	76.6	81.3	82.6	84.7	87.2	64.2	75.5	82.1	84.0	85.4	88.0
Health	154.5	175.3	201.5	224.4	243.3	250.7	264.8	173.8	190.7	212.0	231.7	251.8	271.1
Medicare	197.1	219.3	229.9	242.1	255.9	282.8	296.0	217.4	227.7	239.3	265.8	291.1	301.2

TABLE 15.—OUTLAYS BY FUNCTION—Continued

[In billions of dollars]

	2000 Actual	April estimates						Mid-session estimates					
		2001	2002	2003	2004	2005	2006	2001	2002	2003	2004	2005	2006
Income security	247.9	262.6	275.7	285.9	295.9	308.8	317.1	265.1	286.5	296.7	306.2	318.4	328.6
Social Security	409.4	433.6	455.1	477.1	501.6	528.1	556.8	433.5	456.1	478.0	501.3	526.7	554.1
Veterans benefits and services	47.1	45.4	51,6	53.6	55.8	60.4	59.6	45.1	51.1	53.6	55.8	60.4	59.6
Administration of justice	27.8	29.4	32.3	35.4	35.5	35.2	35.8	29.7	31.4	35.4	35.5	35.2	35.8
General government	13.5	16.8	16.3	16.7	18.4	17.4	17.6	17.2	16.5	16.9	18.6	17.6	17.8
Net interest	223.2	206.4	188.1	175.2	161.5	144.7	127.2	204.2	180.5	174.1	164.8	151.0	137.1
Allowances	....	....	2.4	3.9	4.7	5.4	5.7	....	2.4	3.3	4.0	4.9	5.3
Undistributed offsetting receipts	−42.6	−47.7	−49.4	−60.4	−70.6	−58.9	−62.4	−47.0	−48.7	−61.0	−72.4	−59.9	−63.8
Total	1,788.8	1,856.2	1,960.6	2,016.2	2,076.7	2,168.7	2,223.9	1,854.9	1,962.1	2,025.4	2,110.7	2,208.3	2,271.6

TABLE 16.—DISCRETIONARY BUDGET AUTHORITY BY AGENCY

[In billions of dollars]

	2000 Actual	April estimates						Mid-session estimates					
		2001	2002	2003	2004	2005	2006	2001	2002	2003	2004	2005	2006
Legislative Branch	2.5	2.7	3.0	3.0	3.1	3.1	3.2	2.8	3.0	3.0	3.1	3.1	3.2
Judicial Branch	3.7	4.0	4.6	4.5	4.6	4.7	4.9	4.0	4.6	4.5	4.6	4.7	4.9
Agriculture	17.1	19.3	17.9	18.8	19.0	19.4	19.8	19.3	17.9	18.8	19.0	19.4	19.8
Commerce	8.7	5.1	4.8	5.3	5.3	5.4	5.5	5.0	4.9	5.3	5.3	5.4	5.5
Defense-Military	287.3	296.3	310.5	319.0	327.9	337.1	346.6	301.9	328.9	337.9	347.4	357.1	367.1
Education	29.4	39.9	44.5	45.5	47.0	48.1	49.1	40.1	44.6	45.5	47.0	48.1	49.1
Energy	17.8	19.7	19.2	19.7	20.3	20.7	21.2	20.0	19.2	19.7	20.3	20.7	21.2
Health and Human Services	45.5	53.9	56.7	61.7	63.3	64.9	66.5	54.1	56.8	61.8	63.4	65.0	66.7
Housing and Urban Development	21.1	28.5	30.4	32.2	33.3	34.6	35.7	28.4	30.4	32.2	33.3	34.6	35.7
Interior	8.5	10.2	9.8	10.0	10.2	10.4	10.6	10.3	9.9	10.1	10.3	10.5	10.7
Justice	18.8	20.9	19.9	21.9	22.0	22.3	22.8	20.9	20.0	22.1	22.2	22.4	22.9
Labor	8.8	11.9	11.3	11.8	12.1	12.4	12.6	11.7	11.4	12.0	12.3	12.6	12.8
State	7.8	7.5	9.1	9.3	9.5	9.7	9.9	7.5	9.1	9.3	9.5	9.7	9.9
Transportation	14.5	18.4	16.3	17.3	17.7	18.1	18.5	18.5	16.3	17.3	17.7	18.1	18.5
Treasury	12.5	14.0	14.7	15.0	15.4	15.7	16.1	14.2	14.7	15.0	15.4	15.7	16.1

Veterans Affairs	20.8	22.4	23.4	23.9	24.4	25.0	25.6	22.3	23.2	23.7	24.3	24.8	25.3
Corps of Engineers	4.1	4.5	3.9	4.0	4.1	4.2	4.3	4.7	3.9	4.0	4.1	4.2	4.3
Other Defense Civil Programs	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.2	0.2
Environmental Protection Agency	7.6	7.8	7.3	7.4	7.6	7.2	6.6	7.8	7.3	7.4	7.6	7.2	6.6
Executive Office of the President	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Federal Emergency Management Agency	3.9	2.4	2.2	2.3	2.3	2.4	2.4	2.4	2.2	2.3	2.3	2.4	2.4
General Services Administration	(*)	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
International Assistance Programs	13.6	12.9	12.8	13.1	13.4	13.6	13.9	13.0	12.9	13.2	13.5	13.8	14.1
National Aeronautics and Space Administration	13.6	14.3	14.5	15.0	15.4	15.7	16.1	14.3	14.5	15.0	15.4	15.7	16.1
National Science Foundation	3.9	4.4	4.5	4.6	4.7	4.8	4.9	4.4	4.5	4.6	4.7	4.8	4.9
Office of Personnel Management	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Small Business Administration	0.9	0.3	0.5	0.6	0.6	0.6	0.6	0.9	0.5	0.6	0.6	0.6	0.6
Social Security Administration	5.7	6.0	6.4	6.5	6.7	6.8	7.0	6.0	6.4	6.5	6.7	6.8	7.0
Other Independent Agencies	5.8	6.3	6.0	6.0	6.3	6.3	6.4	6.3	6.1	6.0	6.2	6.3	6.4
Allowances	(*)	(*)	5.3	5.4	5.6	5.7	5.8	(*)	5.4	5.0	5.1	5.3	5.5
Total	584.4	634.9	660.6	685.1	702.7	720.1	737.9	642.1	679.8	704.0	722.2	740.1	758.4

TABLE 17.—DISCRETIONARY BUDGET AUTHORITY BY FUNCTION

[In billions of dollars]

	2000 Actual	April estimates						Mid-session estimates					
		2001	2002	2003	2004	2005	2006	2001	2002	2003	2004	2005	2006
National defense	300.8	311.3	325.1	333.9	343.2	352.7	362.5	317.1	343.7	353.0	362.8	372.7	383.1
International affairs	23.5	22.7	23.9	24.4	24.9	25.5	26.0	22.7	24.0	24.5	25.0	25.6	26.1
General science, space, and technology	19.2	20.9	21.2	21.9	22.4	22.9	23.5	20.9	21.2	21.9	22.4	22.9	23.5
Energy	2.7	3.1	2.8	2.9	3.1	3.2	3.3	3.1	2.8	2.9	3.1	3.2	3.3
Natural resources and environment	24.6	28.7	26.4	27.0	27.6	27.6	27.4	28.9	26.4	27.1	27.6	27.7	27.5
Agriculture	4.7	5.1	4.8	5.2	5.2	5.3	5.4	5.1	4.8	5.2	5.2	5.3	5.4
Commerce and housing credit	5.1	0.7	−0.3	−0.1	−0.4	−0.5	−0.5	0.6	−0.1	−0.1	−0.4	−0.5	−0.5
Transportation	15.2	18.9	16.8	17.8	18.2	18.6	19.0	19.0	16.8	17.8	18.2	18.6	19.0
Community and regional development	12.2	11.0	10.4	10.7	10.9	11.1	11.3	11.6	10.4	10.7	10.9	11.1	11.3
Education, training, employment, and social services	44.4	61.1	65.4	67.1	69.0	70.7	72.3	61.1	65.7	67.4	69.4	71.0	72.7
Health	33.8	38.9	41.0	45.7	46.9	48.1	49.4	38.8	40.9	45.6	46.8	48.0	49.3
Medicare	3.0	3.4	3.5	3.5	3.6	3.7	3.8	3.4	3.5	3.5	3.6	3.7	3.8
Income security	31.6	39.5	42.8	45.1	46.7	48.3	49.6	39.7	42.9	45.1	46.8	48.4	49.6
Social Security	3.2	3.4	3.5	3.6	3.7	3.8	3.8	3.4	3.5	3.6	3.7	3.8	3.8
Veterans benefits and services	20.9	22.5	23.5	24.0	24.5	25.1	25.7	22.4	23.3	23.8	24.3	24.9	25.4

TABLE 17.—DISCRETIONARY BUDGET AUTHORITY BY FUNCTION—Continued

[In billions of dollars]

	2000 Actual	April estimates						Mid-session estimates					
		2001	2002	2003	2004	2005	2006	2001	2002	2003	2004	2005	2006
Administration of justice	27.1	30.0	29.8	31.9	32.3	32.8	33.5	30.0	29.8	31.9	32.3	32.8	33.5
General government	12.4	14.0	14.8	15.0	15.4	15.7	16.0	14.2	14.8	15.1	15.4	15.7	16.1
Allowances	....	....	5.3	5.4	5.6	5.7	5.8	....	5.4	5.0	5.1	5.3	5.5
Total	584.4	634.9	660.6	685.1	702.7	720.1	737.9	642.1	679.8	704.0	722.2	740.1	758.4

TABLE 18.—MID-SESSION BASELINE TOTALS

[In billions of dollars]

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2002–2011
Discretionary:												
Defense	304.0	317.1	325.5	336.8	351.0	357.5	363.7	376.5	387.3	398.4	413.9	3,627.8
Non-defense	347.4	368.6	387.3	398.0	406.2	416.4	427.8	439.2	450.7	462.6	474.9	4,231.6
Subtotal, discretionary	651.5	685.7	712.7	734.7	757.2	773.9	791.5	815.7	838.0	861.0	888.8	7,859.4
Mandatory:												
Social Security	429.9	452.5	474.4	497.6	522.9	550.3	580.4	613.6	651.5	693.5	738.4	5,775.1
Medicare	214.2	224.3	235.8	248.1	267.4	276.4	297.0	315.9	336.3	357.8	387.0	2,946.0
Medicaid	130.3	143.0	155.1	168.9	183.6	199.3	216.5	234.8	254.9	276.7	300.3	2,133.1
Other	224.9	262.9	259.9	271.8	293.8	300.3	306.9	321.9	334.6	347.5	362.8	3,062.5
Subtotal, mandatory	999.3	1,082.7	1,125.2	1,186.4	1,267.7	1,326.3	1,400.7	1,486.2	1,577.3	1,675.5	1,788.6	13,916.7
Net interest	204.2	180.2	173.1	162.7	147.1	130.6	112.8	93.8	72.1	47.7	19.7	1,139.8
Total, outlays	1,855.0	1,948.7	2,011.0	2,083.8	2,172.0	2,230.9	2,305.0	2,395.8	2,487.4	2,584.3	2,697.2	22,916.0
Receipts	2,012.7	2,135.3	2,221.5	2,333.5	2,476.1	2,573.1	2,693.0	2,826.6	2,972.6	3,142.9	3,383.4	26,758.0
Surplus	157.8	186.6	210.5	249.8	304.1	342.2	388.0	430.9	485.2	558.6	686.2	3,842.0
On-budget surplus[1]	1.9	18.0	18.2	38.9	67.8	92.0	122.2	150.3	191.4	247.3	357.7	1,303.8
Postal service surplus	−1.3	−2.6	0.1	0.2	0.8	1.2	−0.1	0.7	0.9	1.1	1.4	3.7

Social Security surplus[1]	157.1	171.2	192.2	210.6	235.5	248.9	265.9	279.9	293.0	310.2	327.1	2,534.5

[1] The 2001 estimate is adjusted to correct for $5.6 billion in prior year receipts. See text box on page 9 and Appendix A on page 49.

TABLE 19.—FEDERAL GOVERNMENT FINANCING AND DEBT

[In billions of dollars]

	2000 Actual	Estimate										
		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Financing:												
Unified budget surplus	236	158	173	195	217	254	281	314	350	398	447	484
Financing other than the change in debt held by the public:												
Premiums paid (−) on buybacks of Treasury securities[1]	−6	−11	−10	....	....	....	....	....	....	....	....	....
Changes in:[2]												
Treasury operating cash balance	4	−2	−5	....	−5	....	....	−5	....	....	−5	....
Checks outstanding, deposit funds, etc.[3]	3	−4	1	....	....	....	....	....	....	....	....	....
Seigniorage on coins	2	1	1	2	2	2	2	2	2	2	2	2
Less: Net financing disbursements:												
Direct loan financing accounts	−22	−31	−4	−17	−18	−17	−16	−16	−16	−16	−16	−15
Guaranteed loan financing accounts	4	−1	−1	1	(*)	(*)	1	1	1	1	1	1
Total, financing other than the change in debt held by the public	−13	−48	−17	−15	−21	−16	−14	−19	−14	−14	−18	−13
Total, amount available to repay debt held by the public	223	110	155	180	196	239	267	295	337	385	429	471
Change in debt held by the public:[4] [5]												
Change in debt held by the public	−223	−110	−155	−180	−196	−239	−267	−295	−337	−385	−155	−35
Less change in excess balances	....	....	....	....	....	....	....	....	....	....	−274	−436
Change in net indebtedness	−223	−110	−155	−180	−196	−239	−267	−295	−337	−385	1129	−471
Debt Subject to Statutory Limitation, End of Year:												
Debt issued by Treasury	5,601	5,727	5,829	5,935	6,040	6,125	6,201	6,266	6,303	6,310	6,568	6,963
Adjustment for Treasury debt not subject to limitation and agency debt subject to limitation[6]	−15	−15	−15	−15	−15	−15	−15	−15	−15	−15	−15	−15
Adjustment for discount and premium[7]	6	6	6	6	6	6	6	6	6	6	6	6
Total, debt subject to statutory limitation[8]	5,592	5,717	5,819	5,926	6,031	6,115	6,192	6,256	6,294	6,300	6,558	6,954
Debt Outstanding, End of Year:												
Gross Federal debt:[9]												
Debt issued by Treasury	5,601	5,727	5,829	5,935	6,040	6,125	6,201	6,266	6,303	6,310	6,568	6,963

TABLE 19.—FEDERAL GOVERNMENT FINANCING AND DEBT—Continued

[In billions of dollars]

	2000 Actual	Estimate 2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Debt issued by other agencies	28	27	27	26	25	23	22	20	20	20	20	20
Total, gross Federal debt	5,629	5,753	5,855	5,961	6,065	6,148	6,223	6,286	6,323	6,330	6,588	6,983
Held by:												
Debt securities held as assets by Government accounts	2,219	2,453	2,711	2,996	3,296	3,618	3,959	4,317	4,691	5,082	5,495	5,926
Debt securities held as assets by the public: [5]												
Debt held by the public	3,410	3,300	3,145	2,965	2,769	2,531	2,264	1,969	1,632	1,248	1,093	1,057
Less excess balances	....	....	....	....	....	....	....	....	....	....	−274	−710
Net indebtedness[10]	3,410	3,300	3,145	2,965	2,769	2,531	2,264	1,969	1,632	1,248	819	348

* = $500 million or less.

[1] This table includes estimates for Treasury buybacks of outstanding securities only through 2002. These estimates assume that Treasury will buy back $35 billion (face value) of securities in 2001 (in terms of settlements) and $40 billion in 2002. The premiums paid on buybacks are based on experience to date and the interest rates in the economic assumptions.

[2] A decrease in the Treasury operating cash balance (which is an asset) would be a means of financing a deficit and therefore has a positive sign. An increase in checks outstanding or deposit fund balances (which are liabilities) would also be a means of financing a deficit and therefore would also have a positive sign.

[3] Besides checks outstanding and deposit funds, includes accrued interest payable on Treasury debt, miscellaneous liability accounts, allocations of special drawing rights, and, as an offset, cash and monetary assets other than the Treasury operating cash balance, miscellaneous asset accounts, and profit on sale of gold.

[4] Indian tribal funds that are owned by the Indian tribes and held and managed in a fiduciary capacity by the Government on the tribes' behalf were reclassified from trust funds to deposit funds as of October 1, 1999. Their holdings of Treasury securities were accordingly reclassified from debt held by Government accounts to debt held by the public, which affected the change in debt held by the public without affecting borrowing or the repayment of debt.

[5] The amount of the unified budget surplus that is available to repay debt held by the public is estimated to be more than the amount of debt that is available to be redeemed in 2010 and subsequent years. The difference is assumed to be held as ''excess balances.'' (''Excess'' means in excess of the amounts held for operational and programmatic purposes). The debt held by the public is the amount of Federal debt securities held by the public. The net indebtedness is the debt held by the public less the excess balances.

[6] Consists primarily of Federal Financing Bank debt.

[7] Consists of unamortized discount (less premium) on public issues of Treasury notes and bonds (other than zero-coupon bonds) and unrealized discount on Government account series securities.

[8] The statutory debt limit is $5,950 billion.

[9] Treasury securities held by the public and zero-coupon bonds held by Government accounts are almost entirely measured at sales price plus amortized discount or less amortized premium. Agency debt is almost entirely measured at face value. Treasury securities in the Government account series are measured at face value less unrealized discount (if any).

[10] At the end of 2000, the Federal Reserve Banks held $511 billion of Federal securities and the rest of the public held $2,899 billion. Debt held by the Federal Reserve Banks is not estimated for future years.

Chairman NUSSLE. Thank you, Director Daniels.

Let me begin with a pretty basic question. What happened to the surplus? When you came before the committee earlier this year and through all of the projections, we were seeing huge surpluses. What happened to those surpluses?

Mr. DANIELS. The first thing that happened is something that needed to happen. A surplus of 275 or $281 billion, depending on which set of numbers you look at, was vastly bigger than it should have been, vastly bigger than the Nation had any use for, and therefore a bipartisanship majority acted to leave much of that with the taxpayers who earned the money in the first place.

I have often then described the remainder of the shift from the baseline of February or April to today in this way. We started with a 14-cent overcharge of the American people, 14 cents at least of revenue collected out of each dollar for which there was no expenditure need. About 2 cents of that was returned to taxpayers in the first installment of tax relief. About 2 cents of that did not materialize because of the economic slowdown. About a cent and a half was spent by the Congress on the defense supplemental, urgent needs in defense, and on agricultural income support. And a cent and a half is still there, but was moved into 2002 during the tax relief bill writing. So we still have 8 cents in 2001 remaining; still the second largest surplus ever and still at, by our calculations, the level of surplus attributable to Social Security.

Chairman NUSSLE. Does one penny of Medicare that comes in through the FICA taxes, is that used for anything else besides Medicare?

Mr. DANIELS. No, sir. All of the cash coming in from Medicare and another $50 billion besides is required to pay the bills of Medicare.

Chairman NUSSLE. So Medicare is actually, as you have discussed before, running a deficit throughout the budget?

Mr. DANIELS. Well, I prefer to use the word "shortfall" or to at least say that it does not run a surplus. Like most programs of the Federal Government, it is a consumer of general revenues.

I think probably the most accurate thing to say is that the surplus is fictional. But I would simply observe that it does cost more than it takes in.

Because we maintain the 50 year old and/or 40 some year old—and I would say archaic division between hospital costs and the rest of health care in Medicare—we do for the moment at least maintain a trust fund attributable only to the hospital portion. Now that trust fund of course will grow this year by 30 some billion dollars of bonds exactly as it would have under any surplus outcome.

Chairman NUSSLE. Does one penny of Social Security that comes in, the same way, used for anything else besides Social Security?

Mr. DANIELS. It is used for debt reduction and the cash financing of the Federal Government. Some of it is used depending on what snapshot, and what window you take a snapshot of or through. But some of it is used for loans to students under the—in the last few years the Federal Government went into the banking business of making direct loans to students, and that is a consumer.

The biggest use by far, most of it is used for debt reduction. This year we actually used 10 billion of it, because we are prepaying the national mortgage. About $10 billion of it was used in premiums to bring in debt that was not due.

Chairman NUSSLE. According to the projections that you have there before you, that you are presenting to us today, does the change in the surplus figures that you have, even though we are still running the second largest surplus in history—we are not running the first largest surplus in history any longer—are we still able to pay off the debt that matures and pay off the publicly held debt that you can pay off as we committed to as part of this budget over the next 10 years?

Is that still possible under this budget plan, according to your projections?

Mr. DANIELS. Absolutely.

Our estimate and CBO's and the Fed's are all on top of each other as somewhere between 2 and the 2.2 or 2.3 trillion is possible without punitive penalties over the time period, and the surplus is available to do that.

The Social Security surplus alone is $2.55 trillion, let alone the remaining budget surplus. So the answer to that question is indisputably yes.

Chairman NUSSLE. That is on top of the $49 billion that we have already paid toward the publicly-held debt over the last 4 years now?

Mr. DANIELS. Yes, that is correct. At the September 30th turn—OK, incidentally, our projection is for exactly the 3.300 trillion balance. That is down from 3.8 just a few years ago and headed south at a rapid rate, as you know.

I have observed elsewhere we are going to pass an important landmark in 2002. The interest cost to the Federal Government, the carrying charge, so to speak, of the national debt will drop into single digits for the first time in over a quarter century.

The burden of the debt, as the debt is coming down, is shrinking fast and will be down to 9 cents on the dollar; and, of course, it was in the high teens just a few years ago.

Chairman NUSSLE. Finally, what is your advice and the advice of the President of the United States with regard to spending as we move into the very important final month of the appropriations process for 2002? As we move through those appropriations bills in the House and Senate, what is your advice in order to stay within this budget and not do any more harm to the economy that has already been done? What is your spending advice with regard to this final stage?

Mr. DANIELS. The President's advice would be that the Congress should honor the budget resolution, that it should not exceed it. He will be a participant, if necessary, in trying to see that it is not exceeded. But, if we live within it, we will grow spending at a moderate rate. We will make a major first step toward the repair of our national defenses, which I think a bipartisan majority believes is overdue and necessary.

We will take a big step forward in—education, medical research and other key priorities, were marked out in the President's budget; and it seemed to have bipartisan support in the Congress. Those things we can do as long as we do restrain spending growth to the level that the resolution calls for; and I think from many conversations with Members and particularly leaders of the appropriations process, we are on track to do that.

Chairman NUSSLE. As the President's chief budget watchdog, if appropriations go outside the boundaries, are you prepared to advise the President to veto spending bills that bust the budget?

Mr. DANIELS. I always start the answer to this hypothetical question by——

Chairman NUSSLE. I didn't ask whether he would. I was asking whether you would give him that advice.

Mr. DANIELS. Well, I do like to start by saying that we hope that the advice need never be given and that we can work with the Congress, as I think we have every opportunity to do, to knit together the budget under the resolution and without that kind of a disagreement.

But there has been at least the one occasion already this year where there were suggestions of spending we thought was beyond what was necessary, and we did give that advice, and I think the President was prepared to act on it if it had finally proven necessary.

Chairman NUSSLE. Thank you.

Mr. Spratt.

Mr. SPRATT. Mr. Daniels, as you know, CBO is the scorekeeper as far as Congress is concerned. When we look at the implications of spending initiatives and tax cuts both, we look to CBO and to the Joint Tax Committee for our estimates.

CBO has sent us a forecast that is very different from yours in terms of what can be accommodated. You call the differences minuscule, but by our calculation, under CBO's—if I understood your proposal, you have got $767 billion in tax cuts, $315 billion in tax cuts is still to come—and other spending proposals like Medicare that add up to $767 billion that cannot be done, if CBO is correct, without further degradation of the bottom line, without further digging into the Medicare surplus and into the Social Security surplus and aggravating what is becoming a structural on-budget deficit.

Now, let me turn first to the question, "Where did the surplus go?"

You have got a deceptively simple chart that is table 1 in your booklet. It is on page 4.

Table 1 shows that when you sent your April estimate up with your budget, we had a surplus in April, just last April, of $281 billion. The Social Security surplus was $159 billion of that. So the non-Social Security surplus in April was $122 billion. That was after factoring in the budget proposals that had been made through April.

You then show the changes that have occurred since April. And if you add up the changes due to legislation, they come to $76 billion. If you add up the changes due to economic and technical adjustments, they come to $46 billion. So about 38 percent of the disappearance of the surplus is attributable to economic and technical adjustments, about 62 percent is due to policy changes such as the transfer of corporate tax payments from this year to next year, the rebate, farm assistance, the supplemental, the defense supplemental, all things that the Bush Administration and the Congress for the most part supported.

So most of those changes were really policy changes, were they not, two to one, as opposed to economic and technical changes; is that correct?

Mr. DANIELS. Yes, sir.

Mr. SPRATT. So the budget surplus was dissipated two-thirds by policy changes that the Bush Administration supported, and when the measures came to them, they signed. And all of the spending in prior years, the spending increase from 2000 to 2001, is subsumed in that $281 billion surplus in April.

In other words, when that surplus was calculated at $281 billion, it included all of this cost growth in prior years. We still had a big surplus, $281 billion, $122 billion after Social Security, notwithstanding the increases in discretionary spending in the prior year, that is correct, isn't it? I am not misreading this chart.

Mr. DANIELS. No, sir. I am waiting to see wherein we differ.

Mr. SPRATT. Well, so you agree with me.

Another interesting thing is, under economic and technical adjustments, table 1, the amount comes in total to $46 billion this year; and over the 10-year period of time, there are some puts and takes, pluses and minuses, but it never gets bigger than $46 billion over the 10-year period of time from 2002 to 2011. So most of the degradation in the surplus we are seeing in the out-years is not attributable therefore to economic and technical factors; is that correct?

Mr. DANIELS. That is correct.

Mr. SPRATT. That is policy, too. And the main policy that you factored in here is the tax cut; is it not?

Mr. DANIELS. That would be the single largest.

Mr. SPRATT. I beg your pardon?

Mr. DANIELS. Yes. That would be the single largest change.

Mr. SPRATT. Your letter today to Mr. Gephardt says, "Since April there has been a decline in the budget surplus due largely to the economic slowdown."

But the line of questioning we just went through indicates that 38 percent was due to the economic slowdown, some of that is technical, some of it is economic, and 62 percent was due to other factors, namely enacted legislation and policy proposal that the administration supported. Is that correct?

Mr. DANIELS. Yes. I think it is the same as the analysis that I gave, in my simple-minded way, by reducing it to cents on the Federal dollar. The single biggest contributor by a small amount is the economic slowdown. But if you aggregate the other choices made, I would agree with you on a bipartisan basis you get a slightly larger amount. You know we should all acknowledge that the last cent and a half here, the corporate tax shift is money that is still going to come in.

Mr. SPRATT. But 62 percent is due to other factors, only 38 percent to the economic slowdown?

Mr. DANIELS. Fair enough.

Mr. SPRATT. All of that working out on the long term, even though we have got a decline in the bottom line and an invasion of the Medicare and Social Security trust funds into the future, that by and large is not attributable to these economic and technical factors, too, because you are assuming that beginning next quarter this economy rebounds at a pretty smart rate, 3.2 percent I believe.

Mr. DANIELS. We are. Let me interject. I know—because we have discussed this before—that you misspoke a moment ago, that the Trust Funds are never invaded. The trust funds are never affected. The trust funds are at exactly the same size that they would be under any other policy mix. So, I think, as you had put it before, I think in the correct way, Social Security revenues and so forth.

Mr. SPRATT. I thought you were drawing a distinction between the Social Security Trust Fund and the Medicare Trust Fund. Page 1 of your mid-session review says, “In order to fully reserve the Social Security surplus for debt reduction, any further initiatives beyond those included in this review will have to be accompanied by offsets in other areas.”

Mr. DANIELS. No disagreement there. I used the word “surplus.” That is the right word to use. Since we are rummaging around my report, if you will look at page 13, table 4, we make the point which is sometimes overlooked or misunderstood that under any surplus projection the current projection—this just happens to be 2002. It wouldn’t make any difference what year we use or much larger ones. Total Medicare spending on benefits will be exactly the same. Every penny will be paid. The Trust Fund balance will be exactly the same, and it will increase by exactly as much and so forth.

So I am just—I don’t mean to pick on words, but I do think that they are important here. You are absolutely right when you speak of the surplus and whether we are going to be able to protect as much of it as you think is wise. I didn’t want anyone confused that the trust funds were any smaller than they deserve to be.

Mr. SPRATT. Well, the difference is, if you have a spending initiative that is not offset, then you will borrow the money from Social Security to fund that initiative. Sure, Treasury will give a bond to the Social Security trustees in return for that borrowing, but that will be to the extent of the value of that bond, that much less debt that will be paid down in that particular year.

Mr. DANIELS. Well, now we are at the right point. The question is finally that last increment of debt to be paid down and how much is enough, how soon.

Mr. SPRATT. I am reading your own language, and I take it you do believe differently with respect to the Social Security Trust Fund, that we should only use it for the buy down of outstanding debt.

Mr. DANIELS. Yes, that is the President’s position.

Mr. SPRATT. OK. Let me ask you about the Medicare Trust Fund, and we have disagreed about this from the first day you testified here. The administration has taken one position; the Congress—both parties have taken, up until now, a different position.

If you look at your forecast again on table 3, page 8, OMB shows that your budget—if I am reading this correctly—will invade the Medicare Trust Fund, every year through 2006.

Now, this particular rendition of your budget includes the $18.4 billion addition for defense, but it doesn’t include any follow-on increment, nothing for transformation. In fact, you say, "Pending the completion of the defense strategy review, this review assumes a current services budget for DOD in the out-years based on the proposed 2002 level."

My question to you is: You also described this as a first installment. But I look out 9 years, waiting on the other shoe to drop, and I don't ever see it drop. I don't see the second increment, the increment that will go to fund transformation. Where does that come? How is it paid for?

Mr. DANIELS. Well, it will come if and when the President approves the recommendations from the Defense Department or elsewhere for any increases. It can come from two places, probably from a combination of two. One, of course, which is—somehow usually brushed by in these conversations is the embedded base of spending in the Federal Government. You know, all of the numbers on the chart behind you assume that the entire $1.9 trillion edifice of spending just lumbers on absolutely untouched and grows with inflation.

The numbers which mostly I can read as I look across and see minus 40, minus 38, 40, 41, 42 and so forth, these amount to 2 percent of the revenue, less than that by then, of the Federal Government. And, you know, this should not be beyond your ability to manage.

So one place that any increases come from is from the redeployment from old, outmoded, duplicative, perhaps failed programs to new.

Also, there remains under either projection here hundreds of billions of dollars of on-budget surplus uncommitted. Even after the defense increase, the Medicare prescription drug increase, that is already incorporated into our numbers, there is almost $600 billion on-budget surplus uncommitted so far and available to be distributed among all of those programs.

Mr. SPRATT. That is only if we use OMB instead of CBO's forecast?

Mr. DANIELS. That is right. The differences between the two are very small, even here. It is not particularly a disagreement about receipts. The largest single difference between our professionals' forecast and the CBO forecast, has to do with the cost of Medicare.

CBO sees the cost of today's Medicare program growing more rapidly, $224 billion more over the 10 years, than we do. And when we get a chance I know our folks and theirs will want to counsel back and forth about who is right.

Mr. SPRATT. The extra money you are talking about also includes the Medicare surplus, which gets back to the fundamental disagreement between us. We have to recant and abandon all of our commitments that we have made over the last couple of years, legislation brought to the floor, statements made in earnest. We have to trash those in order to have that additional money to spend. We have got to spend the Medicare surplus to have that kind of walking-around money that you are talking about.

Mr. DANIELS. Well, it is not my place to recommend how folks deal with those things. I would say that the commitment that was made in time of deficit, in time of real deficits, just yesterday—really a few years back, although I must say, and it has been written a thousand times now in all of the newspapers that can I find, that is fiction. But, you know, some fictions are useful; and I think this was one because it did help bring greater discipline. But it doesn't make it, at least in our reading, any less fictional when you really look at what Medicare takes in and costs.

Mr. SPRATT. Regardless of the administration's position, my counterparts on the other side of the aisle, wrote into the budget resolution a provision with respect to defense and the farm bill. It effectively gave the chairman substantial authority, unprecedented authority, to adjust the budget allocations to those two programs by whatever amount he deemed advisable and wise after looking at Rumsfeld's report on transformation, in the case of defense.

But we put a limit on it. They put a limit on it. That is, we limited him from invading the Medicare Trust Fund.

So now the chairman of the Armed Services Committee and the chairman of the Budget Committee have a hard decision to make. If they add the $18.4 billion additional funding for defense which the administration is seeking, they have got to take it out of the Medicare Trust Fund. That is where it will come. It will mean a deeper, more lasting invasion of the Medicare Trust Fund. So they have got to not just recant political rhetoric, they have got to violate the written letter of the budget resolution that we—that the Congress—adopted just months ago.

How do you resolve that? Are you saying to the Congress that we should ignore the Medicare Trust Fund since it is not a Trust Fund, it is an artificial overage, as you put it, in the resolution and go ahead and pay for the defense increases out of the Medicare Trust Fund?

Mr. DANIELS. First of all, I would reassure the chairman as he thinks about his decision, whatever he is doing does not affect the Medicare Trust Fund as the chart behind you indicates. It doesn't say anything about the level of the Trust Fund. It talks about the surplus, the part attributable to that.

It is my happy opportunity to let Chairman Nussle know that if the budget resolution is funded all of the way, as the President would recommend, the Medicare Trust Fund next year will be $234 billion.

If for some reason Congress decides not to fund it and not to fund any of the defense requests, the Medicare Trust Fund next year will be $234 billion. It will have no affect whatsoever on the level of the Trust Fund, let alone benefits paid.

I just think we do need to be precise about this, so as to not lead any recipients or supporters of that program in any confusion.

I do understand the point you are making, that there will have to be an active decision made to make an additional request, and I very much respect the position of the chairman and others who have said they want to see a real showing of the justification and the strategy and so forth. I believe those things are in the works and that showing will be made, but that is a position I think we all respect.

Mr. SPRATT. Let me make one final point and then we will turn to others. On several occasions in your report and in your testimony, you refer to explosive spending increases to the biggest one-time increase in discretionary spending, 2001 over 2000. Let me just say to counter that and see how you respond to this; on page 5 of your mid-session review, you state that last year's appropriations include the largest 1-year spending increase in history, about $50 billion over 2000. I take it that is budget authority. Isn't it true that BA, budget authority, for advanced appropriations more than doubled from 2000 to 2001, from $11 billion to $23.5 billion, and that kind of artificially inflates the number for 2001?

Mr. DANIELS. Well, advanced appropriations have multiplied. It is certainly true. It is one of the—as we see it—unwise practices that we are working hard to try to corral and curb along with earmarks, for example, and the misuse of the emergency designation. So, yes, that was a contributing factor. It does lead to real spending, but I agree that it certainly was a factor in generating this very large——

Mr. SPRATT. So that we can have an apples-to-apples comparison, this simple bar chart here shows you if you back out advanced appropriations and supplementals and just deal with regularly appropriated discretionary spending, from the year 2000 to the year 2001 the increase was $38 billion, 6.7 percent. This year from 2001 to 2002, your first fiscal year will be—full fiscal year will be 2002—the increase is $44 billion. That is using budget authority. Do you dispute that?

Mr. DANIELS. No, but it makes in my judgment, one very fundamental error. You say if we don't count supplementals. Multiple supplementals of the last year amounted to—I have to check—$20-odd billion or more. The President has said this year we were going to be much more guarded about that, and of course the only supplemental that has passed and was signed was that essentially for defense, about $6 billion.

So, two things: Number one, I think the 2001 level is dramatically understated. I don't think it is fair not to count the supplementals. Also, when you do put the supplemental that was passed this year into the base for the preceding year, it brings that 7.2 percent down to a little under 6. I understand the adjustments you are making, but I think that one is not a fair representation.

Mr. SPRATT. Let us look at it differently, and this will be the last question. Look on page 36, if you will, of your mid-session review, table 12. You have the mid-session estimates there of discretionary outlays, actual spending. This year, fiscal year 2001, you are estimating actual spending at $651.4 billion. About 2 or $3 billion of that is in supplementals, the defense supplemental. Next year, your estimate of outlays is $699 billion. If you deduct the supplemental from this year, that was your policy, and just look at what the level of spending was as appropriated. You have got a $50 billion increase from this year to next year. So while you are decrying the $50 billion increase from 2000 to 2001, in effect you have got the same thing, with an outlay increase in your budget request from this year to next year.

Mr. DANIELS. First of all, of course, the Congress votes that budget authority outlays can move around based on—and not in lockstep with the spending Congress votes for—the timing of when the program finally spends.

I think the general comment I would make about the spending of last year—and I think we have been fairly consistent in this—

is the President has taken note that there were very rapid increases. Chairman Nussle's earlier chart showed the way in which spending took flight above and beyond the caps that were in law as soon as the surplus arrived about 3 years ago. I think when we have noted that, it is less for the purpose of looking in the rearview mirror than really for purposes of saying that we can—because there was an awful lot of new spending done last year, and the previous couple, we can moderate the rate of growth of spending in a lot of these programs; in many cases I believe, very much a need for digestion, a pause and reflection on what all this new spending—how effective it has all been. And I think that is the main reason to draw attention to it.

Mr. SPRATT. I don't disagree with that, and I think every dime we spend ought to be scrutinized and heavily justified. But nevertheless, when you look at these numbers, you are not exactly pulling in the reins yourself. You have got a substantial increase this year over next year in your own budget, and defense is part of it. You are—

Mr. DANIELS. That's correct, sir, we——

Mr. SPRATT [continuing]. Billion in defense over and above this year.

Mr. DANIELS. I think when the budget was presented this year, we talked in terms of reasonable growth, not cuts and freezes and that sort of thing. The Nation does have needs, and clearly in defense probably more than other areas; probably education behind it. The President supported a significant step forward, but the budget presented, even as amended, year over year, is about 5.9 percent above the final 2001 number, and that does reflect a moderation in the growth rate that preceded it.

Mr. SPRATT. Let me just say in closing, with respect to the numbers that the Chairman showed, putting the caps, I was one of the budget principals who helped negotiate the Balanced Budget Agreement of 1997. When we set the out-year caps, we knew they were extremely tight. We were resolved to adhere to them if necessary. As it turned out, we were in unified surplus the first year out of the box; 1998, we had a unified surplus. As a consequence we, de facto, abandoned those and went back to budget reality for out-year spending. So those were unrealistically low caps to start out with.

Thank you very much, Mr. Daniels.

Chairman NUSSLE. Mr. Sununu.

Mr. SUNUNU. Thank you very much, Mr. Chairman. I very much appreciate the closing remarks of the ranking member, and in general agree with some of the points he was making with those final slides. We can debate about the budget mechanics, but whether the increase year on year from 2001 to 2002 is 5½ percent or 6½ percent or even, as one of his slides suggested, 8 percent, I think the point is there. It is a pretty significant increase over last year, and in that regard it completely undercuts the point he was making at the beginning of his presentation that somehow we can't possibly adhere to the 2002 budget arrangement, the caps, the limits, the appropriated levels; that we have to reopen the budget for some reason at this point.

I don't think there is a need to do that. Certainly in the 35 years of deficit spending that occurred before I became a Member of Congress, there was never a discussion about reopening the budget because we are running a deficit. We have had surpluses now for 4 consecutive years, and I think we did put together a budget that is reasonable. And if we hold to the limits of the 2002 budget agreement, we will have resources to increase education spending by the 10 or 11 percent that the President included in his budget. We will have resources to invest in research and development, new medical or scientific breakthroughs, to begin rebuilding our defense infrastructure.

That doesn't mean that we won't have difficult choices to make during the appropriations process. I think that is to be expected—it seems to me it is more clear than ever in hearing this discussion—that Chairman Nussle's point about spending being the problem, spending driving deficits, is very much the case; because even in an environment where we allow for a 5 percent or 6 percent or 8 percent increase in discretionary spending, for some in the House that is not enough, that there is never enough. And there we get back to one of the fundamental arguments for cutting taxes in the first place is to control the revenue flow.

We still have record revenues. We have CBO and OMB agreeing on the collection of revenues, but more tax collections than ever in the history of the United States. I think we ought to recognize that we cannot grow the Federal budget faster than an average family is growing their budget, that we do have to live within our own means.

I would like to touch on two points that were also raised, the causes of the change in the surplus level.

First, the economic slowdown. I don't think there is anyone in this room, anyone in Congress or around the country who is pleased that we have such a significant economic slowdown. In fact, as the President recognized the slowdown in the economy at the beginning of the year, there were some people that criticized him for doing that; he is talking down the economy, he is somehow precipitating this slowdown. We see now that his comments and concerns were right on the mark; that the economic slowdown is the biggest single cause in the reduction in revenues and the smaller surplus.

At the same time, the second biggest contributor to the decrease in the surplus has been the tax relief package which we have even heard today come under some criticism. But I haven't heard anyone recommend that we increase taxes, and I think those that finger-point at that particular policy decision ought to be willing to state clearly and unequivocally whether they think we ought to be increasing taxes now or not. I think that would be a horrendous decision, a terrible policy prescription, just at a time when the economy is slowing down.

As I traveled through August across New Hampshire, the biggest single issue I heard raised with the tax relief was why in the world isn't this tax relief package permanent? How can it possibly be that the House and Senate act on a tax package that isn't permanent? I think if we do anything for the economy and for consumers, we ought to implement right now, as soon as possible, legislation that makes that tax relief that we passed into law several months ago permanent.

Even so, we do have a situation today where the surplus will be somewhere between $150 billion and $160 billion at the end of this fiscal year, the second largest surplus in history. The chairman pointed out we will have paid down almost $500 billion in the public debt, and in contrast to the 35 or so years of deficit spending, I think that is pretty dramatic.

Finally, the question persists, why are we setting aside these surplus in the first place? What are we trying to achieve in setting this money aside? Yes, we are paying down debt. That is important. I think it is important to control the size of our public debt. It does help strengthen our budget. But ultimately, the reason to have these resources this year and next year and the following years is to help us pay for and fund the strengthening and modernization of Social Security and Medicare.

The director made one mistake which I am inclined to point out, and that was with regard to the age of Medicare. The Medicare is 36 years old. I happen to know because we are the same age. I have changed a little bit in 36 years, but as the director pointed out, Medicare really hasn't.

So I would like to close with a question for Mr. Daniels about these programs.

The size of the surplus: To what extent does the size of the surplus, whether it is $150 billion this year or 180, does it affect the long-term strength or health of these programs, and what are the real issues that are contributing to long-term weakness in Medicare or in Social Security? I am concerned that with all the discussion about whether the surplus will be $152 billion or $160 billion and whether it is the second largest in history or the largest in history, we lose sight of the need to take up serious substantive legislation on these issues. And I hope you can address that point.

Mr. DANIELS. It would be really quite tragic if the process were to procrastinate on the reform of either Social Security or Medicare. On other occasions I pointed out, I think that may be the single biggest problem with the misconception that we have a Medicare surplus. It could lead people to believe that any program with a surplus is doing just fine, thank you, and the political process does have a tendency to wait for crises to act. That would be very, very unfortunate in this case because, as we all know, action to reform a long-term entitlement program can be much more moderate, much more gradual, if taken in a timely fashion as opposed to waiting until the wolf is at the door.

So I would remind the committee that this President has committed himself to the reform of both programs, and we all know how difficult that will prove to be to reach agreement on that. But I sure hope that there will be bipartisan commitment to get about that business.

Mr. SUNUNU. What about all of the discussion or concern about the tax relief package, that somehow is a part of the problem; and the suggestion, I suppose, that repealing that package or raising taxes would help solve some problems? What effect would a significant tax increase right now have on the long-term solvency of the Social Security program, for example?

Mr. DANIELS. It wouldn't move the solvency date by 1 day or 1 year, just as it wouldn't mover the benefit level. And it wouldn't move the size of the trust fund——

Mr. SUNUNU. Let me interrupt you there. I don't know if that is correct, because if a tax increase were to have a negative effect on economic growth, economic growth is one thing that really can hurt the solvency for Social Security and move it back; isn't that right?

Mr. DANIELS. That is correct. I was going to move on to say that there are really only two things I think that matter in terms of the long-term viability of those programs. One is economic growth and anything that bends the trend line—again, CBO and OMB as well as most private forecasters, we have identical and most have very similar expectations for long-term real growth—anything that bends that trend line down will have a very deleterious effect on those programs pretty quickly. So higher taxes anytime, particularly at a time of near stagnation like now, we think would be very ill advised.

The other thing that matters is reform. The biggest thing that matters is whether we can put those programs on a viable footing on a day when we have a much lower ratio, much lower, of people paying to people taking out.

Mr. SUNUNU. Thank you, Mr. Chairman.

Chairman NUSSLE. Mr. McDermott.

Mr. MCDERMOTT. Thank you, Mr. Speaker. I——

Chairman NUSSLE. No. Mr. Chairman. I haven't gotten a promotion yet.

Mr. MCDERMOTT. With your skillful way, I am sure you will be there shortly.

I spent half a month in August in my district and I am happy to report—I want to say something positive before I get going—that the checks are arriving in my district. A lady sent me a $1.65 check and said, you use this anyplace you think it will do any good. Another one sent me the letter that said she didn't get any tax rebate at all. She had this letter and down at the bottom it said zero. She said how can that be? I pay taxes.

I want to understand, you have got John here who is a country lawyer, and I actually come from corn and pig farmers in Illinois, in the Speaker's district. I just came from a family reunion in Oswego, and the people there when they pay their taxes, they think of it in terms of three shells. They put one shell, that is, the Social Security part on their paycheck. And then they have the Medicare part on their paycheck. And then they have their income taxes. And you have been real careful with how you have used your language. The President said in his speech, anybody who pays income taxes is going to get a tax cut. Now, people at this family reunion couldn't figure out, if they paid these other two into Medicare and Social Security, why they didn't get anything. I explained to them those are trust funds. You have got to keep that money separated from the regular income tax money.

What you are telling us today is that these numbers on this driver's eye chart up here, if we move anybody from that Medicare money, any money that came into the Medicare fund, and we put it over here in the general government fund, it really is still over there. It is still under this one, right? And you say if you take any money out of that which was paid in for Social Security and it winds up over here in any kind of general government, it is still under here really; you just can't see it.

Well, I will tell you something. You should go to a county fair, because they have got a game like this, and they put a pea under here and they move it around real fast, and you can win if you can figure out under which shell that pea really is. And if I understand you correctly, what you are saying is we really have only one bag of money. These trusts don't really mean anything. What you want the American people to believe now, after all this talk about lockboxes and all that stuff, is suddenly it is all under one. Don't worry about your Social Security, don't worry about your Medicare, we don't have any trust funds or anything, we will take care of it out of this one. Is that what you are telling the people? There is no place where their money is being taken from? I know you are putting bonds under here. That is what you want them to believe. That isn't raiding the Social Security when you take it and put a bond under there and say someday you come collect the bond when you need it. Is that what you are saying to people?

Mr. DANIELS. Well, Congressman, first of all, I think your metaphor is probably an interesting one, because there is certainly a shell game quality to the way Social Security has been presented for a long time. If people have believed, for instance, that they had any money that they owned, that they were actually putting money away for their own retirement, obviously there was no pea under that shell. But I think our understanding has begun to improve about this.

Mr. MCDERMOTT. Do you mean they were stupid in the first instance and now they have gotten educated? What are you saying about people? They were led to believe that by the United States Government.

Mr. DANIELS. Well, I hope that was inadvertent, because it was never true, ever, that a person was putting money aside for his or her own retirement. But I don't think that is the question you are really asking. And the answer simply is—I mean to the multiple questions you asked—we are treating the trust funds as we always have, always, from the inception of the programs. They are growing by exactly what they are entitled to grow. But it is not cash in the drawer. It is bonds, future promises, as it always has been; nothing has changed.

Mr. MCDERMOTT. Let me stop you right there, because you and I know, maybe the American public doesn't understand what the baby boom generation is all about, but you and I know that at the end of this budget period in 2010, all the people born since the Second World War are going to show up looking for their money under this Social Security Trust Fund. And when we talk about surplus, we are talking about right now, yes, we are raising more because we want to have it there when we get to 2010 and try to pay for those people.

Mr. DANIELS. What do you mean "it," Congressman, it won't be there? If by "it" you mean the money coming in the door, it won't be there. Only bonds will be there, exactly the same as the number under any set of policies——

Mr. MCDERMOTT. But wouldn't it be better to leave it there——

Mr. DANIELS. If the government continues to gather in vastly more money than it needs to pay its bills—it doesn't go under a mattress, doesn't go into your shell, doesn't go into some box, locked or unlocked. It goes to pay the debt to the extent we can, and that is it. The Social Security Trust Fund in 2010 will be exactly the same size as it would be if there had never been a tax cut or if there had never been a rebuilding of our defense. They are completely unrelated. And that is the truth.

Mr. MCDERMOTT. You are basically saying that we have one bag of money from which we can pay all this stuff. Now, what I don't understand is how you are going to pay—I sit on the Ways and Means Committee. I don't understand how you are going to pay for tax extenders or the energy bill we passed out. The budget had $9 billion for energy. We passed out $33 billion with no offset. The House leadership would not let us put an offset on the floor. So I don't understand where—the difference between 33 and 9 is, in my calculation, $24 billion. Where does that come from?

Mr. DANIELS. Well——

Mr. MCDERMOTT. Where are we going to pay for that?

Mr. DANIELS. Well, there are a lot of ideas and bills around. The bill——

Mr. MCDERMOTT. But you are representing the President. He has the veto. He will end this process. What are you going to recommend to him?

Mr. DANIELS. I am going to recommend that total spending, whatever its compensation, be held to the level of the budget resolution. It so happens that by doing that, we believe the Nation's needs can be met, and among those the goal that will be fulfilled is the full protection of the Social Security surplus for next year for debt reduction. So that would be my recommendation and——

Mr. MCDERMOTT. So you are going 1 year at a time, if I get it? I listened real carefully to your words. You said, I am going to recommend that you have enough money to pay for Social Security next year. So you are worried about 1 year at a time and——

Mr. DANIELS. Excuse me. I thought you were asking about the budget that is in front of us and the appropriations decisions that are in front of us which applied to fiscal 2002.

Mr. MCDERMOTT. But these implications of this budget run out for 10 years, don't they?

Mr. DANIELS. All are subject, as you know, to human will and leadership, and I made this point when I thought there was an inference that we were locked into baseline increases for this entire $2 trillion Federal edifice. We are not. We can change all of that. And, by the way, we should. No business I know, no nonprofit enterprise I know, just automatically assumes in everything that is unquestioned, grows it by inflation, and then worries about if you can pay for the new needs. And we have got to get a——

Mr. MCDERMOTT. The only thing I can say in closing is this: We shut the government down. The chairman and his fellows thought it was important to shut the government down in 1995 because we were using OMB numbers and we had to use CBO numbers. If we couldn't get it based on CBO, we were going to have this country without any financial operation. And we went by that.

I now hear people saying that your budget, which implies has all kinds of policy in it—Dr. Crippen's budget does not have policy. It just goes by the law. Yours has all kinds of manipulations which gives you a 1 billion surplus this year and 1 billion next year and a 4 billion the third year and 6 the fourth. That is like landing a 747 on a dime. The reason they make those runways 9,000 feet long is because you can't be sure you are going to get them down right on the spot you want them on. But you are saying that is budget numbers—if we rely in this committee on CBO, we are going to have some trouble with your budget in my view.

Thank you, Mr. Chairman.

Chairman NUSSLE. Mr. Bass.

Mr. BASS. Thank you, Mr. Chairman, and thank you, Director Daniels, for coming here today.

We need to remember, as you mentioned in your opening remarks, that we have budget surpluses that are larger than we have ever had in American history. We have a lot to be grateful for, although there are some problems and some challenges facing this committee and the Congress and the administration that were not anticipated earlier on this year. I hope that we can work with you in a constructive manner over the next few months to develop changes, if necessary, to construct a budget that would reflect reality.

Now, I would only point out that complaining for complaining's sake is not how I would define a constructive approach for dealing with the problems that we face today. The fact is for the last 35 years or so—or since I was 13 or 14 years old—the trusts didn't mean anything. They didn't mean anything to the administrations at the time, sixties, seventies, eighties. They didn't mean anything to the Congress. And now all of a sudden they seem to mean everything.

I also harken back to the four or five, five or six late nights that I have spent in this room working up a budget in which we discussed and debated tier 1 and tier 2 and tier 3 amendments, all of which, every one of which, were offered by my friends who are now so concerned about the disappearing surplus. Had all those amendments passed—and fortunately none of them did—two thirds of the loss of surplus, or probably more than that, would be due to increased spending. There would be economic issues to deal with, probably very little tax relief, and we would be in the same position we are in today.

The fact is that this Congress has moved forward in a bipartisan fashion with the administration to try to deal with the economic slowdown proactively through a rebate program which I think will work. We do have some problems which have been brought up and will be continuing to be brought up by the other side which I think we can work out.

Director Daniels, I look forward to working with you in a positive and constructive manner to make sure that we do everything we possibly can to bring about an economic turnaround in this country; that we try to keep the lid on spending to the greatest extent possible; and that we get the business of complaining about something that we have all been working on over the last 6 months, on both sides of the aisle, out of the way and start looking toward the future.

I really have no other observations, Mr. Chairman, and I will yield back to you.

Chairman NUSSLE. Mr. Bentsen.

Mr. BENTSEN. Thank you, Mr. Chairman.

Mr. Daniels, it is always good to see you. You talked about overcharge, and I think there is another word we need to talk about and that is "overpromise." Looking at your budget, the administration has a choice to make. They have a choice of whether or not they are going to keep the commitments that the President made last year and the commitments he made when he addressed Congress this year, or whether or not they are going to have to come forward and admit that they can't meet those commitments.

I look at your mid-session review and, yes, we can accomplish what you say we can accomplish and not go into these trust funds if the administration goes back and says, well, we are not going to plus-up DOD, we are not going to reform Medicare, we are not going to reform Social Security, we are not going to increase funding for education—as the President said he wanted to—we are not going to fund prescription drugs. And, in fact, your own document cuts back what the Congress said they were going to do for prescription drugs in the budget resolution that the Republicans passed. On top of that, that the economy in the next 6 months is going to grow at an 100 percent faster growth rate than it has in the previous 12-month period. I am not aware of anybody in the mainstream school of thought on Wall Street, in academia, or in the Washington, D.C. area, who believes that the economy is going to turn around that fast. I hope it does and I know all of us hope it does, but I don't think we are going to go from 1.7—if we get to 1.7 GDP growth rate this year—to 3.2 percent GDP growth rate next year. I think that is quite a loaded assumption.

So I think the administration is going to need to come up and tell Congress—and pretty darn quick—what priorities of the President it wants and how it intends to pay for those priorities.

I also must take issue with your comment regarding the trust funds because if you look at your own document, on one page you say the trust funds don't exist; on the other page, you take credit for how this administration is increasing the amount of dollars that are in the trust fund, even though that is a matter of ongoing law. It is a mandatory program. It is not anything you did. It is not anything we did. It is something that, quite frankly, was started 30-some-odd years ago. But you all trumpet that fact, and then you turn around and say it doesn't exist.

It does matter—and I am going to give you a very bipartisan approach as to why it does matter—whether or not you spend against the Medicare and/or Social Security Trust Fund, which, if we use the CBO numbers, is exactly where you are heading. I think you would agree with this because I think this is as much a Republican as Democratic theory of why it does matter. And you are right, it isn't going to affect the amount of money that is in the trust fund; but what it is going to affect is the amount of public debt in the future that our children and grandchildren are going to have to pay off, and without doing one thing for Medicare, without doing one thing for Social Security, to extend the solvencies of those programs. What we are doing under the budget that the President has submitted and the spending that the President himself wants, without any action by Congress, would be to increase the public debt, increase the mortgage that our children are going to have to pay, without fixing these programs at all.

So, yes, it does matter. You cannot just say we have plenty of money, the surplus numbers are going to be the same, we are just not going to pay down as much debt. But we are borrowing today to spend today under the President's budget, and I think that is a serious problem.

We use CBO's numbers—which is what we in the Congress do—and as my colleague mentioned, we had serious debates over this. The government was shut down twice in my first term in Congress over this issue. The prior administration agreed to use CBO numbers. If we use CBO numbers, you all are in the red, and that is just on a current services budget. But if we include the defense plus-up that we know the President wants, if we include what the President agreed with Congress earlier this year on prescription drugs in Medicare reform, the $300 billion program, not the $149 billion program that you all are talking about now, if we take all of the things you said we want, we are in the red.

How do you intend to pay for those, not just this year but over the next 10 years, and when are you going to send that up to Congress? When are you going to send us, particularly as it relates to the coming fiscal year, the cuts that the administration wants Congress to make to make the budget balance?

Mr. DANIELS. Thank you, Congressman. There are several important questions in there. I think I caught them all. Let me first say that I don't think you heard me say the trust funds don't exist. Of course they exist. It is what they consist of that some people occasionally mistake, and they only consist of government bond's promise to pay in the future. It is a privileged promise and one people can rely on, but that is what it is. Sometimes I try to help people straighten out the confusion that suggests that they get bigger or smaller depending on our on-budget decisions or the size of those surpluses. As I think I illustrated again today, they don't.

Let me answer your question about assumptions and so forth. Let's untangle this for you, because I do think it is an important question. We are still pretty low-tech, too. But looking at the left side of the chart, the green bar refers to our assumption for next year, 3.2. It is above the median of the blue-chip forecasters but sort of within that range. And it is below the sort of the top quartile, quintile, I guess; 10 out of about 47. Meanwhile, CBO is just on the other side of the median on the low end, but also I would say kind of in the mainstream, well above the bottom fifth.

But none of that really matters or should matter to this committee because of the bars on the right side. They are somewhat more guarded about economic growth. Some people act as though that were the direct driver of the revenues. It isn't. It is just one of the variables. We are more conservative about how much revenue will be collected per dollar of economic growth, so——

Mr. BENTSEN. If I might just interject, because if you look at your mid-session review and your long-term numbers, you actually argue, after we have seen this downturn in the economy and in virtually all indicators—even productivity numbers are off from a year before—you are projecting an actual increase in your mid-session review of about 74, $75 billion in long-term receipts. Where does that come from? I mean, the spread between your GDP assumptions and your other assumptions on just the baseline alone shows a spread of about half a trillion dollars between you and CBO over the next 10 years. Those are pretty big numbers.

Mr. DANIELS. Actually, the receipts difference—as Dan's testimony points out, and you can ask him about this when he gets here—is less than a percent over the whole time period. I think the basic difference between our economists and theirs has to do with how fast the snap-back is and whether the lost ground is eventually recovered. The difference is very small, and it is zero for next year, which I think is the question that may be most important for now. You know, some would have thought, not an unreasonable conjecture, if you knew only that we saw a little higher growth for next year, you would think we were expecting a lot more money to spend. We are not. We are projecting exactly the same amount of money, 2135, that CBO comes to. All I can tell you is that both organizations are populated by very serious career professionals, and through somewhat different combination of assumptions, have given this committee of Congress really the same forecast for next year as to how much money is available. I would hope that Congress takes some comfort from that.

By the way, this amounts, apples to apples, to about a little over 3 percent increase in revenues over what we are getting this year. That is about the growth rate of this year; and this was a pretty crummy year, relatively speaking, for revenue growth.

These forecasts, I think, are pretty darn cautious as to how much money will be there, how much surplus will be left after we subtract spending.

Let me go to a couple other questions that you asked. Please be careful about saying things like we are borrowing today. We are not. We are reducing borrowing. People are already beginning to talk about what happens when there are not enough Treasury bonds to keep the markets liquid; but we are reducing borrowing, paying down well over $100 billion of debt on a net basis. You said something about debt increasing over the time period. No. We are talking about how much and how fast debt will come down——

Mr. BENTSEN. That increase is relative to the amount it otherwise would have been reduced. The fact is that there will be debt in the future, and rather than pay it down more rapidly, you do borrow against it. You are leveraging the trust funds, and that is not—I am not alone in that thought. Ask Chairman Greenspan his viewpoint on that. I think he has been very clear on that thought.

Mr. DANIELS. Sure. And I think we can have honest debate, and we should year by year, on what is the right amount, how fast is it necessary to bring it down. I would just say that from the President's standpoint, we seek a balanced program that includes historic levels of debt reduction but also includes tax relief that we hope will restart and then sustain economic growth, without which this will all become a very different discussion if we don't have economic growth. And so, what we ought to discuss is, is $170 billion enough to bring down debt, or is for some reason 75 or 80 a better number?

My only view is that you are really fooling around with margins there, and debt reduction is not the only objective; and, if carried too far, we can make a real mistake. We cannot tax our way to a better fiscal future. We cannot tax our way through a sustainable Medicare system, for instance. If you pay down all the debt we can a year earlier and have not reformed Medicare, for instance, you haven't done anything, because that money will be borrowed back in a flash and you will be hopelessly in arrears before you know it.

So thank you for an important series of questions——

Mr. BENTSEN. Finally, but also in order to fund your programs, assuming CBO's numbers are correct, the President's priorities, not Congress's, what cuts do you all intend to send up to the Hill to fund those?

Mr. DANIELS. None. None in the 2002 context because our data—and I think CBO is right on top of it—says that we can fund the budget resolution levels and maintain Social Security surpluses for debt reduction——

Mr. BENTSEN. Then are you going to declare a recession or declare war, because CBO says you go into Social Security by I think $9 billion and——

Mr. DANIELS. Oh, you are talking about 2001, the year we are just concluding, which is the budget that the President inherited, and we talked about this before. We won't know for a month or two whether we are just above or just below that line. But in either case, it has nothing to do with the President's budget.

[The prepared statement of Mr. Bentsen follows:]

PREPARED STATEMENT OF HON. KENNETH E. BENTSEN, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

I am pleased that the House Budget Committee will have the opportunity to question Office of Management and Budget (OMB) Director Mitch Daniels, as well as Congressional Budget Office (CBO) Director Dan Crippen about their new economic forecasts released during the August district work period.

Today is not about assessing blame. It is about the Congress and the White House coming together to evaluate these new forecasts and begin appreciating their ramifications with respect to the President's domestic and foreign spending priorities. I am stunned at how much the Nation's fiscal picture has changed in four short months. Recall that in April, the OMB surplus projections were $281 billion for this fiscal year and $3.4 trillion for the next 10 years, which they portrayed to be more than enough to fund Bush's tax cut and new spending initiatives, while staying the course on debt reduction.

Today, our Nation must come to terms with a new fiscal reality. By OMB's own admission, $123 billion of this year's surplus had somehow vanished, leaving a $158 billion surplus, almost entirely made up of Social Security tax receipts. We now expect that in Fiscal Year 2001 alone, all of the Medicare Trust Fund ($29 billion) and $9 billion of the Social Security surplus will be consumed to fund government operations, according to the CBO, the Congress' official budget analysts. Moreover, looking ahead, the CBO estimates that all $170 billion of the Medicare surpluses and $30 billion of the Social Security surpluses will need to be diverted to meet our current obligations over the next 5 years.

At this critical juncture, with much of the Appropriations process still ahead, it is vital that President Bush identify where spending will be cut in order to make room for his initiatives, including a $18.4 billion boost to defense an enhanced Federal role in education as well as Medicare reform. Will farm subsidies have to be slashed? What about tax credits for the working poor or housing programs? What about prescription drugs? What about the missile defense shield?

Additionally, I am growing increasingly concerned about recent statements from Congressional Republicans that signify an about-face regarding Congress' commitment to protecting the Medicare Trust Funds. On four separate occasions over the past 2 years, the Republican leadership has shepherded legislation to the floor that not only dedicates the Social Security surplus but also the Medicare surplus to debt reduction. At this time of weakened economic performance, I am deeply concerned by the apparent willingness of Congressional Republicans' to retreat from their commitment to paying down the national debt. This departure from the path of debt reduction, in addition to the "incredible shrinking surplus," perpetuates economic uncertainty within the financial markets, potentially doing real damage to today's sluggish economy.

Finally, it clearly appears that the President and his allies overcommitted and cut the budget and fashioned the tax cut too close to the margin on the basis of overly optimistic economic assumptions. Now, the President's budget has us borrowing against Social Security and Medicare, increasing our long term public debt and leaving not a penny for fixing those programs.

I am eager to hear where the administration plans to make the budgetary adjustments to meet our current obligations and their own spending priorities while adhering to the Congressional mandate for debt reduction and protection of the Social Security and Medicare trust funds.

Chairman NUSSLE. Mr. Spratt.

Mr. SPRATT. One clarification for the record. When you said that you are requesting still the existing 302(a) allocation for discretionary spending, do you mean that, plus the 18.4 billion?

Mr. DANIELS. Yes, sir; I am sorry, I probably spoke too casually. The budget resolution, but I do mean to include the supplemental request——

Mr. SPRATT. On top of that.

Mr. DANIELS. Yes, sir.

Chairman NUSSLE. Mr. Gutknecht.

Mr. GUTKNECHT. Thank you, Mr. Chairman.

I must say that listening to the testimony and looking at the charts, I feel reassured. Frankly, some of the overheated rhetoric we heard over the last several weeks coming out of Washington I think has been unfair and in some respects misrepresented what is happening with the budget. One of things I would like to really make clear is that we heard the term, we had a $280 billion surplus and now that surplus is gone. I just want to make it real clear we never really had $280 billion in the bank. Wasn't it a projected surplus?

Mr. DANIELS. That is correct.

Mr. GUTKNECHT. So in some respects, I think all of this discussion has been, as I say, unfair.

I want to come back to something else that was said earlier about the shutdowns, because I think even there, there was some misunderstanding of what happened. For those who weren't here, the shutdowns, in my opinion—and everybody is entitled to their own opinions, we aren't always entitled to our own facts—but the shutdowns weren't so much about CBO versus OMB. It was really ultimately about spending. And, as I recall, the last number of years where we have had budget impasses—in fact, I think the budget that we are all concerned about today, the 2001 fiscal year budget, the final numbers were agreed to, if I recall, after last year's election. In fact, I think it was in December when we finally came to an agreement. And if I recall what the pivotal differences were, the President wanted to spend more money than the Congress wanted to spend; and, as a matter of fact, that goes back to 1995. The debate was never that the President was trying to slowdown the spending of the Congress. The problem was that the President continually wanted more money for the administration's proposals than the Congress wanted to give him.

Now, you weren't here, Mr. Daniels, and you don't have to comment on that, but that is the way I remember it. One of the reasons I am reassured by your testimony is that it sounds to me— and I hope this is true—that this administration intends to be pulling the rope in the opposite direction. You are going to be trying to slowdown the growth in spending that perhaps Congress wants to authorize and appropriate.

I want to come back to two points that I thought were very important and hopefully didn't slip by members of this committee. The first was that I think you made the point that this year we will be paying a premium for debt reduction of $10 billion. Is that correct? Did you say that?

Mr. DANIELS. I did.

Mr. GUTKNECHT. In other words, we are paying down debt faster than the debt is actually coming due.

Mr. DANIELS. We are paying down some debt that is not yet due; that is correct.

Mr. GUTKNECHT. And so we are paying a $10 billion premium to do that. That is interesting, especially in light of some of the overheated rhetoric.

Mr. DANIELS. Let me just interject. Not to leave any confusion, these are prudent premiums. These are simply present value premiums more or less for debt that is not yet due. We are not yet at the point, which at some stage we will reach under these projections, where you have to pay penalties to get people to turn over their bonds early. So I don't want any confusion——

Mr. GUTKNECHT. But in any event——

Mr. DANIELS. These were prudent repurchases.

Mr. GUTKNECHT. All right. But in any event, we are paying off the debt as fast as it comes due right now.

The second point I think is important as well, that our former colleague, Mark Newman, probably had the best regression analysis of anybody I have ever seen, and I remember what he would project in terms of revenue growth over the next 10 years or however long you wanted to go. I found it interesting that you are actually only using a little over 3 percent revenue growth, year to year, for next year. Could you put that in the context of how much Federal revenue has grown? Do you have the numbers, or would one of your staffers have the numbers of how much revenue has grown to the Federal Government over the last 10 years?

Mr. DANIELS. I don't have it on the top of my head, but it would be well in excess of that, certainly, for the last few years where revenue growth was very, very rapid and surprised everybody with how rapid it is.

By the way, in case anybody is rummaging through the tables, for apples to apples purposes, I put the corporate tax receipts 2 days earlier, where they otherwise would have fallen, just to make sure we had an accurate capture of how rapid a growth—underlying real growth, we were expecting. That is why I get 3.3 or some such number.

Mr. GUTKNECHT. My point is if I look at it historically, I think over the last 10 years we have averaged almost 6 percent revenue growth——

Mr. DANIELS. In that area.

Mr. GUTKNECHT. Perhaps you or Mr. Crippen can confirm that. So to look at only slightly more than 3 percent revenue growth next year, it seems to me you are using conservative numbers, and the real goal here is to get the economy growing again, and as the economy grows—and I think it will—we are going to find a lot of the discussion we are having today is almost irrelevant next year. We are still going to have to control spending. That is going to be a big fight.

But I feel very reassured that you and your team down at your administration have done a good job. I think you are on top of this, and we would appreciate a little help and cooperation if it looks as if we do have a little bit of a problem before the end of the fiscal year. It seems to me that is very manageable. You can slow some of the spendout rates. It may well be some defense contractors may have to wait for a week to get paid.

There are other things you can do administratively, and frankly if you need some help from us in the Congress, I think most of us would be willing to help symbolically to make certain that we don't wind up in the situation that some people have talked about. And, again, thank you.

Chairman NUSSLE. Mr. Clement.

Mr. CLEMENT. Thank you very much, Mr. Chairman, Mr. Spratt, members of the committee.

Director Daniels, I know you have got a tough job advising the President on the budget and all that, and we appreciate your being here.

I have had town hall meetings in Tennessee during the break, and they are very concerned about the economy, the softness in the economy, the layoffs. They are concerned about the direction of our country and feel like the present administration needs to show more leadership, more direction, more vision, maybe more initiatives. The fact is, here the Federal Reserve Board wrenched up those interest rates, about six or more interest rate increases, and then started bringing them down. But when they started bringing them down, it was too little too late. The tax cut doesn't seem to be kicking in or stimulating the economy much. I know you are saying that by the fourth quarter, as I understand, we are going to have a turnaround. But what stimulation are we going to have between now and then to bring that turnaround?

Mr. DANIELS. First of all, Congressman, I think the folks in your town hall meetings are showing a lot of common sense. They are concentrating on the real issue, which is how is the economy doing; what, if anything, can the Federal Government do to hasten its recovery? And, as I have said many times, it is the economy that is struggling, not the finances of the Federal Government.

The first observation I would make is that the rebate tax relief for which the Congress voted is only about halfway out the door so far; so I think it is too soon to know how much effect it will have or won't have. I think we have just passed over the halfway mark and therefore probably more than half the effect, whatever it will be, has yet to come. There is usually, economists tell me, a long time lag on interest rate reductions, so we would hope that there will be effects yet to be seen from the last couple three of those. But I think that if the President were here, he would tell you that he associates very much with the concern that you have reported, and if what has occurred now doesn't show sufficient signs in time, then we will be looking for more action.

Mr. CLEMENT. Director Daniels, let me also ask you about transportation. I am on the Transportation Committee, and the administration's mid-session review indicates that outlays for the highway programs have been reduced for 2003 and beyond to reflect lower-than-expected revenues to the Highway Trust Fund referred to on page 26. But, given the economic benefits of highway construction and maintenance, such as job creation, do you think it makes sense to plan such a dramatic decrease in Federal funding for highways?

Mr. DANIELS. I don't know, Congressman. Of course, spending on transportation has gone up very, very sharply due to the direction of Congress to require full use of trust fund revenues; so spending rose with those, and rose to meet those levels and will still be very high, I think, under any projection. But we would welcome your input and that of others as future budgets are put together about these—what I would call baseline forecast levels that you are looking at, recognizing that this may be one form of spending that has some more economic effect than others.

Mr. CLEMENT. Let me mention also about veterans—being a veteran myself, and I feel like at times I am on the endangered species list because we have fewer and fewer veterans serving in the U.S. Congress—but the conference report on the budget resolution included additional direct spending for veterans' programs that the President's budget does not. Would the President veto a bill to improve veterans' benefits that is accommodated within the congressional budget resolution, and would he require that spending be offset; and is the White House considering additional cuts to veterans' programs other than eliminating the loan program?

Mr. DANIELS. Of course, the President did propose well over a billion dollars in additional spending for veterans this year, and I recognize it is a good chance that Congress will increase that further. I won't speculate on what, if anything, the President might do, but I would just say given his commitment to veterans, it is highly unlikely that certainly any bill within the budget resolution could not meet with his approval.

Mr. CLEMENT. Now, I know the chairman mentioned a while ago and Mr. Spratt talked about the weather. Naturally I want clement weather rather than inclement weather, you understand that. And I want to improve the economy and all, that is critically important for all of us.

But you are saying in no uncertain terms—because the folks at home ask me this all the time—are we or are we not tapping into the Social Security Trust Fund? Because some of us are awful proud of turning that corner and having surpluses rather than deficits.

I know some want to always be talking about the Clinton Administration and blame everything on that. But we have a new watch now—we have the Bush Administration. You have to take responsibility for what actions or what happens in the Bush Administration.

Are we or are we not going to tap into that Social Security Trust Fund? Because my folks at home and now people all over the United States do not want to tap into the Social Security Trust Fund because that is a sacred contract between individuals and the Federal Government.

Mr. DANIELS. You can and should tell them that there will never be one dollar tapped out of the Social Security Trust Fund. It will grow by every dollar that it is entitled to and you can tell them that President Bush, as President, has promised every penny in Social Security benefits will be paid, and we are doing that now with no trouble at all. And we have $150-odd billion left over.

And the very recent—those are the sacred permanent commitments, I would say, and they will be kept, and I am sure both parties and certainly this administration is determined to keep them.

There is a very new commitment, a couple or 3 years old, not 60—got to be careful. Sununu is here. He will call me on this—not 60-plus years old, but a couple or 3 years old, that says, "Let's make sure that our total surplus is as big as the Social Security surplus and we will use that money for debt reduction, and that we intend to do."

Mr. CLEMENT. Thank you.

Chairman NUSSLE. Mr. Thornberry.

Mr. THORNBERRY. Thank you, Mr. Chairman. Director, I appreciated your answer to Mr. Clement's first question, because I do think the key question before us is how do we get the economy going again. I am somewhat amused by reports, press reports that come out that say, oh, it is obvious the rebates are not working, when as you just say they are maybe halfway out the door.

But, the real story, the rest of the story is we do have limited tools in the tool box to deal with the economy, both Congress, the administration, and the Federal Reserve. I appreciate your comments that the administration will look at other tools if it appears at the appropriate time that this tax relief is not working as we would like it to do to stimulate the economy.

I think that the key point that has been made so far is to clear up some of the confusion about these trust funds. As with my colleagues, I had town meetings and other meetings with constituents over the break, and I am afraid that the way that some of the stories were written it caused undue distress with some folks who are concerned that their Social Security or Medicare benefits may be affected by those differing projections that go up and down.

Making the point that those benefits are not affected in any way, adding to that the point you have made today that the size of the trust fund is not affected in any way by these differing projects, I take it a step further I guess in a way and that is the consistency of the trust funds are not affected in any way. They still consist of the same things they would have if we had a hundred billion dollars more in surplus, or a hundred billion dollars less in surplus. The trust funds are not only the same size, they are the same consistency.

So thinking ahead or thinking about you, our challenges for the future, that has not been altered. I want to get, I guess really I want to get to the point that I don't think that we have talked quite enough about; that is, the opportunity that these type budgets give us to reexamine programs and agencies and spending. Mr. Culberson and I come from a State where periodically every program and every agency is reexamined because it expires and you have got to take a new look at it to see whether you want to continue that program. They are sunsetted.

I am most struck by your chart 3 on page 6, which gives us the average annual percentage growth by agency over the last 4 years, and it shows, for example, HHS up an average of 11 percent, education up an average of 10 percent. Those are pretty amazing numbers. Having been here during that time, I don't think we have adequately examined what is working, what is not, what is being wasted, really taking a look at those programs. We have talked about reforms of Social Security and Medicare. We have got to do that. But would like to know what the administration has planned for a wider examination.

I am interested in defense reform, among others. But if you look at this chart and the increases without that kind of examination, it seems to me that has got to be a focus as we move ahead. Can you tell me what the administration has planned in that regard?

Mr. DANIELS. Yes, sir. First, let me notice—or take note that on the chart you reference that incorporates the 2002 request that the President has made or the—and so even with a year of more moderate growth averaged in, you still have these numbers which, as you point out, I think are pretty impressive in showing how rapid the growth has been or I'm sure some would say how rapid the catch-up has been for some of those departments.

Looking forward, it would certainly be our intention to bring to the Congress in the budget proposals for 2003 and all subsequent years as rigorous a review of the existing $1.9 trillion of spending as we can. We were pretty, I think, candid in admitting this year that given the abbreviated time for transition and so forth, we were pretty cautious about suggesting reductions and eliminations of programs and that sort of thing, trying not to be reckless, not to post things that hadn't been looked at carefully.

But we have been working very hard this year. We have reviewed very, very carefully trying to for the first time assign performance ratings to many programs, and we do take it as an important responsibility to come to the Congress with well thought out suggestions for how—for where money could be redeployed from older uses to newer ones.

I hope this is something that people, whatever their general outlook about policy, could agree on. The better we are at ferreting out the less productive uses of the taxpayers' dollars, the more dollars will be available. Then we can move on to the discussion about what are the most important new needs and how much, what is the right total and so forth.

I really do hope that as we become a little better about this, we can have agreement that it is absolutely the starting point for good public policy.

Mr. THORNBERRY. Thank you.

Chairman NUSSLE. Thank you. Mr. Moran.

Mr. MORAN. Thank you, Chairman Nussle. You began this with the fancy technology we have here by showing the dramatic change in deficit spending that really began in 1981, went for almost 15 years and then there was a dramatic turnaround from deficit spending to a balanced budget and ultimately to surplus spending.

Now, many of us feel that we are going right back again into making the same mistake that we did in 1981, rushing prematurely into a deeper tax cut than the economy can necessarily afford, and thus jeopardizing our determination to balance our budgets and give confidence to the financial markets.

Those surpluses that were achieved over the last 8 years were despite the fact that the Republican led Congress consistently appropriated less—excuse me, consistently appropriated more than President Clinton requested in his budget estimates.

And my friend Mr. Thornberry has, I guess he just left, but he was citing the mid-session review, page 5, where it talks about the fact that spending in the Federal domestic agencies exploded during the last 3 years, including growth of 45 percent in Health and Human Services and 27 percent at the Department of Transportation. Then it says these departments can benefit from a period of digestion without great growth beyond those expanded levels.

These were policy decisions that were made by the Republican leadership, not to make this too partisan, but I think it needs to be said that transportation is up because the Congress decided to make trust funds flow through all gas taxes. That is why it is up. It is a policy decision.

Health and Human Services is up primarily because of the increases in the National Institutes of Health, which granted was very much a bipartisan agreement, but we ought not to phrase these statements in an accusatory manner. I think it is fair to say that they have been at least bipartisan, if not at the initiative of the Republican led Congress.

Now, Mr. Daniels, you have called the surplus in the Medicare Hospital Insurance Trust Fund, and I quote, “an artificial overage completely irrelevant to the future of Medicare benefits.”

The budget resolution under which Congress operates treats the Medicare Trust Fund as real and significant. In fact, if the budget resolution reported by this committee and passed by the House and Senate is upheld and followed, the additional $18.4 billion sought by President Bush for defense this year can only be added to the 302(a) and 302(b) allocation for defense if the additional spending does not encroach on the surplus in Medicare.

So regardless of how the Bush Administration and OMB regard the Medicare Trust Fund surplus, Congress and the budget resolution passed by the Congress pay it great deference.

Let me quote for you what our chairman, Mr. Nussle, told Secretary Woodridge at one of the most recent hearings when he was here just a few weeks ago. Chairman Nussle said, “This Congress will protect 100 percent of the Social Security and Hospital Insurance Trust Funds, period, no speculation, no supposition, no projection.”

Yet, the Bush Administration is telling Congress that despite our lockbox legislation and other promises, the $18.4 billion addition for defense will be spent from Medicare Trust Fund surplus this year if we intend to balance our spending with our revenue.

That is why we keep going back to these numbers, because there is an inconsistency here, and in referring to the OMB forecast on Table 3, page 8 of the mid-session review, OMB shows that to balance our budget you will have to use Medicare Trust Fund receipts every year through 2006.

Obviously that includes the $18.4 billion in defense with inflation in the outyears, but it doesn't include any follow-on increment, nothing for transformation.

In fact, the transformation of the military, which of course is being discussed in the Armed Services authorization right now, probably as we speak, by the committee, it has been the subject of the Defense Department's ongoing strategic review, as you know. It is going to be very costly if it is to be effective in aligning our national defense strategy with the threats and security needs of the 21st century.

The administration does plan to address future year funding priorities. We know that because we read that in the present statements in the mid-session review. Secretary Rumsfeld has indicated that 18.4 is only the first installment of necessary and substantial future increases in defense spending.

So how, with this revised budgetary scenario, are longer term defense spending plans going to be affected? That would be the first question, and I think one of overriding importance right now.

Mr. DANIELS. Well, I was asked this question a little earlier, and my answer would be the same, that first of all this is a significant first step, not to be underestimated. It does add to 200 billion, 198 billion or 209 in authority over the time period. So I don't know how much more might prove required, but we should note the dimension of this. Yet there remains, before we touch the first dollar, as I hope we certainly will of the embedded spending base, the Federal Government, including the Pentagon, by the way, there remains uncommitted $600 billion above and beyond Social Security surpluses for purposes like this.

You didn't ask about Medicare, but do I want to point out that in the mid-session review the money set aside or proposed for Medicare reform, including prescription drugs, was increased from our earlier estimate. The $300 billion that is in the budget resolution I think is somebody's sort of good faith place holder, but it is not based on a real plan and in our judgment is more expensive than is necessary, particularly if real reform is part, as it must be, of the package.

We increased ours from 153 to 190 billion, and that is over 8 years. So instead of an average 15 a year, it is an average of 24, about halfway to the average of 30 that is in the place holder figure. I am just trying to suggest that we not overlook the sort of forest here, which is that by either set of projections, ours or Dr. Crippen's, there is vastly more money scheduled to arrive in the Federal till after the tax relief that has been passed than we need for today's purposes. We can work on an accommodation of tomorrow's purposes some mix of those within the available funds, I am quite confident.

Mr. MORAN. Well, I heard your first response, and I know this is consistent with it. But we keep coming back, showing that in order to balance the budget, the receipts are not there this year unless you are including receipts from Medicare—and, in fact, even Social Security—to the tune of $9 billion in Social Security, and that is our concern. We are also looking at the fact that discretionary spending has gone up, and we have got all of those other commitments that we are talking about, what, $190 something billion, but that is over a 10-year period, for defense. That appears to be inconsistent with what the Defense Department is anticipating. We have also got spending levels in our appropriation bills, even ones that have already passed the House, that are consistently above the estimates that you are attempting. Would you anticipate at this point recommending that the President veto any of these appropriation bills?

Mr. DANIELS. Again, I don't—I try never to anticipate or speculate on what the President might do—very hopeful that there will not be vetoes necessary this season. I really don't see any reason for it, because I believe we see leadership of both parties, Senator Daschle yesterday in his comments, for instance, moving toward something I believe this committee ought to feel really good about, which is appropriations bills that fit within the framework of the budget resolution, and here I am footnoting that to include the President's supplemental, or I am sorry, amendment request for defense, that fit within that and honor all of our commitments, including preservation of the Social Security surplus.

So I don't see why we should have to get to that point, although the President retains the tool and the resolve if need be.

Mr. MORAN. We will see. Thank you.

Mr. DANIELS. Thank you.

Chairman NUSSLE. Mr. Hastings.

Mr. HASTINGS. Thank you, Mr. Chairman. Mr. Daniels, thank you for being here.

When your report came out and when the CBO report came out, we were all home and we heard the initial reaction come out, albeit somewhat negative. But I have to tell you since I have been back here and listening to you and the testimony and at least listening to even the people on—my colleagues on the other side of the aisle, I have to be very optimistic, because the point I think needs to be made again, and that is that we are going to have the second largest surplus that we have ever had this year.

The economic outlook from your organization and CBO is very strong, albeit a slow area, and we are on track to pay down the national debt.

But there is another point that has come across loud and clear that I am very pleased to have heard. That is that everybody is concerned that we do not—I will put it this way—tap into Social Security or Medicare. People on both sides of the aisle agree; that is, we should not. You have been very emphatic in stating where the President is. Frankly, I don't know why that question keeps getting asked over and over and over, unless there is an underlying reason that it should be asked that has nothing to do with policy.

There is one ingredient that is left out that has been touched on that maybe is not emphasized enough. That is what we can control here in the Congress; that is the issue of spending. Now, we can't control what the revenue expectations are. The economy is going to make that judgment. The economic outlook is—again, our capitalistic system will make that determination, but what we do have control over is the spending part. And the chairman emphasized this right from the get go, which is a matter of priorities.

I just want to once again ask you, and ask you to reemphasize that in the President's budget, 2002 budget which we are now debating, if we live within the budget resolution we can fund all of the priorities that certainly we have put in our budget resolution, but what the President has also talked about during the campaign and now that he has been President. Is that essentially correct?

Mr. DANIELS. Yes, that is correct.

Mr. HASTINGS. One other thing that I want to talk about, entirely unrelated to this but worth talking about because we are talking about paying down the debt. We are still on course of redeeming all of the debt that is redeemable?

First of all, for the record, explain what you mean by redeemable debt and paying down.

Mr. DANIELS. I generally use the term "maximum retireable debt" to refer to the maximum amount that we can pay back without being boneheaded about it; that is to say, beyond a certain point—all of the economists we have consulted, the Fed is in the very same place, and I think so with CBO—beyond a certain point, scarcity of the remaining debt, as you try to buy in debt that is not due yet, leads the holders to demand a premium. Beyond some point that premium it is not smart to pay and no administration would do it.

So that is the issue there. You know, whatever number one sees here doesn't really change anything fundamental. We can achieve that as we can under our projections and CBO's. We can achieve that kind of debt reduction.

We will have driven debt as a percentage of the budget, a percentage of the economy, down to levels we haven't seen since the First World War, essentially will disappear as a factor, and that is something that we ought to try for there. You still are going to get that effect under any of the scenarios that we have been discussing.

Mr. HASTINGS. That leads to a potential challenge that we have in 10 years or so, when all of the redeemable debt is paid down and we are running surpluses. What is the government—how do we react to that?

Mr. DANIELS. A very important issue, as Chairman Greenspan and many others—it gets here a lot faster than 10 years. As cash piles up, if and when cash piles up in Federal hands for which there is no prudent use, one of two things can happen. Someone will think of an imprudent use, like more spending, which would be a danger, or as you are beginning to hear the rumbles now, people who would like to see the Federal Government keep its hands on all of that extra money so no problem, we will invest it in the private economy.

There is a real fundamental disagreement and a good debate we may have 1 day before that long as those surpluses continue to accumulate, and I think the President's position would be, is, that is not a good idea at all, the Federal Government to own a large part of the private economy.

But there are voices who see it otherwise, and as the surpluses accumulate, I think that debate will start in earnest.

Mr. HASTINGS. There is one other option, too. That is further reduction on the taxes of the American people, because obviously you are overpaying. So I certainly hope that would be a part of that discussion.

Thank you very much.

Chairman NUSSLE. Mrs. McCarthy.

Mrs. MCCARTHY. Thank you, Mr. Chairman. Thank you, Mr. Daniels, for your patience with all of us.

You know, I listen to all of my colleagues on both sides of the aisle. I have a hard time sitting here because I am probably one of the most—consider myself fairly conservative on an awful lot of issues.

But anyway with that being said, I sit here and I think the Federal Government does have an important role for this country. We talk about tax refunds and things like that, and I think everybody certainly does like them. But if we didn't have the moneys we wouldn't be able to take care of our veterans, we wouldn't be able to take care of transportation, which is so important for this country. We wouldn't be able to take care of the health care needs that this whole country needs. That is what the Federal role is.

Unfortunately, those costs do go up and we do have to account for that. I sit on the Education Committee, and we bipartisanly worked hand in hand, Republicans and Democrats and certainly with the administration, to pass a really good education bill. Now, the President's budget was $7 billion, and still continuing to work with the President. Our bill came out on the floor with a $5 billion increase over what the budget was for 2002. From my understanding from the colleagues of the Senate it is even double that, I believe.

Because I believe in education so much and I do believe that the Federal Government does have a strong role, because there are States that just don't have the money to put into education, if we are going to make education, as I agree with the President that we should be doing and I was thrilled to see him talking about it during the whole August recess, that I am concerned when we start talking about not having the kind of moneys that we are going to need.

What does it look like in the future, and that is not even talking about IDEA, which a majority of us here in the House certainly want to fully support, because that was a mandate that we have never fully succeeded our obligation as far as I am concerned. I think the American people would agree with all of us that we have to make sure the funds are there. I am asking, what does the administration see in the future as far as appropriations for education?

Mr. DANIELS. I think the President would look forward to steadily increasing investment in education, and obviously proposes that for this year. I would expect that the budget resolution will probably—I am sorry, that the appropriations coming out of the resolution or under the resolution will come back with perhaps more than he proposed, that we can probably work that out. There is room to do it.

Likewise, I would hope for the future—as I say, we see escalating revenues, escalating surpluses, and we ought to consider ourselves fortunate to serve in a time like this. I mean, there always will be problems and we always will find something to wrestle and argue about. But a very few years ago the idea of a balanced budget was thought to be a hopeless mirage and now we have shot past balanced, and 160, $170 billion of surplus.

We do have the wherewithal to deal with our problems as we agree which are the most important, and there is certainly that agreement about education. So I would look to an increasing Federal level of support.

Mrs. MCCARTHY. Just to follow up a little bit, because certainly with the balanced budget, you know we pay as we go and somewhere you are going to have cuts. My concern is where are those cuts going to come from? I mean——

Mr. DANIELS. I don't give up that easy. Because we have increasing revenues, tens of billions of dollars of new revenues coming in each and every year. That should accommodate that, plus, you know, some—if by cuts you mean trying to identify old spending that is not as valuable as the new spending, we ought to be able to find some of that. And, think of the numbers we worry over and haggle over, a billion, a few billion dollars, 10 billion. Ten billion dollars is one-half of 1 percent. What business couldn't find one-half of 1 percent somewhere if it had an urgent, important need, for instance education, to devote it to.

So I think that we can do those things and we ought to resolve together to do them.

Mrs. MCCARTHY. I thank you.

Chairman NUSSLE. Mr. Culberson.

Mr. CULBERSON. Thank you, Mr. Chairman.

Mr. Daniels, in the brief time I have got with you, I first of all want to thank you and the President for your focus on the fact that the taxpayers of this country are paying on overcharge, and your focus on ensuring that we maintain a balanced budgeted is tremendously important for the continued economic growth of the country and vitally, vitally important I think for the long term in this Nation.

I wanted to ask you, of course the terminology we use in any debate is vitally important, not only to make sure that we are accurately framing the debate for our own purposes as policy makers, but also for the listeners, for the American taxpayers.

I wanted to follow up on some of your comments earlier about the tax overcharge because that is indeed what it is. Of every $100 that the Federal Government spends, how many of those dollars come in as a result of tax collections? Ninety-nine out of a hundred dollars or—tax dollars collected from the American people?

Mr. DANIELS. Well, if I understand your question, Congressman, at present you would say a dollar fourteen came in for every dollar spent, more or less.

Mr. CULBERSON. Right. But essentially virtually all of the money the Federal Government spends is as a result of tax collections is my point.

Mr. DANIELS. Yes, sir.

Mr. CULBERSON. Therefore I wanted to ask, because I notice in your presentation today, in all of the documents that you have given to us you refer to a budget surplus. I think that is confusing to a lot of people because in fact it is a tax surplus.

As Chairman Nussle has correctly pointed out in all of his presentations, you will note all of the documentation produced by the Budget Committee refers to the surplus as a tax surplus. I think that is an accurate statement, wouldn't you agree, that it is a tax surplus rather than a budget surplus?

Mr. DANIELS. That may be a better term, yes, sir.

Mr. CULBERSON. I would encourage you, if you could, ask if you and the President, the Office of Management and Budget could adopt that terminology, because I think it is very important for all of us in Congress as we debate this surplus, that we understand that it is a tax surplus, and very important in communicating to the public that it is not a budget surplus, it is a tax surplus. It is not money that needs to be spent, it does indeed represent tax revenue collected from the American people, and in that sense it is a tax surplus, and I would ask if you could adopt that terminology. Is that something that you could do?

Mr. DANIELS. Well, thank you for your suggestion.

Mr. CULBERSON. And also I wanted to ask, if I could, Mr. Daniels, that from—based on your knowledge of the history of the Congress and the budgets that have been proposed over the—certainly over my lifetime since 1955—of course the best way to measure future performance is past history. Haven't the—when were the first balanced budgets over that—since 1955 when were the first balanced budgets passed by Congress?

Mr. DANIELS. Well, you will test my history, Congressman, but 1969 I believe. Perhaps in the late 1950's, but 1969. Then we lost all contact with that goal for a long, long time and then Congress achieved it just in 1997, I guess.

Mr. CULBERSON. But it has clearly been a result of the Republican Congress, that once the Republican Congress came in January 1995 it seems to me is when we turned that corner and began to pass balanced budgets?

Mr. DANIELS. I am going to leave causality to this committee to debate among itself. I have usually described it as a bipartisan achievement, and I think that is probably a good way for history to record it.

Mr. CULBERSON. Well, I do thank you for your work and I am very pleased to support the President's budget and help in any way that I can. Thank you.

Chairman NUSSLE. Mr. Capuano.

Mr. CAPUANO. Thank you, Mr. Chairman.

Mr. Director, I want to—so many concerns and so little time. So I want to run through a couple of them quickly if I can.

First of all, to focus on the marginal issues, the 1 percent of this, the 2 percent of that is a little disingenuous, because everything we ever discuss around here is 1 percent of this or 2 percent of that. So therefore—I mean, I know your intent is to minimize some of the issues. I understand that, and I respect that. But nonetheless, in my opinion, it is a little disingenuous, particularly when as we just discussed earlier, people at home are getting $300 checks or $600 checks or $1.75 checks.

For most people, most taxpayers, that is less than 1 percent of their gross income, yet I haven't heard anybody talk in terms of the tax rebate in dismissive terms, such as 1 percent of this and 2 percent of that.

Therefore I would just as soon get off of the marginal issues because they are not relevant to the average person at home. We all know that to find one-half of a percent of anything in any budget in the government issue, no matter what level the government is, is a difficult thing, because so many of us have so many different priorities. That is the struggle. Can it be done? Sure. Any one of us can do it, but that is not the way this government is set up. It is a very difficult thing to do.

As far as the argument that because the trust funds have all been treated as such and such, they have always meant nothing, we have always done the same thing, and therefore we should continue to do the same thing, to me is an incredible statement.

I have only been here in the last couple of years, but I am actually very happy to be here in times of surpluses and not deficits, because we do have an opportunity to change what I consider to be bad past practices, many of them—one of the largest of which, in my opinion, is raiding the Social Security Trust Fund and is raiding the Medicare Trust Fund. My opinion, I understand you disagree. So be it.

But I think it is an important thing to do, and I think it is an important thing to do not because of today's recipients. I have never been part of the group that wants to scare anybody about today. But I am also concerned about tomorrow. I am concerned about myself and my children and my grandchildren yet unborn that they have the same opportunities my parents and I both have.

I agree with you, there is no concern about today, but I am concerned about tomorrow, and what we do today certainly impacts what happens tomorrow.

So as far as I am concerned, simply because the trust funds have all been treated in a bad way is no argument to continue doing so, especially when we sit here with surpluses that we can do something about.

As far as the trust funds themselves and how they do it, I know that I have no intention of—or no hope of changing your opinions. I know that. But on an equal level you have no hope of changing mine either. A trust fund at home in my old life, when I practiced law, people always saw it as money put aside in a sacrosanct box. I know that Social Security is not the same thing. But if you did something with trust fund moneys that were not intended by the trust fund and you got caught, you went to jail. You still do, not used to, still do. And yet this government for years has been doing it, and not only does no one go to jail, they seem to be proud of it. We have an opportunity to change that. We should. We need to.

And therefore I—it is fine by me if you want to use a different term, because it is not a trust fund per se. I know that. I respect that. I didn't make up the term. I didn't call it that. Call it anything you want to. Call it a specific tax source account. Call it a dedicated account, because that is all it is, an accounting mechanism. I respect that. I accept it. But when you have that account and you use money that comes from a specific tax source that is supposed to go to that specific account and you use it for something else, anything else, you haven't been honest with the American taxpayers.

I know that we haven't done it. I understand. The President himself, and I agree with him. In times of recession or war, sure, you have to do some things that are a little difficult. We don't have a recession at the moment, thank God, and we are not at war, thank God. So that being the case, we shouldn't be using that money for anything else. This Congress has been clear on that. The President has been repeatedly clear on that. I understand that right now we might be in a debate as to whether we are or are not, and I am not ready to make that debate today, because I know that numbers are numbers and they are estimates at the moment. We will know whether we are or are not before the end of the year. But right now we are not sure.

If it is so easy, if it is easy just to wipe away all of our concerns about the trust fund by putting more IOUs into the trust fund account, I have two questions.

Number one is, under the President's proposal, how are people supposed to invest that money if we take 2 percent of their money and put it into stock funds or whatever we want to put it into with IOUs? Am I supposed to go buy and invest my money with IOUs? I don't think I can call Fidelity up right now and say, I really will pay you a few thousand dollars 20 years from now if you let me invest right now in the Magellan Fund. If that is so easy, why don't we just do it? Or if it is so easy to put IOUs in and not worry about it, why don't we put a lot more IOUs in right now and print them up? We can go down to Treasury right now and print them all up, and put them into the trust fund and we don't have to worry about the Social Security Trust Fund or the Medicare Trust Fund ever going bankrupt, because it is the easiest thing in the world.

Everything that I have heard today tells me what is the big deal? Just put some more IOUs in that trust fund and we never have to worry about it. Now, I know that your answers are not going to be what I am looking for. I know that. I will tell you that everybody I know at home, up until the last couple of months everybody I heard or read, now all of a sudden some of these so-called pundits, and amazing to me, they are all relying on newspaper reporters to tell us what to do. That is what we seem to be doing now.

Up until now everybody was on the same page. The Social Security Trust Fund should be sacrosanct, again absent war and recession and other extraordinary circumstances. We are not in that now. What has changed? What has changed? Why shouldn't that fund be sacrosanct? Why shouldn't every dollar of FICA taxes, because that is what they are, being paid by Americans not be put aside for them, their children, their grandchildren forever and ever, amen.

Mr. DANIELS. Well, Congressman, I think we agree on a lot more than you might assume. Let me just touch three things. Number one, if there ever were a raid on the trust funds, I, this administration would be entirely with you in seeking to find out who did it and why? If somebody came to me tomorrow and said, we just checked, the Medicare Trust Fund doesn't have $234 billion, it has $224 billion, what would we do? We would start a criminal proceeding to find out who did it. That is not going to happen. Never will. And I tried to explain earlier why it is not related to how much surplus we finally run.

You say we should not use the money for any other purpose. Well, we do use the money. We use the money to pay down debt, which is something we all agree on. We are only talking about how much of that is the right amount to pay.

Lastly, I would simply associate really with your last comments, and I think the President would, too, that the details will be very difficult to work out. It is really—it is exactly the direction that the President has suggested, that at least some of the FICA taxes people pay ought to be theirs. They ought to own them in a way that they do not own them today. Those FICA taxes your constituents pay go right——

Mr. CAPUANO. Excuse me. Explain to me, if there is no money in the trust fund, how can they own an IOU? Is that what you want them to own?

Mr. DANIELS. After reform?

Mr. CAPUANO. If you get everything you want.

Mr. DANIELS. The President has not chosen a plan. There is a commission looking at a variety of ways to do it. But the principle that you raise is one that the President has endorsed, and that is that a piece of any—of a worker's contribution would go not to the Federal Government to be used for debt reduction or any other purpose, but that a piece of it would go to an account owned by that person, just as, you know, millions and millions of 401(k) plans and so forth exist in the private sector, to be invested at the discretion of that person.

Mr. CAPUANO. I don't mean to be argumentative, Mr. Director, but a 401(k) is real cash, real money in a real account. It is not IOUs that I pick up the phone and I call my broker on, it is real cash. You have been spending all morning telling me that the trust funds don't have real cash in them, all they have is IOUs, which I understand.

Mr. DANIELS. Well, you are making the arguments for the President's reform of Social Security, and I thank you for it. You are making exactly the right argument.

Mr. CAPUANO. If the President wants to get cash in those accounts in the Social Security Trust Fund, we are on the same page. What we do with that cash once it gets there is a different issue, number one. Number two is why can't we start now? So we only get to get cash in the account if and when the President gets everything that we wants? Other than that there will be no cash in the account at any point in the near future?

Mr. DANIELS. No. My only question here is, you know, who is we? It ought not be—the we who is deciding what to do here ought to become the American people individually, one family by one family. They ought to be—the President would say, at least for a part of the Social Security system, they ought to be empowered to own that and to decide, they decide, not all powerful trustees somewhere in Washington decide, how that money should be invested.

It would grow more quickly than the promises those bonds represent.

So I would associate very much with the spirit of what you are saying. And obviously the details are very tricky and—but, you know, thank you. I think that you have illuminated a very really important difference between the system that served us well for a long time and the system we need for the future.

Mr. CAPUANO. You may have missed the point, that I also illuminated the problem that we have right now. We don't have to wait for any changes in the Social Security system, we could do it right now.

Chairman NUSSLE. Mr. Brown.

Mr. BROWN. Thank you, Mr. Chairman.

Mr. Daniels, let me see if I can kind of follow up on what the Congressman is talking about. The way I understand it the Social Security Trust Fund is the proceeds of all of the amount of money that has been collected for some period of time. What the new plan is to take the proceeds from the Social Security Trust Fund and pay down the debt, the public debt I guess or private debt, and then there is an IOU then from the Federal Government to the Social Security Trust Fund. Is that fact correct?

Mr. DANIELS. That is correct, Congressman, that the funds until very, very recently were used to pay the ongoing costs of government, to pay for defense or the FBI or, you know, to run the national parks. When Congress achieved a true—a balanced budget and began to—and finally built it to the size that it is today, there has been an agreement to use those extra moneys to pay down the national debt. That is what—we have talked about that quite a lot today.

Mr. BROWN. What kind of return does the Social Security Trust Fund receive from that IOU?

Mr. DANIELS. It receives a standard Treasury rate, in the neighborhood of 5 percent I guess right now.

Mr. BROWN. Then how——

Mr. DANIELS. Maybe a little less than 5. I am sorry.

Mr. BROWN. Because I have always heard that we are getting something like a 2 percent return.

Mr. DANIELS. This may be referring to what a worker can expect in terms of the return on the money. Workers send money in for their careers. That goes out the door, at least all that is needed goes out the door to pay the retirees of that day. When you compare what the worker after retirement receives from today's Social Security system, the way it is set up, compare that to what they paid in all of those years, you get a very, very poor return. Probably less than 2 percent for most people. However, on in the future, if we don't change the system, it will be less than zero.

Mr. BROWN. OK. I guess that is one of the things that I kind of committed to come up here to try to be sure that those recipients were going to be getting a better return on their investment, be it investing stocks or some other instrument. And that would certainly try to expand on that and trying to fulfill that commitment.

You don't see any further enhancement of that return, be it the Treasury bill rate or some other rate? I mean, I don't have any problem with the philosophy of doing that because my Keogh plan and my IRA, I have got it with a savings and loan, but I'm not sure that dollar is not sitting in that savings and loan; they have taken that money and invested it out, and it is maybe a loan or some other instrument out there.

So I don't think that money is sitting there, neither would I ever believe that the Social Security trust fund had money in it. If it didn't have that money working, it wouldn't get any return. Is that correct?

Mr. DANIELS. Yes, sir. Almost half of the surplus, the increase in the Social Security trust fund this year will come from the interests it accrued as opposed to FICA taxes in, minus benefits out. Almost half of it will come from the interest. So it gets credit for interest on the bonds that sit there.

Mr. BROWN. That would be my goal, to enhance that return to much greater than the 2 percent.

Mr. DANIELS. By moving it into different——

Mr. BROWN. I am proud. As I went around my district, the tax surplus check that came back to me, I carried it around in my pocket because I like to keep it close to my heart, because I think unprecedented in the history of this nation that we sent a refund check back. I don't know if we ever did it before.

I am grateful for it. The people I talk to in my district are happy that they are getting those checks. And I tell you, I guess it is good that they are getting them in sort of incremental stages too, rather than getting it in one big flash, because now they all got something to expect.

Mr. DANIELS. I am glad you reminded me, because I am pretty sure Mrs. Daniels is carrying it close to her heart, because I haven't seen ours yet. I think it was due last week.

Mr. BROWN. Thank you very much.

Chairman NUSSLE. "Stimulate" is the key word here. There is more economic growth if you go out and spend that thing, Henry.

Mr. Matheson is next. Well, if you will yield, Mr. Holt.

Mr. HOLT. Mr. Brown, I would be happy to help you get that money into the economy if you need some help with that. Mr. Daniels, thank you for coming and bearing with us.

I would like to follow on some of the questioning from Ms. McCarthy.

First of all, I think you have looked at the CBO report. I want to make sure I understand the—in the way CBO and OMB has dealt with the President's education—or with the education budget numbers.

What do they include? And in general terms, what do you include that they don't include?

Mr. DANIELS. Yes. There is an important difference. They, CBO, will not assume policy that Congress has not enacted, as they should not do. So they will have taken—Dan can correct me if I misspeak in any way. I believe they will have taken the final level for 2001, whether it is education or anything else, and inflated that to a so-called current services level.

We arrive at ours through a different way, which is to take the President's proposal, which was for an increase, and apply it to our number as though Congress had passed it. So, in an area where the President proposed a significant real increase, like education, we would have a higher number than they would. There could be areas where the President proposed no increase, and their number would look higher than ours.

Mr. HOLT. Now, you probably know that the House 302b allocations for education are roughly $4 billion above the President's request. Now, the President's request also removed some funding, the Department of Labor and the Department of Health and Human Services. And right now in the Appropriations Committee, they are putting some of that back in, I am told.

Now, that seems that it will leave us with maybe a billion dollars or so to devote to education, which is several—3 or $4 billion short of what has been authorized this year under the Elementary and Secondary Education Act, ESEA. I think I heard you say to Mrs. McCarthy that you are sure we can find some money to do better than the President's budget, maybe not everything that is in the House authorization, but somewhat better. Did I hear you correctly on that?

Mr. DANIELS. Yes, you did.

I mean, I think the starting point here is, one thing we are very assured of is there will be substantially more education spending this year than in any year past. The President's proposal alone would get you there. Secondly, the budget resolution does have room for $5.6 billion more than the President requested. The reason for that is that we had requested or suggested an emergency reserve. We thought it would be a—a prudent way to budget in advance for what we thought was the sort of an average projection of what we might have next year in unforeseen spending, true emergencies.

Congress did not agree. That amount of money was left in the budget resolution totals. And I am sure a good piece of it will find its way into education, that being high priority for so many Members.

Mr. HOLT. This will be possible, as I understand it, because some of the Medicare surplus, the HI surplus, will be available for general purposes. I mean, that is what the numbers show, you know, and just 6 months ago, or less than that, we met in this room and we heard that we could have it all.

You said that we could fund national priorities like education, and you could preserve Social Security and Medicare surpluses, and give the American people a very large tax cut and pay down the debt. At that same time, many of us, most of us here in the House were talking about lockboxing, so to speak, the Medicare and Social Security funds.

The President had previously said that he approves lockboxing, the lockboxing of Medicare and Social Security. And although I—I couldn't find the phrase from your testimony—subsequently the Secretary of the Treasury has said, we have dedicated every dollar of Social Security and Medicare money to come in to pay down the public debt so that we are honoring the idea that Social Security and Medicare money should be used only for those purposes.

So you are now saying, though, that some of that Medicare money can be used for education expenses, not just to pay down the debt? In other words, you pay down the debt a little more slowly?

Mr. DANIELS. Well, of course, as we see it, all Medicare money and 50 billion more is needed just to pay for Medicare, not for any other purpose. So this is sort of a conceptual difference that we have talked about many times. Those are the facts about Medicare's revenues and its costs.

One fine point, the President never has spoken to a Medicare lockbox ever. Not this year, not in his campaign. He has always taken the viewpoint that I just expressed, that we should recognize the reality, which is that Medicare does not run a surplus or anything close to it.

Now, on the—a point about what was—what seemed to be the state of play a few months ago, I think you are quite right. I guess my observation would be that as Congressman Spratt led us through the change in the picture over those last few months, 46 billion, more or less, is the number attributable to the change in economic circumstances, to the drop-off due to the economy, and that right there more than explains the fact that the surplus now is only as big as Social Security's surplus, not bigger than Social Security's surplus, the Part A as it seemed a few months ago.

Mr. HOLT. Although, as Mr. Spratt made clear earlier today, that is not just technical adjustments or economic downturn, it is mostly decisions that have been made here in Congress with the blessing of the President.

Mr. DANIELS. Right. Without quarreling with that, I am just saying that the 46 billion that is economic downturn, exceeds by $12 billion the Medicare Part A surplus for this year. So just trying to answer your question about the—why the change.

Mr. HOLT. OK. Well, so that the—the lockboxes that we were talking about earlier, you called them a fiction then, and you still think that is a fiction. I guess you did say that it was a fiction that might stop people from spending money, and now it seems to me that you are violating even that fiction and making this Medicare money available to be spent on other purposes.

Mr. DANIELS. Well, to repeat myself, I think all of the Medicare money is spent for Medicare. Every penny. And we are still very committed, the President is very committed to spending restraint. So nothing—simply calling it as we see it about the—how this really works, what really does and doesn't affect the trust funds and so forth, has nothing to do with the President's commitment to restraining spending and preserving enormous surpluses like the one we see for this year.

Mr. HOLT. Thank you, Mr. Daniels.

Chairman NUSSLE. Mr. Matheson.

Mr. MATHESON. Thank you, Mr. Chairman.

Mr. Daniels, you have been in that seat for a long time, and answered lots of question. We both made it. No, maybe one more. Sorry about that. I just had three items I wanted to run past you quickly.

First, I just want to associate myself with the comments of Mr. Clement earlier about, I am also on the Transportation Committee, and while I think there are a number of factors in terms of our economy and economic growth that are clearly beyond what the Federal Government does, there is one activity that I did—do think is critical, that is, commitment to maintaining our transportation infrastructure, in terms of highways, aviation and our ports.

Being a member of that committee, I think there is real bipartisan support in being committed to maintaining that infrastructure. So I just wanted to associate myself with Mr. Clement's comments earlier.

Secondly, the issue of trying to be responsible about spending. It is an issue that we have a number of us talk about today. I really think that it is—the challenges are a bipartisan challenge. I don't think one party or the other has any big hold on being good or bad about spending.

As we move forward in trying to be intelligent and responsible with our spending, you mentioned, in terms of making recommendations about spending to Congress, that the President will be a participant if necessary. You mentioned that in your opening comments.

I am curious if there is a sense of what is necessary? When is that point going to be made where the administration is going to come up with additional specific spending recommendations to work with Congress in that effort?

Mr. DANIELS. Well, I think you can look for new spending recommendations in January of 2002.

There won't be any additional spending recommendations, I don't imagine, for this year. We will have, I think, a fresh and probably fairly lengthy set on both the growth and the redeployment side for the budget that is a few months ahead of us.

Mr. MATHESON. To the extent we have passed legislation, for example, in the House, we passed an energy bill just before we went on recess. It contained a number of additional revenue adjustments that affect our budget situation. It did not include any offsets at the time from the House version, and I know we got to go through the Senate process, so I don't want to get ahead of things too much.

When legislation such as that moves through Congress, would the administration like to see offsetting spending or adjustments to offset the costs of those new pieces of legislation?

Mr. DANIELS. Well, often, yes, that would be most welcome.

The bill that the House passed is substantially above anything the President had requested. So if the Senate had a similar view, we would have to work together to look for offsets.

But, you know, like you, I don't know where we are going there.

Mr. MATHESON. One last item that I just wanted to mention. We all know the uncertainty of projections. You certainly know that in the job you are in now, and know that from the business world as well. It seems to me that in terms of when we make plans for the future, 1 year, let alone a 10-year budget, that with the uncertainty associated with the projections, maybe there ought to be a little margin for error.

What are your thoughts about how we ought to be looking at that, and should we be incorporating some margin for error in our budget projections?

Mr. DANIELS. I not only think so, but I believe that we have. The budget, as we presented it, had a trillion dollars, so-called contingency reserve for the—and then I think that we were pretty direct in saying that we assumed that a substantial portion of that would go to—at this point, unknown new needs, Medicare reform and defense and so forth.

One reason to project things that way was to the guard against misses on the down side. And that we still have a multi-hundred billion dollar uncommitted number there, and I think that is prudent, probably should be a part of each long-term budget.

Mr. MATHESON. That is what I wanted to follow up on. I remember the contingency when we looked at the budget resolution. Does the mid session review analyze where that is today, based on the changes in our projections?

Mr. DANIELS. Yes, sir. It is about $575 billion. This is after a couple of important decisions. The biggest one is the defense increase. Starting with the proposal this year and then assuming that flows all of the way through, that is $200 billion there. Also the next biggest one, I think, would be the Medicare increase that I referred to earlier.

So those are two refinements beyond what we had proposed in April that used the first piece of that uncommitted number.

Mr. MATHESON. Just to recall, that contingency did include Medicare trust fund as part of that contingency, is that a correct statement?

Mr. DANIELS. Well, it exceeded the amount of the Medicare Part A trust fund that we expected to have at the end of the period.

Mr. MATHESON. Thanks, Mr. Chairman.

Chairman NUSSLE. Ms. Clayton.

Mrs. CLAYTON. Thank you, Mr. Chairman.

Thank you for your patience and your explanations. I want to follow up on that budget resolution as well. You are right, you had recommended in the President's budget, a $1 trillion reserve. The budget resolution that we passed out of Congress had a reserve for a number of important issues that both the President and the Congress had included education, Medicare, the defense and agriculture.

Now, that $1 trillion has now been reduced, I think you said, to $575 billion; is that correct?

Mr. DANIELS. Yes, ma'am.

Mrs. CLAYTON. Just before we adjourned for our recess, the Agriculture Committee, passed a bipartisan bill, based upon your projection and based on the budget resolution. In the reserve account for agriculture, which included both year 2001, 2002, the amount came to about $78 billion. Taking the supplement out for year 2001, left $73 billion. Now, in your report and your testimony, both in the mid-session review as well as your individual testimony, you cite that now we are not a part of that reserve. You say that agriculture must find an offset for that which we included in the reserve.

Which is it? Were we a part of that reserve? And, if we are not now, how do you plan to recommend the offset for the agriculture bill that has been passed out of the committee?

Mr. DANIELS. That is an important question, but the uncommitted funds that Congressman Matheson was just drawing our attention to are seven to eight times the amount of sort of the target reserve that was marked off for agriculture.

We are not going to know for quite some time what a new farm bill will look like, let alone what it will cost. One has started in the House. They haven't started in the Senate. The farm bill doesn't expire until the end of next year, over a year from now. So I don't have any doubt that, just as happened this year, that the needs of America's farmers will be met, and again, certainly over the longer term, there is more than ample room to do it.

Mrs. CLAYTON. I appreciate that answer, but it doesn't really answer the question. The question is given in your statement in the mid-session review. You are now saying that we need to have offsets in order to meet the needs of the American farmers. My question is where are those offsets going to be proposed if they are not part of the reserve?

Mr. DANIELS. We don't know that we have incremental costs yet——

Mrs. CLAYTON. I beg your pardon. We don't know if we have incremental——

Mr. DANIELS. You haven't passed a farm bill. The Senate hasn't passed a farm bill. We don't know whether the $27 billion that is in the baseline for next year will be the right amount or not. So we look forward to working with the Congress on this issue. The bill—and the only clue we have as to what might be in prospect, the bill that has moved a little bit in the House committee would add $2 billion in outlays to 2002, a very manageable amount if that happened to be the case. The Senate may have something entirely different in mind.

Mrs. CLAYTON. Perhaps I didn't make my statement clear enough. I wasn't talking about the agriculture appropriation for year 2002. I was talking about the farm bill that presumed to use $73 billion over 10 years of the 78 that was a part of the reserve.

Mr. DANIELS. Right.

Mrs. CLAYTON. Five of those seventy-eight has already been allocated and approved, and the President has signed for a supplemental. That leaves us 76. I was not talking about the current agriculture appropriation. I was talking about a 10-year farm bill.

Mr. DANIELS. Yes, ma'am. If it turned out—we won't know for a long time. If it turned out that the additional cost of that bill were something like $73 billion, that would be in contrast, by our numbers, $575 billion that is uncommitted and available.

Mrs. CLAYTON. So we would need an offset. We are to go to the floor next week. So the question the Rules Committee will have for the Agriculture Committee, would be should it be taken out of the $575 billion, or is this offset somewhere else?

Mr. DANIELS. I think, and I haven't looked at the term you are talking about, but the only place in which an offset would come into play is if it had a 2002 effect beyond what could be accommodated in this year's resolution.

Mrs. CLAYTON. I see. So that only applied to this year's appropriation and not to the reserve of the $73 billion?

Mr. DANIELS. That is right. We would have to look at this year by year.

Mr. SPRATT. Would the gentlelady yield?

Mrs. CLAYTON. Yes, I will.

Mr. SPRATT. Could I redirect the gentleman's attention to table 1, page 4. There you derive the $575 billion number that you keep referring to. Of that amount, $537 billion is a Medicare surplus. That leaves a $38 billion residual, which is not much of an offset for anything; so what you are telling the gentlelady is if she is willing to spend the Medicare surplus, you might be able to use that; however, the word "offset" connotes something different. It connotes that we come up with a new source over and above what is in the budget, a new revenue source or a new spending cut that will mean no effect on the bottom line.

So I think we need a clarification. When you say that the farm bill will have to be offset, do you mean that some of this $38 billion residual can be used for that purpose, or if you want to dip into Social Security and Medicare at least, you can use it, or that you must find a new offset, a new spending cut, so that there is no impact on the bottom line?

Mr. DANIELS. I think offsets would refer to the year 2002, and that if it would take us above the budget resolution and therefore——

Mr. SPRATT. The budget resolution as a reserve has anticipated that up to $70 billion will be spent on this bill. That money was reserved. The Chairman was given authority to make the allocation.

Mr. DANIELS. Let me say it has nothing to do with Medicare Part A as far as we are concerned. That may be a self-limitation that Congress wants to continue——

Mr. SPRATT. You mentioned $575 billion. Of that 575, $537 billion is Medicare. So there is only $38 billion left over.

Mr. DANIELS. I said that is a limitation that some Members of Congress may want to impose. We don't see it that way for the reasons we have discussed——

Mr. SPRATT. It is a limitation of the budget resolution. That is the way the resolution is drawn. The Chairman can increase the allocation for the farm bill, but he cannot encroach upon Medicare. So all he has got is $38 billion.

Mr. DANIELS. I recognize that is where his authority is limited. Congress would have to act, as it always can, to make the spending possible, and in this case we would agree.

Mrs. CLAYTON. Mr. Daniels, would you say that the administration will honor the budget resolution which we passed out of the House?

Mr. DANIELS. Yes, ma'am. We would like to work with the Congress and the appropriations process to do just that. It would be a great thing, by the way, for this committee and its Senate counterpart if we did see it through in that way so that the resolution did form the framework under which spending finally did occur and was contained.

Mrs. CLAYTON. Well, the Agriculture Committee is working with that assumption. They are working under the guidance of the budget resolution, and they took it in good faith that they had $78 billion, 5 of which they spent, and the other 73 they have allocated over the next 10 years. If we are now being told that we don't have that amount, that means that we are not working on the framework of the budget resolution.

Mr. DANIELS. If the Congress sometime between now and the end of 2002 passes a new 5-year farm bill that adds that kind of spending, the moneys there, we will have to work together to accommodate it, but the revenues certainly look to be there far more than enough to afford it.

Mrs. CLAYTON. And it is there excluding Medicare expenditures?

Mr. DANIELS. Well, the way we look at it, yes, because Medicare money is come and gone before these surpluses are ever accumulated.

Mrs. CLAYTON. Thank you, Mr. Chairman.

Chairman NUSSLE. Mr. Spratt?

Mr. SPRATT. I just wanted to refer you to table 3 instead of table 1 because it shows that most of the $575 billion, including Medicare, occurs in the outyears, particularly the last 2 or 3 years. In the near term the non-Social Security surplus is a billion dollars next year, $2 billion the following year, and $6 billion in 2004. There is very little there to play with.

Mr. DANIELS. Well, there is if we are completely inert about the 1.9 we start with and just, in fact, leave it there and inflate it, but that would not be our intention.

Chairman NUSSLE. Mr. McDermott for one question.

Mr. MCDERMOTT. Just one question. I picked up this morning's newspaper, and I read that the leadership in the House was pushing capital gains cuts. What is going to be the White House's position on that?

Mr. DANIELS. The President has said he is open-minded about it. It was obviously not part of his plan, his tax relief plan of this year, and so for the moment he is taking an open stance.

Mr. MCDERMOTT. It is being pushed as a stimulus to the economy for this year. You are saying it wouldn't work this year? Is that what——

Mr. DANIELS. No, I am not saying that. The President said he is open-minded, and he would listen to the Congress to see what the sentiment was. It certainly reflects, as members of this committee on both sides did, a concern to make government do all it can do within its limits to get the economy going and sustain it, and I think that is what animates that suggestion. The President hasn't ruled it out, hasn't ruled it in.

Mr. MCDERMOTT. What would be your recommendation if he came to you and said, Mitch, what should I tell them?

Mr. DANIELS. As of this morning, I would say the rebates are only halfway out the door. The latest rate cuts have only recently occurred. My personal view is that we should take a little time and see how the economy is responding. Meanwhile we should look at all options, and this is clearly one that might give us a better chance of a real strong and ongoing recovery.

Mr. MCDERMOTT. So we might see capital gains before the end of the year?

Mr. DANIELS. I can't project. I can only report to you what the President said.

Mr. MCDERMOTT. The door is not closed—is what you are saying?

Mr. DANIELS. He did not close the door, no, sir.

Mr. MCDERMOTT. So it could happen?

Mr. DANIELS. That has a lot to do with both sides of the Members of Congress, what both sides are prepared to do, but yes.

Mr. MCDERMOTT. OK. Thank you.

Chairman NUSSLE. I was counting, by the way. That was seven, just so we are——

Mr. MCDERMOTT. I had to——

Chairman NUSSLE. Reel him in. I understand.

Mr. DANIELS. Those are called follow-ups, Mr. Chairman.

Chairman NUSSLE. Mr. Daniels, you have been extremely generous with your time, and we appreciate the chance to question you and the administration on these figures, and we appreciate the time you have spent with the committee today.

Mr. DANIELS. Always a pleasure.

Chairman NUSSLE. Thank you.

The committee will continue now with its second panel, and we are honored again to have the cause of the government shutdowns—I am joking, of course—the very distinguished Director of the Congressional Budget Office, Dan Crippen, who has been before our committee before.

While the Director is taking his chair, one of the interesting observations that I have heard made about the situation we find ourselves in goes in part to what we were just discussing, and it will be my first line of inquiry with the Director, and that is that in years past, the way the budget process worked, once the budget was passed, that was the budget, no ifs, ands, or buts. There wasn't any mid-session corrections, no adjustments, no changes, no consideration of changes.

For instance, the just completed line of inquiry with regard to the farm bill is a good illustration of that. The budget is still controlling, and there is nothing in the mid-session review that changes that or changes the authority that the Chairman has. The numbers were locked in by that budget resolution when we passed it on the floor of the House, and, in fact, all committees and departments of government, the Congress, are able to, as a result of that, make decisions based on that resolution into the future. It is only this year, as I understand it, is the first time where any consideration of a mid-session review has begun to point us possibly in a new direction for fiscal restraint. I am not suggesting that is bad. I actually think that is good, but it does show as an example some of the confusion that is out there.

There is nothing in this mid-session review that changes one iota of the budget technically. We may as Congress make a different determination of what we should do based on these predictions and projections, but there is nothing in the budget that has changed as a result of these projections.

We welcome you, Dr. Crippen, to the panel again, and we welcome your testimony. Your entire testimony will be part of the record, and you may summarize. Welcome.

STATEMENT OF DAN L. CRIPPEN, DIRECTOR, CONGRESSIONAL BUDGET OFFICE (CBO)

Mr. CRIPPEN. Thank you, Mr. Chairman. Maybe given the numbers we have and the hour of the day, we should recess to the cafeteria. I think I have a high enough credit limit on my credit card, that I could buy lunch.

Chairman NUSSLE. As long as it is not a Pentagon credit card, it will be just fine.

Mr. CRIPPEN. I know better than that with this committee, yes.

Mr. Chairman, I will take the opportunity to not give you my prepared statement, but just make a couple points very quickly so we can move on.

I think one of the two biggest unknowns in our forecast and one of the reasons they change so much is growth in discretionary spending. It is simply a fact that we assume and are told to assume, frankly, that discretionary spending will be at this year's level plus inflation for the course of our baseline. Because appropriations are made on a yearly basis, the baseline may not be terrific, but it is probably the best that we can do. If spending were to grow differently from inflation, it would certainly leave you with a different long-term surplus number. If it grew at 8 percent a year, for example, it would add another $2.5 trillion to spending over 10 years or subtract that amount from surpluses if it grew less than inflation, obviously it would show larger surpluses.

Secondly, and the object of much discussion today, of course, are the unknowns about economic performance. In the economics profession, we are notoriously bad about calling turning points in the economy. We missed this one as much as anyone else, but it has always been that way. That doesn't give you much comfort, I am sure, but I think because there was some discussion about 1981 that it may be interesting to spend 30 seconds looking at that.

CBO presented an analysis of the President's budget in 1981. We suggested there would be in 1983, for example, a deficit of about $59 billion; a small number by today's standard, but pretty large by the standards of today. What turned out to be true was a deficit of about $200 billion, over $200 billion actually, so four times our estimate. The reason for the difference was largely economic. CBO, along with most of the rest of the world, did not foresee the coming severe recession in 1981 and 1982 nor the rapid decline in inflation that caused revenue collections to drop precipitously.

We can advance to close to current day. Last year at this time the cover of our midyear report showed what we thought were the primary contributors to the change in the fiscal outlook from deficits to surpluses. The primary contributor, in our view, was a change in the economy. Productivity and economic growth were higher than we had foreseen as late as 1997. Similarly, today, we have a change in the short-term outlook, certainly, that has caused a diminution in the surpluses for the near term, 2002 in particular. If you change the adjustment for corporate revenues, put them back in the year in which they normally would have been collected, about half of the change in 2002 is economic, and the other half is legislative. Obviously those ratios change dramatically by the end of the period; over the 10 years about 20 percent of the diminution is due to economics and 80 percent is due to the legislative changes that have been made.

So it all goes to say that our forecasts do change more than we would certainly like them to. The two biggest unknowns are discretionary spending and performance of the economy.

Lastly, Mr. Chairman, I will do what I have done here before. I have a chart that I drag around that begs the question about what happens sometime after this 10-year period. We are only looking at the next decade in the forecasts we have been discussing. Frankly, when our generation retires we will witness the largest shift the Federal budget has ever experienced. We will double the number of recipients for retirement programs at the federal level and more than double the spending for those retirees.

Something dramatic must happen here. We are currently collecting 20 percent of gross domestic product (GDP) in revenues and spending about 18 percent. The national average, the historical average in tax collections since World War II, has been about 18 percent. To maintain government as we know it today and make room for this more than doubling of expenditures for retirees, we will have to make some very big changes in the not-too-distant future. Those changes may include increasing taxes by 10 percent of GDP or thereabouts, cutting other spending, which would virtually eliminate the rest of the government, or borrowing a great deal of money again. That ability to borrow 10 percent of GDP a year is probably questionable over a very long period, but those are the kinds of choices before us, and we need to keep them in mind.

Despite much of the discussion about trust funds, as all the committee has heard me say before, I am a bit agnostic about trust funds. They clearly have some import in the outlook here, but the important questions are how much in resources are we transferring from the productive to the retired economy, and how big is the economy? To the extent the trust funds can affect those two factors, they play a role, but to the extent they don't, they are an accounting mechanism. Let me give you one quick example before I quit.

In 2015 or thereabout, about the time I am eligible to retire, my kids won't be paying quite enough in payroll taxes to cover my benefits. Now, the trust fund will be in fine shape and have interest payments coming into it and eventually plenty of bonds to be turned in through my entire life presumably. But what happens in 2015 with the current trust fund is that the Social Security Administration, figuratively speaking, will go to the Treasury with a coupon and say, pay us the interest. In order for the Federal Government to generate that cash, it has essentially three options: Cut spending and other programs, raise taxes, or borrow the money. So under the current situation the Treasury will have to come up with cash to actually pay me my benefit.

Now, think of an alternative scenario in which there was no trust fund, there were no interest payments for that trust fund, simply payroll taxes and spending were out of line. If when I went to cash my check the Social Security system didn't have enough money, the Treasury would be faced with those same three options. They would have to raise taxes, cut spending, or borrow from the public. So with or without a trust fund, come 2015, the fiscal consequences may be quite similar, and the economic consequences as well. The actuarial accounting of the trust fund is an important element, but it is not one that will necessarily help or hurt this picture. What is important, again, is the size of the economy and how much we are transferring to the retirees.

With that, Mr. Chairman, I will quit.

Chairman NUSSLE. Thank you, Director.
[The prepared statement of Mr. Crippen follows:]

PREPARED STATEMENT OF DAN L. CRIPPEN, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Mr. Chairman, Representative Spratt, and members of the committee, I am pleased to be here today to discuss the current outlook for the budget and the economy. Last week, the Congressional Budget Office (CBO) released The Budget and Economic Outlook: An Update, which I will summarize today.

Recently enacted legislation and the continued sluggish behavior of the U.S. economy have reduced the projected Federal budget surpluses for fiscal year 2001 and future years. CBO projects that the total budget surplus in 2001 will be $153 billion $122 billion lower than CBO estimated in May. About two-thirds of the decrease results from new legislation; one-third comes from a weaker economy and other factors. Despite that drop, if the $153 billion surplus materializes in 2001, it will equal 1.5 percent of gross domestic product (GDP), the second largest surplus as a share of the economy since 1951.

Because of the smaller total surplus, CBO now projects a small on-budget deficit for this year. (The on-budget accounts exclude the spending and revenues of Social Security and the Postal Service). If current tax and spending policies are maintained and the economy performs as estimated, CBO projects small deficits or surpluses in on-budget accounts for the next 4 years; however, steadily increasing on-budget surpluses reemerge by the middle of the decade. The projected surpluses would allow all public debt that is available for redemption to be retired by 2010.

THE BUDGET OUTLOOK

For the 5 years from 2002 through 2006, CBO projects surpluses totaling $1.1 trillion, which come almost entirely from off-budget accounts (see Table 1). For the 10-year period through 2011, CBO estimates that under current policies, surpluses will total $3.4 trillion. Social Security makes up about three-quarters of that total. In 2010, the on-budget surplus reaches 1 percent of GDP, and the total surplus grows to 3 percent of GDP. Those estimates should be viewed cautiously, however, because future economic developments, technical estimating errors, and future legislative actions could produce substantial deviations a point that CBO discussed in detail in its January report on the budget and economic outlook.

Total surpluses for the 2002-2011 period are $2.2 trillion less than CBO projected in May, when it last published its budget baseline (see Table 2). New legislation accounts for $1.8 trillion of that decrease, and changes in the economic forecast account for another $0.3 trillion; the remainder stems from other changes (technical ones not directly driven by new legislation or by changes in the components of CBO's economic forecast).

The Economic Growth and Tax Relief Reconciliation Act of 2001 (Public Law 107-16) is estimated to reduce revenues by $70 billion in 2001 and nearly $1.2 trillion over the 2002-2011 period. That law changed numerous tax provisions, including lowering income tax rates, establishing a 10 percent tax bracket, increasing tax credits for children, repealing the estate tax, lessening the so-called marriage penalty, raising the limits on contributions to retirement accounts, and enhancing education incentives. In addition, the law increases outlays for refundable tax credits by $4 billion in 2001 and $88 billion between 2002 and 2011.

Many of the provisions of P.L. 107-16, especially the ones with the greatest impact on the budget, phase in over time. Moreover, most of the provisions expire at the end of calendar year 2010. Extending all provisions through 2011 would reduce revenues by an additional $255 billion over the 2002-2011 period.

Other legislation will also increase projected outlays through 2011. Providing additional assistance to farmers will increase spending by $5.5 billion in 2001, and the 2001 Supplemental Appropriations Act is projected to boost spending by $83 billion from 2002 through 2011. Because legislative changes will leave less money available to reduce outstanding Federal debt, interest payments will increase by $413 billion over the next 10 years, CBO estimates.

Lower projections of economic growth over the next few years, along with other revisions to the economic forecast, will diminish surpluses by $283 billion between 2002 and 2011, according to CBO's projections. (Those revisions reflect changes in the economic outlook since January, when CBO last updated its economic assumptions). In addition, technical changes will reduce surpluses by $177 billion.

In the Administration's Mid-Session Review, the Office of Management and Budget's (OMB's) baseline budget projections are similar, though not identical, to those presented by CBO. For 2001, OMB estimates a small on-budget surplus, whereas CBO estimates a small on-budget deficit. In each year of the projection period, CBO's estimates are lower than OMB's overall, CBO's figure for total surpluses from 2002 through 2011 is $445 billion less. Although that discrepancy may seem large, it results from differences of just 1.0 percent in total projected revenues for the period and 0.7 percent in total projected outlays.

THE ECONOMIC OUTLOOK

CBO has revised its economic forecast to reflect the weakness in the U.S. economy during the first half of 2001. Although economic activity has slowed to a crawl, CBO believes that the economy will narrowly avoid recession and recover gradually next year. CBO now expects that the levels of both nominal and real (inflation-adjusted) GDP will be lower in 2001 and 2002 than it anticipated in January. CBO also has raised its estimates of the unemployment rate and long-term interest rates for the next few years and lowered its estimate of short-term interest rates.

CBO's current forecast assumes that growth of real GDP will average 1.7 percent this calendar year and 2.6 percent next year for both years, those rates are about three-quarters of a percentage point lower than CBO estimated in January (see Table 3). CBO's projections do not incorporate the annual revisions to the national income and product accounts published by the Commerce Department's Bureau of Economic Analysis at the end of July, which were released after CBO's forecast was completed. Incorporating those revisions could move budget projections in either direction but probably not by very much.

Inflation, as measured by growth in the consumer price index for all urban consumers, is 0.4 percentage points higher for 2001 and 0.2 percentage points lower for 2002 than the estimates in the January forecast.

Short-term interest rates are projected to be lower in the next few years than CBO previously anticipated, but long-term rates are expected to be slightly higher. Interest rates on 3-month Treasury bills are forecast to be about a full percentage point lower for both 2001 and 2002 than the levels estimated in January. However, the interest rates paid on 10-year Treasury notes are projected to be between 0.3 and 0.4 percentage points higher than previously anticipated.

CBO does not forecast fluctuations of the economy beyond 2 years. Instead, it extends historical patterns in the factors increases in the labor force, rising productivity, and the rate of national saving that underlie the growth of potential GDP. After incorporating those patterns, CBO makes economic projections that extend three to 10 years out.

For 2003 through 2011, CBO projects that growth of nominal GDP will average more than 5.2 percent a year and that growth of real GDP will average 3.2 percent levels slightly above those estimated in January. According to CBO's projections, inflation in the 2003-2011 period will average 2.5 percent, which is similar to the rate that was anticipated last winter. Interest rates over the period will average 4.9 percent for 3-month Treasury bills and 5.8 percent for 10-year Treasury notes, CBO projects figures that are also similar to January's projections.

CBO's economic projections incorporate the effects of the recently enacted tax legislation. In the short run, the rebate of taxes payable on income earned in 2001 may help counter the economic slowdown by encouraging consumer spending. In the long run, the impact of the new tax law on GDP is uncertain, but any effect is likely to be small. Analysis of the law's economic effects is complicated by the sunset mechanism built into it, which establishes expiration dates for all of its provisions. People's expectations about the law's expiration in 2011 could affect their decisions about consumption, work, and saving over the next 10 years. For the purposes of its economic projections but not for its budget calculations CBO has ignored the expiration.

Like all forecasts, CBO's forecast is very uncertain, and economic activity could be significantly slower or faster than CBO currently expects. Indeed, economic indicators released since CBO's forecast was completed in July suggest a weaker economy than assumed in the projections, though the nature of economic activity (weak business investment offset by moderate consumer spending and spending on residential structures) is close to CBO's expectation. In light of additional weakness in construction spending and in the manufacturing sector, the latest estimate for the second quarter of this year indicates that output growth was only 0.2 percent, rather than the 0.7 percent first estimated. And indicators for July, the first month of the current quarter, suggest that growth may be less than CBO assumed because of much weaker business investment. Short-term interest rates in the current quarter are also likely to be lower than assumed in July because the Federal Reserve cut its intended Federal funds interest rate another 25 basis points in August.

Much of the uncertainty about medium-term growth involves the pace of investment in information technologies. The increase in the growth rate of overall productivity in the late 1990's resulted both from greater amounts of capital per worker, mainly in the information technology sector, and from more rapid growth in total factor productivity (reflecting both labor productivity and capital), probably in large part the result of innovative uses of information technologies throughout the economy. The question now is what the pace of investment in information technologies will be over the medium term and the extent to which those investments will lead to significant cost savings in other sectors of the economy.

The economic perspectives of OMB and CBO are generally quite similar, but the differences in those outlooks still account for a large part of the difference between the two agencies' budget projections. The Administration's current economic projections anticipate stronger near-term growth than CBO's projections do, with a sharp improvement in economic conditions by the end of this year. As a result, corporate profits in the Administration's forecast return to recent levels almost immediately, and the unemployment rate remains below 5 percent (see Table 4). By contrast, in CBO's forecast, profits remain weak in the near term, and the unemployment rate rises to 5.2 percent by the end of 2002. After 2002, the Administration's projections of nominal GDP and of tax bases (such as corporate profits and wages and salaries) remain slightly stronger than CBO's. Throughout most of the period, the Administration anticipates significantly lower interest rates on Treasury securities than CBO does, although the implications of that difference for the budget are limited at a time when publicly held debt is being paid down.

TABLE 1.—CBO'S BASELINE BUDGET PROJECTIONS

[By fiscal year]

	Actual 2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total, 2002–2011
IN BILLIONS OF DOLLARS													
Revenues:													
Individual income taxes	1,004	1,015	1,039	1,079	1,123	1,175	1,223	1,286	1,360	1,440	1,528	1,717	12,970
Corporate income taxes	207	149	210	195	215	247	253	265	278	292	307	321	2,584
Social insurance taxes	653	694	727	761	794	838	880	923	967	1,016	1,066	1,119	9,092
Other	161	152	158	160	175	178	187	189	196	204	203	185	1,833
Total	2,025	2,011	2,134	2,196	2,307	2,438	2,543	2,663	2,801	2,952	3,103	3,341	26,479
On-budget	1,545	1,503	1,602	1,638	1,723	1,822	1,897	1,985	2,089	2,204	2,319	2,518	19,795
Off-budget	481	507	532	558	584	616	647	679	712	748	785	823	6,684
Outlays:													
Discretionary spending	615	647	689	717	737	759	774	789	812	833	853	878	7,842
Mandatory spending	1,032	1,092	1,181	1,243	1,313	1,387	1,454	1,531	1,625	1,724	1,831	1,961	15,249
Offsetting receipts	−81	−89	−92	−109	−112	−107	−112	−119	−125	−132	−139	−148	−1,196
Net interest	223	207	179	174	168	155	139	121	101	78	58	50	1,223
Proceeds earned on the balance of uncommitted funds[1]	0	0	0	0	0	0	0	0	0	0	−7	−29	−36
Total	1,789	1,858	1,958	2,024	2,106	2,194	2,254	2,323	2,413	2,502	2,596	2,713	23,083
On-budget	1,458	1,512	1,600	1,656	1,726	1,802	1,850	1,906	1,983	2,057	2,134	2,235	18,948
Off-budget	331	346	358	369	380	392	405	417	430	445	462	478	4,135
Surplus or Deficit (−)	236	153	176	172	201	244	289	340	389	450	507	628	3,397
On-budget	87	−9	2	−18	−3	21	47	78	106	147	184	283	847
Off-budget	150	162	174	190	204	224	242	262	283	303	323	345	2,549

SOURCE: Congressional Budget Office.

[1] "Uncommitted funds" is CBO's term for the surpluses that remain each year after paying down publicly held debt available for redemption. CBO assumes that those funds, which accumulate from 1 year to the next, earn proceeds at a rate equal to the average interest rate projected for Treasury bills and notes.

TABLE 2.—CHANGES IN CBO'S PROJECTIONS OF THE SURPLUS SINCE MAY 2001

[By fiscal year, in billions of dollars]

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total, 2002–2006	Total, 2002–2011
Total Surplus as Projected in May 2001	275	304	353	400	437	508	578	641	718	806	883	2,002	5,629
Changes:													
Legislative:													
Tax act[1]	−74	−38	−91	−108	−107	−135	−152	−160	−168	−187	−130	−479	−1,275
Other[2]	−7	−10	−8	−7	−8	−8	−8	−8	−8	−9	−9	−41	−83
Debt service[3]	*	−4	−9	−16	−23	−31	−41	−53	−65	−79	−92	−84	−413
Subtotal	−81	−52	−107	−131	−138	−174	−201	−221	−241	−274	−230	−603	−1,771
Economic	−25	−48	−54	−50	−40	−31	−23	−16	−9	−6	−5	−224	−283
Technical[4]	−16	−27	−20	−18	−15	−13	−13	−16	−17	−18	−19	−93	−177
Total	−122	−128	−182	−198	−192	−219	−238	−253	−268	−299	−254	−920	−2,232
Total Surplus as Projected in August 2001	153	176	172	201	244	289	340	389	450	507	628	1,082	3,397

SOURCE: Congressional Budget Office.

NOTE: * = less than $500 million.

[1] The Economic Growth and Tax Relief Reconciliation Act of 2001 will reduce revenues by $1,186 billion and increase outlays by $88 billion between 2002 and 2011.
[2] Mostly the 2001 Supplemental Appropriations Act, along with recent legislation that provides additional funds in 2001 for agricultural producers.
[3] Reflects only the change in debt-service costs resulting from legislative actions. Other effects on debt-service costs are included under economic and technical changes.
[4] Changes not directly driven by new legislation or by changes in the components of CBO's economic forecast.

TABLE 3.—CBO'S CURRENT AND PREVIOUS ECONOMIC PROJECTIONS FOR CALENDAR YEARS 2001 THROUGH 2011

	Forecast		Projected Annual Average	
	2001	2002	2003–2006	2007–2011
Nominal GDP (Billions of dollars):				
August 2001	110,366	10,876	[1] 13,355	[2] 17,145
January 2001	10,446	11,029	[1] 13,439	[2] 17,132
Nominal GDP (Percentage change):				
August 2001	4.0	4.9	5.3	5.1
January 2001	4.7	5.6	5.1	5.0
Real GDP (Percentage change):				
August 2001	1.7	2.6	3.2	3.2
January 2001	2.4	3.4	3.1	3.1
GDP Price Index (Percentage change):				
August 2001	2.3	2.3	2.0	1.9
January 2001	2.3	2.1	1.9	1.9
Consumer Price Index[3] (Percentage change):				
August 2001	3.2	2.6	2.5	2.5
January 2001	2.8	2.8	2.6	2.5
Unemployment Rate (Percent):				
August 2001	4.6	5.2	5.2	5.2
January 2001	4.4	4.5	4.7	5.2
Three-Month Treasury Bill Rate (Percent):				
August 2001	3.9	3.8	4.9	4.9
January 2001	4.8	4.9	4.9	4.9
Ten-Year Treasury Note Rate (Percent):				
August 2001	5.3	5.6	5.8	5.8
January 2001	4.9	5.3	5.6	5.8

SOURCE: Congressional Budget Office.

NOTES: The August 2001 values for GDP and its components are based on data from the Bureau of Economic Analysis' national income and product accounts before the annual revision in July. Incorporating those revisions, which occurred after CBO had completed its forecast, could move budget projections in either direction but probably not by very much. Percentage changes are year over year.

[1] Level of GDP in 2006.
[2] Level of GDP in 2011.
[3] The consumer price index for all urban consumers.

TABLE 4.—COMPARISON OF CBO'S AND THE ADMINISTRATION'S ECONOMIC PROJECTIONS FOR CALENDAR YEARS 2001 THROUGH 2011

	Forecast		Projected Annual Average	
	2001	2002	2003–2006	2007–2011
Nominal GDP (Billions of dollars)				
CBO	10,366	10,876	[1]13,355	[2]17,145
Administration	10,364	10,937	[1]13,553	[2]17,488
Nominal GDP (Percentage change)				
CBO	4.0	4.9	5.3	5.1
Administration	4.0	5.5	5.5	5.2
Real GDP (Percentage change)				
CBO	1.7	2.6	3.2	3.2
Administration	1.7	3.2	3.3	3.1
GDP Price Index (Percentage change)				
CBO	2.3	2.3	2.0	1.9
Administration	2.3	2.2	2.1	2.1
Consumer Price Index[3] (Percentage change)				
CBO	3.2	2.6	2.5	2.5
Administration	3.3	2.7	2.5	2.5
Unemployment Rate (Percent)				
CBO	4.6	5.2	5.2	5.2
Administration	4.6	4.8	4.6	4.6
Three-Month Treasury Bill Rate (Percent)				
CBO	3.9	3.8	4.9	4.9
Administration	3.8	3.9	4.3	4.3
Ten-Year Treasury Note Rate (Percent)				
CBO	5.3	5.6	5.8	5.8
Administration	5.2	5.2	5.2	5.2
Tax Bases (Percentage of GDP)				
Corporate book profits.				
CBO	7.9	7.5	8.0	8.1
Administration	7.7	8.9	8.9	8.0
Wages and salaries.				
CBO	48.6	48.9	48.4	48.1
Administration	48.1	48.2	48.6	48.1

SOURCES: Congressional Budget Office; Office of Management and Budget.

NOTES: CBO's values for GDP and its components are based on data from the national income and product accounts before the July 2001 revision. Percentage changes are year over year.

[1] Level of GDP in 2006.
[2] Level of GDP in 2011.
[3] The consumer price index for all urban consumers.

Chairman NUSSLE. So let me just make sure I get this straight because while this is not a long-term liability discussion today per se as has been pointed out, certainly decisions we make today have impact. Is there anything that we can do today in the budget to affect that chart that you are showing right there involving Medicare, Medicaid, and Social Security? Is there anything on the spending side, anything on the debt side; is there anything on any side that we can do within the budget to change those three green, red, and blue lines from going where you are projecting them to go?

Mr. CRIPPEN. In the simplistic view of the world, there are only two moving parts. One is how much you are transferring, that is, the level of benefits, and clearly you could choose to cut those at some point in the future; the other one is the size of the economy. There may be actions you can take to help economic growth. We talked about one this morning, the current rebate might help, but there also may be spending programs that you might think would help economic growth; maybe education, for example.

I am not here to make policy recommendations. I am simply saying that what is most important is our use of tax revenues in this context to help the economy grow, because that is ultimately what is going to be the source of the financing for my generation's retirement. We will be taking the production of our children, what they are making at that time, and whether we finance it through taxes or borrowing or some other means doesn't matter much. We are going to be taking their production and consuming it. So the size of the economy is ultimately the most important single piece of this puzzle. Anything you can do, therefore, to help economic growth now and in the future is helpful to this outlook.

Chairman NUSSLE. To follow up on something my good friend Mr. Capuano was inquiring about before, my understanding is that the current accounting process is one that Congress came up with; in other words, we have instructed Treasury on what to do with the money that is coming into Social Security and Medicare. They don't get to make independent decisions down there, and while it may be a popular view that a trust fund—and my constituents have the same popular view, that a trust fund exists someplace just like their savings account or some kind of a safety deposit box where they can stick away some dollars, or a Mason jar or whatever you want to call it. That doesn't exist. Unless and until Congress changes, reforms, modernizes, whatever words you want to use, the Social Security and Medicare Systems, that is the way it is going to be, and it is up to Congress to make the decision and determination of those changes. Am I in the ballpark?

Mr. CRIPPEN. Sure. Again, those changes, I would suggest, whatever they are, need to be measured against the metric here of whether they help or hurt economic growth. Simply changing the money around—for example, some of the proposals we have seen in the past for private accounts—may or may not help economic growth. If the Federal Government had to borrow to finance those private accounts, for instance, the net effect on the national savings rate would probably be zero or something like that; therefore, they would have very little effect on the outlook in the future in this way of looking at the problem.

It is not a matter of raising the rate of return to the trust funds or somehow changing the asset allocation. Rather it is how we are going to finance these changes—how big will the economy be at the time that we are going to be demanding these resources from our kids.

Chairman NUSSLE. The other two questions I have, first of all, generally speaking, where do you differ from Director Daniels? As you heard him testify today, are there areas as you listened—you were here for the whole testimony, and I appreciate your doing that and listening to the Director. Would you give us your advice, based on being our congressional analyst, and independently so, on where you may differ with OMB on the testimony that he provided and the analysis he provided for us this morning?

Mr. CRIPPEN.In the short run, there is a slight difference, as Director Daniels pointed out, in our estimates of economic recovery, how quickly it takes place and how robust it will be. We aren't as optimistic as OMB is, which has a big effect on the short-term outlook. In the long run we differ slightly in our forcasts of economic growth and, therefore, of revenue collection. OMB is a little more optimistic than we are. In addition, the Director said, we at CBO think that Medicare spending is going to grow faster than OMB does currently. All together it is by something like $450 billion or so, a little more than that, I guess, that OMB would have surpluses larger than we would over that same period. There are some ups and downs in revenue, but in the main CBO thinks the economy is going to grow slower, so the government will collect fewer dollars, and Medicare is going to grow faster and cost the government more.

Chairman NUSSLE. Thank you.

Mr. Spratt.

Mr. SPRATT. Dr. Crippen, thank you very much. Let me ask you, how much confidence do you have in your forecast?

Mr. CRIPPEN. Oh, just a great deal.

Mr. SPRATT. Seriously——

Mr. CRIPPEN. That is a little hard to answer. What we attempted to do was give you our best estimate of what we see now. Even since January that outlook has changed, in part because of the economy and obviously because of legislation. So one has to be cautious about these numbers. Clearly the farther out we go and the fact that we now have a 10-year outlook where in the old days we had a 4- or a 5-year outlook makes them even less certain. We don't pretend to know a great deal beyond the first few years to the extent we know those years. Things like large demographic changes, we can predict and use those in our projections. In terms of the economic performance, we essentially assume that the last 5 years will look like the first 5, and we don't pretend to be able to call not only turns in the economy, but any real change in performance out there—we will have to catch up to it as it happens.

Mr. SPRATT. Specifically when do you foresee the economy beginning to grow again?

Mr. CRIPPEN. Later this year and next year

Mr. SPRATT. Calendar year?

Mr. CRIPPEN. Yes.

Mr. SPRATT. Like November-December?

Mr. CRIPPEN. We are seeing some positive things happen in the economy now. Whether that translates into more than 2 percent real GDP, we won't know for a few months, but we are certainly suggesting that next fiscal year, which starts in October, we will have growth of around 2.6 percent in real GDP.

Mr. SPRATT. As opposed to 3.2 percent assumed by the Office of Management and Budget?

Mr. CRIPPEN. Right.

Mr. SPRATT. There is something called the blue chip indicators. It is a composite of 50 different economy forecasters nationwide. Where does your 2.6 percent put you on their scale?

Mr. CRIPPEN. We are a little bit below the current average of the Blue Chip for growth.

Mr. SPRATT. They would come out at about 2.8 percent, and you are at 2.6 percent.

Mr. CRIPPEN. Correct.

Mr. SPRATT. OMB at 3.2 percent, where would this be on the blue chip scale?

Mr. CRIPPEN. They are within the total range of the 50, but they are in the top 10 percent or so. They are above average in terms of the Blue Chip.

Mr. SPRATT. I haven't seen the blue chip chart, but I have heard it said they would rank number 8 among the 50 forecasters, definitely at the high end of the assumption.

Mr. CRIPPEN. But within the range of the——

Mr. SPRATT. You said yesterday in your testimony before the Senate that as new evidence comes in every day, if anything, your current forecast, if it were done again last night, would have been somewhat more pessimistic.

Mr. CRIPPEN. I think that is right. Certainly in the short run we were looking at something like 1 percent real growth last quarter, and then it came out at preliminary 0.7 and then finally at 0.2. So we certainly would not be quite as optimistic in the short run. We didn't change from January, and I do need to emphasize this, and I know you know this, but we haven't changed our long-run outlook very much. We still believe that the economy can grow at over 3 percent real GDP a year after we get out of this downturn, but certainly in the next month or 2 it looks worse than we anticipated back in January and even in May.

Mr. SPRATT. Director Daniels has taken some of the indices of your forecast, such as the growth rate, and said really we aren't that far apart, and in the near term the numbers are fairly similar. But you just measured one difference between CBO's forecast and OMB's forecast when you indicated there is about $450 billion in available surpluses more in their forecast than in your forecast. Is that the correct number?

Mr. CRIPPEN. That is about right. I would have to tell you to look at our summary report. The first table will tell you precisely, but that sounds about right for the difference between the two. That sounds like and is a fair piece of change, but, of course, over the 10-year period it is something like a 1 percentage point difference in revenues and half a percentage point difference in outlays. So it is not a lot.

Mr. SPRATT. Much of that occurs in the outyears, too?

Mr. CRIPPEN. Sure.

Mr. SPRATT. Let me ask you and make clear to everybody what kind of baseline forecast you have done. You call this a current services baseline, and when you do a current services baseline forecast, what you do is you take discretionary spending, the spending that we appropriate every year in 13 different appropriation bills, and you simply increase the total spending in each of those accounts every year by inflation, nothing more. So that doesn't provide anything for initiatives. It doesn't provide anything for programs that are singled out for sizable increases, like defense or education or NIH. If you want to increase those, you have to decrease something else. Basically what you are providing is enough money in real terms to run in place that have the same spending power in discretionary spending each year as you had the year before; is that correct?

Mr. CRIPPEN. That is correct.

Mr. SPRATT. For the record, let me make clear to everybody what that does not include. For example, if we could put our "eye chart" up here, even if taking this fairly Spartan baseline, adding only inflation, nothing else, keeping real spending for discretionary purposes constant, what you show in your forecast is that Medicare will be invaded next year to the tune of $36 billion. In other words, we will have to use the money coming into the Medicare Trust Fund, almost all of it; $38 billion surplus, $36 billion will have to be spent, almost fully consuming it. The next year all of the Medicare surplus in 2003 will be consumed, and we will have to dip into the Social Security surplus to the tune of about $18 billion. The next year, 2004, the Medicare surplus will be fully spent, and there will be about a $3 billion invasion of the Social Security surplus. This is with no new initiatives or anything like that, just inflation only. Now, this does not include any additional amount for Medicare prescription drugs, does it?

Mr. CRIPPEN. No, it does not.

Mr. SPRATT. That would have to be added on, and to the extent it was added, whether it is $190 billion or $300 billion or something in between, the bottom line would worsen.

Mr. CRIPPEN. It would. I would say on pharmaceuticals that in all the estimates we have done heretofore, we assume that the benefit could not be in place before 2004 or 2005, so most of that would be in the latter half of the decade.

Mr. SPRATT. It would take a while to get a program like that up and running even if it were passed tomorrow. You just heard our colloquy about the farm bill. This also doesn't include anything additional for a new farm program——

Mr. CRIPPEN. Right.

Mr. SPRATT [continuing]. Which could be as much as $74 billion if the Agriculture Committees get their way and we carry out this budget resolution. It doesn't include anything for the increase we have all included for NIH. That will have to come out of some other program if we don't provide additional funds for it.

Mr. CRIPPEN. If you provide more than inflation, yes.

Mr. SPRATT. The same thing for education. It is inflation only, but no major initiatives, and it doesn't include anything also for offsetting extension of expiring tax provisions.

Mr. CRIPPEN. That is correct.

Mr. SPRATT. The administration notes in the report they sent us that this year we will have about four or five very popular tax concessions in the Tax Code whose applicability will expire unless we renew it. You assume nonrenewal, that they will expire, and the revenues they used to offset will no longer be offset and will recover those revenues in the future. We will have higher revenues because those things expire.

Mr. CRIPPEN. If they are not renewed, yes.

Mr. SPRATT. If they are not renewed. So your budget, therefore, won't accommodate most of the things we have been talking about in terms of increasing defense and increasing education and providing prescription drugs for Medicare. All of that would have to come below that bottom line and would worsen the invasion of Medicare and Social Security.

Mr. CRIPPEN. Certainly without other offsetting changes of some kind, that is right.

Mr. SPRATT. Right.

Let me ask you one thing about your chart there, your layer chart. Let me make a point, too. One reason we have been able to accommodate the increase thus far, those three entitlement programs, is that we have had a significant, some would say a dramatic, decrease in what we spend as a percentage of GDP on discretionary funded programs.

Mr. CRIPPEN. Particularly defense, yes.

Mr. SPRATT. Particularly defense. But in 1962, we were spending 12.3 percent of our GDP on discretionary programs. Defense was a good share of that, but there were other programs, too. This year we are spending 6.3 percent, about half of what we were spending 30 years ago, which is pretty phenomenal and has helped allow these programs to grow without throwing the budget completely out of kilter.

Another significant factor is that this year the total Federal budget will be 18 percent of GDP. In 1984, 1985, at the peak of the Reagan defense build-up, it was 23.5 percent. So we are about 5.5 percentage points lower as a percent of GDP. GDP is $10 trillion, $11 trillion. That is $500 billion less spending than if we were taking the same wedge out of the national pie as we were in the mid-1980's. That is pretty significant in the way of decreasing spending.

In addition, if you want to mitigate this problem, which is certainly a problem for the long run, one thing you can try to do is grow the denominator, grow the GDP.

Mr. CRIPPEN. Exactly.

Mr. SPRATT. If we can diligently use the trust fund surpluses to buy down existing outstanding national debt, at least buy it back and convert it into trust fund debt, we can add $3 trillion plus to net national savings over the next 10 to 12 years, and that will add to capital formation, should lower the cost of capital, should lower the interest rates, and should boost the economy; should it not?

Mr. CRIPPEN. It should.

Mr. SPRATT. So if we can enlarge the denominator, we can decrease this fraction——

Mr. CRIPPEN. Absolutely.

Mr. SPRATT [continuing]. Of GDP——

Mr. CRIPPEN. What you are suggesting, Congressman, is what I have been trying to suggest as well. That is the more poignant debate about Social Security and Medicare in the baby-boom era is what the policies are that we ought to be pursuing to boost economic growth. Clearly one of them might be to pay down debt. There could be others, but I am suggesting it is not so much which side of a line you are on and what a trust fund balance looks like, because this picture occurs whether or not there are trust funds at all in some ways. So what is most important is to have a debate about economic growth and what policies are best to pursue for that.

Mr. SPRATT. Even though we are teetering on a recession, do you think it is wise to stay this course at least with respect to the Social Security Trust Fund, and that is to try to use the trust fund exclusively for debt buydown?

Mr. CRIPPEN. I don't know, Congressman. Again, the economics profession has a lot of suggestions, but no conclusions, about how one would best promote economic growth at this point. It may not be that paying down debt is the ideal policy if we maintain growth at this fairly anemic rate. You may want——

Mr. SPRATT. If we have a true recession or a deeper recession——

Mr. CRIPPEN. Or if we don't recover much. I mean, 2 percent real growth is as close to recession as you would ever want to be without getting there. So it may be that the Congress would want another policy. Rather than paying down debt by $150 billion, you might want a policy that didn't pay it down as much and perhaps spent more or did other things to help boost the economy.

Mr. SPRATT. Let me go back to the chart here, which basically lays out the budget as you see it. The point I was making earlier is we have got two phenomena here side by side. In the near term we have a cyclical downturn in the budget. It is not the entire effect, obviously, by OMB's calculations. Using their numbers, it is just 38 percent of it, but basically in the year 2002, 2003, we pull out of this slump, return to a fairly significant rate of growth. You have 2.6 percent. They have 3.2 percent. The economy starts chugging along then, but we still see some degradation in the bottom line for a number of years to come, at least on the on-budget surplus and the on-budget surplus excluding Medicare Trust Fund. Would you agree these are two distinct problems?

Mr. CRIPPEN. Yes. Absolutely. Well, they are distinct in the numerical formulation of them. They are not distinct in that they are both a function of economic growth, that is, or lack of it. The more we can grow the economy, the better our forecast will look next year and in 10 years, and the better this fraction will look in 30 years. So in that sense they are related, but as our cover shows on the report, if the definition of the problem is diminution of surpluses, then clearly in the short run, over the next few years, the economy has the biggest effect. In the long run it is legislation that has passed, the tax bill and others, that has changed the outlook for the surplus.

Mr. SPRATT. Your total estimate of the economic and technical factors since January comes to about $250 billion over 10 years?

Mr. CRIPPEN. Over the 10 years it is about 20 percent. In fact, I think Chairman Conrad said yesterday that 21 percent of the change in the outlook comes from the change in our economics. In the short run, next year, as I said, if you adjust the corporate payment back to where it was supposed to be or should have been or was, you then get about half of the change, 40 billion, due to economics and 40 due to the——

Mr. SPRATT. And the balance, the rest of the change, comes from enacting policy changes, namely the tax cut?

Mr. CRIPPEN. The tax cut, the supplemental appropriation that has been enacted, adds about $80 billion over that time period. There are a smattering of other spending. There is outlays in the tax bill as well, refundable tax credits and the change in debt service, that is 80 percent of the change over the next 10 years.

Mr. SPRATT. Thank you very much.

Mr. HASTINGS. Thank you, Mr. Chairman. I walked in just when Chairman Nussle was asking you about the areas that you differed, and I heard—let me make sure I get this correct—that you differ in the short-term economic recovery, OMB is different than you are, and in the long-term economic growth; is that correct?

Mr. CRIPPEN. That is right.

Mr. HASTINGS. Both of those affect revenues primarily; is that correct?

Mr. CRIPPEN. Yes.

Mr. HASTINGS. How much? Give a percentage of when you talk about—maybe I should ask it this way: When you build in those two, economic recovery and the long-term economic growth, how do you factor spending into that, or can you factor spending into that?

Mr. CRIPPEN. I am not sure. There are certainly some spending programs that are affected by the economy, unemployment compensation, for instance.

Mr. HASTINGS. Let me put it this way: Another difference between—you may have said this in your opening remarks, and Director Daniels alluded to it, but they are basing their—the revenues that you both have are essentially the same. The difference is in the spending side. The reason why, and, again, correct me if I am wrong, is because you take current policy today and extrapolate that to the future, correct?

Mr. CRIPPEN. That is right.

Mr. HASTINGS. OMB in their projections look at some policy changes that they are suggesting, making the supposition, that the Congress will make some of those changes that they want, and, therefore, you will have a different spending level. Is that essentially correct?

Mr. CRIPPEN. The primary difference between us and OMB, Congressman, in spending over the 10 years is not so much the discretionary baseline, which I think is what you are alluding to, but more the Medicare spending. We are assuming that Medicare is going to grow faster than OMB assumes.

Mr. HASTINGS. You are also assuming that Medicare will grow under current policy.

Mr. CRIPPEN. Right.

Mr. HASTINGS. You are not taking into consideration some changes that the Congress may or may not change. The President, of course, has strongly suggested and a lot of Members of Congress have suggested that we need to make some changes. That is true with Social Security, too, by the way.

Mr. CRIPPEN. Correct.

Mr. HASTINGS. So I guess what I am getting at is that the notion that one Congress cannot bind another Congress, although we respect policies that prior Congresses have made, and if people want to change them, we will change them, but I think there is certainly a growing awareness around the country that Social Security needs to be changed, and, in fact, it was part of a Presidential campaign for the first time I have ever heard, and as a result there is a blue ribbon commission that is going to have a recommendation. And Medicare, there was a blue ribbon commission that existed a couple years ago, and nothing has happened.

The point I am making is awareness is out there that some of these programs need to be changed, and that can affect in the long term then the spending that you would project as to what the demands are in the future; is that correct?

Mr. CRIPPEN. Absolutely. You have given me an opening here to say one of the things that I would have said if I read my opening statement. That is our numbers, our baseline, is predicated on a whole set of rules that we generally follow, but it is not, to be sure, a prediction of what the next 10 years will be. In some ways it is artificial. Saying this is the equivalent of an assumption that Congress won't meet for 10 years or that we will have no change in policies for 10 years, which is obviously not going to happen.

So this is not, strictly speaking, predictions of outcomes. It is the best estimate we have of what the current law would produce.

Mr. HASTINGS. Right. That is the point that I think needs to be emphasized.

I find it remarkable that your numbers and OMB numbers on revenue projections in the short term were virtually identical. They may change for those reasons that you said, but any time that you try to estimate revenues beyond 1 year, it is a very inexact science. I think everybody would acknowledge that. It is especially true when you are trying to estimate what expenditures would be, because there are going to be some changes in policies, and we don't know. It has been alluded to on some other policies that have passed out of committees. Those haven't passed the full Congress yet. They haven't been signed into law, and there may be some changes as we go down the line on that, but I want to make the distinction that from a revenue projection standpoint, you are pretty much on line. You obviously differ with OMB simply because you are dealing with the status quo on spending, and there are certainly some people that want to change some of the programs that will affect that spending. Is that a fair analysis of——

Mr. CRIPPEN. Yes. The biggest single thing, as you suggested, is revenues, and the biggest factor is that we are slightly slower and less optimistic on growth over the next 10 years.

Mr. HASTINGS. What it boils down to, I guess that is the challenge that the Congress as a whole has. There are some that believe that government ought not to grow as fast as it had in the past. I am in that category. There are others that feel that government should grow much faster. I think that the good news out of all this is that if we live within the budget and the revenue that we have, then our challenge is to obviously prioritize that spending, which is obviously a challenge every time Congress meets. So thank you very much.

Mr. BROWN. [Presiding.] Thank you, Doug.

Mr. McDermott.

Mr. MCDERMOTT. Thank you, Mr. Chairman.

Dr. Crippen, you don't disagree with any of the figures on this chart, do you?

Mr. CRIPPEN. I don't think so. I can't see it, I must confess.

Mr. MCDERMOTT. I thought I would test your eyesight first before we give you the driver's test.

Mr. CRIPPEN. OK.

Mr. MCDERMOTT. These were taken right out of your book; so I think you would stand by them if you could see them. The question, then, I have is this: The President in his State of the Union message said unequivocally, "To make sure the retirement savings of America's seniors are not diverted to any other program, my budget protects all 2.6 trillion of the Social Security surplus for Social Security and for Social Security alone." now, that is one quote, and then yesterday or today actually in the New York Times, the Congressional Budget Office says that the government will almost certainly be forced to dip into Social Security revenues later this year to cover shortfalls created by the sinking economy and by the $1.3 trillion tax cut that Mr. Bush pushed through the Congress last year. That reflects, I think, the fact that you show dipping into the Social Security.

Now, I would like to hear you explain what you will tell Members of Congress who are forced in this next election to explain why the President said one thing and did another. How are they going to put a positive spin on that? Can you give me a positive spin that would work?

Mr. CRIPPEN. Fortunately that is not my job, but I will try.

Mr. MCDERMOTT. Remember this is a 30-second commercial.

Mr. CRIPPEN. I don't know that you can. The $8 billion for this fiscal year 2001 we are in that we are saying would be across this line is an estimate as well as the line is an estimate. We are going to come very close, I think, one way or the other, pretty close, to being on the line. That is not the Medicare line that some of you would like to see as well, but certainly on Social Security we are going to be very close. It is, as I have been saying, $8 out of 2,000, and these are all estimates, and we won't know ultimately for several months after Treasury finally racks it all up where it all came out.

Mr. MCDERMOTT. So you would basically be saying, trust us, it will all work out?

Mr. CRIPPEN. You are very close.

Mr. MCDERMOTT. Do you know how much the people trust the Congress or the President?

Mr. CRIPPEN. Or our numbers.

Mr. MCDERMOTT. Or your numbers.

Mr. CRIPPEN. It is not so much trust us, it will all work out, but if that is your objective to be zero or hit this line, you are going to be very close on one side or the other by a few bucks out of 2,000; so in that sense it is not a big deal.

Mr. MCDERMOTT. We had a little session before this meeting, and we talked about this, and I asked a question there, and I didn't get an answer; so I am asking you how can anybody with a straight face talk about this situation without talking about the tax extenders? I sit on the Ways and Means Committee. The likelihood of us not passing that tax extender for research and development, R&D tax credit, is absolutely zero. That is going to pass. We passed $33 billion for energy of which $9 billion is covered in this budget. The other 24—where do people think that is going to come from except from borrowing against these reserves that are sitting in—or they just won't say it; is that it?

Mr. CRIPPEN. I don't know that they have an opinion one way or the other. Maybe it is just not saying it. Fortunately those of us who have never been elected to office don't have to make those decisions, but clearly there are things in the offing that could change this outlook and could make it worse, as Congressman Spratt has so eloquently pointed out. Nothing up here is concrete, neither our forecast nor the future. You don't have to pass the energy bill——

Mr. McDERMOTT. Let me tell you what I think we are going to pass. That is the farm bill. As I said earlier, I was out in my family reunion out there and picked up the newspaper in Aurora, Illinois, and the front page story is that it isn't going to be a 175 bushels an acre, it is going to be 125, and the farmers are hurting. So we are going to have to come up with the money for that farm bill.

I know you guys are more skilled than I am in finding places to grab a little here and shift a little something here. What kind of budget gimmicks are—I mean, we grabbed next year's revenue. So we are not going to do that, that 30 million or $15 million or how much advanced corporate taxes. Where are we going to find that money except in these trust funds?

Mr. CRIPPEN. Fortunately I don't have to answer that question, but let me give you an example, which is not a recommendation. The other day we were looking at the effect of the final regulation on the current Medicaid—some call it a scam—but how the States are being over paid. They are paying more to nursing homes for benefits, and the nursing homes are giving them money back, and in turn they are collecting more from the Federal Government. Despite the regulation and your legislation to try to mitigate that, it is going to cost the Federal Government 6 or $7 billion a year for the next 10 years while that goes on; so that alone would be enough to pay for the farm bill.

Now, that is not the answer to everything that is up there in red certainly, and we are not here to make policy recommendations, but there are some things at least that one might look at.

Mr. McDERMOTT. So you are saying by—overpayment by providers in Medicare and Medicaid would be places you could find some of this money?

Mr. CRIPPEN. This one in particular I am alluding to is where the States have colluded with local governments who are running nursing facilities and inflated the payments that the Federal Government is giving to the States.

Mr. McDERMOTT. "colluded" is a pretty strong word.

Mr. CRIPPEN. It is probably justified in this case because it is pretty deliberate.

Mr. McDERMOTT. Would it be Justice Department action, do you think?

Mr. CRIPPEN. I don't know about that. It is probably within the guidelines of current payment policy. It is just a loophole that they are exploiting. That is not a solution to the overall problem you cite, but there are potentially things one could look at, and some of them in your committees.

Mr. McDERMOTT. I bet you are looking forward in the next 3 months to figure out how we do it, right?

Mr. CRIPPEN. Absolutely.

Mr. McDERMOTT. Thank you very much.

Mr. BROWN. Thank you.

Mr. Bentsen.

Mr. BENTSEN. Thank you, Mr. Chairman.

Dr. Crippen, the one chart I wish we had here and we don't, but I think it is the best chart you all publish, and that fishtail or that fan chart you had back in February or January that showed where the surplus can go to the good or the bad, because I have to say, even though I haven't always agreed with all of your analyses, that I think the CBO has gone out of its way to qualify its statements and to qualify its assumptions. In fact, I think you all said that when we were looking at the 10-year projections earlier this year, that you said there was a short-term margin of error of something like 1 percent or .9 percent of GDP plus or minus 50 percent over the 1-year period and 2 percent of GDP over the 5-year period, and you weren't willing to make the bet for the 10-year period, and you at least have been proven out that you all are sufficiently risk-averse in that regard.

I want to go back to your conversation with Mr. McDermott, and you made a comment, a very telling comment, and this isn't directed at you, about saying that we are not elected, you being the CBO. We are elected. All of us are elected, and the President is elected as well. And we go out and we run our campaigns, and we talk to our constituents and the people that we would like to hire us so that they could be our constituents, and we make promises to them, and we make promises about what we are going to do, what taxes we are going to cut, what spending programs we are going to enact, what sacred cows we are going to protect.

The President is in this as much as the Congress is in this. In the last election round, everybody went out and said, yes, we can cut taxes; and they said, we can have a prescription drug program; and they said, we can increase defense spending; and we can take care of the agriculture sector of this economy and are going to increase the amount of education because we think that is important; and we are going to protect the Social Security and the Medicare Trust Funds and put those off limits. We are going to make it all work out and still have something left over to show for it.

In fact, now we know that you all are correct in saying, be very careful on using those long-term assumptions, because they may not turn out that way. What is most frustrating to me about this whole situation is the fact that the administration can go out there and make these promises and then, when they can't pay for the promises, they come back and they point their finger at Congress and they say it is Congress that has to keep a lid on the spending, when most of the spending that is being asked for is by the administration.

The President was the one who went out there on the campaign, and the President is the one who came up here to Capitol Hill and said we can have all of those programs. Now his numbers don't add up and now we are being told, well, if you use our numbers maybe it will work. But using your numbers, which, as you know, we have had many fights over whether to use CBO or not. If we use CBO as the arbiter, we see—or I can see—just barely, that if you add the President's own requests in there, the numbers don't add up.

Now, you got into some macroeconomic issues as it relates to the trust funds and the question of does it really matter if we spend the Medicare surplus or the Social Security surplus? The impression we got from Mr. Daniels today was: It really doesn't matter. It doesn't matter really at all, and the fact is we are still running these surpluses.

You made comment that it—whether there was money there or not, when one comes to the Treasury window with the bond from the Medicare Trust Fund, the HI Trust Fund, or the Social Security Trust Fund, Treasury still has to figure out a way to come up with that money and they have basically three options. I don't disagree with that one bit.

Isn't it true that it is a question as to how much outstanding debt there is that a nation has, that that has an effect on the nation's and its economy's ability to redeem that bond?

So given the fact that, rather than using the surpluses to pay down public debt, we in effect are borrowing, because we know at some point the trust funds will have to be redeemed. If we have a higher level of public debt than we otherwise would have had we paid down the debt, we are in effect borrowing.

It would appear to me, based upon your mid-session review, that is what the administrations's budget does. It is borrowing against the trust funds to spend today, whether for the tax cut or not.

I look—as I was reading this last night on the plane coming back into town, in a section entitled The Long-Term Macroeconomic Effects of the Economic Growth and Tax Relief Reconciliation Act of 2001, and I am not saying these are your words, but your department says—talks about effects on national savings.

It says, in contrast, if a tax cut was financed by increasing government borrowing to cover current spending, it goes on to talk about that, in the future, this would have a negative effect on the growth and GDP because you would have higher interest costs, higher debt costs.

Now, in the short run that may not matter, and perhaps that is what Mr. Daniels is talking about. We have a responsibility, I believe both us in the Congress as well as the executive branch, to think not just about the short run but to think about the medium term and to think about the long run as well.

So I guess my question to you is, is it really an appropriate long-run policy when we are concerned about whether or not we are going to be able to sustain that chart, let alone what reforms may be necessary to do that, that we in effect are increasing the leverage, not decreasing the leverage by borrowing to pay for current spending today?

Mr. CRIPPEN. The totality, I think, of the box you referred to in this chart and your point is—it is not so much I believe that it is going to be easier to borrow in the future because we have less public debt, and we are talking about a few percentage points of GDP one way or the other—there is certainly, we assume, a limit to how much a government can borrow, although Japan's activities make one wonder what that limit might be. Nonetheless, there is a limit. It is more important in our view that the paying down of debt, as you cited from this box, could help economic growth, and that will therefore help this picture and also help make it easier to borrow if we get to that point in the future.

What I would suggest is that what side of these lines you are on by a few billion dollars probably doesn't matter much. Our conclusion on the economic effect of the tax bill is that some pieces of it that would probably help economic growth, others might deter it and, in the net, it would have not much effect at all, in part because it is small, relative to the economy. That is, we hope and expect the economy will produce about $150 trillion of goods over the next 10 years. This tax cut is about 1 percent of that, $1.35 trillion or a bigger number if you would like; and so it is relatively small against that picture as well.

So the effects are going to be relatively minor at this point. Again, the important thing that I would emphasize is that what we need to be debating more than which side of these projections we're on or how those projections come out is rather what policies might best help economic growth. I mean, that, of course, in the short run we have the current downturn which we would like to do something about if we could, but, in the long run, it is the economy that is the trust fund for these intergenerational programs.

Mr. BENTSEN. I would hope—I don't think that either of us would agree that we would want to mimic the Japanese in their approach to macroeconomic policies or fiscal policies. At the same time, I guess I would submit to you that by borrowing today and extending debt when it is otherwise not necessary, we are—and I think you all bear this out—we are crimping the ability for sufficient long-term economic growth to support the very programs that we both agree can only be supported through faster economic growth.

Mr. CRIPPEN. Again, I would suggest that no one knows what is the optimum. One might, though, given the current economic weakness not want to pay down more debt. It just may be more contractionary than would be good for the economy now.

Similarly, there may be policies that the Congress and the government would want to or could pursue that would help economic growth as much or more than paying down debt. The object, I would suggest, at least relative to this long-term problem, is not so much debt per se, but the effects that it can have, as you suggested, on the economy and what other policies you might have as alternatives.

Spending on education, for example, might be something that would be worth doing and, indeed, a way to make good on the promises in the future of those programs by growing the economy.

Mr. BENTSEN. Thank you.

Mr. BROWN. [Presiding.] Mr. Capuano.

Mr. CAPUANO. Thank you, Mr. Chairman.

Mr. Crippen, I have got to go back to that Trust Fund. You gave three options which I agree with. It ignores the fourth option that pretty much—for all intents and purposes I look at the Social Security Trust Fund or the concept of one as just another pension system. It is a different kind of pension system.

Other pension systems are funded at some level of funding, which it is a legitimate item as to how much it should be funded. This one is not. It is funded with IOUs.

I would argue that a fourth option should be, when we can afford it again, all of the caveats that we have said before, to create an actual cash balance trust fund, knowing that, as Mr. Brown has said earlier, not saying that the cash would sit there and we debate later on where it should go, but at the same time have a cash balance trust fund that would create a fourth option, that I think for the most part most Americans, including me, number one, thought we always had and, number two, would like. That makes us more comfortable with our future and the future of our children.

So though I respect and agree with you on the three options that are currently available, I would vehemently argue that you and us together, that all of us have to start thinking about a fourth option, as to whether it is worthwhile and how do we get there and what do we do with it when we are there.

That being the case, I think that turns much of the discussion we are having right now into a different discussion, one that I think that the American people in the long run would be happier about, but that is a political discussion as well.

I also wanted to talk about the comments you made on page 34, which you just talked about, namely the economic stimulus aspect of the tax cut we just went through.

It was amazing to me during that debate how many people said it was an economic stimulus and how few people actually understood what that meant. I actually appreciate the fact that you have now said that, for all intents and purposes, it is not. It is not a bad thing. It is not going to hurt the economy. Any impact that it has is minimal at best.

That being the case, I would also agree with you that any amounts of money we have, we should—every decision that we make, other than a few basic government things, should be based on how do we grow the economy. I would strongly argue that what we just did with these 1.358, 2.2 trillion—pick the number—would have been much better used in some other fashion as to have stimulated or at least attempted to stimulate the economy through things like R&D, through things like any other numbers of things that are clear—at least clearer, I should say, to being economic stimulus.

I would hope that you—that your agency, I assume. Will continue to look at the impacts of this tax cut and tax policy in general relative to economic stimulus, because it is critically important.

Mr. CRIPPEN. Yes.

Mr. CAPUANO. I want to talk a little bit about a couple of things that are in your report that I have been very concerned with. Kind of detailed numbers, I apologize. Number one is the numbers you have in productivity and the comments you make relative to investments and the impact that it has on the productivity.

I was a little confused as to whether you thought the productivity was going in the right direction or not. My concern has been over the last year almost is that—the lack of investment in software and hardware, number one. The drawdown on inventories with no backup orders to push it is really going to push down future productivity.

You say it is going down, but are you still—I guess you said some changes were made in the last couple of weeks. Do you still feel the same way?

Mr. CRIPPEN. Yeah. We are still fairly optimistic. We lowered our trend rate of productivity by two-tenths of a percentage point since May, in large measure because we see less capital investment, as you suggested, and therefore productivity won't grow quite as quickly.

Certainly there has been an overhang, but we think that it is going to be worked off in the next year or so, if not sooner. Inventories have drawn down and stabilized. In fact, even in the current data it looks like we are having more investment in telecommunications, for example, than we have had in any year prior to 1999.

Investment is only down considerably based on the last couple of years. It is not all that comforting, but we still believe that many of the underlying changes that increased productivity over the last few years of the 1990's are going to survive and continue.

As I said in yesterday's hearing in the Senate, probably the single biggest risk to our economic forecast is whether we can continue to grow in productivity at about two and a half percent, and we believe that we can.

In the 1960's and 1970's, we saw productivity increases much greater than this. It is only the more anemic growth of the 1970's that we are now countering. It is not historically out of bounds to think that two and a half percent is possible, and given the technology we believe that it will happen.

Mr. CAPUANO. So I would—well, I am not going to argue with you. My concern is actually on the document you produced here. I think those expressed my concerns, is that the numbers are not now and have been in the last several years—are a little historically out of whack.

I am not arguing with you. I am not capable of it. Nonetheless——

Mr. CRIPPEN. That is certainly the biggest risk in our economic forecast.

Mr. CAPUANO. The only other question I had really had to do with some real detailed stuff. I was going through the monthly Treasury statements, and the last one I had is July.

Mr. CRIPPEN. That is always dangerous.

Mr. CAPUANO. It is dangerous, but it also raises some serious issues to me. The two issues that were most concerning to me, number one, is the $12.5 billion one-time income on the sale of electromagnetic spectrum that will not be repeated. Absent that, there would be no doubt from anybody that we are in deficit right this minute to a huge tune. Yours would be more than double, and even the OMB director would be hard pressed to find other gimmicks to override that. That is a one-time item that is not going to be repeated. That is of great concern to me.

Mr. CRIPPEN. In fact, may never be realized, because of court cases. But——

Mr. CAPUANO. Which is—I wonder what will happen with the accounting gimmicks once it is not realized, but that is an argument for tomorrow.

The other question I have, and I guess today is not the day, but I do want to ask you or your agency at a later time about the payments to the Social Security Trust Fund. I mean, this year they are already down just in July. Just the transfers are down almost a billion dollars.

It is of concern to me, since the revenues aren't down and the payments out aren't down, but the transfers into the Trust Fund are down. I guess I wouldn't normally be concerned, except for the accounting gimmick that we are going through right now which—I am not arguing with the gimmick. It is as good as any other gimmick. But it is a one-time gimmick that will come back to bite us next year. No one wants to talk about it, but it will, because all gimmicks do.

I am wondering and I am getting concerned that that is not a similar gimmick, that they are just not going to pay into the fund to increase this year's bottom line to make it look better than what it really is.

I am not asking you to answer that now. I am kind of giving you warning that I will be asking and hopefully you will be able to educate me and enlighten me and calm me down a little bit.

Mr. CRIPPEN. I don't know about the latter, but I will try.

Mr. BROWN. Thank you, Mr. Capuano.

Mr. Crippen, thank you very much for coming. I know this dialogue will continue for a period of time. We certainly all would like to see the economy improve. In fact, I think the stock market is even down today. We would like to see all of that come about.

I feel good about the tax cut. I have got my $600 check in my pocket. I am going to try to spend it before the week is up.

I really do believe that—I think your analogy is good. It is only going to be probably less than 1 percent of the total, you know, gross national product. So I don't see how that can cause the deficit which everybody has talked about.

So I feel very good about it. I believe the economy will be regenerated and I think those revenue, you know, expectations will be met.

I appreciate you coming and sharing your items with us today.

Mr. CRIPPEN. Thank you.

[Whereupon, at 2:15 p.m., the committee was adjourned.]

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