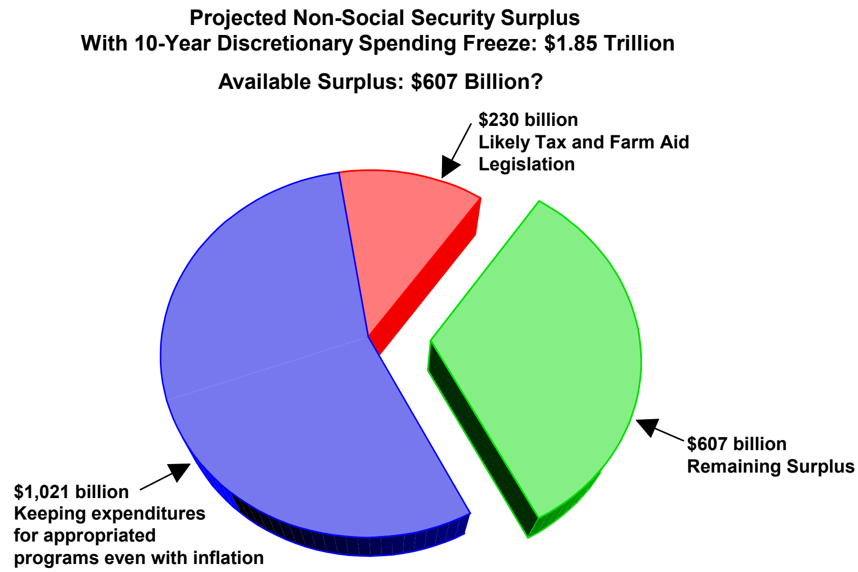
CENTER ON BUDGET AND POLICY PRIORITIES

HOW BIG IS THE NON-SOCIAL SECURITY SURPLUS?

CBO has projected surpluses under several different sets of assumptions regarding discretionary spending levels. Under the highly unrealistic assumption that discretionary spending will be frozen at the fiscal year 2000 level for the next 10 years, with no adjustment for inflation for a decade, CBO projects the non-Social Security surplus will total $1.85 trillion.

Approximately $1 trillion of that amount, however, is a mirage — it vanishes when you make the more realistic assumption that discretionary spending will be maintained at the 2000 level, adjusted for inflation, over the next 10 years. Under that assumption about discretionary spending, CBO projects the non-Social Security surplus will total $838 billion over the next 10 years. The Administration's estimate of the surplus is expected to be similar, or a little smaller than, CBO's $838 billion projection.

The Available Surplus: Not As Large As You May Think



This does not mean, however, that $838 billion will be available over the next 10 years to fund big tax cuts or large expansions in entitlement programs.

- Legislation that is virtually certain to be enacted — to continue providing additional aid to farmers, extend expiring tax credits, and keep the Alternative Minimum Tax provisions from affecting increasing numbers of middle-class taxpayers — could cost about $230 billion over 10 years.

- The remaining non-Social Security surpluses of approximately $600 billion may be depleted further by:

  -- Defense spending that grows faster than inflation. A majority in Congress and the President apparently support real growth in defense spending in coming years.

  -- Non-defense discretionary spending that grows faster than inflation. Such spending grew about 20 percent in real terms over the last decade.

  -- Economic growth that turns out to be less robust than CBO is forecasting. CBO estimates that economic growth that is just 0.1 percentage point a year slower than its projections assume would reduce the non-Social Security budget surplus by about $150 billion over the next 10 years.

In addition, before lawmakers make plans to use whatever non-Social Security surplus remains to fund big tax cuts or major entitlement expansions, they should keep in mind that a substantial portion of the surplus will almost certainly be needed to help fund plans to ensure long-term Medicare and Social Security solvency. Proposals that make benefit changes or payroll tax increases in these programs of sufficient magnitude to restore long-term solvency (without a substantial infusion of general funds) are not likely to be politically viable. For example, the Medicare reform plan put forward by Senator John Breaux and Representative Bill Thomas, which seeks to reduce Medicare expenditure growth through changes that many lawmakers do not support, closes only one-quarter of the gap between projected Medicare expenditures and anticipated revenues over the next 30 years. It appears virtually inevitable that an infusion of revenue from the non-Social Security surplus ultimately will be needed as part of a Medicare solvency package. The same holds true for Social Security.