

HOW MUCH OF THE NEW CBO SURPLUS IS AVAILABLE FOR TAX AND PROGRAM INITIATIVES?

The Congressional Budget Office today released new baseline budget projections that show non-Social Security surpluses of nearly \$2.2 trillion over the next 10 years under current policies. Although CBO's projections are somewhat more optimistic than the baseline estimates released by the Administration a few weeks ago, the points made in the Center on Budget and Policy Priorities' July 7 paper, *How Much of the Enlarged Surplus is Available for Tax and Program Initiatives? Available Funds Should be Devoted to Real National Priorities*, apply as well to the new CBO projections. Those points are:

- The surpluses that are realistically available to fund tax cuts and new program initiatives are much smaller than the projected non-Social Security surpluses; and,
- The Congress should carefully weigh various possible uses of the surplus and establish priorities before voting to use whatever amount of surpluses is available.

How Much Of the Surplus is Available For Initiatives?

CBO projects that non-Social Security surpluses will total nearly \$2.2 trillion in 2001 through 2010 if policies are unchanged and discretionary spending is maintained at the current level, adjusted for inflation. But the amount that is realistically available to fund tax cuts and program initiatives is much smaller than that.

- The House, the Senate, and the President have apparently agreed that the surpluses of the Medicare Hospital Insurance (HI) Trust Fund, as well as the surpluses of the Social Security trust funds, should be used to pay down the federal debt. According to CBO, the surpluses of the Medicare HI Trust Fund will total \$360 billion over the next 10 years. Excluding those surpluses reduces the surpluses available to pay for tax cuts and program initiatives to \$1.8 trillion.
- CBO's projections, like the Administration's, do not reflect the full cost of maintaining current policies. Assuming that current policy truly is continued — that payments to farmers that have been provided for the last three years will be continued in future years, that current tax credits will be extended instead of being allowed to expire, that the Alternative Minimum Tax will not be allowed to take a bigger and bigger bite out of the pocket of middle-income taxpayers, and that inflation-adjusted discretionary spending will increase at the rate the U.S. population grows — reduces the available surpluses by about \$600 billion, to \$1.2 trillion over 10 years.

- A substantial amount of the remaining surpluses will almost certainly be required to facilitate reforms that will ensure the long-term solvency of the Social Security and Medicare programs. The amount that will be required for this purpose depends on the willingness of Congress and the President to reduce benefits in those programs or to raise payroll taxes; given the political difficulty of such substantive reforms, the amount needed from the non-Social Security, non-Medicare surpluses to close the remaining funding gap and ensure long-term solvency is likely to be at least \$500 billion over the next 10 years. That would leave about \$700 billion in surpluses to fund tax cuts and other program initiatives. That is a substantial amount, but it is far less than the \$2.2 trillion some lawmakers may think is available.

How Much of the Projected Surpluses is Available to Fund Changes in Tax and Program Policies?	
(in trillions of dollars)	
	Fiscal Years 2001 - 2010
CBO's July 2000 baseline projection of non-Social Security surpluses	\$2.2
Minus:	
Medicare Hospital Insurance Trust Fund surpluses	-\$0.4
Amounts needed to maintain current policies	-\$0.6
Amounts likely to be needed for Social Security and Medicare reforms to achieve long-term solvency	<u>-\$0.5</u>
Remaining surpluses available to fund changes in current tax and program policies (including resulting increase in interest costs)	\$0.7

Assessing National Priorities

Whatever the amount that is available for tax and program initiatives, decisions about the best uses of this money should be made carefully and based on a vigorous debate about the needs and priorities of the nation. The emergence of large non-Social Security surpluses is a very recent phenomenon. Neither lawmakers nor the public have yet gone through a process of weighing the most appropriate uses of the surpluses and establishing priorities. Current Congressional proposals to use the surpluses seem to be more a response to short-term political currents before the fall elections — and to demands from interest groups that have been able to mobilize quickly and get to the front of the line (and in some cases, make large campaign contributions) — than the product of careful, systematic consideration of how to take advantage of the opportunity the economic boom presents to establish priorities for addressing the nation's most critical needs.