COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

Memo to: Board and Members
From: Carol Cox Wait
Date: June 30, 1999

Subject: **Mid-Session Review**
Quid Pro No Quo

We must be in a time warp. It must be summer 2000 (not 1999). Nobody in Washington seems to think that we can pass serious legislation to address serious problems. The campaign season already has begun. It seems that almost all new spending and revenue proposals must be crafted for campaign purposes—not to be written into law.

Perhaps we all should be thankful. The country cannot afford to enact these proposals.

Releasing the Mid-Session Review this week, the White House proudly announced that they anticipate Federal budget surpluses will be $1 trillion higher over the next fifteen years compared to the February Budget estimates. (See Table 1).

Long term budget projections best should be described as guestimates. Who knows what the budget surplus (or deficit) will be ten—much less fifteen years from now?

For two years, Congress and the Administration—and virtually everybody else involved in public policy debates—has been focused on the need to reform Social Security and Medicare before the baby boom generation retires. Reform, of course, must mean modifying benefit promises in existing laws to save money in future years and/or raising taxes to pay the bills. But actual legislative proposals from the Administration and Congressional leaders focus instead on *expanding benefits* and *cutting taxes*.

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The Administration's proposal for a new pharmaceutical benefit in Medicare is only the most recent of these ideas to increase the mortgage that already limits future resources to pay for anything except elderly entitlements. Earlier this year, the President proposed to create a new entitlement called "savings", i.e., USA accounts. House Ways and Means Committee leaders, Representatives Archer and Shaw followed suit with their own version of a new "savings" entitlement program. The Administration, and the Archer-Shaw proposal, actually would enrich benefits promised older Americans into the next century.

To be fair, Representatives Kolbe and Stenholm—and Senators Jeffords, Breaux and Kerrey of Nebraska—have introduced a Social Security reform proposal that would save money. But their bill would also create a new entitlement program called "savings" and their proposal would eliminate only about half the gap between projected Social Security benefit costs and dedicated receipts. Representative Thomas and Senator Breaux, in their roles as Chairmen of the Medicare Commission, fashioned a plan to reduce benefit costs and extend the life of the Medicare program. But officialdom seems even farther from consensus on Medicare reform than on real reforms in the Social Security program.

Making matters worse, the President's Budget—and the updated version of the Budget—rely on about $17 billion in new revenues (principally from higher tobacco taxes and "recoupment" of some of the proceeds to States from the tobacco settlement) and unpopular savings in programs such as Medicare. Congressional Republicans continue to push for a multi-year-multi-hundred-billion-dollar tax cut.

The President and Republican Congressional leaders are to be commended for promising to use 100% of Social Security surpluses to reduce debt held by the Public. But will that commitment continue, if Congress fails to enact the proposed "offsets" contained in the President's Budget? Or will Congress and the President dip into the Social Security surplus to ease the pressure from discretionary caps contained in the 1997 BBA, or to finance new spending initiatives, and/or to pay for tax cuts?

It appears that the Administration is using fifteen-year projections so that they can spend a lot of money now—and still talk of muti-trillion dollar surpluses. Will Congress be able to resist going down that same path?

We may be in the silly season, but the bad news is that promising new and better benefits to seniors now can only make it more difficult address the real challenges we face after the 2000 elections are over.

The really bad news is for my grandchildren. Given large budget surpluses, a healthy economy and the largest cohort ever to move through our work force at their productive height, it looks as if they may get the short straw. The odds seem very good (or very bad) that we will spend every dime on people who vote today—and leave future generations a choice between drastic cuts in elderly entitlements, huge tax increases or skyrocketing deficits and debt.

Table 1. RECEIPTS, OUTLAYS, AND SURPLUS—PENDING SOCIAL SECURITY AND MEDICARE REFORM

(Dollar amounts in billions)

	1998 Actual	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
February Budget estimate:												
Receipts	1,721.8	1,806.3	1,883.0	1,933.3	2,007.1	2,075.0	2,165.5	2,265.3	2,364.3	2,474.0	2,588.3	2,707.7
Outlays	1,652.6	1,727.1	1,765.7	1,799.2	1,820.3	1,893.0	1,957.9	2,034.0	2,081.5	2,153.5	2,234.3	2,314.7
Reserve Pending Social Security and Medicare Reform	69.2	79.3	117.3	134.1	186.7	182.0	207.6	231.3	282.8	320.5	354.0	393.1
Surplus	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Mid-Session estimate:												
Receipts	1,721.8	1,826.3	1,914.2	1,963.4	2,034.4	2,112.7	2,205.7	2,312.6	2,419.5	2,536.1	2,656.8	2,784.3
Outlays	1,652.6	1,727.5	1,771.7	1,795.2	1,814.8	1,889.9	1,952.0	2,026.1	2,076.2	2,147.4	2,229.2	2,310.9
Reserve Pending Social Security and Medicare Reform	69.2	98.8	142.5	168.2	219.6	222.8	253.6	286.5	343.3	388.7	427.6	473.3
Surplus	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum:												
Mid-Session estimates as a percent of GDP:												
Receipts	20.5	20.6	20.7	20.4	20.3	20.1	20.0	20.0	20.0	20.0	20.0	20.0
Outlays	19.7	19.5	19.2	18.7	18.1	18.0	17.7	17.6	17.2	16.9	16.8	16.6
Reserve Pending Social Security and Medicare Reform	0.8	1.1	1.5	1.7	2.2	2.1	2.3	2.5	2.8	3.1	3.2	3.4
Surplus	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source*: MID-SESSION REVIEW, BUDGET OF THE UNITED STATES GOVERNMENT, Fiscal year 2000, p. 3*