COMMITTEE ON THE BUDGET
MAJORITY CAUCUS
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The Budget and Economic Update by the Congressional Budget Office:
POTENTIAL Q&A

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Here are potential questions that may arise concerning the *The Budget and Economic Update: Fiscal Years 2002-2011* released by the Congressional Budget Office [CBO], and suggested responses.

Q. *Why are CBO's figures different from the administration's?*

A. Actually, they're very close to the same – showing continuing, large tax surpluses throughout the decade. Both also project significantly better economic growth next year than this year. Specific figures differ a little in certain years, but overall they are very close. According to one estimate, the difference in 2001 is two-tenths of 1 percent. The similarities are especially revealing considering the two agencies work with their own sets of assumptions and methodologies.

Q. *But unlike the administration, CBO says that you have already broken into the Social Security surplus for other spending. Why is that?*

A. Again, CBO uses different assumptions and methodologies, which can lead to differences of several billion dollars in certain years. But the overall, long-term figures and trends in the projections are very close to the same. [Note: final figures for 2001 will not be available until late October.]

Q. *Where did the surplus go?*

A. According to CBO, part of it ($41 billion in 2001 and $71 billion in 2002) is in the pockets and bank accounts of the working, taxpaying Americans who created the surplus. (The administration puts these figures at $40 billion in 2001, and $40 billion in 2002) But an even greater portion of it has not materialized, mainly because the economy has been much softer than expected. The soft economy has reduced the surplus by $41 billion this year, and $72 billion in 2002. (The administration estimates an impact of $46 billion in 2001 and $44 billion in 2002.)

Nevertheless, we are still running the second-largest overall surplus in history, $153 billion this year, according to CBO. In addition, the long-term numbers, through the end of the decade, are very close to what was projected last spring – and we will still have funds available to pay down the maximum amount of public debt that can be paid down over the next 10 years.

Q. *Have you broken your pledge to protect all of the Social Security and Medicare Hospital Insurance surplus?*

A. Every penny of Medicare is going to Medicare; every penny of Social Security is going to Social Security. In addition, spending on these programs is going up. Figures from CBO show the following:

- Spending on Social Security benefits was $406 billion in 2000; is $429 billion this year; and will be $453 billion next year.

- Net spending for Medicare benefits was $216 billion in 2000; is $238 billion this year; and will be $253 billion next year.

- But when the whole program overall is considered (both Part A and Part B), Medicare is in deficit, regardless of the state of the Hospital Insurance Trust Fund. Total Medicare outlays are $242 billion, while dedicated income (payroll taxes, premiums, and interest) are only $192 billion. The $50-billion shortfall is made up through general tax revenues. (The administration projects slightly higher Medicare income, and estimates this year's shortfall at $45 billion.)

The long-term solvency of Social Security and Medicare depend on sustained long-term economic growth, and comprehensive reform of these programs – not on short-term fluctuations in annual budget surpluses.

Before we took the majority in 1995, Congress never could consistently balance the budget, let alone set aside these trust funds. Protecting those surpluses only became a possibility after we got here and balanced the budget. *We have dramatically raised the standard for keeping our fiscal house in order*, and that is why we are running the second-largest overall surplus in history, *even in the midst of a soft economy*.

Q. *Does the effect on the Medicare surplus prove that the tax cut was too big?*

A. No. Most of the decline in the non-Social Security surplus results from the soft economy, not from the tax cut. When the economy begins to turn around, the surplus will rebound as well. The tax cut will give this process a needed boost.

Q. *Shouldn't Congress scale back the tax cut?*

A. Absolutely not, for several reasons.

- We've been saying for years that the taxpayers created these surpluses, and they deserve to share directly in some of the benefits. It would be unfair to take that away because of one snapshot of the budget outlook.

- Because the economy has indeed slowed down, it's good that we gave families a cushion by letting them keep more of their own money. We can trust them to make good use of their money.

- Even with the tax rebate checks, we will collect more than $2 trillion in taxes this year, and more than $26 trillion over the next 10 years. If we can't meet the Government's needs with those amounts we're in the wrong business. It just takes some reasonable spending restraint.

- The only way to repeal a tax cut is to raise taxes – and that's not going to happen on our watch. The House won't pass it, and the President won't sign it.

Q. *Do you need to develop a new budget, as Minority Leader Gephardt has suggested?*

A. Again, absolutely not. The budget is working largely as projected over the long term, even with this year's economic slowdown. We will still be able to finance the President's priorities in education, agriculture, defense, and elsewhere, and still have money left over. What we can't do is overspend. Frankly, the Minority Leader is living in the past. He still thinks he can get a tax increase by dragging the President into a budget summit. It's not necessary, and it's not going to happen.

Q. *Do these figures rule out reforming Social Security and Medicare?*

A. No. We have sought to protect those trust funds because by using that money to pay down debt faster, we would be better positioned fiscally and economically to reform these programs. But paying down a little less debt this year doesn't halt our progress – it just means we may have to move forward in smaller steps for the time being.