HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

214 O'Neill HOB ■ Washington, DC 20515 ■ 202-226-7200 ■www.house.gov/budget_democrats

March 7, 2002

Dear Democratic Colleague:

Yesterday's report by the Congressional Budget Office (CBO) shows that the President's budget spends $1.630 trillion of the Social Security Trust Fund surplus over the next ten years, $261 billion more than the Administration claimed. As with the Administration's estimates, CBO's report shows the President's policies spending Social Security money in every single year for the foreseeable future. However, CBO believes that this invasion of the Trust Fund surpluses will be worse. Sobering and disturbing as this is, it is only the beginning of the story.

As the attached analysis by the Budget Committee staff illustrates, the President's policies will lead to the exhaustion of the ***entire*** Social Security Trust Fund surplus for the next ten years — and then some. That's because the President's putative budget omits some obvious claims on the surplus and understates others.

The Administration's budget last year also ignored the true cost of its agenda — omitting any numbers at all for a defense buildup or a farm bill, claiming that Social Security and Medicare dollars could be used twice, and pretending that appropriations would decline for ten years in real terms. We are now living with the consequences of this accounting, namely deficits that eat into Social Security for as far as the eye can see.

The Congress cannot discharge its responsibilities faithfully by relying on wishful thinking, rather than straightforward and complete accounting. I encourage you to consider the attached report carefully as we begin consideration of this year's budget. If you have questions, please do not hesitate to contact me or the Budget Committee staff.

Sincerely,

John M. Spratt, Jr.
Ranking Democratic Member

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"Off-the-Books" Accounting Means the President's Budget Spends the Entire Social Security Surplus

The Administration's budget acknowledges that it spends some of the Social Security surplus, despite Republicans' promises last year that it would protect 100 percent of the Social Security surplus. Even to this day, the White House website features a quote from President Bush saying, "We're going to keep the promise of Social Security and keep the government from raiding the Social Security surplus." However, even if one takes the President's budget numbers at face value, the Administration proposes a $1.6 trillion non-Social Security deficit for 2002-11, equal to about two-thirds of the $2.5 trillion Social Security surplus over those years. The President's budget claims it does not use about $1.0 trillion of the Social Security surplus to fund government's day-to-day operations.

Unfortunately, the President's budget uses rosy projections, understates future costs, and even ignores costly elements of its own agenda. Once one takes account of these shortcomings, it becomes clear that the real Bush budget spends the ***entire*** Social Security Trust Fund surplus over the next decade and beyond.

Omissions and Gimmicks in President's Budget
Consume the Entire Social Security Surplus
Fiscal Years 2003 - 2012, Billions of Dollars (Costs Include Debt Service)

Social Security Surplus Remaining After President's Budget Policies (OMB Estimates)	1,097
Less:	
Difference with CBO Baseline, Medicare	226
Difference with CBO Baseline, Other On-Budget	92
Making Permanent All Provisions of Last Year's Tax Cut	250
Making Permanent All Other Expiring Tax Provisions	200
Comprehensive Reform of the Individual AMT	450
Relief for Medicare Providers from BBA Cuts	80
Realistic Appropriations	300
Equals:	
Social Security Surplus (+) or Deficit (-) Remaining	-501

Rosy Projections

The Administration employs much more optimistic assumptions than CBO about where the surplus is headed over the next ten years. CBO projects that the surplus outside of Social Security that is available for new initiatives is $318 billion smaller than OMB predicts. In fact, CBO believes that the non-Social Security budget over the next ten years is in deficit if no new policies are enacted, while the Administration foresees a surplus.

One might argue that both projections are subject to considerable uncertainty and that it is not clear that CBO's are preferable. However, most of the difference between the projections stems from OMB's clearly optimistic assumptions about the future course of health care costs — apart from any proposed change in current law. For example, the Administration estimates that Medicare will cost $226 billion over ten years less than does CBO.

The Administration believes that the cost of Medicare will increase at a 5.4 percent rate over the next decade, compared to CBO's 6.7 percent rate, even though both project very similar numbers of beneficiaries. Between 1960 and 1999, the cost of government health programs increased at an average of 10.3 percent per year. With the large expansion in the number of beneficiaries putting pressure on the system as the Baby Boom generation begins to retire over the next decade, the Administration's projection for the cost of health care programs appears implausibly low.

Republicans' Unacknowledged Tax Agenda

In his State of the Union address last month, the President said, "For the sake of long-term growth and to help Americans plan for the future, let's make these [last year's] tax cuts permanent." However, his budget numbers do not reflect that promise. The Administration's budget does show the cost of making permanent those provisions of last year's tax cut that expire in 2010, but the cost of extending those provisions that expire before 2010 is not included. CBO estimates that extending ***all*** of the provisions of last year's tax cut would reduce revenues by an additional $167 billion over ten years. With added debt service costs, the total impact on the surplus would be over $200 billion.

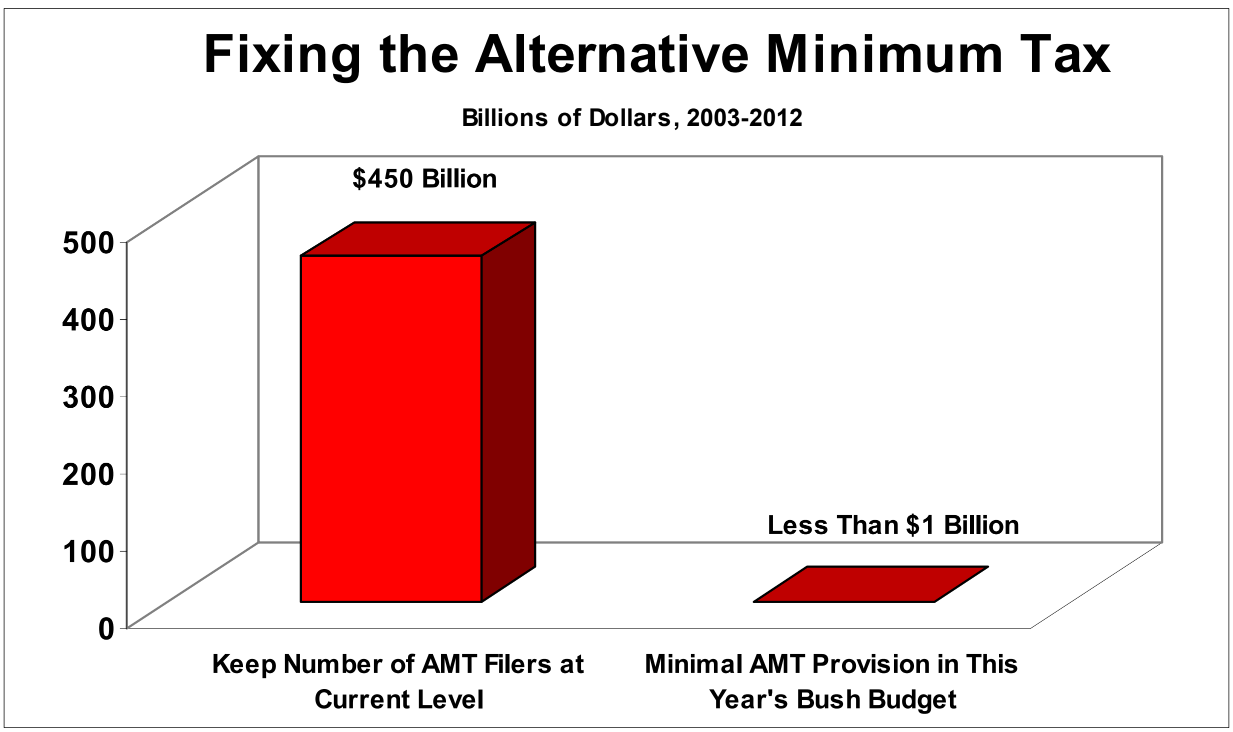
This, though, is just the beginning of the unacknowledged tax agenda. Table 3-12 in CBO's most recent budget outlook lists a number of expiring tax provisions (some of which the President's budget extends but many of which it ignores). Some popular tax benefits shown in the table that expired in 2001, like the welfare-to-work and work opportunity credits, are extended in the President's budget — but only for two years. They undoubtedly will have to be renewed again at that time, incurring additional budgetary cost. In addition, the CBO table includes quite a few other expiring tax provisions about which the President's budget is entirely silent. The total cost of making permanent all these expiring tax provisions has an impact on the ten-year budget of about another $200 billion, including debt service.

Unfortunately, the CBO table does not address one major additional tax problem — fixing the individual alternative minimum tax (AMT). Even though the Administration recognizes that the AMT will become a dreadful and growing problem over the next decade, the President offers no proposals to fix it.

On page 77 of the *Analytical Perspectives* accompanying the President's budget, the Administration states, "By 2012 the number of AMT taxpayers will be 39 million (assuming [last year's tax cut] is extended), which is 34 percent of all taxpayers with individual income tax liability." Currently, the AMT — which is intended to prevent very affluent households from avoiding taxes through shelters, credits, and deductions — affects only about 2 million tax filers. But, if nothing is done as the President proposes, more than half of all families with children, including many with moderate incomes using no tax shelters, will be subject to the AMT. Clearly, the burgeoning AMT problem will eventually prove intolerable. Fixing it, however, will be quite expensive. Official estimates do not exist for comprehensive AMT reform, but the Joint Committee on Taxation estimated that merely offsetting the interactions with last year's tax cut, which added to existing AMT problems, would reduce revenues by $127 billion over ten years. This would still leave about 20 million taxpayers subject to the AMT. The cost, including debt service costs, of a comprehensive reform of the AMT would probably reduce the ten-year surplus by about $450 billion.

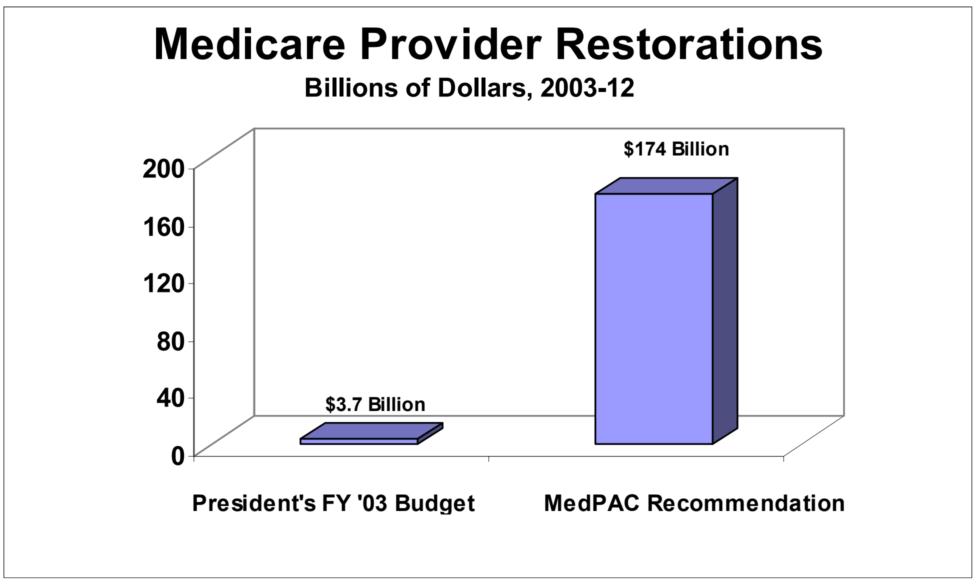
Not Providing Relief from BBA Medicare Cuts

The Balanced Budget Agreement of 1997 required cuts in payments to Medicare providers that have since come to be seen as onerous. In a February 8, 2002 letter to HHS Secretary Tommy Thompson and OMB Director Mitchell Daniels, Ways and Means Chairman Bill Thomas and Health Subcommittee Chairman Nancy Johnson noted that providing relief from these cuts could cost as much as $174 billion over ten years, according to MedPAC. However, the President's budget offers only modest relief for managed care providers and contains neither specific proposals nor new funding to help other providers like physicians or home health agencies. The Thomas-Johnson letter makes clear that the President's proposals are grossly unrealistic, and filling the gap could easily cost $100 billion over ten years.



Cutting Spending — Sometime in the Future

Like previous Republican "budgets", the President's budget this year relies on implausible cuts in ***future*** spending for non-defense, non-security programs to make the numbers look better — even while boasting about sizeable ***one-year*** increases for some highly visible programs. These implausible cuts would mean that over ten years the budget holds such spending $248 billion below the level needed to keep up with inflation. By 2012, this would amount to a 7.6 percent cut below the level needed to maintain constant purchasing power for programs for such priorities as education, the environment, scientific research, housing, economic development, and transportation. Merely maintaining such programs at the level needed to keep pace with inflation — let alone providing for the needs of a growing population and a growing economy — would reduce the surplus by about $300 billion once debt service costs were included.



Conclusion — Undermining Social Security to Fund a Fiscal House of Cards

The Enron fiasco illustrates the dangers of winking at costs you know will have to be paid at some point in the future. Yet, the President's budget ignores or understates substantial future costs. It treats putative savings from promised future actions as if they were money in the bank. The Administration's purported solution to problems caused by earlier budget chicanery is to engage in even more of the same — using budget gimmicks instead of hard numbers, pushing costs off onto the future, adding even more unaffordable tax cuts, and ignoring difficult realities. Republicans have put our finances on course for long-term budgetary insolvency.