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The Budget for Fiscal Year 2001

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Summary

On February 7, 2000, President Clinton submitted the original budget for FY2001, proposing receipts of $2,019 billion, outlays of $1,835 billion, and a surplus of $184 billion. The Administration's proposals included a multitude of large and small policy changes to both revenues and outlays were projected to preserve a substantial surplus over the 10-year budget period.

A week earlier, in January 2000, CBO released its baseline estimates for FY2001 in the *Budget and Economic Outlook: Fiscal Years 2001-2010*. It contained three budget baselines for the next 10 years. The surplus estimates for FY2001 ranged from $177 billion to $235 billion, based on different assumptions about the growth in discretionary spending.

Congress adopted the conference report on the FY2001 budget resolution (H.Con.Res. 290; H.Rept. 106-577) on April 13, 2000. The resolution set spending and revenue targets for the year, resulting in a surplus of $170 billion. It included instructions for two tax-cut reconciliation bills totaling $150 billion over 5 years. President Clinton vetoed both tax cut bills (H.R. 4810 and H.R. 8).

In the fall of 2000, Congress and President Clinton argued over the content and size of the appropriations for FY2001. On December 15, 2000, Congress reached an agreement with the President and passed the remaining appropriations (the Consolidated Appropriations Act; P.L. 106-554; H.R. 4577; H.Rept. 106-1033) for FY2001. The legislation, including tax cuts ($31.5 billion over 10 years), completed budget action in the 106th Congress for FY2001. This legislation followed a series of continuing resolutions on appropriations that funded those parts of the government not covered by regular appropriations or permanent funding during the fall. The fiscal year had begun with only two of the 13 regular appropriations enacted into law.

In 2001 the congressional budget resolution for FY2002 (H.Con.Res. 83; May 10, 2001) included a revised surplus for FY2001 of $186 billion resulting from an included proposed tax cut. The tax cut cleared Congress on May 26 (the Economic Growth and Tax Relief Reconciliation Act of 2001; P.L. 107-16; May 2001). CBO estimated that it would reduce the FY2001 surplus by $74 billion.

In August 2001, both the Administration and the Congressional Budget Office (CBO) released revised, final estimates for FY2001 within their updated FY2002 budget reports. These estimates reflected a continuing weak economy, technical changes, and the effects of the tax cut (P.L. 107-16) and other legislation, and revealed lower expected surpluses for FY2001, ranging from $153 billion to $158 billion. (In early 2001, the surplus estimates for FY2001 had risen as high as $281 billion (CBO baseline estimates, January 2001)). The September 2001 $40 billion emergency supplemental appropriation, in response to the terrorist attacks, had little effect on the FY2001 outlays. Final budget totals for FY2001, included a $127 billion surplus, $1,991 billion in receipts, and $1,864 billion in outlays. This report is designed for historical background information and will not be updated.

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Presidents generally submit their budget proposals for the upcoming fiscal year early in each calendar year. For FY2001, the Administration presented its budget on February 7, 2000. The documents contained the Clinton Administration's policy proposals and expectations for the budget not only for FY2001, but for the following five years, with some data available for 10 years. The documents also included extensive budget and budget related information and data including estimates of the budget without the proposed policy changes (current service baseline estimates), historical budget data, detailed outlay and receipt data, selected analysis of specific budget related topics, and the Administration's economic forecast. The budget documents are an annual basic reference source for federal budget information in addition to their use as a transmitter of the Administration's policy proposals.

The Administration's submission is followed by congressional action on the budget. This includes, in addition to hearings, the annual budget resolution, appropriations, and, possibly, a reconciliation bill or bills. During the months of deliberation on budget related legislation, the Administration often modifies its proposals, not only because of interactions with Congress, but because of changing circumstances in the economy and the world.

Budget Totals

Table 1 contains budget estimates for FY2001 from the Congressional Budget Office (CBO), the Administration (the Office of Management and Budget – OMB), and House and Senate budget documents. Differences in totals occur because of differing underlying economic, technical, and budget-estimating assumptions and techniques as well as differences in policy proposals. Most of the funding differences associated with *policy* differences among proposals for the upcoming fiscal year are often relatively small compared to the budget as a whole although these small changes may have large implications over time. Budget totals should be expected to change over time.

The Clinton Administration's original budget proposal for FY2001 (February 2000) had a surplus of $184 billion. President Clinton proposed reducing total spending below the current service baseline levels.[1] Receipts would increase over the FY2001 current services baseline levels.[2] The budget proposed an on-budget

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[1]As measured from the Administration's current services baseline estimates, outlays would have fallen $3.8 billion or 0.2% of total baseline outlays.

[2] Total receipts would have increased under the President's proposals by $9.1 billion over

(continued...)

surplus of $9 billion in FY2001 and a cumulative $12 billion on-budget surplus over the 5 years. The proposed cumulative on-budget surplus was $83 billion below the estimated cumulative current services baseline on-budget surplus of $95 billion. The President's proposals for using the almost $83 billion surplus over 5 years divided it among tax cuts, spending increases, and debt reduction.[3]

Congress' FY2001 budget resolution (H.Con.Res. 290; H.Rept. 106-577; April 13, 2000) was based on the "freeze" baseline in CBO's revised April budget estimates. Using these underlying projections, the conference agreement on the budget resolution had a $170 billion total surplus and a $9 billion on-budget surplus for FY2002. The 5-year cumulative on-budget surplus in the budget resolution was $356 billion below the CBO "freeze" cumulative baseline on-budget surplus The resolution used $150 billion of this difference for tax reductions (split between two reconciliation bills); much of the rest was to be used in higher spending compared to baseline spending levels.

CBO's reestimate of the Administration's proposals for FY2001 (April 2000; a preliminary report was released on March 9), differed little from the Administration's original numbers for FY2001. The reestimates put the Administration surplus at $190 billion for FY2001. The differences between the original Administration proposals and the CBO reestimates, given the size of the amounts involved, remained relatively modest over the forecast.

Both OMB's and CBO's original and revised estimates showed receipts remaining fairly stable and outlays falling as percentages of gross domestic product (GDP) in FY2001. As shares of GDP, receipts rose towards levels last seen during World War II while outlays continued a decline that began most recently in FY1992.

What to do with the non-Social Security portion of the surplus remained a focus of the budget debate. An understanding developed in the previous year that the Social Security surplus, essentially the *off-budget* surplus, would be used only for reducing the debt held by the public.[4] The House adopted two bills (H.R. 5173 and H.R. 5203) in mid-September 2000 that contained essentially the same procedural "lock-boxes" to reserve both the Social Security and Medicare surpluses for debt reduction. The remaining part of the total surplus, the on-budget surplus, was the focus of policy proposals and debates over increased spending, reduced taxes, and additional debt reduction. Any increase in spending or reduction in taxes would reduce the surplus compared to baseline levels.

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[2](...continued)
the current services baseline levels in FY2001. Over the 5- and 10-year periods shown in his budget, the proposals reduced receipts from baseline estimates.

[3] The Administration proposed using part of the on-budget surplus in FY2001 and FY2002 for what it called "Medicare solvency transfers". The proposed transfers would be $15 billion in FY2001 and $13 billion in FY2002. The result would have increased the government debt holdings of the Medicare trust funds and reserve $28 billion for reduction of federal debt held by the public.

[4]The off-budget accounts consist of Social Security and the Postal Service; Social Security makes up almost all of the amounts in the off-budget accounts.

Table 1. Budget Proposals and Estimates for FY2001

(in billions of dollars)

	Revenues	Outlays	Deficit(-)/ Surplus
Actual for FY1997	*$1,579*	*$1,601*	*$-22*
Actual for FY1998	*1,722*	*1,653*	*69*
Actual for FY1999	*1,828*	*1,703*	*124*
Actual for FY2000	*2,025*	*1,789*	*236*
CBO "Inflated" baseline estimate for 1/26/00	2,016	1,839	177
CBO "Frozen" baseline estimate for 1/26/00	2,016	1,829	188
CBO "Capped" baseline estimate for 1/26/00	2,016	1,781	235
President's budget for 2/7/00	2,019	1,835	184
President's budget, current services est. for 2/7/00	2,010	1,839	171
CBO reestimates of President's budget for 3/9/00	2,026	1,836	190
CBO "Inflated" rev. baseline estimate for 3/9/00	2,016	1,835	181
CBO "Frozen" rev. baseline estimate for 3/9/00	2,016	1,824	192
CBO "Capped" rev. baseline estimate for 3/9/00	2,016	1,777	239
House Budget Resolution for 3/24/00	2,006	1,823	183
Senate Budget Resolution for 4/7/00	2,003	1,834	169
Conference Budget Resolution for 4/13/00	2,005	1,835	170
President's MSR for 6/26/00	2,096	1,848	228 [a/]
CBO reestimates of the MSR 7/28/00	2,119	1,845	254
CBO "Inflated" Update baseline estimate for 7/18/00	2,109	1,841	268
CBO "Frozen" Update baseline estimate for 7/18/00	2,109	1,828	281
CBO "Capped" Update baseline estimate for 7/18/00	2,109	1,780	329
Clinton Administration Baseline 1/16/01	2,125	1,868	256
CBO Baseline 1/31/01	2,135	1,853	281
Bush Administration 2/28/01 & 4/9/01	2,137	1,856	281
House Budget Resolution (FY2002) 3/28/01	2,129	1,857	272
Senate Budget Resolution (FY2002) 4/6/01 [b/]	2,134	1,949	186
Conference Budget Resolution (FY2002) 5/10/01 [b/]	2,135	1,948	186
CBO Revised Baseline (FY2002) 5/2001	2,115	1,839	275
MSR (FY2002) 8/22/01	2,013	1,855	158
CBO Update (FY2002) 8/28/01	2,011	1,858	153
Actual Totals, 2/4/02	1,991	1,864	127

Note: The three CBO baseline estimates from its 2000 budget reports represent three alternative paths that discretionary spending might follow over the years covered by the estimates and projections. The "Inflated" path increases discretionary spending by the rate of inflation. The "Frozen" path keeps discretionary spending at its level in FY2000 throughout the period. The "Capped" path keeps discretionary spending within the existing statutory discretionary spending caps through FY2002 when they expire and allows it to grow at the rate of inflation thereafter.

a. The surplus reflects the $20 billion in unspecified revenue reductions or spending increases in the Administration's proposed "Reserve for America's Future". Without the reserved amounts the surplus for FY2001 would be $248 billion.

b. FY2001 outlays contain $85 billion in surplus reductions as part of $100 billion "economic stimulus" package spread over FY2001 and FY2002 as called for in the Senate passed budget resolution and in the conference report on the budget resolution for FY2002 (see H.Rept. 107-60).

MSR – OMB. Mid-Session Review

Update – CBO. Budget and Economic Outlook: An Update

The Clinton Administration revised some of its original proposals in its Mid-Session Review (MSR; June 2000). Both the size of the proposed tax cuts and spending increases were modified. The Administration also proposed a "Reserve for America's Future" of unspecified future spending increases or tax cuts that would grow from $20 billion in FY2001 to $27 billion in FY2005 before expanding to $85 billion in FY2010. The MSR also included proposed changes in budget accounting that would move the Medicare Hospital Insurance (HI) trust fund off-budget where it would join Social Security and the Postal Service. This accounting change would drop the on-budget surplus reported in the MSR from $68 billion (including the surplus of the Medicare Hospital Insurance trust fund) to $9 billion.[5]

The summer 2000 MSR (June 26, 2000) revealed continuing improvement in the budget outlook. It showed a FY2001 surplus of $228 billion and a 5-year cumulative surplus of $1,211 billion (the 5-year cumulative current service baseline surplus – the surplus without the proposed policy changes – was $1,497 billion). The MSR had an on-budget surplus of $9 billion in FY2001. If the Medicare surplus (off-budget in the MSR) is added back into the on-budget amounts (which makes them comparable to the President's original request, the congressional budget resolution, and CBO baseline estimates and forecasts) the on-budget surplus jumps to $68 billion in FY2001.

The three revised baseline estimates in the *CBO Update* (July 2000) had total surpluses ranging from $268 billion for the "inflated" baseline to $329 billion for the "capped" baseline. The CBO *on-budget* surpluses (these include the Medicare HI trust fund surpluses) ranged from $102 billion to $163 billion for FY2001.

These summer 2000 budget revisions from both OMB and CBO continued a several year-long pattern of rising budget surplus estimates in each new budget report. The better summer budget estimates and projections came from continuing, steady economic growth and larger than expected receipts rather than any substantial legislative changes.

Revised budget estimates for FY2001 were released in association with the FY2002 budget estimates, proposals, and actions beginning early in 2001. For the most part, these revised estimates showed continued improvement in the overall budget outlook for FY2001. The January and February estimates from the Administration and CBO budget documents contained a FY2001 surplus of $281 billion. Congress, in adopting the budget resolution for FY2002 (H.Con.Res. 83), included reconciliation instructions for an 11-year tax cut that would increase outlays (through an advance tax rebate) by not more than $100 billion over FYs 2001 and 2002 for "economic stimulus." The FY2002 budget resolution put the FY2001 surplus at $186 billion. The tax cut legislation became law in June 2001 (P.L. 107-

[5]The change has no effect on the total surplus. CBO stated in its *An Analysis of the President's Mid-Session Review of the Budget for Fiscal Year 2001* (July 28, 2000), "Placing the HI [Hospital Insurance] trust fund off-budget would ..., by itself, have no effect on the economy or on the resources available to meet future needs. But if lawmakers chose to adopt a goal of preserving off-budget surpluses for debt reduction, the proposed accounting change... [might enhance] the prospects for long-term economic growth." p. 4

16). Subsequent estimates from OMB and CBO measured the cost of the tax cut wholly as reduction in receipts.

Uncertainty in Budget Projections

All budget estimates and projections are inherently uncertain. Their dependence on assumptions that are themselves subject to substantial variation makes budget estimates and projections susceptible to fairly rapid and dramatic changes.

One can get a sense of this uncertainty by comparing projections for FY2000 made 5 or more years ago with the actual results. The President's budget for FY1996 came out early in 1995. CBO's Budget and Economic Outlook for fiscal years 1996 through 2000 was also released early in 1995. The Administration projected, for FY2000, a *deficit* of $194.4 billion; CBO projected a *deficit* of between $243 billion and $284 billion.[6] These 1995 projected deficits for FY2000 turned into a substantial surplus of $236 billion. The $400 billion to $500 billion turnaround in the budget balance outlook in five years may produce some wariness when contemplating policy changes based on budget estimates that extend five to 10 years into the future.

CBO made this caution more explicit in its January 2000 report. In addition to the three baselines, CBO provided an optimistic and a pessimistic scenario for each. The optimistic one assumed that the current favorable economic and budgetary conditions continue indefinitely into the future. The effect is to further boost receipts and hold down spending. The pessimistic scenario assumed that the then existing favorable conditions were temporary and that they would revert to the less favorable conditions of the 1980s and early 1990s. These assumptions slow the growth of receipts and force up federal spending. The results of these alternative forecasts were dramatic. In the optimistic scenario, surpluses double over the 10 years. In the pessimistic scenario, the expected surpluses turn into deficits by FY2003 in one of the three baselines.

The pessimistic and optimistic scenarios are not more likely to occur than one of the three baselines. But like the historical example above, they serve as a warning when one considers how to resolve the surplus issue. Surpluses can be used to reduce taxes, increase spending, or pay down the portion of the federal debt held by the public. If the surpluses are reduced through additional spending commitments or reduced taxes and these changes are combined with an economy that turns sour, the government's budget outlook deteriorates.

Budget projections are dependent on the underlying assumptions about the direction of the economy and future policy. Any deviation from the expected underlying assumptions such as faster or slower economic growth, higher or lower inflation, or changes in assumed spending and tax policy, can have substantial effects on the budget projections.

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[6] The smaller CBO deficit estimate assumed no growth in discretionary spending after FY1998 and the larger number assumed discretionary spending growing with the rate of inflation after FY1998.

Budget Action

The House Budget Committee approved its version of the FY2001 concurrent resolution on the budget (H.Con.Res. 290; H.Rept. 106-530) on March 15, 2000. The budget resolution is the congressional blueprint for subsequent budget action. The resolution provided for tax cuts of $150 billion over 5 years (FY2001-FY2005) and net spending increases compared to the CBO freeze baseline. Discretionary spending would increase less than the rate of inflation. After extended negotiations and the rejection of five alternative budget resolutions, the House passed the HBC's resolution, essentially unchanged, on March 24, 2000.

The Senate Budget Committee approved its version of the FY2001 budget resolution on March 30, 2000 (S.Con.Res. 101; S.Rept. 106-251). The Senate adopted the resolution with changes on April 7. The Senate version followed the general pattern of the resolution adopted by the House, but included higher levels of spending and differed in other aspects.

The conference committee on the budget resolution issued a report on April 12, 2000 (H.Rept. 106-577). The result modified both the House and Senate passed versions of the budget resolution. It included reconciliation instructions for a 5-year $150 billion tax cut (in two reconciliation bills) and up to $40 billion for Medicare reform and a prescription drug benefit. The conference report cleared Congress late on April 13, 2000.

In mid-summer (July 21, 2000), Congress cleared the first of two tax cut reconciliation bills as called for in the budget resolution. It was a marriage penalty relief bill, (H.R. 4810; H.Rept. 106-765; see CRS Report RL30420, *Marriage Tax Penalties: Legislative Proposals in the 106th Congress*) and would have cut taxes an estimated $14 billion in FY2001 and $84 billion over 5 years. President Clinton vetoed the legislation on August 5, 2000. Congress cleared a non-reconciliation tax cut bill (H.R. 8; H.Rept. 106-651; the Death Tax Elimination Act of 2000) on July 14. It would have reduced revenues by $8 million in FY2001 and by $28 billion over the 5 years (and by $105 billion over the 10 years). The President vetoed this bill on August 31.

The summer saw little progress on appropriations needed to fund discretionary spending in FY2001. As the new fiscal year began, only two of 13 regular appropriations had become law.[7] The first of a series of *continuing resolutions* on appropriations (CRs) was passed by Congress (H.J.Res. 109) and signed by the President (P.L. 106-275; September 29, 2000) to fund activities not already covered by an appropriation or by permanent funding. The struggle over appropriations, and other legislation, continued through the fall, with Congress adopting several of the regular appropriations but needing a series of CRs for the unfunded parts of the government into mid-December. Congress and the President reached agreement on

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[7]Appropriations, mostly for discretionary spending, account for approximately a third of total spending in the budget for FY2001. The remaining two-thirds the budget goes for mandatory spending (Social Security, Medicare, etc.), almost all of which does not need annual appropriations.

funding levels for the remaining four appropriations in mid-December. Congress adopted H.R. 4577, the Consolidated Appropriations Act of 2001, on December 15 (signed into law by the President on December 21, 2000; P.L. 106-544), which also included a modest tax cut ($31.5 billion over 10 years).[8]

In 2001, both President Bush and Congress proposed changes to the FY2001 budget in their respective budget proposals for FY2002. The Bush Administration called for fairly modest changes to spending and revenues. The conference agreement on the congressional budget resolution for FY2002 (H.Con.Res. 83) called for $100 billion in advance tax rebates (a part of the tax cut adopted in late spring 2001; see below) over the fiscal years 2001 and 2002. The 11-year tax cut bill (P.L. 107-16; the Economic Growth and Tax Relief Reconciliation Act of 2001) cleared Congress in late May 2001 and the President signed it in early June 2001. It included a rate reduction tax credit in the form of checks mailed to taxpayers during FY2001 (see the CRS Report RS20939, *The Rate Reduction Tax Credit (the "Tax Rebate") in P.L. 107-16*, by Gregg Esenwein). The legislation was estimated to reduce the surplus by approximately $74 billion in FY2001.

In early June 2001, the Administration sent Congress a request for $6.5 billion in supplemental spending for the current fiscal year. Most of the additional money was for the Department of Defense or defense-related activities. The House responded with a supplemental appropriation bill (H.R. 2216) that somewhat modified the original request, which it passed on June 20, 2001. The Senate followed by passing a supplemental appropriations (S. 1077; July 10, 2001) that differed both from the President's request and the House- passed version. A conference reported the legislation on July 19. The House and Senate passed the legislation on July 20 and the President signed it into law on July 24, 2001 (P.L. 107-20).

In response to the terror attacks on the United States on September 11, 2001, Congress and the President agreed on a $40 billion emergency supplemental appropriation (P.L. 107-38; September 18, 2001) for recovery and response. Although it was a supplemental appropriation for FY2001, the lateness in the fiscal year of its passage means that actual increase in outlays (that will reduce the surplus) will occur in FY2002.

Outlays

The original FY2001 budget proposals from the Clinton Administration (in January 2000) included relatively modest policy changes in outlays for FY2001, whether measured against the FY2000 levels or against the current service baseline estimates for FY2001. The changes would produce more substantial changes in outlays over time. The congressional budget resolution also contained relatively small policy changes to total outlays for FY2001 with larger effects from these changes occurring in future years.

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[8]See, CRS Report RS20756, *FY2001 Consolidated Appropriations Act: Reference Guide.*

In President Clinton's original budget, total outlays rose by $45 billion (2.5%) between FY2000 and FY2001. They rose by $290 billion (15.8%) from FY2001 to FY2005. CBO's reestimates of these proposals put the FY2000 to FY2001 outlay increase at $57 billion (3.2%) and the 5-year increase at $278 billion (15.1%). The Clinton Administration's Mid-Session Review (summer 2000) revisions barely changed the FY2000 to FY2001 outlay increase in dollars or percent.

The congressional budget resolution (for FY2001) would have increased total outlays by $51 billion (2.9%) from FY2000 to FY2001 (the resolution used CBO's FY2000 baseline outlay estimate, which differed slightly from OMB's). It also had total outlays rising by $250 billion (13.6%) during the FY2001 through FY2005 period.

The three baseline estimates in the CBO July 2000 Update showed outlays growing between $16 billion (0.2%) and $65 billion (3.7%) from FY2000 and FY2001. The Update baselines showed outlays growing between $155 billion (8.5%) and $243 billion (13.2%) over the 5-year period. Revised outlay numbers in January 2001, increased outlays slightly for FY2001, reflecting the legislative changes adopted during the fall of 2000.

The Bush Administration included only modest changes to FY2001 outlays, less than $5 billion, within its original budget proposals for FY2002 (February 2001). Congress, in adopting its budget resolution for FY2002 (H.Con.Res. 83), included significant outlay changes for FY2001 in order to accommodate the reconciliation instructions for a tax cut. The rate-reduction-tax-rebate part of the tax cut was designed to use outlays in FY2001 and FY2002 to send checks to taxpayers. The budget resolution showed it increasing outlays by $100 billion over the two years (this cost has since been scored against receipts, reducing receipts by a net $70 billion in FY2001).

The final official budget estimates for FY2001 from OMB and CBO were contained in their mid-year reports for FY2002, released in late August 2001. These showed total outlays for FY2001 of approximately $1,855 billion.

Table 2. Outlays for FY1999-2005

(in billions of dollars)

	FY1999 [a]	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005
CBO "Inflated" baseline 1/26/00	*$1,703.0*	$1,769	$1,839	$1,888	$1,950	$2,017	$2,093
CBO "Frozen" baseline 1/26/00		1,769	1,829	1,864	1,905	1,951	2,006
CBO "Capped" baseline 1/26/00		1,769	1,781	1,802	1,856	1,918	1,985
President's budget 2/7/00		1,790	1,835	1,895	1,963	2,041	2,126
President's current services baseline 2/7/00		1,776	1,839	1,883	1,958	2,025	2,103
CBO's reestimate of President's budget 3/9/00		1,778	1,836	1,902	1,958	2,033	2,114
CBO rev. "Inflated" baseline 4/00		1,766	1,835	1,885	1,945	2,012	2,089
CBO rev. "Frozen" baseline 4/00		1,766	1,824	1,860	1,904	1,948	2,004
CBO rev. "Capped" baseline 4/00		1,766	1,777	1,799	1,853	1,915	1,982
House budget resolution 3/24/00		1,784	1,823	1,876	1,930	1,988	2,058
Senate budget resolution 4/7/00		1,780	1,834	1,890	1,951	2,015	2,088
Congressional budget resolution 4/13/00		1,784	1,835	1,889	1,947	2,010	2,085
President's MSR 6/26/00		1,802	1,848	1,919	1,984	2,059	2,145
CBO reestimate of the MSR 7/28/00		1,788	1,845	1,924	1,979	2,057	2,140
CBO Update "Inflated" baseline 7/00		1,776	1,841	1,890	1,946	2,011	2,084
CBO Update "Frozen" baseline 7/00		1,776	1,828	1,859	1,849	1,933	1,983
CBO Update "Capped" baseline 7/00		1,776	1,780	1,797	1,844	1,902	1,964
Clinton Administration Baseline 1/16/01 [b]		*1,789*	1,868	1,933	1,994	2,057	2,145
CBO Baseline 1/31/01		—	1,853	1,923	1,984	2,056	2,137
Bush Administration *Blueprint* 2/28/01		—	1,856	1,959	2,012	2,071	2,164
House Budget Resolution (FY2002) 3/28/01		—	1,857	1,941	2,007	2,086	2,176
Senate Budget Resolution (FY2002) 4/6/01 [c/]		—	1,949	1,979	2,046	2,123	2,209
Conf. Budget Resolution (FY2002) 5/10/01 [c/]		—	1,948	1,952	2,021	2,103	2,196
CBO Revised Baseline (FY2002) 5/18/2001		—	1,839	1,922	1,985	2,054	2,133
MSR (FY2002) 8/22/01		—	1,855	1,962	2,025	2,111	2,208
MSR Baseline (FY2002) 8/22/01		—	1,855	1,949	2,011	2,084	2,172
CBO Update (FY2002) 8/28/01		—	1,858	1,958	2,024	2,106	2,194

[a] Actual outlays for FY1999.
[b] Actual outlays for FY2000.
[c] FY2001 outlays contain $85 billion in surplus reductions as part of $100 billion "economic stimulus" package spread over FY2001 and FY2002 as called for in the Senate passed budget resolution and in the conference report on the budget resolution for FY2002 (see H.Rept. 107-60)
MSR– Mid-Session Review .
Update – *The Budget and Economic Outlook: An Update.* CBO.

Baseline Discretionary Outlays

Numerous assumptions can be used to produce baseline paths for discretionary spending for FY2001. President Clinton's (and later, President Bush's) current service baseline estimates incorporated, as most have in the past, the assumption of an inflation adjustment for discretionary spending (in spite of the more restrictive existing statutory discretionary spending caps that last through FY2002). CBO, in its FY2001 estimates, used three different assumptions about discretionary spending in producing their three baseline estimates. Congress used the CBO baseline that assumed a freeze in discretionary spending when developing the congressional budget resolution.

Changing the assumptions underlying the baselines (the assumptions about the future of discretionary spending in particular were prominent) can increase or decrease the apparent effect of proposed policies when compared to the baselines. For example, the President Clinton's total discretionary spending proposals showed little difference over the 5-year period from the current services baseline estimates, a baseline that incorporated an inflation adjustment assumption for discretionary spending. If instead, the baseline assumed that discretionary spending was frozen for the 5 years (which is not a very realistic assumption), the President's discretionary proposals would have shown increases when compared to this alternative baseline.

Whatever the comparison with the current services baseline shows in the way of proposed policy changes, all broad measures of federal spending, except net interest, grow in the numbers of dollars spent from year-to-year throughout the projection period. This was true for the President Clinton's proposals as well as the congressional budget resolution.

Receipts

The February 2000 Clinton Administration proposal requested gross tax relief (including refundable tax credits) of $101.7 billion over 5 years (FY2001 through FY2005). The budget also included a proposed $47.2 billion in net increases from "eliminat[ing] unwarranted benefits and adopt[ing] other revenue measures." Combining the two produced an Administration-claimed net tax cut of $54.6 billion for the FY2001 through FY2005 period. However, the budget included another $44.2 billion in net receipt increases made up of both increases and decreases to receipts that the Administration called "Other provisions that affect receipts." The major component of this increase was a proposed $31.2 billion increase in tobacco related excise taxes and a levy on youth smoking. The overall net impact of the proposed policy changes on receipts over the 5-year period was a $10.4 billion reduction in receipts. The MSR in the summer of 2000, although making some changes to these numbers, ended with a similar sized mix of increases and decreases in receipts and a relatively small net tax reduction over the 5 years.

Over the 10-year period (FY2001 through FY2010), the Administration's original proposal called for a $351 billion gross tax cuts (including refundable tax credits) and $96 billion in net increases for a net tax cut of $256 billion. The "Other provisions that affect receipts" netted an $85 billion increase ($66 billion from increased tobacco related receipts). The overall effect on receipts of the original proposals was a $171 billion reduction for the ten period. The 10-year tax reduction in the summer 2000 MSR was approximately $7 billion larger ($178 billion) than in the original budget.

The budget resolution adopted by Congress included reconciliation instructions for "two bills that reduce revenue by a total of $11.6 billion for FY2001 and $150 billion for the period for FY2001 through FY2005."[9] The bills, adopted by Congress, were vetoed by the President.

Table 3. Receipts for FY1999-2005
(in billions of dollars)

	FY1999 [a]	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005
CBO baseline 1/26/00 [b]	*$1,827.5*	$1,945	$2,016	$2,096	$2,177	$2,263	$2,361
President's budget 2/7/00		1,956	2,019	2,081	2,148	2,236	2,341
President's current services 2/7/00		1,956	2,010	2,080	2,151	2,238	2,350
CBO's reestimate of President's Budget 3/9/00		1,946	2,026	2,097	2,171	2,262	2,352
House budget resolution 3/24/00		1,945	2,006	2,074	2,146	2,221	2,316
Senate budget resolution 4/7/00		1,944	2,003	2,072	2,147	2,226	2,319
Congressional budget resolution 4/13/00		1,945	2,005	2,073	2,146	2,223	2,317
President's MSR 6/26/00		2,013	2,096	2,168	2,245	2,339	2,440
President's MSR baseline 6/26/00		2,014	2,087	2,167	2,249	2,344	2,452
CBO reestimate of the MSR 7/28/00		2,008	2,119	2,203	2,285	2,379	2,477
CBO Update 7/18/00 [b]		2,008	2,109	2,202	2,290	2,380	2,486
Clinton Administration Baseline 1/16/01 [c]		*2,025*	2,125	2,210	2,301	2,401	2,525
CBO Baseline 1/31/01		—	2,135	2,236	2,343	2,453	2,570
Bush Administration *Blueprint* 2/28/01		—	2,137	2,190	2,258	2,339	2,436
House Budget Resolution (FY2002) 3/28/01		—	2,129	2,168	2,260	2,344	2,437
Senate Budget Resolution (FY2002) 4/6/01		—	2,134	2,177	2,284	2,380	2,474
Conf. Budget Resolution (FY2002) 5/10/01		—	2,135	2,171	2,267	2,369	2,473
CBO Revised Baseline (FY2002) 5/18/2001		—	2,115	2,226	2,338	2,453	2,570
MSR (FY2002) 8/22/01		—	2,013	2,135	2,220	2,328	2,463
MSR Baseline (FY2002) 8/22/01		—	2,013	2,135	2,221	2,333	2,476
CBO Update (FY2002) 8/28/01		—	2,011	2,134	2,196	2,307	2,438

[a] Actual receipts for FY1999.
[b] All three CBO baseline alternatives have the same receipt estimates and projections throughout the period.
[c] Actual receipts for FY2000.
MSR – Mid-Session Review
Update – Budget and economic Outlook: an Update
Note: The revenue estimates and projections did not change in the April 2000 revisions from CBO.

Combining the proposed changes to receipts and the normal growth experienced by receipts, the Clinton Administration's February 2000 budget showed receipts increasing by $63 billion (3.2%) between FY2000 and FY2001. CBO's April 2000 reestimates of the President's proposals put the receipt increase at $80 billion (4.1%). The congressional budget resolution had a year-over-year increase of $60 billion (3.1%). The June 2000 MSR raised the increase to $83 billion (4.1%) from FY2000 to FY2001. The CBO July 2000 Update of baseline estimates showed a $101 billion

[9] *Conference Report on the Concurrent Resolution on the Budget for Fiscal Year 2001*, H.Rept. 106-577, page 66.

(5.0%) increase in receipts between FY2000 and FY2001. Much of these later receipt increases resulted from changes in underlying factors and assumptions rather than any proposed or adopted policy changes.

Revised receipt estimates for FY2001, in the first half of 2001 (in the FY2002 budget reports), showed receipts continuing to grow in response to expectations of improving economic conditions. The estimates and proposals from OMB, CBO, and the congressional budget resolution for FY2002, all showed increases in the estimated size of receipts for FY2001. Even the tax cuts proposed by the Administration (which, under its proposal, would not have begun until FY2002) and as proposed in the conference report on the FY2002 congressional budget resolution would not reduce FY2001 receipts.

The cost of the proposed advance tax rebates fell on outlays in the FY2002 budget resolution proposal for the 11-year tax cut. Subsequent measures of the effect of the change produced after the adoption of the tax cut legislation (P.L. 107-16), have shown this cost as a reduction in receipts. The August 2001 mid-year reports from OMB and CBO estimated this receipt reduction to be between $35 billion and $37 billion. Another $33 billion in FY2001 receipt reductions result from the requirement in the tax legislation to shift the final corporate tax payment from the last quarter of FY2001 to the first quarter of FY2002. The mid-year reports also reflected the effect of the weakened economy and changes in technical aspects of the estimates by reducing receipts between $34 billion (CBO) and $56 (OMB) billion from earlier estimates. These estimates show total receipts actually falling from FY2000 to FY2001.

Surpluses

Surpluses or deficits are the residuals left after Congress and the President determine the level of federal spending and receipts. Reducing the deficit and eventually reaching a balanced budget or generating and keeping a surplus (the government had the first surplus in almost 30 years in FY1998) has been a major focus of the budget debate for over a decade.

The Clinton Administration's February 2000 budget proposed a surplus of $184 billion for FY2001 and projected growing surpluses for each of the following years in the forecast. A surplus in FY2001 would be the fourth year in a row with a surplus. CBO's reestimate of the President's proposals (April 2000) put the FY2001 surplus at $190 billion. The congressional budget resolution for FY2001 (April 2000) contained a $170 billion surplus for FY2001. The OMB MSR (June 2000) raised the surplus to $228 billion for FY2001. CBO's reestimate of the MSR's numbers (July 2000) put the FY2001 surplus at $254 billion. CBO's baseline estimates in its *Update* (July 2000) raised the FY2001 surplus to between $268 billion and $329 billion, depending on which of the three baselines was used. The January 2001 baseline revisions put the FY2001 surplus at $256 billion (OMB) and $281 billion (CBO). The Bush Administration's budget included a surplus of $281 billion for FY2001.

Table 4. Surpluses for FY1999-FY2005

(in billions of dollars)

	FY1999[a]	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005
CBO "Inflated" baseline 1/26/00	$124	$176	$177	$209	$227	$246	$268
CBO "Frozen" baseline 1/26/00		176	188	232	271	312	355
CBO "Capped" baseline 1/26/00		176	235	294	321	345	376
President's budget 2/7/00		167	184	186	185	195	215
President's current services 2/7/00		180	171	197	193	213	247
CBO's reestimate of President's. Budget 3/9/00		168	190	196	213	228	238
CBO "Inflated" revised 4/00		179	181	212	231	250	273
CBO "Frozen" revised 4/00		179	192	237	273	315	358
CBO "Capped" revised 4/00		179	239	297	324	348	379
House budget resolution 3/24/00		161	183	198	215	231	257
Senate budget resolution 4/7/00		164	169	182	196	211	231
Congressional budget res. 4/13/00		161	170	184	198	212	232
President's MSR 6/26/00		211	228	224	236	255	268
President's MSR baseline 6/26/00		224	239	279	295	324	360
CBO reestimate of the MSR 7/28/00		221	254	254	280	296	309
CBO Update "Inflated" 7/18/00		232	268	312	345	369	402
CBO Update "Frozen" 7/18/00		232	281	344	397	447	503
CBO Update "Capped" 7/18/00		232	329	405	446	478	522
Clinton Administration Baseline 1/16/01 [b]		*236*	256	277	307	343	380
CBO Baseline 1/31/01		—	281	313	359	397	433
Bush Administration 2/28/01 & 4/9/01		—	281	231	246	268	273
House Budget Resolution (FY2002) 3/28/01		—	272	227	253	259	261
Senate Budget Resolution (FY2002) 4/6/01		—	186	198	238	257	265
Conf. Budget Resolution (FY2002) 5/10/01		—	186	219	247	266	277
CBO Revised Baseline (FY2002) 5/18/2001		—	275	304	353	400	437
MSR (FY2002) 8/22/01		—	158	173	195	217	254
MSR Baseline (FY2002) 8/22/01		—	158	187	210	250	304
CBO Update (FY2002) 8/28/01		—	153	176	172	201	244

[a] Actual surplus for FY1999.
[b] Actual surplus for FY2000

In the conference report on the FY2002 budget resolution (H.Con.Res. 83; May 3, 2001), the surplus for FY2001 began shrinking instead of growing. The conference report reduced the expected surplus to $186 billion for the year because of its proposals for a tax cut and higher spending. The 2001 mid-year budget reports from OMB and CBO showed further drops in the estimated surplus for the year, with OMB putting it at $158 billion and CBO estimating it to be $153 billion. The combination of the tax cut, the weakening economy, and technical estimating changes produced the ongoing surplus reductions. CBO's September 2001 *Monthly Budget Review* reduced the estimated surplus for FY2001 even further, to approximately $121 billion for FY2001. The negative effect on the budget of deteriorating economic conditions on receipts produced much of the decline in the surplus.

What to do with the surplus remained one focus of the budget debates in 2000 as it had in 1999. Surpluses can be deliberately used up by increasing spending or decreasing receipts. If unused, they would reduce the debt held by the public.[10] The Clinton Administration and the FY2001 congressional budget resolution included combinations of spending increases, tax cuts, and debt reduction, although in different amounts and with different mixes. The policy proposals would reduce the surplus from baseline levels, reducing the amount of surplus available for reducing federal debt held by the public.

An agreement that budget debate participants reached in 1999 was meant to reserve surpluses from the Social Security accounts, essentially the *off-budget* surplus, for debt reduction. This left the *on-budget* surplus as the focus of efforts to adopt either spending increases or tax cuts or to do neither and use it for additional debt reduction. (Reserving the off-budget surplus means that at least that part of the surplus would be used to reduce the publicly held debt.) Any unused on-budget surplus would contribute to debt reduction. To further limit the on-budget surplus available for use (and to "protect" Medicare), the Administration in the June 2000 MSR proposed taking the Medicare Hospital Insurance trust fund off-budget. This would have had the effect of dropping the FY2001 on-budget surplus from $69 billion to $9 billion. Table 5 shows estimates and projections of cumulative on-budget surpluses for FY2001- FY2005 and for FY2001-FY2010.

The President's proposals and the congressional budget resolution both would have reserved the bulk of the surplus, consisting of the off-budget portion of the surplus (at least in the first 5 years), for reducing the debt. Most of the on-budget surplus would be used for additional spending and tax cuts, with some left for additional debt reduction. President Clinton's budget indicated that, under its proposals, federal debt held by the public could be eliminated by 2013 (the 2000 MSR moved this result to 2012). All of CBO's baselines with their generally larger surpluses than the Clinton Administration proposals would retire all the maturing debt held by the public by at least FY2009 (some longer-term debt will not yet have matured by then and will continue to be held by the public). The estimates in 2001, with the much larger expected surpluses, showed the government retiring most of its debt held by the public early in the second half of the decade.

[10] Unless the surpluses are used for increased spending or decreased receipts (tax cuts) they will be used by the Treasury, pretty much automatically, to reduce federal debt held by the public. The Treasury can, and has, taken a more active role in retiring debt held by the public by purchasing securities on the market and retiring some callable federal debt. The Treasury could also hold the surplus cash and build up government cash balances, but this would make little sense.

Table 5. Projected Cumulative On-Budget Surpluses; FY2001-2005 and FY2001-2010
(in billions of dollars)

	FY2001-FY2005	FY2001-FY2010
CBO "Inflated" baseline 1/26/00	$148	$837
CBO "Frozen" baseline 1/26/00	379	1,859
CBO "Capped" baseline 1/26/00	594	1,919
President's budget 2/7/00	41	350
President's current services 2/7/00	95	745
CBO's reestimate of President's Budget 3/9/00	90	423
CBO revised "Inflated" baseline 4/00	171	893
CBO revised "Frozen" baseline 4/00	396	1,891
CBO revised "Capped" baseline 4/00	610	1,948
House budget resolution 3/24/00	93.3	—
Senate budget resolution 4/7/00	12.1	—
Congressional budget resolution 4/13/00	39.8	—
President's MSR 6/26/00	27	49
CBO reestimate of the MSR 7/28/00	172	407
President's MSR 6/26/00 [a]	*254*	*594*
CBO reestimate of the MSR 7/28/00 [a]	*395*	*863*
President's MSR baseline 6/26/00	360	1,470
President's MSR baseline 6/26/00 [a]	*539*	*1,873*
CBO Update "Inflated" baseline 7/18/00	695	2,173
CBO Update "Frozen" baseline 7/18/00	969	3,349
CBO Update "Capped" baseline 7/18/00	1,179	3,387
Clinton Administration Baseline 1/16/01	549	2,066
CBO Baseline 1/31/01	846	2,688
Bush Administration 2/28/01 & 4/9/01	317	782
House Budget Resolution (FY2002) 3/28/01	333	713
Senate Budget Resolution (FY2002) 4/6/01	207	643
Conf. Budget Resolution (FY2002) 5/10/01	257	743
CBO Revised Baseline (FY2002) 5/18/2001	829	2,707
MSR (FY2002) 8/22/01	32	418
MSR Baseline (FY2002) 8/22/01	145	948
CBO Update (FY2002) 8/28/01	-7	555

[a] Assumes Medicare remains on-budget.

Recent Surplus/Deficit History

The large deficits of the early 1990s dropped substantially and turned into surpluses by the end of the 1990s. After climbing to over $200 billion in FY1990 through FY1994, with a peak of $290 billion in FY1992, the deficit fell to $107 billion in FY1996 and to $22 billion in FY1997. The government had a total surplus of $69 billion in FY1998, its first in almost 30 years.

As a percentage of GDP, the *deficit* fell from its 1990s peak of 4.9% in FY1992 to 1.4% in FY1996 and 0.3% of GDP in FY1997. The *surplus* in FY1998 was 0.8%

of GDP and 1.4% of GDP in FY1999.[11] CBO's January 2001 baseline expected the total surplus to reach 2.7% of GDP in FY2001. (The conference report on the budget resolution for FY2002 would drop this to 1.8% of GDP.) The summer 2001 budget reports have dropped this further, to an estimated 1.5% of GDP in CBO's *Update*. The actual surplus for the year was 1.3% of GDP.

A portion of the deficit reduction in the latter 1990s resulted from the many and varied policy changes, in particular, the decreases in defense and net interest spending that was adopted or occurred since the early 1990s. The constraints on non-discretionary spending added to the deficit reductions. A substantial portion of the changes resulted from steady, strong economic growth that resulted in substantially higher revenues than forecast.

The surplus as currently defined is measured by the difference between total federal receipts and total federal outlays. It represents the "extra" money the government collects from the public over what the government spends on the public.

The Budget and the Economy

The budget and the economy affect each other. The relationship is an unequal one, with the economy shoving and pushing around the budget with every economic twinge while even relatively large changes in the budget, as measured by policy-induced changes in the size of the deficit or surplus, may bounce off the economy with little consequence. This imbalance became obvious in the second half of 2001 as the continuing weakness in the economy persistently reduced the size of subsequent surplus estimates. The Clinton Administration's originally proposed change in the government's budget balance for FY2001 was very small when measured against its current service baseline estimate. The economy, at over an expected $10 trillion in 2001, is just too large to be measurably affected by the less than $15 billion in originally proposed policy changes for FY2001.

Since a large part of the improvement in the budget situation since the early 1990s resulted from strong and sustained economic growth, one should remain aware that what the economy gives (growing surpluses) it can also take away (which it seems to have begun to do, at least in the short-term). A sustained recession or slower than expected economic growth (which has happened) or a deterioration in other economic variables may disrupt, at least for a time, the expectations of continued budget improvement. CBO's budget report, *The Budget and economic Outlook: Fiscal Years 2001-2010* (January 2000) in its chapter on *The Uncertainties of Budget Projections*, states that, "...considerable uncertainty surrounds ...[budget] projections for two reasons. First, the U.S. economy and the federal budget are highly complex and are affected by many economic and technical factors that are difficult to predict. Second, future legislation is likely to alter the paths of federal spending and revenues. As a result, actual budgetary outcomes will almost certainly differ from the Congressional Budget Office's baseline projections." (p.97).

[11] The deficit reached 6.3% of GDP in FY1983, a post-World War II peak as a percentage of GDP.

To further illustrate the power of changing the underlying assumptions (both economic and budget) to change the budget outcome, CBO produces an optimistic and pessimistic alternative scenario for its baseline projections (see Table 6). The optimistic scenario assumes that the good economic and budget conditions of the last few years continue indefinitely into the future. The pessimistic scenario assumes that the recent favorable conditions have been an anomaly and the economy and the budget revert to the conditions that prevailed in the 1980s and early 1990s. Under the optimistic scenario, the surpluses accumulate over the 10-year period (FY2001-2010) to $7.672 trillion (based on revised CBO estimates from January 2001). Under the pessimistic scenarios, the surpluses are much smaller, accumulating to $1.761 trillion over the10 years.

Table 6. CBO's Alternative Scenarios, Cumulative Surpluses; FY2001-2005 and FY2001-2010

(in billions of dollars)

	FY2001-FY2005	FY2001-FY2010
CBO Optimistic Scenario 1/31/01	$2,440	$7,672
CBO Pessimistic Scenario 1/31/01	1,025	1,762

Source: CBO, *The Budget and Economic Outlook: Fiscal Years 1992-2011*, Jan. 2001.

Tables in the Clinton and Bush Administrations' original budget documents for FY2001 and FY2002 (February 2000 and April 2001) and in the CBO *Budget and Economic Outlook* reports (January 2000 and January 2001) present the general effect of economic changes on the budget. The tables contain estimates that show that changes in economic growth produce the most significant effect on the budget. Lower growth increases federal spending from those programs that respond to higher joblessness and earlier retirements and the other events that follow an economic downturn. Lower growth decreases federal receipts as those losing their jobs pay lower taxes and business profits turn down, also resulting in lower tax receipts. Other information in these tables indicates the effects of higher or lower unemployment, higher or lower interest rates, and higher or lower inflation rates.