Tax Bill Comparison of Education and Marriage Penalty

(X indicates that the provision is included in the bill)

Provisions	House Passed	House Democrats	Senate Finance	Senate Democrats	Administration
Marriage Penalty Relief:					
Allow married couples to file as two singles.			X		
Adjust EITC income starting and ending points.		X*	X		
Adjust the standard deduction for married couples to twice that of a single taxpayer.	X	X*		X	
Adjust student loan interest deduction income limits.	X				
Increase Roth IRA conversion income limit.	X				
Provide tax credit on earnings of the second spouse.				X	
Education Tax Relief:					
Expand education savings accounts.	X				
Increase student loan interest deduction.			X		
Modify taxation of pre-paid tuition plans.	X		X		
Modify taxation of education awards for certain Federal programs.	X		X		X
Extend/modify exclusion for employer-provided educational assistance.		X	X	X	X
Liberalize tax-exempt bond arbitrage rebate exceptions for public school construction bonds.	X		X		
Allow issuance of tax-exempt private activity bonds for qualified educational facilities/volume cap of $10 per resident or $5 million.			X		
Allow Federal Home Loan bank to guarantee school construction bonds, capped at $500 million per year.			X		
Provisions	**House Passed**	**House Democrats**	**Senate Finance**	**Senate Democrats**	**Administration**
Provide new 4-year schedule for public school construction bonds under the arbitrage rebate rules.	X				

Provide incentives for the donation of computers to schools.				X	
Provide free-of-interest-cost funds for public school construction and modernization.		X*		X	X
Provide tax credit for workplace literacy and basic education programs.					X
Encourage sponsorship of qualified zone academies.					X
Eliminate tax when forgiving student loans subject to income contingent repayment.					X
Eliminate 60-month limit on student loan interest deduction.					X

*These provisions do not go into effect unless there is (1) a Social Security certification, (2) a Medicare certification, and (3) a balanced budget certification.

Tax Bill Comparison of Education and Marriage Penalty

(X indicates that the provision is included in the bill)

Provisions	House Passed	House Democrats	Senate Finance	Senate Democrats	Administration
Marriage Penalty Relief:					
Allow married couples to file as two singles.			X		
Adjust EITC income starting and ending points.		X*	X		
Adjust the standard deduction for married couples to twice that of a single taxpayer.	X	X*		X	
Adjust student loan interest deduction income limits.	X				
Increase Roth IRA conversion income limit.	X				
Provide tax credit on earnings of the second spouse.				X	
Education Tax Relief:					
Expand education savings accounts.	X				
Increase student loan interest deduction.			X		
Modify taxation of pre-paid tuition plans.	X		X		
Modify taxation of education awards for certain Federal programs.	X		X		X
Extend/modify exclusion for employer-provided educational assistance.		X	X	X	X
Liberalize tax-exempt bond arbitrage rebate exceptions for public school construction bonds.	X		X		
Allow issuance of tax-exempt private activity bonds for qualified educational facilities/volume cap of $10 per resident or $5 million.			X		
Allow Federal Home Loan bank to guarantee school construction bonds, capped at $500 million per year.			X		
Provisions	**House Passed**	**House Democrats**	**Senate Finance**	**Senate Democrats**	**Administration**
Provide new 4-year schedule for public school construction bonds under the arbitrage rebate rules.	X				

Provide incentives for the donation of computers to schools.				X	
Provide free-of-interest-cost funds for public school construction and modernization.		X*		X	X
Provide tax credit for workplace literacy and basic education programs.					X
Encourage sponsorship of qualified zone academies.					X
Eliminate tax when forgiving student loans subject to income contingent repayment.					X
Eliminate 60-month limit on student loan interest deduction.					X

*These provisions do not go into effect unless there is (1) a Social Security certification, (2) a Medicare certification, and (3) a balanced budget certification.

Major Provisions of Senate and Administration Tax Plans (with 10-years costs according to the Joint Committee on Taxation, unless otherwise noted)		
	Senate Republican (Committee-reported)	**Administration**
Income Taxes	Reduce bottom 15% income tax rate to 14% in 2001; and increase the width of the 14% bracket by $2,000 ($4,000 for joint returns) beginning in 2005, and by $2,500 ($5,000 for joint returns) beginning in 2007. **$297.5 billion.**	No provision.
Savings and Retirement	Raise contribution limits for individual retirement accounts from $2,000 to $5,000; raise income limits for contributors; eliminate the income limitation for contributions to a Roth IRA; increase maximum contribution limits for IRAs and other pension plans for individuals age 50 and older by 10% annually beginning in 2001, not to exceed 50%; and many smaller changes. **$69.5 billion.**	Universal Savings Accounts (USAs) with an automatic government contribution to lower and middle income individuals' accounts. Those who contribute on their own would be provided with additional matching funds. In addition, $2.4 billion in other provisions to promote expanded retirement savings, security and portability. **$250 billion** Treasury for USAs **+$2.4 billion** JCT for other pension
Marriage Penalty	Allow married couples to file returns as singles on a combined form; and adjust the income starting and ending point for the earned income credit for married couples filing joint returns by $2,000 indexed after 2005. **$117.7 billion.**	No provision.
Alternative Minimum Tax	Make permanent the present-law provision to allow nonrefundable personal credits fully; and allow personal exemption against the AMT. **$96.1 billion.**	Allow individuals, for taxable years 1999 and 2000, to offset their regular tax liability by nonrefundable tax credits regardless of the amount of the individual's tentative minimum tax. **$1.7 billion.**
Estate Tax	Raise exemption to $1.5 million beginning in 2007; repeal rates above 50%; and other, smaller changes. **$62.6 billion.**	No provision.
Health Care	Provide an above-the-line deduction for health insurance expenses for which the taxpayer pays at least 50% of the premium, phased in through 2006; provide an above-the-line deduction for long-term care insurance expenses for which the taxpayer pays at least 50% of the premium, phased in through 2006; and smaller provisions. **$52.2 billion.**	Provide tax relief for long-term care needs; provide tax relief for workers with disabilities; and provide tax relief to encourage small business health plans. **$16.5 billion.**

International	Allocation interest expense on worldwide basis; repeal the 90% limit on Foreign Tax Credits for the individual and corporate Alternative Minimum Tax; and other, smaller provisions. **$16.5 billion.**	Extend and modify Puerto Rico economic-activity tax credit; extend GSP and modify other trade provisions; and expand Virgin Island tariff credits. **$6.4 billion** JCT for Puerto Rico **+$1.6 billion** Treasury for other trade
Child Care	Increase percentage to 50% for AGI under $30,000 and index maximum expense limits for inflation; percentage phases down in 1% increments for each $1,000 of AGI over $30,000 (percentage does not go below 20%); Tax Credit for Employer-Provided Child Care Facilities (maximum $150,000) **$7.5 billion.**	Expand the dependent care credit; and tax credit for employer-provided child care facilities. **$13.9 billion.**
Education	Permanent extension of employer provided educational assistance; student loan interest deduction - increase student loan deduction income limits, repeal 60-month rule for everyone; prepaid savings plans; increase the school construction small issue arbitrage rebate exception school construction from $10 million to $15 million; provide for issuance of tax-exempt private activity bonds for qualified education facilities with annual volume cap the greater of $10 per resident or $5 million; and other provisions. **$12.2 billion.**	Provide incentives for public school construction and modernization; extend employer-provided educational assistance and include graduate education; provide tax credit for workplace literacy and basic education programs; encourage sponsorship of qualified zone academies; eliminate 60-month limit on student loan interest deduction; eliminate tax when forgiving student loans subject to income contingent repayment; and provide tax relief for participants in certain Federal education programs. **$10.9 billion.**
Tax-Exempt Organizations	Increase income limits for deduction of charitable donations; tax-free withdrawals from IRAs for charitable donations after age 70.5; allow private foundations to increase their holding in publicly-traded voting stock of a corporation received by bequest; allow taxpayers who do not itemize to deduct up to $50 ($100 joint) of their charitable contributions in addition to their standard deduction for 2000; and smaller provisions. **$9.7 billion.**	No provision.
Revitalizing Communities, Housing and Real Estate	Increase low-income housing per capita amount; provide a 15-year recovery period for depreciation of leasehold improvements; tax credit for renovating historic homes; accelerate 5- year phase in of private activity bond volume cap; and other, smaller provisions. **$7.5 billion.**	Increase low-income housing tax credit per capita cap; Provide Better America Bonds to improve the environment; Provide New Markets Tax Credit; Expand tax incentives for Specialized Small Business Investment Companies (SSBICs); and extend wage credit for two new Enterprise Zones. **$9.3 billion.**

Energy Efficiency and the Environment	Extend and modify tax credit for electricity produced from wind and closed-loop biomass facilities. **$1.6 billion.**	Provide tax credit for energy-efficient building equipment; provide tax credit for new energy-efficient homes; extend electric vehicle tax credit; provide tax credit for fuel-efficient vehicles; provide investment tax credit for CHP systems; provide tax credit for rooftop solar systems; and extend wind and biomass tax credit and expand eligible biomass sources. **$7.3 billion.**
Small Business	Accelerate 100% deduction for health insurance of self-employed individuals; increase section 179 expensing to $30,000; accelerate repeal of the FUTA surtax; coordinate Farmer Income Averaging and the AMT; and create new Farm and Ranch Risk Management ("FARRM") accounts. **$6.3 billion.**	No provision.
Other Extenders	Extend work opportunity tax credit; extend welfare-to-work tax credit; make permanent R&E tax credit; extend and expand expensing of brownfields remediation costs; extend exception from Subpart F for active financing income; make permanent Alaska Exemption from Diesel Fuel and Kerosene Dyeing Rules; other, smaller provisions. **$36.7 billion.**	Extend work opportunity tax credit; extend welfare-to-work tax credit; extend R&E tax credit; make permanent the expensing of brownfields remediation costs; and extend tax credit for first-time DC homebuyers. **$3.7 billion.**

THE WHITE HOUSE
WASHINGTON

Memo

Wk.
1994 ~~Tax~~

House: distribution of benefits
Hastert. skewed to top 10%

out of Com - Senate
792 billion.
floor debate.

AH. → under 300.

Radio address

THE ~~WHITE~~ HOUSE
WASHINGTON

1. Most imp, resp. tax cut
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1. does threaten our
ability to do.
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Range of Pres & H/S

These are in a range
that allows

250 us
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295 Sen.
tight disc. spending.

Some House Dem - passed 295

THE WHITE HOUSE
WASHINGTON

take care of famit

Imp that there be targeted to most well off.

when fam not well off struggle to make things meet

all 3 Pres & Dem plan

Rep dont

** Each plans have good ideas

3. Pres idea of program imp.

savings for 70/80 mil

401 K or IRA to

help more av fam -

real wealth creating

7% of tax benefit - under 50,000

alt that incl. best ideas of Dem plans - USA accounts.

Melissa G. Green
07/27/99 04:28:21 PM

Record Type: Record

To: Nicole R. Rabner/WHO/EOP@EOP

cc:
Subject: Breaux Plan Details

--------------------- Forwarded by Melissa G. Green/OPD/EOP on 07/27/99 04:27 PM ---------------------------

William G. Dauster
07/27/99 04:20:27 PM

Record Type: Record

To: See the distribution list at the bottom of this message

cc:
Subject: Breaux Plan Details

A friend forwards the following rumors:

Details coming out today on the bipartisan group plan via a "Dear Colleague." The ten year numbers are coming later today or tomorrow.

A group of Senators met last night to sign off on the package: Torricelli, Jeffords, Chafee, Breaux, Kerrey, Snowe, Specter, Collins, Bayh, Edwards, Lincoln. Lieberman was there, but not clear he's on board.

Details:

Increases the standard deduction (same as Moynihan)
EITC marriage penalty relief: Roth version, not Moynihan
Extenders: 5 yrs.
LIHTC improvement
Health deduction: 50% above the line
(credit was "too costly, and too controversial")
AMT: personal credits, not the PE
Graham/Grassley as modified by Roth
Some "charitable giving incentives" (Kerrey's)
L-term care credit ($500?)
Increases the 15% bracket by $2,500 for singles; $5,000 for joint
("the bone we threw to Torricelli")
IRA contributn limits increased from $2,000 to $3,500
(no change in income limit)

There are other provisions besides these but this is the big stuff.

Plan is "nongermane" according to the staff, but the sponsors are now expected to push this to a vote.

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From last week see brieting enclosed

HOUSE REPUBLICAN TAX CUT EXPLODES IN SECOND 10 YEARS

A $3 *Trillion* Revenue Loss: The costs of the House Republican tax-cut package would explode after 10 years, costing roughly $3 *trillion* in its second 10 years – from 2010 to 2019 – according to preliminary projections by the Treasury Department.

Another Roughly $1.5 *Trillion* in Extra Debt Service Costs: Added to that, because the House Republican tax-cut package would divert funds from paying down the debt, it would generate another roughly $1.5 *trillion* in debt service costs over its second 10 years, according to an analysis of the Treasury data conducted by the Office of Management and Budget.

Costs Explode in the Second 10 Years: While the bill would cost $0.9 trillion in its first 10 years, it would cost about 3.4 times more – fully $3 *trillion* – in its second 10 years, according to the Treasury projections. Fully phased in costs for the package as a whole would be $241 billion in 2009, compared with an average cost of $87 billion a year in the first 10 years.

Costs Hit Just When the Baby Boom Generation Retires: These massive annual costs would drain resources just at the time when, with the retirement of the baby boom generation, the Social Security Trust Fund is beginning to come under strain and the Medicare trust fund will be exhausted (2015).

The Costs of the Tax Cut Explode by Design: The costs of the bill explode in the second 10 years by design. The bill phases in many of the provisions over the course of the first 10 years, to fit their cost within the constraints of the budget process. Most of these phased-in provisions do not fully take effect until 2008 or 2009, so that their full impact on the budget only appears thereafter.

- **Estate Tax:** For example, the repeal of the estate tax would costs five times as much in the second 10 years as in the first.

Ten-Year Revenue Loss in Budget Window and Projected
In Trillions of Dollars

Provisions	2000-2009	2010-2019
Estate and gift tax repeal	0.1	0.6
10% across-the-board rate cut (regular tax and AMT)	0.4	1.5
All other provisions	0.4	0.9
All provisions	0.9	3.0

Very Preliminary

President Clinton and Vice President Gore Have a Fiscally Responsible Plan that Strengthens Social Security, Maintains Key Priorities, and Other Tax Relief: In contrast, the President and Vice President demonstrated in their budget framework released June 28 that it is possible to set aside the entire Social Security surplus for Social Security and still strengthen Social Security and Medicare, provide for military readiness and fund investments in education, veterans, environment, and anti-crime efforts, while still providing a fair and substantial tax cut.

CENTER ON BUDGET AND POLICY PRIORITIES

F A X

Center on Budget and Policy Priorities

From the desk of...
Ellen Nissenbaum
Legislative Director

202-408-1080
Fax: 202-408-1056
nissenbaum@center.cbpp.org.

To: John Podesta, 456-6598,
Jack Lew/Rob Nabors, 395-1005
Gene Sperling, 456-2878
Larry Stein/Janet/Chuck, 456-6620
Steve Ricchetti, 456-6703

Date: 7-26-99

Re: **BREAUX PLAN**

DETERMINED TO BE AN ADMINISTRATIVE MARKING
INITIALS: (W DATE: 01\09\13

~~CONFIDENTIAL~~

This is NOT public.

Attached you'll find a short analysis of the Breaux plan (i.e. the Breaux/Kerrey/Jeffords/Chafee/Toricelli plan) to divide the nonSS surplus for tax cuts, discretionary spending, the Medicare prescription drug benefit, and interest. The analysis finds several significant flaws with the plan.

I think we'll probably release this officially soon. From what I hear on the contents of the Breaux plan (vs. the size), we *may* write on that as well. Doesn't sound too good.

CENTER ON BUDGET AND POLICY PRIORITIES

July 26, 1999

THE BREAUX PLAN FOR USING THE PROJECTED SURPLUS

by Robert Greenstein

Senator John Breaux has outlined a plan to use the non-Social Security surplus that includes a $500 billion tax cut, a Medicare prescription drug benefit, and $328 billion for discretionary programs. This plan appears to have several serious shortcomings.

- Its costs appear to exceed the entire non-Social Security surplus over the next 10 years. In fact, because of the size of the tax cut, the combination of the plan's tax cuts and its discretionary spending provisions would consume the entire non-Social Security surplus before a Medicare prescription drug benefit could be incorporated.

- It entails large reductions in non-defense discretionary spending that could reach $375 billion over the next 10 years.

- It disposes of the entire surplus without leaving any funds to shore up Medicare or extend its solvency. Since no surplus revenues would remain for use as part of Medicare reform, the only way to restore long-term Medicare solvency would be through rather radical program changes that could have deleterious consequences for substantial numbers of beneficiaries. Most analysts believe that restoring long-term Medicare solvency entails a combination of substantial program reforms *and* additional resources. If additional resources cannot be provided because the surpluses have been exhausted, the changes needed to produce sufficient savings to restore long-term solvency entirely through Medicare program alterations are likely to be too draconian.

The Costs of the Breaux Plan Appear to Exceed the Surplus

The Congressional Budget Office projects that the surplus will total $996 billion over the next 10 years. Social Security administrative costs will consume $31 billion of this amount.[1] That leaves $965 billion of projected surpluses for other purposes.

[1] CBO has explained that in projecting the *non*-Social Security surplus, it did not count expenditures for Social Security administrative costs, classifying them as Social Security expenditures instead, but that Congressional budget resolutions consider these as *non*-Social Security expenditures. CBO estimates that these Social Security administrative costs will total $31 billion over 10 years. Since Congress must

(continued...)

Senator Breaux would spend $500 billion of the surpluses on a tax cut and $328 billion on a higher level of expenditures for discretionary programs than the shrunken level the CBO baseline assumes. (The baseline assumes that discretionary programs will be cut sufficiently to fit within the existing discretionary spending caps.) The Breaux tax cut and discretionary spending proposals thus total $828 billion. This $828 billion expenditure, in turn, entails $160 billion to $175 billion in additional interest payments on the debt, beyond the payments reflected in the CBO baseline. (Interest payments would be higher because the debt that had to serviced would be larger. The debt would be larger because $828 billion would be used for tax cuts and lifting the discretionary caps, rather than for debt reduction.)

This means that when interest payments on the debt are taken into account — as they must be — *the Breaux plan would exhaust more than 100 percent of the on-budget surplus before even getting to a Medicare prescription drug benefit.* When a drug benefit is added in, the Breaux plan would result in on-budget deficits of about $100 billion to $200 billion over the next 10 years.

Large Reductions in Discretionary Spending

The Breaux plan also entails large reductions in funding for appropriated (i.e., discretionary) programs. While the Breaux plan may be portrayed as containing the same level of discretionary spending as the Clinton budget — which itself contains significant reductions in non-defense discretionary spending in the second half of the ten-year period — this is not the case.

- CBO reports that the discretionary spending levels assumed in its $996 billion surplus projection would entail cutting discretionary spending $595 billion below today's levels, adjusted for inflation. The CBO baseline assumes Congress will cut discretionary spending enough to fit within the discretionary spending caps for fiscal years 2000, 2001, and 2002, and that discretionary spending after 2002 will equal the FY 2002 cap adjusted only for inflation. Note: The caps for 2001 and 2002 are more severe than the 2000 cap that Congress already is finding excruciatingly tight and impossible to hit.

- The Clinton budget would restore about $500 billion of these $595 billion in assumed cuts. It does so in two ways: 1) the budget would use $328 billion of the projected surplus to bring discretionary funding to more adequate levels; and 2) the budget contains an array of offsets — consisting of tax increases, such as a tobacco tax hike, and various

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[1] (...continued)
comply with the budget resolutions that it passes and those budget resolutions count these costs as non-Social Security expenditures, this lowers the available non-Social Security surplus to $965 billion.

entitlement reductions — the proceeds from which would be transferred to the discretionary part of the budget and used to augment discretionary spending levels. Even with these two sources of additional funding, the Clinton budget contains insufficient resources for discretionary programs to maintain them, over the next 10 years, at today's level adjusted for inflation.

- The Breaux plan would match the first of the Clinton budget's two sources of funding for discretionary programs — namely, the use of $328 billion in projected surpluses for this purpose. But the Breaux plan does not appear to contain the Clinton offsets (a number of which may not be politically viable). As a result, the total amount the Breaux plan provides for discretionary programs would apparently be about $150 billion less over the next 10 years than the amount the Clinton budget provides.

  Concluding that one does not favor the offsets or does not believe most of them can pass is not the same thing as deciding that discretionary spending should be cut another $150 billion below the Clinton levels. Plans such as Senator Breaux's could maintain overall resources for discretionary programs at the same level as the Clinton budget does if they used $150 billion less of the projected surplus for a tax cut and provided these resources to discretionary programs. Instead, the Breaux plan appears to reduce discretionary spending significantly below the level in the Clinton budget in order to help finance twice as large a tax cut as the Clinton budget contains.

- The result would be a quite-substantial reduction in funding for non-defense discretionary programs. The Clinton budget proposes to increase defense spending by $102 billion over the next 10 years above the FY 1999 level adjusted for inflation. Congress already is showing signs of upping these levels, for example, by increasing military pay and pensions by larger amounts than the Administration requested. If the Clinton defense spending levels are provided *and* the Breaux levels for overall discretionary spending are adhered to, *non-defense discretionary spending would apparently have to be cut about $375 billion over the next 10 years,* below today's level adjusted for inflation.

Medicare

The Breaux plan calls for a Medicare prescription drug benefit. But it would transfer no surplus funds to Medicare beyond those needed for such a benefit. Senator Breaux reportedly has indicated that any other transfer of funds to Medicare should be done only as part of more comprehensive Medicare reform.

But the question of whether such transfers should be made now or should await a more comprehensive Medicare overhaul begs the question at hand. *Under the Breaux plan, there would be no surpluses left to transfer to Medicare, even as part of comprehensive reform.* The oversized tax cut would have gobbled them up.

The long-term gap in Medicare finances is so large — much larger and more daunting than that in Social Security — that few analysts believe this gap can be closed solely by changes in the Medicare program. Cutting projected Medicare costs a large-enough amount to close the financing gap through that means alone would entail changes so wrenching — and likely reductions in the scope or quality of health care for many elderly and disabled people so substantial — that such measures could not pass. Closing the Medicare financing gap is, most analysts believe, likely to entail a combination of substantial program changes *and* substantial new revenues for Medicare.

Some policymakers do not dispute this but argue that surplus funds should not be transferred to Medicare outside of comprehensive reform. Pursuing such an approach, however, entails reserving a sizeable share of the projected surpluses for subsequent use as part of a comprehensive Medicare reform package. This is not the course the Breaux plan follows. Rather than setting this money aside, the plan would use it for a tax cut.

As a result, none of the on-budget surplus would remain. That would likely make it harder, not easier, to fashion a comprehensive Medicare reform plan that can pass in the years ahead.

One final point should be noted. Some $203 billion of the $996 billion in projected non-Social Security surpluses over the next 10 years consists of projected surpluses *in Medicare itself* over this period. The Breaux plan would devote less than this amount of the surplus to Medicare, since it would do no more than provide prescription drug assistance. Thus, the Breaux plan essentially entails taking some of the Medicare surplus in coming years and using it to make the tax cuts larger than they otherwise could be.

Conclusion

The Breaux plan represents risky and imprudent policy. Its numbers do not add up, and fully implementing it would result in a return of on-budget deficits. Moreover, the plan would entail reductions in non-defense discretionary programs of up to $375 billion over the next decade and strand Medicare, leaving savings from program cuts and program restructuring the sole source of revenue to restore long-term Medicare solvency. Essentially, what the Breaux plan would do is use savings from cutting domestic discretionary programs, along with part of the Medicare surplus, to finance a larger tax cut than the nation otherwise would be able to afford.

July 22, 1999

MEMORANDUM FOR THE PRESIDENT

FROM: GENE B. SPERLING

SUBJECT: CBO's Distorted Analysis of the President's Budget Framework

The Congressional Budget Office's (CBO) analysis is an enormously distorted case in which they go to great lengths to manipulate our budget in the following three ways:

- Create the fiction that the Republicans have a budget with debt reduction during the first 10 years by assuming cuts that would leave half the government eliminated by 2009.
- Ignore the exploding cost of the Republican plan in the second 10 years.
- Underestimate our degree of debt reduction by ignoring the amount of debt reduction from our Medicare plan.

1. How CBO Exaggerates Republican Debt Reduction

Instead of analyzing either the Archer or Roth tax cut bill, CBO simply looks at the Republican budget resolution and its $778 billion in tax cuts. In the Republican budget resolution they also had a reserve of $180 billion. CBO assumes that they would cut discretionary spending $180 billion -- even beyond what we had estimated -- in order to manufacture this complete illusion that they would have debt reduction in the first 10 years.

To understand how implausible this is, you must only make one point: if they were to cut this additional $180 billion and just match our defense spending number they would have to cut domestic spending in 2009 by approximately 50% across the board on everything from education to health care to agriculture to veterans affairs to air safety to fighting crime to science. If any of these areas were to be protected, the necessary cuts in the remaining programs would have to be even deeper. Nonetheless, for purposes of creating a political document to suggest the Republican tax cut plan has more debt reduction than us they legitimize this completely implausible budget framework despite draconian cuts in 2009.

Another way to think of this is the following: Our budget is already tight on discretionary spending. In 2009, we are below inflation by 2% and if you take into account our $120 billion in defense spending our real cut would be over 10% in non-defense discretionary spending. Yet, the Republican budget that CBO says would reduce the debt is $680 billion below ours in discretionary spending.

2. The House Republican Tax Cut Plan Explodes to $3 Trillion in the Second 10 Years – Yet CBO Presents That Plan as Fiscally Responsible

While CBO historically guards against policy that would have long term dangers on fiscal policy, they go out of their way to bless the Republican plan with debt reduction even though an analysis of the Archer bill shows it would explode to $3 trillion in the second 10 years and to $4.5 trillion including interest cost. The Roth bill similarly explodes -- to $2 trillion in the second 10 years with an additional trillion dollars in interest costs as well.

3. How CBO Inconsistently Scores Our Budget

With the Republican budget, CBO made implausible assumptions of spending cuts to show debt reduction from on-budget. With us they do the opposite. They suggest that due to baseline differences we are short by over $200 billion. Then they simply make the judgement <u>for us</u> and say that we would eliminate virtually all of our debt reduction from Medicare. First, we believe our baseline is right. Second, even if we use a different baseline, they have no business assuming that the way we would deal with it is to eliminate debt reduction in our Medicare plan instead of finding other measures to deal with the shortfalls.

They also dispute our prescription drug numbers. You should know that we estimate our prescription drug bill to cost $119 billion and we will have $73 billion in savings, bringing the total cost of our prescription drug bill to $46 billion. CBO, on the other hand, estimates that our prescription drug policy will cost $168 billion with only $57 billion in savings for a total cost of $111 billion. Our scoring is done by the career professionals at HCFA who have repeatedly proved to be conservative. We stand by our numbers.

July 22, 1999

MEMORANDUM TO THE PRESIDENT

FROM: JACOB J. LEW
GENE B. SPERLING

SUBJECT: House Republican Tax Proposal

Last night, the House Rules Committee passed the rule governing Floor consideration of the Republican tax cut proposal. Floor debate on the bill also began late last night.

While this provision is highly problematic, it is difficult for us to know which way to criticize it. On one hand, many will feel that any type of trigger is a fraud and that linking tax cuts to a trigger would create confusion and uncertainty in the tax code that would be highly undesirable. Furthermore, the capital gains tax cut and most of the estate tax cut takes place immediately.

On the other hand, it also seems like they tied much of the across the board tax cut to reducing the debt-- subject to limit – which under the current plan would not happen for 15 years. We do not know whether or not they intended to be this strict or whether it is a mistake.

We have started to review the provision, and while the language is very confusing, our preliminary understanding is that:

- A capital gains and an estate and gifts tax cut would take effect immediately;

- An across the board individual income tax rate cut of 1 percent would also take place immediately;

- An additional 9percent across the board tax cut, and the eventual elimination of the estate tax, would be tied to a trigger that would take effect when debt subject to limit was the same or less than in previous years. Under the Republican tax cut policy, this would not release the trigger on the balance of the tax cut for nearly fifteen years; and

- The trigger does nothing to guarantee public debt reduction. Rather, it only contains a Sense of the Congress resolution that public debt should be reduced.

~~does this work~~?

Dear Mr. Chairman:

I am enclosing for your information distributional tables prepared by Treasury for the Taxpayer Refund Act of 1999, as reported by the Senate Finance Committee. These tables provide an additional perspective on the distributional effects of the Act to the tables prepared by the Joint Committee on Taxation (JCX-50-99). Most importantly, the Treasury tables reflect the effect of the provisions of the Act when fully phased in rather than annually over the first five years, measure the change in tax benefit rather than the change in taxes paid, and include the effect of estate taxes. The Treasury tables show the distribution of tax among families whereas the JCT tables refer to tax units.

As you know, some have raised concerns about Treasury's use of "Family Economic Income" in its distributional tables. In response to those concerns, we have prepared two tables for the Taxpayer Refund Act of 1999. The first ranks families by their Family Economic Income and the second by their "Cash Income." Cash Income is very similar to the income concept used by the Congressional Budget Office in its distributional analyses. The two tables show nearly identical results for the percentage distribution of the tax reductions from the Act at all income levels. A similar letter has been sent to Senator Moynihan.

Sincerely,

Linda L. Robertson

Enclosures

Major Provisions in the "Taxpayer Refund Act of 1999"[1]

(2000 Income Levels)

Family Economic Income Quintile[2]	Number of Families (millions)	Average Tax Change ($)	Total Tax Change: Amount[3] ($M)	Total Tax Change: Percent Distribution (%)	Percent of: Current Federal Taxes[4] (%)	Percent of: After-Tax Income[5] (%)
Lowest[6]	22.4	-12	-275	0.3	-2.1	0.1
Second	23.0	-107	-2,459	2.5	-3.5	0.5
Third	23.0	-415	-9,555	9.6	-5.2	1.1
Fourth	23.0	-894	-20,581	20.7	-5.7	1.4
Highest	23.0	-2,885	-66,490	66.9	-6.7	1.8
Total[6]	115.2	-863	-99,396	100.0	-5.6	1.5
Top 10%	11.5	-3,811	-43,935	44.2	-5.0	1.7
Top 5%	5.8	-4,999	-28,836	29.0	-4.4	1.6
Top 1%	1.2	-9,207	-10,698	10.8	-3.0	1.2

Department of the Treasury
Office of Tax Analysis

July 22, 1999

(1) This table distributes the estimated change in tax burdens due to the major provisions in the "Taxpayer Refund Act of 1999" which include: reducing the 15% income tax rate to 14% and expanding the 14% rate bracket; allowing married taxpayers to elect to file single returns on a combined form; extending the starting point of the EITC phase-out range for joint filers; expanding the child and dependent care tax credit; allowing personal credits and exemptions against the AMT; raising the contribution limits for deductible and Roth IRAs to $5,000 and for defined contribution pension plans (e.g. 401ks) to $15,000 and allowing 50% higher contribution limits for taxpayers over age 50; raising the income limits for deductible IRAs and repealing the Roth IRA income limits; permanently extending employer-provided educational assistance and including graduate courses; and reducing the rates, converting the unified credit to an exemption, and increasing the exemption (to $1.5 million) for the estate tax.

(2) Family Economic Income (FEI) is a broad-based income concept. FEI is constructed by adding to AGI unreported and under-reported income; IRA and Keogh deductions; nontaxable transfer payments such as Social Security and AFDC; employer-provided fringe benefits; inside build-up on pensions, IRAs, Keoghs, and life insurance; tax-exempt interest; and imputed rent on owner-occupied housing. Capital gains are computed on an accrual basis, adjusted for inflation to the extent that reliable data allow. Inflationary losses of lenders are subtracted and gains of borrowers are added. There is also an adjustment for accelerated depreciation of noncorporate businesses. FEI is shown on a family rather than a tax-return basis. The economic incomes of all members of a family unit are added to arrive at the family's economic income used in the distributions.

(3) The change in Federal taxes is estimated at 2000 income levels but assuming long run (2009) law. The change in burdens from increases in retirement contribution and income limits is measured as the present value of tax savings on one year's contributions.

(4) The taxes included are individual and corporate income, payroll (Social Security and unemployment), excises, customs duties, and estate and gift taxes. The individual income tax is assumed to be borne by payers, the corporate income tax by capital generally, payroll taxes (employer and employee shares) by labor (wages and self-employment income), excises on purchases by individuals in proportion to relative consumption of the taxed good and proportionately by labor and capital and excises on purchases by businesses and customs duties proportionately to labor and capital, and the estate tax by decedents. Federal taxes are estimated at 2000 income levels but assuming 2009 law and, therefore, exclude provisions that expire prior to the end of the Budget period and are adjusted for the effects of unindexed parameters.

(5) After-tax income is Family Economic income less current Federal taxes.

(6) Families with negative incomes are excluded from the lowest quintile but included in the total line.

NOTE: Quintiles begin at FEI of: Second $17,988; Third $34,844; Fourth $59,019; Highest $100,767; Top 10% $140,581; Top 5% $189,835; Top 1% $462,053

Major Provisions in the "Taxpayer Refund Act of 1999"[1]

(2000 Income Levels)

Cash Income Quintile[2]	Number of Families (millions)	Average Tax Change ($)	Total Tax Change Amount[3] ($M)	Total Tax Change Percent Distribution (%)	Tax Change as a Percent of Cash Income (%)
Lowest[4]	22.4	-15	-334	0.3	0.2
Second	23.0	-113	-2,593	2.6	0.5
Third	23.0	-394	[illegible]	9.1	1.0
Fourth	23.0	-901	-20,741	20.8	1.4
Highest	23.0	-2,892	-66,617	67.0	1.7
Total[4]	115.2	-863	-99,398	100.0	1.4
Top 10%	11.6	-3,865	-44,513	44.8	1.8
Top 5%	5.8	-5,168	-29,767	28.9	1.5
Top 1%	1.2	-9,569	-11,024	11.1	1.0

Department of the Treasury
Office of Tax Analysis

July 22, 1999

(1) This table distributes the estimated change in tax burdens due to the major provisions in the "Taxpayer Refund Act of 1999" which include: reducing the 15% income tax rate to 14% and expanding the 14% rate bracket; allowing married taxpayers to elect to file single returns on a combined form; extending the starting point of the EITC phase-out range for joint filers; expanding the child and dependent care tax credit; allowing personal credits and exemptions against the AMT; raising the contribution limits for deductible and Roth IRAs to $5,000 and for defined contribution pension plans (e.g. 401ks) to $15,000 and allowing 50% higher contribution limits for taxpayers over age 50; raising the income limits for deductible IRAs and repealing the Roth IRA income limits; permanently extending employer-provided educational assistance and including graduate courses; and reducing the rates, converting the unified credit to an exemption, and increasing the exemption (to $1.5 million) for the estate tax.

(2) Cash income consists of wages and salaries, net income from a business or farm, taxable and tax-exempt interest, dividends, rental income, realized capital gains, cash transfers from the government, and retirement benefits. Employer contributions for payroll taxes and the federal corporate income tax is added to place cash on a pre-tax basis. Cash income is shown on a family rather than on a tax return basis. The cash incomes of all members of a family are added to arrive at the family's cash income used in the distributions.

(3) The change in Federal taxes is estimated at 2000 income levels but assuming long run (2009) law. The change in burdens from increases in retirement contribution and income limits is measured as the present value of tax savings on one year's contributions.

(4) Families with negative incomes are excluded from the lowest quintile but included in the total line.

NOTE: Quintiles begin at cash income of: Second $19,428; Third $30,864; Fourth $49,562; Highest $81,957; Top 10% $115,239; Top 5% $154,900; Top 1% $348,659.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE DIRECTOR

June 28, 1999

The Honorable J. Dennis Hastert
Speaker of the House
of Representatives
Washington, DC 20515

Dear Mr. Speaker:

Section 1106 of Title 31, United States Code, requires that the President transmit to the Congress a supplemental update of the Budget that was transmitted to the Congress earlier in the year. This supplemental update of the Budget, commonly known as the Mid-Session Review, contains revised estimates of the budget receipts, outlays, and budget authority for fiscal years 1999 through 2004 and other summary information required by statute.

Sincerely,

Jacob J. Lew
Director

Enclosure

Identical Letter Sent to The President of the Senate

TABLE OF CONTENTS

GENERAL NOTES

1. All years referred to are fiscal years unless otherwise noted.
2. All totals in the text and tables display both on-budget and off-budget spending and receipts unless otherwise noted.
3. Details in the tables and text may not add to totals because of rounding.
4. Web address: http://www.gpo.gov/usbudget

LIST OF TABLES

EXECUTIVE SUMMARY

Last year, after five consecutive years of declining deficits, the Federal budget was brought into balance. In fiscal year 1998, an unprecedented sixth consecutive year of improved fiscal results, the Federal Government produced its first budget surplus in 29 years. Fiscal year 1999 will mark the seventh consecutive year of improved fiscal balance the longest such series in history with an even larger surplus than in 1998. These will be the first back-to-back surpluses since the mid-1950's. Moreover, next year's budget is projected to show a modest on-budget surplus (over-and-above the amount of the Social Security surplus) for the first time in 40 years.

In his first budget, submitted in the Administration's first days in 1993, President Clinton confronted the then-record deficit with a program of budget savings totaling $505 billion over five years more than half of which came from spending cuts. This program initiated a virtuous cycle in which deficit reduction caused interest rates to fall and investment to boom, leading to an unprecedented combination of declining inflation, sustained growth and further budgetary improvement.

The Administration now projects that the overall surplus for 1999 will be $99 billion, the largest surplus ever in dollar terms, and the largest as a percentage of GDP since 1951. The projections in this Review show the surplus growing to $142 billion in fiscal year 2000. Indeed, improvements in the outlook just in the five months since the President's February budget submission have added $179 billion to projected budget surpluses for the next five years, over half a trillion dollars to surpluses projected for the next ten years, and over a trillion dollars to surpluses projected for the next 15 years.

A large portion of this impressive improvement in the budget outlook stems from improvements in economic performance over-and-beyond what was projected in the February budget. The U.S. economy continued to outperform projections with strong, non-inflationary growth and further declines in unemployment, despite the expectation that economic activity would slow. The robust economy produced higher incomes that in turn generated stronger revenue growth. Technical reestimates added to the increase in projected receipts and also reduced outlays. Thus over the next ten years surpluses are now projected to total $517 billion more than was expected in February.

With our fiscal house in order for the first time in two generations, we now have the means and the opportunity to address the long-term solvency problems of the Social Security and Medicare programs. We have solved the structural deficit, and thereby laid the necessary groundwork to eliminate the generational deficit that remains. We are now in a position where we can—if we so choose—address the watershed issue of the long-term soundness of Social Security and Medicare in a timely fashion, and from a position of fiscal strength, rather than continuing to postpone action until the costs mount further.

The major elements of the Administration's framework to save and reform Social Security and Medicare are:

- **Social Security.** The framework includes a strong and effective Social Security lockbox to ensure that Social Security surpluses are not used for other purposes. This lock-box would provide a double protection, not only ensuring that all of the off-budget surplus is locked away for Social Security, but also dedicating the resulting interest savings to strengthening the solvency of Social Security. The solvency of Social Security would be extended by allocating general funds to Social Security from the on-budget surplus to reflect savings in interest costs resulting from reduction in Federal debt, and by investing a limited share of the general funds that are transferred in corporate equities to earn a higher return.

- **Medicare.** The framework would invest $794 billion to strengthen Medicare over the next 15 years. It would provide a new prescription drug benefit that would modernize Medicare, increasing efficiency in the overall health care system and relieving a significant out-of-pocket burden on much of the senior population. It would provide additional resources to extend the solvency of the Hospital Insurance trust fund well beyond the current law date of 2015.
- **Investment in national needs.** The framework provides an additional $522 billion for discretionary programs over the next fifteen years, $41 billion more than was proposed in February. This increase is proposed to occur in the later years of the fifteen-year period when budgetary conditions permit, and is necessary to keep discretionary spending close to the pace of inflation. Increased resources for military readiness would ensure that the Nation's defense forces maintain high levels of performance. Investments in other priorities for a secure future would ensure sufficient funding for essential government functions such as veterans affairs, environmental protection, health research, farm security, and protecting Americans at home and abroad. Finally, a new trust fund for children and education would strengthen the Nation's ability to raise educational achievement and improve the health and well-being of children.
- **Universal Savings Accounts (USAs).** The framework includes targeted tax relief through Universal Savings Accounts (USAs) that will make retirement savings universal. The USAs would be phased in, and would subsidize Americans' retirement savings through tax breaks totaling $540 billion over fifteen years. The USAs are in addition to the Administration's other tax relief proposals contained in the February budget that provides an additional $76 billion of fully offset tax cuts over ten years to make health and child care affordable, provide incentives for school construction, extend expiring provisions of the tax law, and advance other important goals. Over the next ten years, the Administration proposes a total of $327 billion in tax relief.
- **Debt reduction.** The Administration's budget framework reserves the off-budget surplus for Social Security through a lockbox mechanism which ensures that the off-budget surplus is used to reduce publicly held debt. Reducing publicly held debt reduces future interest costs on that debt. Reducing interest payments creates on-budget resources which can be transferred to the Social Security Trust Fund to extend its solvency. The transfers to the Medicare lockbox also reduce debt held by the public.

The Administration's framework for Social Security and Medicare reform allocates the total budget surplus over the next fifteen years to extend the solvency of Social Security and Medicare; create Universal Savings Accounts to boost private retirement saving through tax cuts; and invest in military readiness, education, and other critical national needs. The framework breaks new ground in proposing an on-budget balance year by year, for each of the next 15 years, even after the additional initiatives proposed by the President. This approach represents an historic step toward further safeguarding the Social Security surpluses, and ensuring that they add to national savings, and thereby help prepare the Nation for the retirement of the baby-boom generation.

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

ECONOMIC ASSUMPTIONS

Introduction

The Nation's recent economic performance is the best in over a generation, combining strong growth and low unemployment with low inflation and low interest rates. The economic expansion that began in April 1991 is now the second longest on record. Job opportunities abound as businesses continue to expand their payrolls month after month. The overall unemployment rate has fallen to the lowest level in 29 years. Despite rapid growth, inflation remains subdued. The "Misery Index"—the sum of the unemployment and inflation rates—is at the lowest level since the 1960s.

In this extraordinarily healthy economic environment, there is great optimism. Surveys of consumers reveal the highest level of confidence in three decades. Business optimism is evident in the continued robust growth of investment. Domestic and foreign financial investors' confidence in the future of the U.S. economy is apparent from their eagerness to invest in the United States.

The economy's outstanding performance in recent years has been fostered by prudent fiscal and monetary policies. The Omnibus Budget Reconciliation Act of 1993 (OBRA) and the Balanced Budget Act of 1997 (BBA) ended an era of large and growing budget deficits and in its place created the prospect of large and growing surpluses. The budget balance has swung from a $290 billion *deficit* in 1992 to a $69 billion *surplus* last year—the first surplus since 1969. In 1999, the surplus is estimated to rise to $99 billion, or 1.1 percent of GDP. As a percent of GDP, that would be the largest surplus since 1951. Together, OBRA, the BBA, and the continuing extraordinary performance of the economy are estimated to have improved the budget balance compared with the pre-OBRA 1993 baseline by a cumulative total of $4.4 trillion over 1993–2002.

Monetary policy has also played a crucial role in the economy's superb performance by reducing inflation without impeding economic growth. During this expansion, the Federal Reserve has tightened monetary policy when inflationary pressures threatened, and relaxed policy when growth appeared to be in jeopardy. Last fall and winter, when turmoil in financial markets restricted credit to even financially sound borrowers, the Federal Reserve swiftly cut the Federal funds rate target by three-quarters of a percentage point to 4¾ percent. By year-end, this prompt action had restored stability to the markets and confidence to investors, consumers and businesses—and the economy expanded in the fourth quarter at the fastest pace in two and a half years.

The combination of healthy growth, low inflation and sound fiscal and monetary policies bodes well for the future course of the economy. If the expansion continues through February 2000—as virtually all private- and public-sector forecasters expect—it will become the longest running expansion ever. There is every reason to believe that the expansion will continue well beyond that record-setting date.

Recent Developments

Real Gross Domestic Product (GDP) expanded at a robust 4.3 percent annual rate in the first quarter of this year, following a 6.0 percent rate in the previous quarter and a 4.3 percent increase over the four quarters of 1998. Growth in the first quarter of this year continued to be led by business capital spending and residential investment.

Growth of consumer spending, which was also strong last year, increased further this year. Thanks to the enormous gains in households' stock market wealth during the past four and a half years, consumers have been willing and able to spend more out of their after-tax incomes. In fact, in the first quarter, high consumer spending sent the savings rate into negative territory. Although low saving is not desirable on a long-term basis, it is an indication of high consumer confidence and the strength of the economy. State and local government spending also grew rapidly in the first quarter, as governments continued to use part of their unexpectedly large budget surpluses to supplement outlays in high priority areas.

Robust growth in private and State and local spending in the first quarter more than offset a decline in Federal Government spending and a significant widening of the net export deficit. Partial information for the second quarter suggests that the economy continues to expand, although GDP growth probably slowed from the first quarter's pace. (The first official estimate of second quarter GDP growth will be available on July 25th.)

The Consumer Price Index (CPI) rose at a 2.6 percent annual rate during the first five months of 1999, compared with a 1.6 percent increase during 1998. The acceleration was entirely due to a bounceback in energy prices this spring, following their precipitous drop during the prior two years. Excluding the volatile food and energy components, the core CPI rose at only a 1.8 percent annual rate during the first five months of 1999, down from the 2.4 percent increase during 1998. The GDP chain-weighted price index, a broader measure of inflation than the CPI, rose at a 1.6 percent annual rate in the first quarter, not much faster than the 0.9 percent rise during all of 1998. Not since the early 1960s has overall inflation been this low.

During the first five months of this year, the Nation's payrolls expanded by almost 1 million new jobs, bringing the total job creation since this Administration took office to 18.7 million. Although manufacturing and mining payrolls continued to shrink this year because of recessions and weak demand overseas, and the resultant stiff competition from imports, this restraint on overall payroll job growth was more than made up by large gains in construction and service sector payrolls.

Strong job growth has pulled the unemployment rate down further this year. In May, it was just 4.2 percent. The last time the unemployment rate was lower than this was in January 1970. Unemployment rates have fallen to low levels for all demographic groups. The unemployment rates so far this year for Blacks and for Hispanics are the lowest since record keeping began over a quarter century ago.

Tight labor markets have resulted in sizeable gains in workers' paychecks, even after adjusting for inflation. Over the past twelve months, average hourly earnings have risen 3.6 percent, 1.6 percentage points in excess of the rise in the CPI over the same period. Despite falling unemployment, nominal earnings gains have moderated this year from the 4 percent increases of a year or two ago, even as real gains have continued.

Interest rates, especially at the long end of the maturity spectrum, have risen this year. The three-month Treasury bill rate edged up from 4.4 percent in December to 4.6 percent in late June. The yield on the 10-year Treasury bond rose from 4.6 percent in December to 6.0 percent recently.

Despite rising interest rates, there was evidence of continued confidence in the future course of the economy. The major equity markets have more than tripled in the last six and a half years. This is the best market performance in the postwar period.

Revised Economic Assumptions

Economic developments this year have generally been more favorable than envisaged in December when the Administration formulated its economic assumptions for the Budget. Real growth so far this year has been stronger than projected in the Budget assumptions. As a consequence, the unemployment rate has fallen further this year, rather than rising slowly as expected. Productivity growth has also been higher than expected, exceeding its long-term trend even taking into account the strong growth of demand. Despite the tighter labor market this year, the core CPI inflation rate has slowed from its 1998 pace. Interest rates, however, have moved up somewhat more than was forecasted in the Budget, perhaps in part because growth has been faster than expected and the unemployment rate has been lower.

The economic assumptions underlying the budget projections presented in the Mid-Session Review have been revised to incorporate these recent developments. While the overall contour of the economic assumptions has not changed, notable revisions have been made to the projections of real GDP growth, productivity growth, the unemployment rate, and inflation and interest rates. The Administration, like most forecasters, still expects the pace of economic activity to moderate to a rate that can be maintained over the long run without provoking higher inflation, according to mainstream, conservative estimates.

The Mid-Session assumptions are similar to those of the *Blue Chip* consensus (an average of 50 private sector forecasts). As such, the economic projections provide a reasonable, prudent basis for projecting the budget.

In light of the ongoing strength of the economy, indications that trend productivity growth may have risen, and evidence that labor force growth may be a bit higher than projected previously, the Administration has revised upward its projections of both actual and potential real GDP growth. Measured from the fourth quarter of 1998 to the fourth quarter of 1999, real GDP growth is now projected to be 3.2 percent, compared with 2.0 percent in the Budget. During the following years through 2004, the average annual GDP growth is projected to be about one-tenth percentage point higher than previously projected. During the six years 1999–2004, growth is now projected to average 2.5 percent annually, instead of 2.2 percent.

The long-run, sustainable noninflationary growth rate of the economy—potential GDP growth—can be decomposed into the trend growth of labor productivity plus the growth of total labor hours. The Administration's estimate of potential GDP growth is now 2.8 percent per year during 1999–2002, up from 2.5 percent in the Budget assumptions. The revision is due to a higher rate of trend productivity growth, now estimated to be 1.6 percent annually through 2002, compared with 1.3 percent previously. The growth rate of total labor input, which combines the growth rates of the population, labor force participation and the workweek, is projected to be 1.2 percent per year, unchanged from the Budget assumptions. Slightly faster growth of the population is assumed to be offset by slightly slower growth of the participation rate.

Potential GDP growth during 2003–2004 is projected to be just under 2.6 percent per year. That is slightly lower than during 1999–2002—when trend productivity growth is expected to be boosted by the ongoing capital spending boom—but higher than the 2.4 percent growth in the Budget assumptions. Trend productivity growth is now assumed to slow to 1.4 percent beginning in 2003. In the Budget, trend productivity growth was assumed to be 1.3 percent yearly throughout the projection horizon. Total labor input during 2003–2004 is projected to rise 1.2 percent annually, the same pace as during the earlier years of the projection period.

Real GDP growth during the next few years is projected to be slightly below the growth of potential GDP, which would be consistent with a gradual rise in the unemployment rate. Beginning in 2002, the unemployment rate is projected to remain on a plateau of 5.2 percent, the center of the range the Administration now estimates is consistent with stable inflation. This rate, which is one-tenth percentage point lower than that assumed in the Budget, reflects the recent experience of historically low unemployment, slowing nominal wage growth, and continued low core inflation. The economy now appears to be able to operate at a slightly lower unemployment rate without triggering higher inflation.

The CPI inflation rate has been raised by one-tenth or two-tenths of a percentage point annually. During the next few years, the gap between the projected unemployment rate and the estimate of the sustainable rate is expected to be larger than projected previously, implying slightly higher inflation than previously. The projection of the GDP chain-weighted price index has also been revised up slightly. Even after these upward revisions, the projected inflation rates are very low by historical standards: in the outyears, the CPI is expected to increase just 2.5 percent annually, while the GDP chain-weighted price index is projected to rise 2.2 percent.

The Mid-Session Review interest rate projections have been revised up to reflect the higher inflation rate projection. Adjusted for inflation, interest rates are unchanged from those in the Budget. The 90-day Treasury bill rate is projected to be around 4.6 percent throughout most of the projection period. The yield on the 10-year Treasury note is projected to be around 5.6 percent.

Taxable incomes as a share of nominal GDP are expected to be slightly lower than in the Budget assumptions, primarily because of lower projected pre-tax book profits. The revision reflects new, higher estimates of corporate depreciation which reduce pre-tax profits, all other things equal. The shares of other components of taxable income in GDP are essentially unchanged.

Table 2. ECONOMIC ASSUMPTIONS

(Calendar years; dollar amounts in billions)

	Actual 1998	Projections					
		1999	2000	2001	2002	2003	2004
Gross Domestic Product (GDP):[1]							
Levels, dollar amounts in billions:							
Current dollars	8,511	8,953	9,333	9,724	10,154	10,639	11,145
Real, chained (1992) dollars	7,552	7,844	8,028	8,196	8,374	8,587	8,801
Chained price index (1992 = 100), annual average	112.7	114.1	116.2	118.7	121.3	123.9	126.6
Percent change, fourth quarter over fourth quarter:							
Current dollars	5.2	4.8	4.2	4.2	4.6	4.8	4.8
Real, chained (1992) dollars	4.3	3.2	2.1	2.1	2.3	2.6	2.5
Chained price index (1992 = 100)	0.9	1.5	2.0	2.1	2.2	2.2	2.2
Percent change, year over year:							
Current dollars	4.9	5.2	4.2	4.2	4.4	4.8	4.8
Real, chained (1992) dollars	3.9	3.9	2.4	2.1	2.2	2.5	2.5
Chained price index (1992= 100)	1.0	1.3	1.8	2.1	2.2	2.2	2.2
Incomes, billions of current dollars:[1]							
Corporate profits before tax	718	750	722	743	763	797	830
Wages and salaries	4,150	4,388	4,578	4,764	4,964	5,203	5,451
Other taxable income[2]	1,768	1,839	1,891	1,946	2,007	2,074	2,151
Consumer Price Index (all urban):[3]							
Level (1982–84 = 100), annual average	163.1	166.6	170.6	174.7	179.0	183.5	188.1
Percent change, fourth quarter over fourth quarter	1.5	2.4	2.4	2.4	2.5	2.5	2.5
Percent change, year over year	1.6	2.2	2.4	2.4	2.5	2.5	2.5
Unemployment rate, civilian, percent:							
Fourth quarter level	4.4	4.3	4.7	5.1	5.2	5.2	5.2
Annual average	4.5	4.3	4.5	4.9	5.2	5.2	5.2
Federal pay raises, January, percent:							
Military[4]	2.8	3.6	4.4	3.9	3.9	3.9	3.9
Civilian[5]	2.8	3.6	4.4	3.9	3.9	3.9	3.9
Interest rates, percent:							
91-day Treasury bills[6]	4.8	4.5	4.5	4.5	4.5	4.6	4.6
10-year Treasury notes	5.3	5.4	5.5	5.5	5.6	5.6	5.6

[1] Based on information available as of May 1999.
[2] Rent, interest, dividend and proprietor's components of personal income.
[3] CPI for all urban consumers. Two versions of the CPI are published. The index shown here is that currently used, as required by law, in calculating automatic adjustments to individual income tax brackets. Projections reflect scheduled changes in methodology.
[4] Beginning with the 1999 increase, percentages apply to basic pay only; adjustments for housing and subsistence allowances will be determined by the Secretary of Defense.
[5] Overall average increase, including locality pay adjustments.
[6] Average rate (bank discount basis) on new issues within period.

RECEIPTS

The current estimates of receipts for 1999 and 2000 exceed the budget estimates by $20.0 billion and $31.2 billion, respectively. The estimates for subsequent years have been revised upward by $27.3 billion to $40.1 billion. These changes result primarily from revised economic projections and technical reestimates.

Revised economic projections increase receipts by $16.6 billion in 1999, $19.4 billion in 2000, and $20.0 billion to $33.2 billion in each subsequent year. Higher levels of wages and salaries and other sources of personal income increase collections of individual income taxes and payroll taxes by amounts rising annually from $11.5 billion in 1999 to $40.3 billion in 2004. Higher levels of nominal and real GDP, which affect excise taxes, and higher interest rates, which affect deposits of earnings by the Federal Reserve, also contribute to the increase in receipts in each year. Beginning in 2001, lower shares of corporate profits in GDP reduce collections of corporation income taxes by amounts rising annually from $3.9 billion in 2001 to $7.1 billion in 2004. Customs duties are reduced in each year, reflecting lower levels of imports than forecast in January.

Net technical adjustments increase receipts by $3.4 billion in 1999, $9.9 billion in 2000, and $6.7 billion to $11.5 billion in each subsequent year. These net increases are in large part attributable to higher-than-anticipated collections of individual income taxes and estate and gift taxes, which are partially offset by lower-than-anticipated collections of corporation income taxes. The technical revisions in individual income taxes and estate and gift taxes primarily reflect the continued strength of the stock market and its effect on capital gains and the asset value of estates and gifts.

Administrative actions and revisions in the Administration's proposals have a small effect on receipts in each year. The largest change is due to a new proposal to modify the individual income tax prior-year safe-harbor thresholds. This proposal increases receipts by $1.8 billion in 2000 and $0.1 billion in 2001, reduces receipts by $1.9 billion in 2002, and has no impact in other years.

Table 3 does not include the effects of the Administration's framework for Social Security and Medicare reform. The Universal Savings Accounts proposed in that framework would reduce receipts by $26.3 billion over 2000–2004. This is in addition to the $32.9 billion in fully offset tax relief in the Administration's basic budget proposals. Over the next ten years, the Administration proposes a total of $327 billion in tax relief, for USAs, and to make health and child care more affordable, provide incentives for school construction, extend expiring provisions of the tax law, and advance other important goals.

Table 3. CHANGE IN RECEIPTS

(In billions of dollars)

	1999	2000	2001	2002	2003	2004	2000–2004
February estimate	1,806.3	1,883.0	1,933.3	2,007.1	2,075.0	2,165.5	
Changes since February:							
Revised economic assumptions	16.6	19.4	20.2	20.0	25.9	33.2	118.7
Technical reestimates	3.4	9.9	9.7	8.9	11.5	6.7	46.7
Administrative actions	–*	–*	–*	—	—	—	–0.1
Revised proposals	*	1.9	0.3	–1.6	0.2	0.2	1.0
Total changes	20.0	31.2	30.1	27.3	37.6	40.1	166.4
Mid-Session estimate	1,826.3	1,914.2	1,963.4	2,034.4	2,112.7	2,205.7	

Note: Excludes Social Security and Medicare framework proposals.

* $50 million or less.

SPENDING

The current estimate of total 1999 outlays is $1,727.5 billion, $0.4 billion higher than the February budget estimate. The higher estimate arises largely from increases enacted in the Emergency Supplemental Appropriations Act of 1999, offset by revised economic and technical assumptions for mandatory programs.

The Administration now estimates total outlays for 2000 at $1,771.7 billion, $6.1 billion higher than the February estimate. This increase is largely due to increases enacted in the Emergency Supplemental Appropriations Act of 1999 and a recent request for additional funds needed for the census. For 2000, lower outlays from revised economic assumptions nearly offset technical reestimates.

Discretionary policy changes

The Emergency Supplemental Appropriations Act of 1999 provided discretionary funding for recent natural disasters in Central America, military operations and humanitarian relief in Kosovo, economic stability in Jordan after the transition of power, and assistance for agricultural relief in the United States. The current estimates also reflect a recently transmitted request for additional funds needed for the census in 2000, which the Administration proposes to offset largely by changes in revenues and mandatory outlays. The current estimates also reflect the release of previously enacted contingent emergency funds, largely for agency preparation for year 2000 computer problems. Outlays for emergencies of $4.8 billion and other offsetting changes cause a $4.1 billion increase from the Budget in 1999, and outlays for emergencies account for $4.8 billion of the $6.0 billion increase in 2000.

Economic changes

Revisions in economic assumptions, discussed earlier in this report, reduce estimated outlays by $1.4 billion in 1999 and $1.2 billion 2000. However, over the five-year budget window from 2000 to 2004, outlay estimates increase by a net total of $3.9 billion due to economic assumptions. Outlays are increased by higher interest rates in all years and slightly higher inflation rates in the outyears. These increases are partly offset by the impact of lower unemployment rate projections and the debt service impact of higher receipts.

Technical changes

For 1999, estimated outlays are $2.3 billion lower than in February for technical reasons. For 2000, technical changes increase outlays by $1.3 billion. The following changes in outlay projections all arise from technical factors.

Discretionary programs.—Estimated outlays for discretionary programs in 1999 are $1.8 billion above the budget estimates, reflecting higher-than-anticipated actual outlays for a number of non-defense programs, most notably the violent crime reduction fund. For 2000, estimated outlays are $0.6 billion below the February estimate, largely because a portion of the outlays for the grants to school districts program (Title I) in the education for the disadvantaged account occurs in 1999 rather than in 2000, as estimated in the Budget.

Medicare.—Current estimates of Medicare outlays are lower than the February estimates by $5.1 billion in 1999. Over the five-year budget window from 2000 to 2004, Medicare outlays are projected to be $17.2 billion lower than the Budget due to technical reasons. The lower Medicare baseline is a result of lower estimates for severity of inpatient hospital cases, which reduces estimates for inpatient hospital spending, and revised estimates for home health spending. Further, the Department of Health and Human Services and the Health Care Financing Administration's continuing efforts to root out fraud, waste, and abuse in the Medicare program have contributed to the decline in Medicare expenditures. For example, in the 1998 Audited Financial Statement, the Office of the Inspector General estimated that improper payments were reduced by $7.7 billion from the prior year. While Medicare spending is down over the five-year budget window, spending for 2000 is projected to be slightly higher than the budget estimate. This one-year increase is due to a catch-up of backlogged home health claims from 1999 that will be paid in 2000.

Social Security.—The revised estimates for Social Security are lower than the budget estimates by $2.0 billion in 1999, $2.1 billion in 2000, and a total of $12.4 billion from 2000 to 2004 largely due to lower projected growth in number of beneficiaries, mostly dependents and survivors.

Commodity Credit Corporation.—Spending on farm programs through the Commodity Credit Corporation is projected to increase by $0.2 billion in 1999 and $1.7 billion in 2000, relative to the February budget. These changes largely reflect increases in projected demand for USDA commodity loans and payments due to forecasted continuing low commodity prices.

Federal Housing Administration mortgage insurance. The current estimates of outlays for mortgage insurance are $1.7 billion higher than the February estimate in 1999, $0.4 billion lower than the budget estimate in 2000, and a total of $3.4 billion lower than the estimate over five years from 2000 to 2004. The 1999 increase includes an upward reestimate of subsidy for the cost of loans guaranteed by the mutual mortgage insurance (MMI) fund. This increase is partially offset by lower than anticipated claims on pre-credit reform loans in the MMI Fund and reduced estimates of claims in the general and special risk insurance fund. The decreases in 2000 to 2004 are largely due to higher estimates of loan volume in the MMI Fund, bringing in larger subsidy receipts.

Temporary Assistance for Needy Families (TANF).—The revised TANF estimates for 1999 are $1.0 billion higher than the budget estimate due to higher actual spending by States for the year to date. Accelerated spending is expected to continue in 2000, increasing estimated outlays by $0.5 billion above the February estimate.

Table 4. CHANGE IN OUTLAYS

(In billions of dollars)

	1999	2000	2001	2002	2003	2004	2000–2004
February estimate	1,727.1	1,765.7	1,799.2	1,820.3	1,893.0	1,957.9	
Revisions due to:							
Discretionary policy changes:							
Discretionary programs	4.9	6.4	2.0	−1.1	0.7	0.4	8.4
Welfare to work	—	−0.1	−0.2	0.1	0.2	0.0	0.0
FHA mortgage insurance	−0.8	−0.5	−0.1	—	—	—	−0.6
Debt service	0.0	0.3	0.4	0.5	0.6	0.6	2.5
Subtotal, discretionary	4.1	6.0	2.1	−0.4	1.4	1.1	10.3
Economic assumptions:							
Unemployment insurance	−1.1	−2.5	−1.3	−0.0	0.1	0.1	−3.6
Medicare and Medicaid	0.0	−0.1	0.2	0.7	1.2	1.7	3.7
Social Security	0.1	0.0	−0.1	0.3	0.7	1.7	2.6
Food stamps	−0.7	−0.5	−0.2	0.3	0.6	0.6	0.7
Other mandatory programs	−0.4	−0.5	−0.4	−0.5	−0.3	0.0	−1.6
Net interest:							
Interest rate	1.0	3.7	4.3	3.6	3.8	4.2	19.6
Debt service	−0.2	−1.4	−2.4	−3.4	−4.5	−5.9	−17.6
Subtotal, economic assumptions	−1.4	−1.2	0.1	1.0	1.6	2.4	3.9
Technical reestimates:							
Discretionary programs	1.8	−0.6	−0.5	−0.3	−0.4	−0.3	−2.0
Mandatory:							
Medicare	−5.1	0.1	−4.2	−3.7	−4.5	−5.0	−17.2
Social Security	−2.0	−2.1	−2.3	−2.8	−2.7	−2.4	−12.4
Commodity Credit Corporation	0.2	1.7	1.1	0.6	1.0	0.0	4.4
FHA mortgage insurance	1.7	−0.4	−0.9	−0.8	−0.7	−0.6	−3.4
TANF	1.0	0.5	0.4	0.1	−0.3	−0.8	−0.1
Other mandatory programs [1]	−1.3	1.5	1.0	0.8	0.6	0.6	4.5
Net interest	1.3	0.6	−0.8	−0.1	0.8	−0.9	−0.3
Subtotal, technical reestimates	−2.3	1.3	−6.2	−6.1	−6.2	−9.4	−26.6
Total, changes	0.4	6.1	−4.0	−5.5	−3.1	−5.9	−12.4
Mid-Session estimate	1,727.5	1,771.7	1,795.2	1,814.8	1,889.9	1,952.0	
Memorandum:							
Discretionary budget authority:							
February estimate	575.0	555.0	540.3	547.2	578.0	585.5	—
Defense	11.7	1.8	—	—	—	—	1.8
Non-Defense	−2.8	2.8	0.1	−1.8	0.1	−0.0	1.1
Total, change	8.8	4.6	0.1	−1.8	0.1	−0.0	3.0
Mid-Session estimate	583.8	559.6	540.4	545.4	578.0	585.5	

Note: Excludes Social Security and Medicare framework proposals.

[1] $4.4 billion of the outlay increase over five years is offset by a corresponding increase in receipts.

FRAMEWORK FOR SOCIAL SECURITY AND MEDICARE REFORM

The Administration's framework for Social Security and Medicare reform allocates the total budget surplus over the next fifteen years to extend the solvency of Social Security and Medicare; create Universal Savings Accounts to boost private retirement saving through tax cuts; and invest in military readiness, education, and other critical national needs.

In this Mid-Session Review, the total budget surplus over 2000 through 2014 is estimated at $5.9 trillion, a $1.1 trillion increase from the 15-year surplus estimated in the February budget. This total surplus consists of two components: a cumulative $3.1 trillion surplus in the off-budget accounts—almost entirely the Social Security trust fund—and a cumulative $2.9 trillion surplus in the on-budget accounts. The framework reserves the entire off-budget surplus for Social Security. A lockbox mechanism would ensure that this Social Security surplus is not used for any other purpose.

The framework would allocate the $2.9 trillion on-budget surplus for four purposes, as follows:

- *Transfers to extend Social Security solvency.* The framework would transfer $543 billion from the available on-budget surplus to extend the solvency of the Social Security trust fund. These transfers would equal the interest savings to the Government earned by the cumulative debt reduction made possible by the lock-box protection for the Social Security surplus. Thus, the transfers would begin in 2011 after a decade of fiscal discipline and would continue beyond the 15-year period; they would be in addition to the $3.1 trillion in off-budget surpluses reserved for Social Security. The transfers would be invested in private equities until equity holdings reach a limited share of trust fund holdings and then be invested in Government securities.
- *Transfers to strengthen and extend Medicare.* The framework allocates $794 billion over 2000 through 2014 to strengthen and extend Medicare. The great bulk of general fund appropriations would be transferred to the Medicare Hospital Insurance trust fund to extend the solvency of the fund. The transfers would be invested in Federal securities, and would be backed dollar-for-dollar by reductions in publicly held debt. The remaining resources would fund the net costs of a new Medicare prescription drug benefit. This new benefit will modernize Medicare, increase efficiency in our overall healthcare system, and relieve a significant out-of-pocket burden on much of our senior population.
- *Universal Savings Accounts (USAs).* The framework includes targeted tax relief through Universal Savings Accounts (USAs) that will make retirement savings universal. The Administration's proposed USAs include a flat annual credit per worker and a 50%–100% matching contribution on a worker's own contributions, up to a specified annual contribution limit. Both the credit and the matching rate would be reduced for those with higher incomes. Costs of USAs are estimated at $540 billion over fifteen years. The estimates reflect a phased-in implementation schedule to allow time to develop the necessary systems to administer the accounts. The USAs are in addition to the Administration's other tax relief proposals contained in the February budget that provide an additional $76 billion of fully offset tax cuts over ten years to make health and child care more affordable, provide incentives for school construction, extend expiring provisions of the tax law, and advance other important goals. Over the next ten years, the Administration proposes a total of $327 billion in tax relief.

Table 5. FRAMEWORK FOR SOCIAL SECURITY AND MEDICARE REFORM

(Dollar amounts in billions)

	Subtotal 2000–2004	Subtotal 2000–2009	Total 2000–2014
Reserve pending Social Security and Medicare reform	1,007	2,926	5,935
Off-budget	776	1,843	3,067
On-budget	231	1,083	2,868
Social Security and debt reduction lockbox (off-budget)	776	1,843	3,067
Allocation of on-budget surplus:			
Transfer to extend Social Security solvency and reduce debt (based on interest savings)	0	0	543
Transfers to strengthen Medicare and reduce debt	50	374	794
Universal Savings Accounts	26	250	540
Discretionary investments:			
Military readiness	55	127	183
Investments for a secure future	55	127	183
Children and education trust fund	28	74	156
Total discretionary investments	138	328	522
Financing costs	16	132	469
Total on-budget allocation	231	1,083	2,868
Total allocation of reserve	1,007	2,926	5,935
Off-budget	776	1,843	3,067
On-budget	231	1,083	2,868
Remaining on-budget surplus	0	0	0
Memorandum, net debt reduction [1]	720	2,028	4,238

[1] Net debt reduction includes Social Security surplus, Medicare transfers, and other means of financing. See Table 21.

- *Investment in national needs.* The framework would allocate $522 billion over fifteen years for investments in critical national needs. Increased resources for military readiness would ensure that the Nation's defense forces maintain high levels of performance. Investments in other priorities for a secure future would ensure sufficient funding for essential government functions such as veterans affairs, environmental protection, health research, farm security, and protecting Americans at home and abroad. Finally, a new trust fund for children and education would strengthen the Nation's ability to raise educational achievement and improve the health and well-being of children. These investments would begin in 2001. Like the other components of the program, these funds are contingent on Social Security and Medicare reform. The Administration is committed to "save Social Security first" by maintaining existing budget rules that will reserve the entire surplus both off-budget and on-budget until the enactment of Social Security and medicare reform.

Social Security and Medicare Transfers, Debt Reduction, and Trust Fund Solvency

The Administration's budget framework reserves the off-budget surplus for Social Security through a lockbox mechanism which ensures that each dollar of off-budget (i.e. Social Security) surplus is used to reduce publicly held debt by one dollar. By reducing publicly held debt, the lockbox also reduces future interest costs on that debt. Reducing interest payments over time frees up on-budget resources which can be transferred to the Social Security Trust Fund to extend its solvency.

Table 6. ALLOCATION OF BUDGET RESOURCES, 2000–2014

(Dollar amounts in billions)

	Mid-Session Review	
	Surplus Amount	Percent of Total
Amount of surplus available:		
Off-budget	3,067	
On-budget	2,868	
Total	5,935	
Allocation for debt reduction and equity purchase through Social Security:		
Off-budget	3,067	
On-budget	543	
Total	3,609	66%
Allocation of remaining on-budget surplus:		
Transfers to strengthen Medicare and reduce debt	794	15%
Universal Savings Accounts	540	10%
Discretionary investments	522	10%
Total	1,856	
Total allocation of surplus excluding financing costs:		
Off-budget	3,067	
On-budget	2,399	
Total	5,466	100%
Financing costs	469	
Total allocation of surplus including financing costs:		
Off-budget	3,067	
On-budget	2,868	
Total	5,935	

The transfers to Social Security begin in 2011. The Administration's policy to reserve off-budget surpluses will yield $543 billion in interest savings which will be transferred to Social Security between 2011 and 2014. Cumulative debt reduction of $3.7 trillion will reduce net interest costs by $189 billion each year by 2015. Therefore, the $189 billion will be transferred to Social Security in 2015 and every year thereafter. Budget enforcement rules will ensure that these on-budget transfers, and the corresponding transfers for Medicare, reduce the measured on-budget surplus and cannot be used for other purposes.

As proposed in the budget in February, these transfers to Social Security will be invested in corporate equities, until equity holdings reach a limited share of the trust fund. Although the transfers invested in equities do not reduce the publicly held debt, the corporate equities are nonetheless an economic asset that will be used to finance future benefits. Transfers above the equity limit will reduce debt held by the public, giving the Social Security Trust Fund a claim against future general revenues. We will be able to meet this claim precisely because we are reducing the publicly held debt and future Federal interest obligations by an equal amount.

CURRENT STATUS OF ENFORCEMENT PROCEDURES

The Budget Enforcement Act of 1990 (BEA of 1990) was enacted as part of the Omnibus Budget Reconciliation Act of 1990. The BEA of 1990 established, through fiscal year 1995, annual limits, or "caps,"on discretionary spending, and a pay-as-you-go requirement that, in total, legislation affecting direct spending or receipts not result in a net cost. The Budget Enforcement Act of 1997 (BEA of 1997), which was enacted as part of the Balanced Budget Act of 1997 (BBA of 1997), extended, through 2002, BEA requirements for discretionary spending and pay-as-you-go legislation. The Transportation Equity Act for the 21st Century (TEA–21) further modified the discretionary caps by creating new caps for highway and mass transit outlays.

The BEA requires that OMB issue reports 1) seven working days after enactment of individual bills, and 2) three times a year on the overall status of discretionary and pay-as-you-go legislation. This section discusses the status of the discretionary limits and enacted legislation subject to pay-as-you-go.

Discretionary spending

Generally, discretionary programs are those whose program levels are established annually through the appropriations process. The scorekeeping guidelines accompanying the BEA identify accounts with discretionary resources. The BEA limits budget authority and outlays available for discretionary programs each year through FY 2002. OMB monitors compliance with the discretionary limits throughout the fiscal year. Appropriations that would cause either the budget authority or outlay limits to be exceeded would trigger a sequester to eliminate any such breach. The BEA permits certain adjustments to the discretionary limits, some of which are discussed below.

Since the President submitted the budget in February, Congress enacted P.L. 106–31, the FY 1999 Emergency Supplemental Appropriations Act, which contained emergency supplemental appropriations requested for Department of Defense operations associated with the NATO-led Operation Allied Force in Kosovo. The bill also included emergency supplemental appropriations to provide economic and humanitarian assistance to the victims of hurricanes Georges and Mitch, to address agricultural disasters in the US, and to help ensure economic stability in Jordan after the transition of power.

Further, the President has authorized the release of additional emergency appropriations that were previously enacted to support the Administration's efforts in addressing the year–2000 computer conversion problem, natural disasters, security for Americans abroad, and the funding of a $525 million enriched plutonium purchase from Russia.

As required by law, the discretionary spending limits will be adjusted for these emergency appropriations. Table 7 shows the current status of the discretionary spending limits and the FY 2000 President's request for discretionary spending.

Table 7. CURRENT STATUS OF DISCRETIONARY SPENDING LIMITS

(In millions of dollars)

	FY 1999		FY 2000		FY 2001		FY 2002	
	BA	OL	BA	OL	BA	OL	BA	OL
Defense Discretionary Preview Report Spending Limit	276,047	270,420	N/A	N/A	N/A	N/A	N/A	N/A
Enacted Emergency Spending including P.L. 106–31	4,066	3,018	N/A	N/A	N/A	N/A	N/A	N/A
Release of Contingent Emergency Funding	5,907	2,233	N/A	N/A	N/A	N/A	N/A	N/A
Subtotal, Adjustments	9,973	5,251	N/A	N/A	N/A	N/A	N/A	N/A
Current Estimate, Defense Discretionary Spending Limit	**286,020**	**275,671**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Anticipated Other Adjustments:								
Expected Release of Contingent Emergency Funding	2,215	440	N/A	N/A	N/A	N/A	N/A	N/A
Subtotal, Anticipated Other Adjustments	2,215	440	N/A	N/A	N/A	N/A	N/A	N/A
Estimate of Discretionary Spending Limit, Including Anticipated other Adjustments	**288,235**	**276,111**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Non-Defense Discretionary Preview Report Spending Limit	284,533	274,324	N/A	N/A	N/A	N/A	N/A	N/A
Enacted/Released Emergency Spending included in P.L. 106–31	1,265	634	N/A	N/A	N/A	N/A	N/A	N/A
Release of Contingent Funding	3,451	1,607	N/A	N/A	N/A	N/A	N/A	N/A
Subtotal, Adjustments	4,716	2,241	N/A	N/A	N/A	N/A	N/A	N/A
Current Estimate, Non-Defense Discretionary Spending Limit	**289,249**	**276,565**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Anticipated Other Adjustments:								
Expected Release of Contingent Emergency Funding	538	192	N/A	N/A	N/A	N/A	N/A	N/A
EITC Tax Compliance	....	....	N/A	N/A	N/A	N/A	N/A	N/A
Continuing Disability Reviews	....	....	N/A	N/A	N/A	N/A	N/A	N/A
Adoption Incentive Payments	....	....	N/A	N/A	N/A	N/A	N/A	N/A
C/J/S arrears	....	....	N/A	N/A	N/A	N/A	N/A	N/A
Wye River	800	614	N/A	N/A	N/A	N/A	N/A	N/A
Re-base Mandatory Emergency Appropriations	–246	–243	N/A	N/A	N/A	N/A	N/A	N/A
Subtotal, Anticipated Other Adjustments	1,092	563	N/A	N/A	N/A	N/A	N/A	N/A
Estimate of Discretionary Spending Limit, Including Anticipated other Adjustments	**290,341**	**277,128**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Violent Crime Reduction Trust Fund Preview Report Spending Limit	5,800	4,953	4,500	5,554	N/A	N/A	N/A	N/A
Enacted/Released Emergency Spending including P.L. 106–31	....	....	....	....	N/A	N/A	N/A	N/A
Current Estimate, Violent Crime Reduction Trust Fund Trust Fund Spending Limit	**5,800**	**4,953**	**4,500**	**5,554**	**N/A**	**N/A**	**N/A**	**N/A**
Highway Category Preview Report Spending Limit	....	21,991	....	24,574	....	26,219	....	26,663

Table 7. CURRENT STATUS OF DISCRETIONARY SPENDING LIMITS—Continued

(In millions of dollars)

	FY 1999		FY 2000		FY 2001		FY 2002	
	BA	OL	BA	OL	BA	OL	BA	OL
Enacted/Released Emergency Spending including P.L. 106–31	....	....	....	....	....	....	....	....
Current Estimate, Highway Category Spending Limit	....	**21,991**	....	**24,574**	....	**26,219**	....	**26,663**
Mass Transit Category Preview Report Spending Limit	....	4,401	....	4,117	....	4,888	....	5,384
Enacted/Released Emergency Spending including P.L. 106–31	....	....	....	....	....	....	....	....
Current Estimate, Mass Transit Category Spending Limit	....	**4,401**	....	**4,117**	....	**4,888**	....	**5,384**
Other Discretionary Preview Report Spending Limit	N/A	N/A	531,771	536,700	541,324	539,940	550,382	534,972
Enacted/Released Emergency Spending including P.L. 106–31	N/A	N/A	....	1,129	....	292	....	160
Release of Contingent Emergency Funding	N/A	N/A	....	3,289	....	1,458	....	526
Subtotal, Adjustments	N/A	N/A	....	4,418	....	1,750	....	686
Current Estimate, Other Discretionary Spending Limit	**N/A**	**N/A**	**531,771**	**541,118**	**541,324**	**541,690**	**550,382**	**535,658**
Anticipated Other Adjustments:								
Expected Release of Contingent Emergency Funding	N/A	N/A	2,601	3,209	....	890	....	345
EITC Tax Compliance	N/A	N/A	144	144	145	145	146	146
Continuing Disability Reviews	N/A	N/A	405	373	405	405	405	405
Adoption Incentive Payments	N/A	N/A	20	2	20	13	20	20
C/J/S arrears	N/A	N/A	409	....	....	409	....	....
Wye River	N/A	N/A	....	62	....	50	....	30
Re-base Mandatory Emergency Appropriations	N/A	N/A	....	–3	....	....	....	....
Subtotal, Anticipated Other Adjustments	N/A	N/A	3,579	3,787	570	1,912	571	946
Estimate of Other Discretionary Spending Limit, Including Anticipated other Adjustments	**N/A**	**N/A**	**535,350**	**544,905**	**541,894**	**543,602**	**550,953**	**536,604**
Total Discretionary Preview Report Spending Limit	566,380	576,089	536,271	570,945	541,324	571,047	550,382	567,019
Enacted Emergency Spending including P.L. 106–31	5,331	3,652	....	1,129	....	292	....	160
Release of Contingent Emergency Funding	9,358	3,840	....	3,289	....	1458	....	526
Subtotal, Adjustments	14,689	7,492	....	4,418	....	1,750	....	686
Current Estimate, Total Discretionary Spending Limit	**581,069**	**583,581**	**536,271**	**575,363**	**541,324**	**572,797**	**550,382**	**567,705**
Anticipated Other Adjustments:								
Expected Release of Contingent Emergency Funding	2,753	632	2,601	3,209	....	890	....	345
EITC Tax Compliance	....	....	144	144	145	145	146	146
Continuing Disability Reviews	....	....	405	373	405	405	405	405
Adoption Incentive Payments	....	....	20	2	20	13	20	20
C/J/S arrears	....	....	409	....	....	409	....	....
Wye River	800	614	....	62	....	50	....	30

Table 7. CURRENT STATUS OF DISCRETIONARY SPENDING LIMITS—Continued

(In millions of dollars)

	FY 1999		FY 2000		FY 2001		FY 2002	
	BA	OL	BA	OL	BA	OL	BA	OL
Re-base Mandatory Emergency Appropriations	–246	–243	....	–3	....	....	....	....
Subtotal, Anticipated Other Adjustments	3,307	1,003	3,579	3,787	570	1,912	571	946
Estimate of Total Discretionary Spending Limit, Including Anticipated other Adjustments	**584,376**	**584,584**	**539,850**	**579,150**	**541,894**	**574,709**	**550,953**	**568,651**

Pay-as-you-go legislation

Pay-as-you-go enforcement covers all direct spending and receipts legislation. The BEA defines direct spending as entitlement authority, the food stamp program, and budget authority provided by law other than in appropriations acts. The following are exempt from pay-as-you-go enforcement: Social Security, the Postal Service, legislation specifically designated as an emergency requirement, and legislation fully funding the Federal Government's commitment to protect insured deposits.

The BEA requires that, in total, receipts and direct spending legislation not result in a net cost. If such legislation yields a net cost, and if the President and Congress do not fully offset it by other legislative savings, the law requires that a sequester of non-exempt direct spending programs offset the net cost.

The BEA requires that, within seven working days of the enactment of direct spending or receipts legislation, OMB submit a report to Congress that estimates the resulting change in outlays or receipts for the current year, the budget year, and the following four fiscal years. The estimates, which must rely on the economic and technical assumptions underlying the most recent President's budget, determine whether the pay-as-you-go requirement is met. The pay-as-you-go process requires that OMB maintain a "scorecard" that shows the cumulative net cost of such legislation.

Table 8 presents OMB estimates of pay-as-you-go legislation enacted as of June 20, 1999. These are the same balances shown in the February budget. At the end of this session of Congress, OMB will determine the need for sequestration. The 1999 impact of legislation enacted this year will be added to the year 2000 balances in the end-of-session report that OMB is to issue 15 days after the first session of the 106th Congress adjourns sine die. In total, pay-as-you-go legislation already enacted has saved $2.9 billion for 2000. The Administration has proposed to remove the year 2000 balances from the pay-as-you go scorecard and to use the savings to offset defense spending. Under current estimates, no sequester is projected for 2000. The table also shows the CBO estimate for the one Act this year that CBO scored as pay-as-you-go.

Table 8. NET COST OF PAY-AS-YOU-GO LEGISLATION ENACTED AS OF JUNE 20, 1999

(In millions of dollars)

Report Number	Act Number	Act Title	1999	2000	2001	2002	2003	2004	1999–04
Pay-as-you-go balances in FY 2000 Preview Report:									
		OMB estimate	0	–2,927	–833	–164	–1,092	0	–5,016
		CBO estimate	0	587	337	2,759	2,426	0	6,109
Legislation enacted in 1st session—106th Congress:									
N.A.	P.L. 106–25	Education Flexibility Partnership Act of 1999							
	H.R. 800	OMB estimate	OMB does not believe this bill is subject to pay-as-you-go.						
		CBO estimate	0	32	–11	–16	–5	0	0
		Subtotal, legislation enacted in 1st session—106th Congress							
		OMB estimate	0	0	0	0	0	0	0
		CBO estimate	0	32	–11	–16	–5	0	0
		Total, balances							
		OMB estimate	0	–2,927	–833	–164	–1,092	0	–5,016
		CBO estimate	0	619	326	2,743	2,421	0	6,109

* Net costs or savings of $500,000 or less.

Note: OMB also scored the following bills as PAYGO, but none had an impact greater than $500,000 in any year: Nursing Home Resident Protection Amendments of 1999 (P.L. 106–4, H.R. 540), Family Farmer Bankruptcy Extension Act (P.L. 106–5, H.R. 808), Interim Federal Aviation Administration Authorization Act (P.L. 106–6, S. 643), Crop Insurance Application Deadline Extension (P.L. 106–7, H.R. 1212), and Tax Relief for Personnel Involved in Operation Allied Force (P.L. 106–21, H.R. 1376).

SUMMARY TABLES

Table 9. ESTIMATED SPENDING FROM 2000 BALANCES OF BUDGET AUTHORITY: DISCRETIONARY PROGRAMS [1]

(In billions of dollars)

	Total
Total balances end of 2000	685.4
Spending from 2000 balances:	
2001	256.8
2002	149.4
2003	92.9
2004	63.6
Expiring balances 2001 through 2004	....
Unexpended balances at the end of 2004	122.7

[1] This table is required by section 221(b) of the Legislative Reorganization Act of 1970.

Table 10. OUTLAYS FOR MANDATORY PROGRAMS UNDER CURRENT LAW [1]

(In billions of dollars)

	1998 Actual	Estimate					
		1999	2000	2001	2002	2003	2004
Human resources programs:							
Education, training, employment and social services	12.4	12.9	14.5	13.7	12.6	14.7	15.7
Health	106.6	115.1	122.9	132.1	142.4	153.8	166.2
Medicare	190.2	197.0	214.9	225.1	230.0	247.5	261.1
Income security	192.3	199.8	212.3	222.5	232.7	241.4	250.2
Social security	376.1	387.2	403.1	421.1	441.4	462.9	486.5
Veterans' benefits and services	23.3	24.8	24.9	26.0	26.8	28.3	29.3
Subtotal, human resources programs	900.9	936.7	992.7	1,040.3	1,086.0	1,148.5	1,209.1
Other mandatory programs:							
International affairs.	−5.0	−4.6	−3.9	−3.7	−3.4	−3.2	−3.1
Energy	−2.4	−3.0	−5.1	−4.4	−4.3	−4.2	−4.3
Agriculture	7.9	17.3	12.7	9.8	7.9	7.0	6.2
Commerce and housing credit	−2.2	−1.8	1.0	4.0	6.2	6.7	7.2
Transportation	2.1	2.1	2.4	2.0	1.4	1.9	1.8
Undistributed offsetting receipts	−47.2	−40.4	−42.2	−45.5	−51.5	−46.1	−46.9
Other functions	0.4	3.8	2.6	1.3	0.9	1.1	2.8
Subtotal, other mandatory functions	−46.4	−26.5	−32.6	−36.6	−42.8	−36.8	−36.2
Total, outlays for mandatory programs under current law	854.5	910.2	960.1	1,003.8	1,043.1	1,111.7	1,172.9

[1] This table is required by Section 221(b) of the Legislative Reorginizations Act of 1970.

Table 11. 15-YEAR BUDGET TOTALS

(In billions of dollars)

	Budget Estimates										Projections[1]					Total		
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	00-04	00-09	00-14
February Budget Policy Pending Social Security and Medicare Reform:																		
Receipts	1,883	1,933	2,007	2,075	2,166	2,265	2,364	2,474	2,588	2,708	2,828	2,950	3,072	3,197	3,325	10,064	22,464	37,835
Outlays	1,766	1,799	1,820	1,893	1,958	2,034	2,081	2,154	2,234	2,315	2,399	2,486	2,578	2,676	2,789	9,236	20,054	32,981
Unified surplus	117	134	187	182	208	231	283	320	354	393	429	464	495	520	536	828	2,409	4,854
On-budget	–12	0	44	31	50	58	103	131	156	188	221	253	284	312	333	114	750	2,153
Off-budget	129	134	142	151	158	173	179	190	198	205	208	211	211	208	203	714	1,659	2,701
Mid-Session Policy Pending Social Security and Medicare Reform:																		
Receipts	1,914	1,963	2,034	2,113	2,206	2,313	2,420	2,536	2,657	2,784	2,908	3,035	3,165	3,299	3,437	10,230	22,940	38,783
Outlays	1,772	1,795	1,815	1,890	1,952	2,026	2,076	2,147	2,229	2,311	2,386	2,464	2,558	2,659	2,768	9,224	20,013	32,849
Unified surplus	142	168	220	223	254	286	343	389	428	473	522	571	608	640	669	1,007	2,926	5,935
On-budget	5	24	65	58	79	94	142	174	203	240	279	324	360	394	428	231	1,083	2,868
Off-budget	137	144	154	165	175	193	202	215	225	233	243	246	248	246	241	776	1,843	3,067
Changes from the February Budget to the Mid-Session:																		
Receipts	31	30	27	38	40	47	55	62	69	77	80	85	93	103	112	166	476	949
Outlays	6	–4	–6	–3	–6	–8	–5	–6	–5	–4	–13	–21	–20	–17	–20	–12	–41	–132
Unified surplus	25	34	33	41	46	55	61	68	74	80	93	106	113	119	133	179	517	1,081
On-budget	17	24	21	26	29	36	38	43	47	52	58	71	76	82	94	117	333	715
Off-budget	8	10	12	14	17	19	22	25	27	29	34	35	36	38	39	62	183	366
Mid-Session Policy with Social Security and Medicare Reform:																		
Receipts	1,914	1,963	2,034	2,110	2,183	2,284	2,372	2,488	2,608	2,732	2,852	2,977	3,107	3,240	3,378	10,204	22,689	38,243
Outlays	1,772	1,818	1,867	1,940	2,001	2,082	2,140	2,215	2,301	2,386	2,467	2,555	2,652	2,758	2,869	9,399	20,523	33,824
Social Security lockbox[2]	137	144	154	165	175	193	202	215	225	233	243	356	386	417	451	776	1,843	3,696
Medicare lockbox	5	0	12	5	7	10	29	59	83	113	142	67	68	65	58	30	324	723
Available unified surplus	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
On-budget	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Off-budget	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

[1] Projections for 2010 through 2014 are an OMB extension of detailed agency budget estimates through 2009

[2] Includes earnings.

Table 12. MANDATORY AND REVENUE PROPOSALS

(In millions of dollars)

	1999	Estimate 2000	2001	2002	2003	2004	Total 2000–2004
Initiatives:							
Agriculture:							
Increase Environmental Quality Incentive Program		20	41	53	65	74	253
Forest Service payments to States de-coupling		27	41	55	64	72	259
Wildlife Habitat Incentive Program (WHIP)		3	5	7	8	8	31
Farmland Protection Program (FPP)		1	6	20	28	27	82
Cooperator Export Program/Quality Samples		30	30	30	30	30	150
Reallocate rural development and research funds			11	27	42	43	123
EZ/EC economic development grants			5	12	14	14	45
Extend CCC computer funding		35	35	35	35	35	175
Restore Food Stamp benefits for elderly legal immigrants		20	20	25	30	35	130
Education:							
Extend loan consolidation	133	91					91
HHS:							
Education and child care:							
Child care		828	1,085	1,333	1,525	1,904	6,675
Establish Early Learning Fund		372	516	603	624	612	2,727
Subtotal, education and child care		1,200	1,601	1,936	2,149	2,516	9,402
Foster care/independent living		6	31	43	49	51	180
Health care:							
Medicare buy-in, health costs			322	406	372	336	1,436
Disability health options		20	75	169	250	342	856
Cancer clinical trials		10	190	250	300		750
Covering children		79	619	601	85	25	1,409
Long-term care eligibility expansion, Medicaid costs		5	15	25	30	35	110
Immigrant proposals, Medicaid/CHIP costs		31	57	107	187	285	667
Other		59					59
Subtotal, Health care		204	1,278	1,558	1,224	1,023	5,287
HUD:							
Fund new urban Empowerment Zones		3	51	114	138	144	450
Elderly housing vouchers		8	46	77	78	80	289
Interior:							
BLM timber payments to States delinkage		9	12	15	17	17	70
Recreation/entrance fees				–24	29	74	79
Finance land purchases with sales of surplus land							
Transfers to retired miner's health benefits		42					42
Expand cover-over of distilled spirits tax to Virgin Islands		12	12	12	12	12	60
Labor:							
Reauthorize NAFTA-TAA through 9/30/01 and other TAA amendments		101	150	65	16		332
PBGC: raise guarantee cap for multi-employer pensions and other		1	1	2	3	3	10
UI reform proposal		90	190	260	20	40	600
Extend welfare to work		15	294	450	207	34	1,000
Transportation:							
Shift St. Lawrence Seaway to mandatory		12	12	13	14	14	65
Treasury:							
Expand cover-over of distilled spirits tax to Puerto Rico		34	34	34	34	34	170
Long-term care tax credit (outlay portion)		6	123	127	146	156	558
Veterans:							
Pay full compensation benefits for Filipinos residing in the U.S.		5	5	5	5	5	25

Table 12. MANDATORY AND REVENUE PROPOSALS—Continued

(In millions of dollars)

	Estimate						Total 2000–2004
	1999	2000	2001	2002	2003	2004	
Charge fees to lenders participating in VA's home loan program to fund information technology improvements:							
Increased technology spending	....	5	5	5	....	....	15
Fees	....	–5	–5	–5	....	....	–15
Department of Defense—Civil:							
Retirement reform	....	1	1	1	1	2	6
EPA:							
Provide funding for Superfund orphan shares	....	200	200	200	200	200	1,000
FEMA:							
Flood map modernization	....	26	53	61	64	66	270
SSA:							
Return to work proposals (SSI portion)	....	....	....	–5	–5	–5	–15
Restore SSI benefits for disabled legal immigrants	....	....	....	77	180	328	585
United Mine Workers of America:							
Interior transfers for retired miner's health benefits	....	–42	....	....	....	....	–42
Health benefits	8	57	14	13	12	12	108
Revenues:							
Provide tax relief and extend provisions	670	4,287	7,795	6,619	6,892	7,333	32,926
Subtotal, initiatives	**811**	**6,504**	**12,097**	**11,917**	**11,801**	**12,477**	**54,796**
Offsets not designated for discretionary:							
Agriculture:							
Cut conservation farm option to fund WHIP and FPP	....	–3	–16	–21	–27	–29	–96
Reduce EEP	....	–85	–106	–118	–130	–139	–578
Charge fair market value for timber/Forest Service	....	–17	–17	–17	–17	–17	–85
12% commodity provisions	....	–95	–104	–93	–111	–125	–528
Forest service recreation fees	....	....	....	–24	–7	–17	–48
Education—student loans:							
Advance recall of reserves	–142	–23	....	....	....	....	–23
Recall additional federal fund reserves	....	....	–234	–262	–159	–65	–720
Implement a 90-day non-interest accruing curing period before lenders file default claims	....	–17	–24	–27	–29	–31	–128
Eliminate GA complement at 95% on new loans	....	....	–60	–65	–70	–74	–269
Reduce guaranty agency retention rate to 18.5%	....	–483	–64	–66	–72	–77	–762
Reduce lender subsidy to 20 basis points on tax exempt lenders	....	....	–205	–218	–264	–96	–783
HHS:							
Eliminate child support hold harmless payments and conform paternity match with administrative match rate	....	–74	–67	–61	–63	–59	–324
Health care savings	....	–226	–1,111	–1,266	–1,545	–1,615	–5,763
Adjustment of child support orders	....	....	33	–5	–43	–70	–85
Cap TANF transfer to SSBG	....	–600	....	....	....	100	–500
Interior:							
Hardrock mining production fee on public lands	....	....	–8	–26	–26	–26	–86
Filming and photography on public lands	....	....	....	....	....	....	....
Treasury:							
Extend customs user fees	....	....	....	....	....	–1,522	–1,522
Simplification of foster child credit (outlay portion)	....	–2	–36	–37	–39	–40	–154
Veterans:							
Extend expiring OBRA VA provisions:							
Round down to the next lower dollar COLA adjustments to disability compensation and DIC	....	....	....	....	–15	–24	–39
Limit pension benefits to Medicaid eligible beneficiaries in nursing homes (includes Medicaid offset)	....	....	....	....	–110	–117	–227

Table 12. MANDATORY AND REVENUE PROPOSALS—Continued

(In millions of dollars)

	Estimate						Total 2000–2004
	1999	2000	2001	2002	2003	2004	
Verify income of pension beneficiaries with the IRS and SSA	....	....	....	....	–3	–3	–6
Collect higher loan fees and reduce resale losses	....	....	....	....	–188	–190	–378
SSA:							
Program integrity proposal (SSI portion)	....	–14	–18	–59	–65	–46	–202
Fed/FDIC:							
State bank exam fee (non-Fed members)	....	–84	–88	–91	–95	–100	–458
Allowances:							
Tobacco recoupment policy	....	....	–2,824	–2,123	–1,235	–690	–6,872
Revenues:							
State bank exam fees	....	–82	–86	–90	–94	–98	–450
FEMA mortgage transaction fees	....	–58	–59	–62	–65	–68	–312
United Mine Workers premiums	–8	–15	–14	–13	–12	–12	–66
Clergy open season for OASDHI coverage (on-budget portion)	....	–2	–1	–1	–1	–1	–6
UI solvency incentive	....	–224	–312	–96	....	....	–632
Eliminate unwarranted benefits	–372	–4,996	–7,174	–7,356	–7,556	–7,623	–34,705
Subtotal, offsets not designated for discretionary	**–522**	**–7,100**	**–12,595**	**–12,197**	**–12,041**	**–12,874**	**–56,807**
Subtotal, proposals subject to pay-as-you-go	**289**	**–596**	**–498**	**–280**	**–240**	**–397**	**–2,011**
Proposals not subject to pay-as-you-go:							
Education:							
Family education loans modification transfer	....	468	–110	–111	–97	–80	70
Housing and Urban Development:							
Increase in FHA MMI commitment limitation	....	–299	–99	....	....	....	–398
Labor:							
UI integrity	....	–118	–160	–160	–160	–160	–758
Social Security Administration:							
Return to work proposals (DI portion)	....	10	25	41	45	46	167
Program integrity proposal (DI portion)	....	–7	–11	–13	–12	–13	–56
Impact of Medicare buy-in on OASI	....	....	64	113	144	153	474
FDIC:							
Interest payments related to State exam fees	....	–2	–7	–12	–17	–23	–61
Morris K. Udall Scholarship Foundation:							
Receipt of federal payments to the foundation	....	–3	–3	–3	–3	–3	–15
Undistributed offsetting receipts:							
Redefine wage base for military pay covered by Social Security	....	264	271	261	260	261	1,317
Revenues:							
Clergy open season for OASDHI coverage (off-budget portion)	....	–3	–7	–9	–9	–10	–38
Subtotal, proposals not subject to pay-as-you-go	....	**310**	**–37**	**107**	**151**	**171**	**702**
SUBTOTAL, proposals not designated for discretionary	**289**	**–286**	**–535**	**–173**	**–89**	**–226**	**–1,309**
Offsets designated for discretionary:							
Outlays:							
Education—student loans:							
NDNH savings	....	–876	–19	–25	–26	–25	–971
Recall additional federal fund reserves	....	–868	....	....	....	....	–868
Eliminate GA complement at 95% on new loans	....	–41	....	....	....	....	–41
Reduce lender subsidy to 20 basis points on tax exempt lenders	....	–132	....	....	....	....	–132
HHS:							
Health care savings	....	–1,100	–920	–1,030	–980	–1,070	–5,100
Freeze TANF supplemental growth at FY99 level	....	–45	–87	–48	–41	–20	–241

Table 12. MANDATORY AND REVENUE PROPOSALS—Continued

(In millions of dollars)

	Estimate						Total 2000–2004
	1999	2000	2001	2002	2003	2004	
Corps of Engineers:							
Harbor services fund user fees	....	–966	–963	–960	–996	–1,014	–4,899
Undistributed offsetting receipts:							
Change in military retirement	....	–849	–1,058	–1,159	–1,231	–1,270	–5,567
Allowances:							
Tobacco recoupment policy	....	....	....	–1,794	–3,318	–3,998	–9,110
Revenues:							
Superfund tax extensions	–109	–1,532	–1,207	–1,219	–1,242	–1,259	–6,459
Repeal of existing harbor maintenance excise tax	....	472	505	541	578	619	2,715
FAA user fees	....	–1,122	–1,184	–1,091	–1,007	–910	–5,314
Modify individual estimated tax safe harbors	....	–1,800	–71	1,871	....	....	....
Federal tobacco taxes	77	–7,987	–7,105	–6,589	–6,418	–6,400	–34,499
Subtotal, offsets designated for discretionary	–32	–16,846	–12,109	–11,503	–14,681	–15,347	–70,486
TOTAL, mandatory and revenue proposals	**257**	**–17,132**	**–12,644**	**–11,676**	**–14,770**	**–15,573**	**–71,795**
MEMORANDUM:							
Total tobacco recoupment policy savings shown above	....	....	–2,824	–3,917	–4,553	–4,688	–15,982
Total health care savings shown above	....	–1,326	–2,031	–2,296	–2,525	–2,685	–10,863

Table 13. TAX RELIEF PROPOSALS INCLUDING SOCIAL SECURITY AND MEDICARE REFORM

(In billions of dollars)

	1999	2000	2001	2002	2003	2004	2000–2004	2000–2009
Provide tax relief and extend expiring provisions:								
Make health care more affordable	....	–0.1	–1.3	–1.3	–1.5	–1.6	–5.8	–14.7
Expand education initiatives	–0.1	–0.5	–1.4	–1.3	–1.2	–1.2	–5.6	–11.6
Make child care more affordable	....	–0.4	–1.7	–1.5	–1.6	–1.6	–6.8	–15.7
Extend expiring provisions	–0.4	–1.7	–1.7	–0.6	–0.3	–0.2	–4.6	–5.3
Other tax relief provisions	–0.2	–1.6	–1.8	–1.9	–2.3	–2.7	–10.2	–29.1
Subtotal, provide tax relief and extend expiring provisions	–0.7	–4.3	–7.8	–6.6	–6.9	–7.3	–32.9	–76.3
Create Universal Savings Accounts	....	....	–0.8	–0.6	–2.6	–22.3	–26.3	–250.4
Total effect of tax relief proposals	–0.7	–4.3	–8.6	–7.2	–9.5	–29.6	–59.2	–326.7

Table 14. EFFECT OF PROPOSALS ON RECEIPTS

(In millions of dollars)

	Estimate 1999	2000	2001	2002	2003	2004	Total 1999–2004
Provide tax relief and extend expiring provisions:							
Make health care more affordable:							
Provide tax relief for long-term care needs	....	–52	–1,107	–1,144	–1,312	–1,408	–5,023
Provide tax relief for workers with disabilities	....	–21	–151	–169	–187	–196	–724
Provide tax relief to encourage small business health plans	....	–1	–5	–10	–15	–13	–44
Subtotal, make health care more affordable	....	–74	–1,263	–1,323	–1,514	–1,617	–5,791
Expand education initiatives:							
Provide incentives for public school construction and modernization	....	–146	–570	–939	–1,035	–1,045	–3,735
Extend employer-provided educational assistance and include graduate education	–72	–267	–719	–236	....	....	–1,222
Provide tax credit for workplace literacy and basic education programs	....	–3	–18	–25	–38	–55	–139
Encourage sponsorship of qualified zone academies	....	–22	–43	–55	–24	....	–144
Eliminate 60-month limit on student loan interest deduction	....	–18	–61	–62	–67	–73	–281
Eliminate tax when forgiving student loans subject to income contingent repayment	....	....	....	....	....	....	....
Provide tax relief for participants in certain Federal education programs	....	–3	–7	–7	–7	–6	–30
Subtotal, expand education initiatives	–72	–459	–1,418	–1,324	–1,171	–1,179	–5,551
Make child care more affordable:							
Increase, expand and simplify child and dependent care tax credit	....	–338	–1,585	–1,426	–1,471	–1,503	–6,323
Provide tax incentives for employer-provided child-care facilities	....	–40	–84	–114	–131	–140	–509
Subtotal, make child care more affordable	....	–378	–1,669	–1,540	–1,602	–1,643	–6,832
Provide incentives to revitalize communities:							
Increase low-income housing tax credit per capita cap	....	–46	–186	–330	–474	–620	–1,656
Provide Better America Bonds to improve the environment	....	–8	–49	–127	–205	–284	–673
Provide New Markets Tax Credit	....	–12	–88	–207	–297	–376	–980
Expand tax incentives for SSBICs,	–*	–*	–*	–*	–*	–*	–*
Extend wage credit for two new EZs	....	....	....	....	....	....	....
Subtotal, provide incentives to revitalize communities	....	–66	–323	–664	–976	–1,280	–3,309
Promote energy efficiency and improve the environment:							
Provide tax credit for energy-efficient building equipment	....	–230	–407	–376	–393	–127	–1,533
Provide tax credit for new energy-efficient homes	....	–60	–109	–92	–72	–96	–429
Extend electric vehicle tax credit; provide tax credit for fuel-efficient vehicles	....	....	....	–4	–178	–712	–894
Provide investment tax credit for CHP systems	–1	–64	–99	–110	–52	–7	–332
Provide tax credit for rooftop solar systems	....	–9	–19	–25	–34	–45	–132
Extend wind and biomass tax credit and expand eligible biomass sources	....	–20	–48	–73	–88	–94	–323
Subtotal, promote energy efficiency and improve the environment	–1	–383	–682	–680	–817	–1,081	–3,643
Promote expanded retirement savings, security and portability	–27	–144	–204	–218	–213	–218	–997
Extend expiring provisions:							
Allow personal tax credits against the AMT	–67	–679	–707	....	....	....	–1,386
Extend work opportunity tax credit	–23	–116	–164	–81	–38	–16	–415
Extend welfare-to-work tax credit	–3	–19	–36	–21	–9	–2	–87
Extend R&E tax credit	–311	–933	–656	–281	–133	–53	–2,056
Make permanent the expensing of brownfields remediation costs	....	....	–106	–170	–168	–167	–611

Table 14. EFFECT OF PROPOSALS ON RECEIPTS—Continued

(In millions of dollars)

	Estimate						Total
	1999	2000	2001	2002	2003	2004	1999–2004
Extend tax credit for first-time DC homebuyers	1	–1	–10	–1	....	....	–12
Subtotal, extend expiring provisions	–403	–1,748	–1,679	–554	–348	–238	–4,567
Simplify the tax laws	–64	–141	–159	–154	–104	–41	–599
Miscellaneous provisions:							
Make first $2,000 of severance pay exempt from income tax	....	–42	–168	–173	–133	....	–516
Allow steel companies to carryback NOLs up to five years	–19	–190	–28	–30	–24	–20	–292
Subtotal, miscellaneous provisions	–19	–232	–196	–203	–157	–20	–808
Electricity restructuring:							
Deny tax-exempt status for new electric utility bonds except for distribution related expenses; repeal cost of service limitation for determining deductible contributions to nuclear decommissioning funds; clarify the 15-year life of distributed power property	....	3	10	18	27	38	96
Subtotal, electricity restructuring	....	3	10	18	27	38	96
Modify international trade provisions:							
Extend and modify Puerto Rico economic-activity tax credit	....	–24	–46	–71	–106	–141	–388
Extend GSP and modify other trade provisions [1]	–84	–641	–353	–93	–96	–99	–1,282
Levy tariff on certain textiles/apparel produced in the CNMI [1]	....	....	187	187	187	187	748
Expand Virgin Island tariff credits [1]	....	....	–*	–*	–2	–1	–3
Subtotal, modify international trade provisions	–84	–665	–212	23	–17	–54	–925
Subtotal, provide tax relief and extend expiring provisions [1]	–670	–4,287	–7,795	–6,619	–6,892	–7,333	–32,926
Eliminate unwarranted benefits and adopt other revenue measures:							
Limit benefits of corporate tax shelter transactions:							
Deny tax benefits resulting from non-economic transactions; modify substantial understatement penalty for corporate tax shelters; deny deductions for certain tax advice and impose excise taxes on certain fees, rescission provisions and provisions guaranteeing tax benefits	....	11	76	162	194	214	657
Preclude taxpayers from taking tax positions inconsistent with the form of their transactions	5	50	52	55	58	62	277
Tax income from corporate tax shelters involving tax-indifferent parties	15	150	155	165	175	185	830
Require accrual of income on forward sale of corporate stock	1	4	9	13	21	31	78
Modify treatment of built-in losses and other attribute trafficking	9	113	185	192	200	208	898
Modify treatment of ESOP as S corporation shareholder	17	64	102	145	183	202	696
Prevent serial liquidation of U.S. subsidiaries of foreign corporations	....	12	20	19	19	19	89
Prevent capital gains avoidance through basis shift transactions involving foreign shareholders	65	301	114	64	45	27	551
Limit inappropriate tax benefits for lessors of tax-exempt use property	1	35	79	119	147	163	543
Prevent mismatching of deductions and income exclusions in transactions with related foreign persons	....	60	104	108	112	117	501
Restrict basis creation through Section 357(c)	3	9	19	28	39	50	145
Modify anti-abuse rule related to assumption of liabilities	1	2	4	5	7	9	27
Modify COLI rules	....	240	366	398	427	451	1,882
Subtotal, limit benefits of corporate tax shelter transactions	117	1,051	1,285	1,473	1,627	1,738	7,174
Other proposals:							
Require banks to accrue interest on short-term obligations	....	72	2	3	4	4	85

Table 14. EFFECT OF PROPOSALS ON RECEIPTS—Continued

(In millions of dollars)

	Estimate 1999	2000	2001	2002	2003	2004	Total 1999–2004
Require current accrual of market discount by accrual method taxpayers	3	7	11	15	20	25	78
Limit conversion of character of income from constructive ownership transactions with respect to partnership interests	19	30	37	32	32	35	166
Modify rules for debt-financed portfolio stock	1	5	9	14	20	26	74
Modify and clarify certain rules relating to debt-for-debt exchanges	15	76	109	108	107	106	506
Modify and clarify straddle rules	16	40	50	48	47	49	234
Conform control test for tax-free incorporations, distributions, and reorganizations	7	18	22	22	21	21	104
Tax issuance of tracking stock	40	105	128	127	127	127	614
Require consistent treatment and provide basis allocation rules for transfers of intangibles in certain nonrecognition transactions	2	66	83	86	90	95	420
Modify tax treatment of downstream mergers	14	42	55	59	63	67	286
Modify partnership distribution rules	–28	131	162	173	162	147	775
Deny change in method treatment to tax-free formations	6	94	64	65	67	70	360
Repeal installment method for accrual basis taxpayers	....	685	757	438	114	16	2,010
Deny deduction for punitive damages	16	88	124	130	137	143	622
Apply uniform capitalization rules to tollers	....	25	39	40	42	21	167
Provide consistent amortization periods for intangibles	....	–219	–189	48	255	435	330
Clarify recovery period of utility grading costs	9	30	49	61	69	75	284
Require recapture of policyholder surplus accounts	....	134	222	219	217	215	1,007
Modify rules for capitalizing policy acquisition costs of life insurance companies	....	379	977	946	914	880	4,096
Subject investment income of trade associations to tax	....	172	294	309	325	341	1,441
Restore phaseout of unified credit for large estates	....	27	61	66	72	76	302
Require consistent valuation for estate and income tax purposes	....	3	8	13	17	22	63
Require basis allocation for part sale/part gift transactions	....	2	3	4	5	6	20
Conform treatment of surviving spouses in community property States	3	15	33	46	59	72	225
Expand section 864(c)(4)(B) to interest and dividend equivalents	....	9	15	16	16	17	73
Recapture overall foreign losses when CFC stock is disposed	....	6	6	6	6	7	31
Modify foreign tax credit carryback and carryforward rules	38	252	315	266	253	233	1,319
Increase elective withholding rate for nonperiodic distributions from deferred compensation plans	....	42	2	2	2	2	50
Increase section 4973 excise tax for excess IRA contributions	....	1	12	12	13	14	52
Limit pre-funding of welfare benefits for 10 or more employer plans	....	92	156	159	150	149	706
Subject signing bonuses to employment taxes	....	5	3	3	3	3	17
Expand reporting of cancellation of indebtedness income	....	7	7	7	7	7	35
Require taxpayers to include rental income of residence in income without regard to the period of rental	....	4	11	11	12	12	50
Repeal lower-of-cost-or-market inventory accounting method	18	422	525	431	433	201	2,012
Defer interest deduction and OID on certain convertible debt	2	9	20	32	44	55	160
Modify deposit requirement for FUTA	....	....	....	....	....	....	....
Reinstate Oil Spill Liability Trust Fund tax[1]	26	254	256	257	261	264	1,292
Deny DRD for certain preferred stock	4	13	26	38	52	66	195
Disallow interest on debt allocable to tax-exempt obligations	4	11	17	23	28	33	112
Repeal percentage depletion for non-fuel minerals mined on Federal and formerly Federal lands	....	92	94	96	97	99	478
Modify rules relating to foreign oil and gas extraction income	....	5	65	107	112	118	407
Increase penalties for failure to file correct information returns	....	6	12	15	19	13	65
Tighten the substantial understatement penalty for large corporations	....	....	25	42	43	37	147

Table 14. EFFECT OF PROPOSALS ON RECEIPTS—Continued

(In millions of dollars)

	Estimate 1999	2000	2001	2002	2003	2004	Total 1999–2004
Require withholding on certain gambling winnings	....	17	4	1	1	1	24
Simplify foster child definition under EITC	....	....	6	7	7	7	27
Replace sales-source rules with activity-based rules	....	310	540	570	600	630	2,650
Repeal tax-free conversions of large C corporations into S corporations	....	10	32	46	56	68	212
Eliminate the income recognition exception for accrual method service providers	1	32	44	46	48	50	220
Modify structure of businesses indirectly conducted by REITs	4	27	27	27	28	28	137
Modify treatment of closely held REITs	....	24	10	12	14	15	75
Impose excise tax on purchase of structured settlements	6	8	6	3	1	–2	16
Amend 80/20 company rules	28	48	49	51	52	53	253
Modify foreign office material participation exception applicable to inventory sales attributable to nonresident's U.S. office	1	7	10	10	11	11	49
Stop abuse of CFC exception to ownership requirements of section 883	....	4	9	7	5	5	30
Include QTIP trust assets in surviving spouse's estate	....	....	2	2	2	2	8
Eliminate non-business valuation discounts	....	206	425	443	477	494	2,045
Eliminate gift tax exemption for personal residence trusts	....	–1	–1	–1	3	12	12
Increase proration percentage for P&C insurance companies	....	–4	49	64	87	107	303
Subtotal, other proposals	255	3,945	5,889	5,883	5,929	5,885	27,531
Subtotal, eliminate unwarranted benefits and adopt other revenue measures [1]	**372**	**4,996**	**7,174**	**7,356**	**7,556**	**7,623**	**34,705**
Other provisions that affect receipts:							
Reinstate environmental tax on corporate taxable income [2]	....	794	460	463	476	481	2,674
Reinstate Superfund excise taxes [1]	109	738	747	756	766	778	3,785
Convert Airport and Airway Trust Fund taxes to a cost-based user fee system [1]	....	1,122	1,184	1,091	1,007	910	5,314
Receipts from tobacco legislation [1]	–77	7,987	7,105	6,589	6,418	6,400	34,499
Assess fees for examination of bank holding companies and State-chartered member banks (receipt effect) [1]	....	82	86	90	94	98	450
Restore premiums for United Mine Workers of America Combined Benefit Fund	8	15	14	13	12	12	66
Assess mortgage transaction fees for flood hazard determination [1]	....	58	59	62	65	68	312
Modify individual estimated tax safe harbors	....	1,800	71	–1,871	....	....	....
Replace Harbor Maintenance tax with the Harbor Services User Fee (receipt effect) [1]	....	–472	–505	–541	–578	–619	–2,715
Allow members of the clergy to revoke exemption from Social Security and Medicare coverage [1]	....	5	8	10	10	11	44
Create solvency incentive for State unemployment trust fund accounts [1]	....	224	312	96	....	....	632
Subtotal, other provisions that affect receipts [1]	40	12,353	9,541	6,758	8,270	8,139	45,061
Total effect of proposals [1]	–258	13,062	8,920	7,495	8,934	8,429	46,840
(Paygo proposals) [1]	–290	1,090	–149	999	836	469	3,245
(Non-paygo proposals)	....	3	7	9	9	10	38
(Discretionary offsets)	32	11,969	9,062	6,487	8,089	7,950	43,557

* $500,000 or less.

[1] Net of income offsets.

[2] Net of deductibility for income tax purposes.

Table 15. OUTLAYS BY CATEGORY

(In billions of dollars)

	February estimate						Mid-Session estimate					
	1999	2000	2001	2002	2003	2004	1999	2000	2001	2002	2003	2004
Without Social Security and Medicare Reform:												
Discretionary:												
Defense	277.5	274.8	282.7	292.8	304.7	314.4	283.0	280.3	284.4	293.3	304.9	314.5
Non-defense	303.6	316.7	329.7	329.7	331.6	334.9	304.9	317.0	324.6	332.9	331.7	334.9
Subtotal, discretionary	581.2	591.5	612.4	622.6	636.3	649.3	587.9	597.3	609.0	626.2	636.6	649.4
Resources contingent on Social Security and Medicare reform	....	....	−26.3	−40.9	−36.5	−34.1	....	....	−21.3	−45.9	−36.5	−34.1
Mandatory:												
Social security	389.2	405.2	423.6	444.1	465.1	487.4	387.2	403.1	421.2	441.6	463.1	486.7
Medicare	202.0	213.7	227.7	231.7	249.6	263.4	197.0	213.7	223.6	228.5	245.8	259.3
Medicaid	108.5	114.7	122.2	131.1	141.6	152.9	108.6	114.8	122.6	131.7	142.4	154.1
Other	218.9	225.4	233.7	237.1	253.6	266.1	217.5	224.4	232.7	237.2	254.5	265.7
Subtotal, mandatory	918.6	959.0	1,007.1	1,043.9	1,109.9	1,169.7	910.2	956.0	1,000.0	1,039.0	1,105.8	1,165.7
Net interest	227.2	215.2	205.9	194.7	183.2	173.0	229.4	218.5	207.4	195.5	183.9	171.0
Total, outlays	1,727.1	1,765.7	1,799.2	1,820.3	1,893.0	1,957.9	1,727.5	1,771.7	1,795.2	1,814.8	1,889.9	1,952.0
With Social Security and Medicare Reform:												
Discretionary	581.2	591.5	612.4	622.6	636.3	649.3	587.9	597.3	609.0	626.2	636.6	649.4
Mandatory	918.6	959.0	1,007.1	1,043.9	1,109.9	1,169.7	910.2	956.3	1,001.2	1,043.1	1,114.1	1,172.8
Net interest	227.2	215.5	207.6	199.0	190.7	183.6	229.4	218.5	208.0	197.9	189.0	179.3
Total, outlays	1,727.1	1,766.0	1,827.2	1,865.5	1,936.9	2,002.6	1,727.5	1,772.1	1,818.3	1,867.7	1,939.7	2,001.4

Table 16. RECEIPTS BY SOURCE

(In billions of dollars)

	1998 Actual	February estimates						Mid-Session estimates					
		1999	2000	2001	2002	2003	2004	1999	2000	2001	2002	2003	2004
Individual income taxes	828.6	868.9	899.7	912.5	942.8	970.7	1,017.7	886.7	921.1	934.0	961.1	996.1	1,043.8
Corporation income taxes	188.7	182.2	189.4	196.6	203.4	212.3	221.5	179.5	187.5	191.8	197.9	205.9	213.5
Social insurance and retirement receipts	571.8	608.8	636.5	660.3	686.3	712.0	739.2	608.0	641.1	666.8	694.4	723.8	754.5
Excise taxes	57.7	68.1	69.9	70.8	72.3	73.8	75.4	70.7	72.1	73.0	73.8	75.2	76.8
Estate and gift taxes	24.1	25.9	27.0	28.4	30.5	31.6	33.9	28.4	31.4	32.8	35.1	36.6	39.2
Customs duties	18.3	17.7	18.4	20.0	21.4	23.0	24.9	18.0	17.2	18.3	20.0	21.5	22.9
Miscellaneous receipts	32.7	34.7	42.1	44.9	50.3	51.7	53.0	35.1	43.9	46.8	52.1	53.6	55.0
Total without Social Security and Medicare Reform	**1,721.8**	**1,806.3**	**1,883.0**	**1,933.3**	**2,007.1**	**2,075.0**	**2,165.5**	**1,826.3**	**1,914.2**	**1,963.4**	**2,034.4**	**2,112.7**	**2,205.7**
Memorandum:													
Total with Social Security and Medicare Reform	1,721.8	1,806.3	1,869.0	1,917.4	1,985.2	2,054.1	2,141.9	1,826.3	1,914.2	1,962.6	2,033.8	2,110.1	2,183.4

Table 17. OUTLAYS BY AGENCY

(In billions of dollars)

	1998 Actual	February estimates						Mid-Session estimates					
		1999	2000	2001	2002	2003	2004	1999	2000	2001	2002	2003	2004
Legislative Branch	2.6	2.8	3.1	3.0	3.1	3.2	3.2	2.9	3.1	3.0	3.1	3.2	3.2
Judicial Branch	3.5	3.9	4.1	4.3	4.3	4.4	4.4	3.9	4.1	4.3	4.3	4.4	4.4
Agriculture	53.9	63.4	55.2	55.0	54.7	54.7	56.7	62.7	56.2	55.6	55.3	55.9	57.0
Commerce	4.0	4.8	6.6	5.2	4.7	4.7	4.7	4.8	8.2	5.6	4.8	4.7	4.7
Defense—Military	256.1	263.6	260.8	268.6	278.3	290.2	300.0	268.6	263.8	269.6	278.6	290.3	300.0
Education	31.5	34.4	35.0	39.2	38.2	39.8	40.4	34.3	33.8	38.7	37.7	39.3	40.1
Energy	14.4	15.5	15.8	16.0	16.0	15.9	15.6	15.5	15.8	16.0	16.0	15.9	15.6
Health and Human Services	350.6	375.5	400.3	426.7	443.1	474.1	501.6	371.3	401.0	423.5	440.6	470.7	497.9
Housing and Urban Development	30.2	32.3	32.5	32.7	29.2	27.8	26.1	33.0	31.8	31.7	28.4	27.0	25.5
Interior	7.2	8.4	8.5	8.6	8.6	8.7	8.8	8.6	8.6	8.7	8.6	8.8	8.8
Justice	16.2	16.5	19.8	20.9	19.7	19.7	19.5	18.6	20.4	20.8	19.8	19.8	19.6
Labor	30.0	34.9	38.7	40.6	41.2	41.9	43.2	32.9	36.8	39.8	41.8	42.7	43.7
State	5.4	6.8	7.0	7.3	7.3	7.0	7.1	7.0	7.2	7.5	7.5	7.1	7.3
Transportation	39.5	41.9	45.5	48.2	49.5	51.2	52.8	41.9	45.5	48.3	49.5	51.2	52.8
Treasury	390.1	386.0	377.9	376.6	374.3	372.4	372.1	388.4	382.8	381.5	380.2	380.1	379.2
Veterans Affairs	41.8	43.5	44.0	45.3	46.0	46.8	47.9	43.9	44.0	45.3	46.0	46.8	47.9
Corps of Engineers	3.8	4.2	3.1	3.0	3.0	2.9	2.9	4.2	3.1	3.0	3.0	2.9	2.9
Other Defense Civil Programs	31.2	32.3	33.2	34.1	35.0	35.8	36.7	32.3	33.2	34.1	35.0	35.9	36.8
Environmental Protection Agency	6.3	6.7	7.3	7.6	7.4	7.3	7.3	6.7	7.3	7.6	7.4	7.3	7.3
Executive Office of the President	0.2	0.4	0.3	0.3	0.3	0.3	0.3	0.4	0.3	0.3	0.3	0.3	0.3
Federal Emergency Management Agency	2.1	2.7	2.7	2.4	1.8	1.5	1.3	3.1	3.2	2.7	2.0	1.5	1.3
General Services Administration	1.1	0.3	0.4	0.4	–0.1	0.3	0.2	0.4	0.4	0.4	–0.1	0.3	0.2
International Assistance Programs	9.0	10.1	10.4	10.7	11.4	11.5	11.5	10.5	10.9	10.8	11.5	11.5	11.5
National Aeronautics and Space Administration	14.2	14.0	13.4	13.4	13.5	13.7	13.7	14.0	13.4	13.4	13.5	13.7	13.7
National Science Foundation	3.2	3.3	3.6	3.8	4.0	4.0	4.0	3.3	3.6	3.8	4.0	4.0	4.0
Office of Personnel Management	46.3	48.3	50.5	52.9	55.4	57.8	60.6	48.3	50.5	52.9	55.4	57.9	60.7
Small Business Administration	–0.1	–0.9	0.3	0.3	0.5	0.7	0.7	–0.8	0.3	0.3	0.5	0.7	0.7
Social Security Administration	408.2	422.4	439.0	458.2	479.9	502.0	525.4	420.5	436.9	455.8	477.4	500.0	524.7
Other Independent Agencies	11.0	6.3	14.8	17.2	21.2	22.1	23.1	6.5	15.1	17.8	21.8	22.7	23.6
Allowances	....	3.1	2.6	–26.6	–40.2	–33.9	–28.9	0.6	3.1	–26.8	–42.2	–33.8	–28.8
Undistributed Offsetting Receipts	–161.0	–160.4	–170.8	–177.0	–191.0	–195.5	–205.0	–160.8	–172.5	–180.9	–196.7	–203.0	–214.6
Total without Social Security and Medicare Reform	**1,652.6**	**1,727.1**	**1,765.7**	**1,799.2**	**1,820.3**	**1,893.0**	**1,957.9**	**1,727.5**	**1,771.7**	**1,795.2**	**1,814.8**	**1,889.9**	**1,952.0**
Memorandum:													
Total with Social Security and Medicare Reform	1,652.6	1,727.1	1,766.0	1,827.2	1,865.5	1,936.9	2,002.6	1,727.5	1,772.1	1,818.3	1,867.2	1,939.7	2,001.4

Table 18. OUTLAYS BY FUNCTION

(In billions of dollars)

	1998 Actual	February estimates						Mid-Session estimates					
		1999	2000	2001	2002	2003	2004	1999	2000	2001	2002	2003	2004
National defense	268.5	276.7	274.1	282.1	292.1	304.0	313.8	282.2	279.6	283.8	292.6	304.2	313.8
International affairs	13.1	15.5	16.1	17.0	17.8	17.7	17.9	15.9	16.9	17.3	18.1	17.9	18.1
General science, space, and technology	18.2	18.5	18.6	19.0	19.1	19.3	19.3	18.5	18.6	19.0	19.2	19.3	19.3
Energy	1.3	*	–2.0	–1.1	–1.1	–1.1	–1.2	0.2	–2.0	–1.1	–1.1	–1.1	–1.2
Natural resources and environment	22.4	24.3	23.7	24.4	24.0	24.3	24.3	24.6	24.0	24.5	24.1	24.5	24.5
Agriculture	12.2	21.4	15.1	12.8	11.4	10.2	10.3	22.0	16.9	13.8	12.0	11.1	10.3
Commerce and housing credit	1.0	0.5	6.4	7.7	9.3	9.5	9.9	1.6	7.2	7.6	9.0	9.3	9.8
Transportation	40.3	42.6	46.4	48.8	49.6	51.8	53.4	42.7	46.4	48.8	49.6	51.8	53.4
Community and regional development	9.7	10.4	10.2	10.0	9.6	9.3	9.1	10.7	10.8	10.4	9.8	9.4	9.1
Education, training, employment, and social services	54.9	60.1	63.4	67.8	66.9	68.7	70.0	59.5	62.3	67.3	66.6	68.5	69.6
Health	131.4	143.1	152.3	162.8	173.3	184.7	196.6	142.8	152.5	163.3	174.0	185.5	197.8
Medicare	192.8	205.0	216.6	230.6	234.6	252.5	266.3	199.9	216.6	226.5	231.4	248.7	262.2
Income security	233.2	243.1	258.0	267.3	274.7	282.3	291.2	240.7	255.5	266.2	274.9	282.6	291.2
Social Security	379.2	392.6	408.6	426.9	447.3	468.3	490.6	390.7	406.4	424.5	444.8	466.3	489.9
Veterans benefits and services	41.8	43.5	44.0	45.3	46.0	46.8	47.9	44.0	44.0	45.3	46.0	46.8	47.9
Administration of justice	22.8	24.5	27.5	28.8	27.6	27.7	27.5	26.7	28.2	28.7	27.7	27.8	27.6
General government	13.4	14.9	14.5	14.7	14.5	14.6	14.7	15.7	14.6	14.6	14.5	14.5	14.6
Net interest	243.4	227.2	215.2	205.9	194.7	183.2	173.0	229.4	218.5	207.4	195.5	183.9	171.0
Allowances	....	3.1	2.6	–26.6	–40.2	–33.9	–28.9	0.2	0.5	–27.4	–42.4	–33.9	–28.8
Undistributed offsetting receipts	–47.2	–40.0	–45.7	–45.0	–51.1	–47.0	–47.9	–40.4	–45.6	–45.2	–51.3	–47.2	–48.1
Total without Social Security and Medicare Reform	**1,652.6**	**1,727.1**	**1,765.7**	**1,799.2**	**1,820.3**	**1,893.0**	**1,957.9**	**1,727.5**	**1,771.7**	**1,795.2**	**1,814.8**	**1,889.9**	**1,952.0**
Memorandum:													
Total with Social Security and Medicare Reform	1,652.6	1,727.1	1,766.0	1,827.2	1,865.5	1,936.9	2,002.6	1,727.5	1,772.1	1,818.3	1,867.2	1,939.7	2,001.4

* $50 million or less.

Table 19. DISCRETIONARY BUDGET AUTHORITY BY AGENCY [1]

(In billions of dollars)

Agency	1998 Actual	February estimates						Mid-Session estimates					
		1999	2000	2001	2002	2003	2004	[2] 1999	2000	2001	2002	2003	2004
Legislative Branch	2.3	2.6	2.7	2.7	2.7	2.8	2.8	2.6	2.7	2.7	2.7	2.8	2.8
Judicial Branch	3.2	3.4	3.9	3.9	3.9	4.0	4.0	3.4	3.9	3.9	3.9	4.0	4.0
Agriculture	15.8	15.8	15.2	15.6	15.4	15.4	15.4	[3] 16.5	[3] 15.2	15.6	15.4	15.4	15.4
Commerce	4.2	5.1	7.2	5.1	4.6	4.6	4.5	5.1	9.0	5.1	4.6	4.6	4.6
Defense—Military	259.8	263.5	268.2	287.4	289.3	299.7	308.5	273.0	[4] 268.2	287.4	289.3	299.7	308.5
Education	29.8	28.8	32.8	34.7	34.7	34.7	34.7	28.8	[5] 32.8	34.7	34.7	34.7	34.7
Energy	16.8	17.9	17.8	18.7	18.6	18.5	18.5	17.9	17.8	18.7	18.6	18.5	18.5
Health and Human Services	37.1	41.3	41.5	43.5	43.4	43.4	43.4	41.5	41.5	43.5	43.4	43.4	43.4
Housing and Urban Development	22.4	25.5	23.8	28.0	28.0	28.0	28.0	25.2	[6] 23.8	28.0	28.0	28.0	28.0
Interior	8.1	7.8	8.6	8.6	8.6	8.6	8.6	7.9	8.6	8.6	8.6	8.6	8.6
Justice	17.6	18.1	18.4	18.5	18.6	18.4	18.4	18.2	18.4	18.6	18.7	18.5	18.5
Labor	10.7	11.0	11.5	11.5	11.5	11.5	11.5	11.0	11.5	11.5	11.5	11.5	11.5
State	5.6	7.6	6.4	6.3	6.4	6.6	6.8	8.2	6.7	6.4	6.6	6.8	6.9
Transportation	15.0	12.5	12.9	13.5	14.0	14.7	15.2	12.6	12.9	13.5	14.0	14.7	15.2
Treasury	11.5	12.7	12.0	12.7	12.5	12.6	12.6	12.8	12.0	12.7	12.5	12.6	12.6
Veterans Affairs	18.9	19.2	19.2	19.2	19.2	19.2	19.2	19.2	[7] 19.2	19.2	19.2	19.2	19.2
Corps of Engineers	4.2	4.1	3.9	3.9	3.9	4.0	4.0	4.1	3.9	3.9	3.9	4.0	4.0
Other Defense Civil Programs	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Environmental Protection Agency	7.4	7.6	7.2	7.2	7.2	7.2	7.2	7.6	7.2	7.2	7.2	7.2	7.2
Executive Office of the President	0.2	0.4	0.3	0.3	0.3	0.3	0.3	0.4	0.3	0.3	0.3	0.3	0.3
Federal Emergency Management Agency	2.4	0.8	0.9	0.9	0.9	0.9	0.9	2.3	0.9	0.9	0.9	0.9	0.9
General Services Administration	0.1	0.5	0.2	0.4	0.3	0.3	0.2	0.5	0.2	0.4	0.3	0.3	0.2
International Assistance Programs	11.4	31.2	12.7	12.7	12.2	12.2	12.2	[8] 32.2	12.7	12.7	12.2	12.2	12.2
National Aeronautics and Space Administration	13.6	13.7	13.6	13.8	13.8	13.8	13.8	13.7	13.6	13.8	13.8	13.8	13.8
National Science Foundation	3.4	3.7	3.9	4.0	4.0	3.9	3.9	3.7	3.9	4.0	4.0	3.9	3.9
Office of Personnel Management	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Small Business Administration	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Social Security Administration	5.5	5.5	5.6	5.6	5.6	5.6	5.6	5.5	5.6	5.6	5.6	5.6	5.6
Other Independent Agencies	6.2	6.2	6.6	6.9	6.8	6.8	6.8	6.3	6.5	6.7	6.6	6.5	6.5
Allowances	....	7.6	−0.3	−47.7	−41.6	−20.5	−22.5	2.8	2.3	−47.7	−43.5	−20.5	−22.5
Undistributed Offsetting Receipts	....	....	−2.8	1.1	1.1	−0.2	−0.2	....	−2.8	1.1	1.1	−0.2	−0.2
Total without Social Security and Medicare Reform	**534.2**	**575.0**	**555.0**	**540.3**	**547.2**	**578.0**	**585.5**	**583.8**	**559.6**	**540.4**	**545.4**	**578.0**	**585.5**
Memorandum:													
Total with Social Security and Medicare Reform	534.2	575.0	555.0	590.9	594.8	607.4	619.9	583.8	559.6	586.0	598.0	607.5	619.9

[1] The 2001–2004 budget projections for discretionary spending, with the exceptions of the Department of Defense and some capital intensive long-term projects and advance appropriations, do not represent a policy projection, but an aggregate freeze at the 2000 policy levels. The estimates in the aggregate, including a reserve for priority initiatives, show the discretionary program levels the Administration will support if Social Security and Medicare are reformed.

[2] Includes emergency funding.

[3] In addition to the appropriated discretionary budget authority, $5.8 billion was appropriated in 1999 for emergency funding for agricultural disasters classified as mandatory.

[4] The 2000 program level is adjusted by $3.1 billion in advance appropriations requested for 2001 for family housing and military construction projects and base realignment and closure (BRAC) activities.

[5] The budget provides a total program level of $34.8 billion, $1.3 billion (four percent) above the 1999 level on comparable terms.

[6] The budget provides HUD $28.0 billion in budget authority including $4.2 billion in advance appropriations.

[7] The budget provides a total program level of $20.0 billion when expected medical collections for veterans programs are added, $124 million over the 1999 enacted level.

[8] Includes $18.4 billion for the International Monetary Fund quota increase and the New Arrangements to Borrow.

Table 20. DISCRETIONARY BUDGET AUTHORITY BY FUNCTION

(In billions of dollars)

	1998 Actual	February estimates						Mid-Session estimates					
		1999	2000	2001	2002	2003	2004	1999	2000	2001	2002	2003	2004
National defense	272.4	277.0	281.6	301.3	303.2	313.6	322.3	288.6	283.4	301.3	303.2	313.6	322.3
International affairs	19.0	40.8	21.3	21.2	20.8	21.0	21.1	42.6	21.6	21.3	21.0	21.1	21.3
General science, space, and technology	18.0	18.8	19.2	19.4	19.4	19.3	19.3	18.8	19.2	19.4	19.4	19.3	19.3
Energy	3.1	2.9	2.8	3.2	3.0	3.0	3.0	2.9	2.8	3.2	3.0	3.0	3.0
Natural resources and environment	23.5	23.4	23.8	24.0	23.9	23.9	24.0	23.7	23.9	24.0	23.9	24.0	24.0
Agriculture	4.3	4.3	4.1	4.1	4.2	4.1	4.1	4.5	4.1	4.1	4.2	4.1	4.1
Commerce and housing credit	3.1	3.7	5.4	3.3	2.9	2.9	2.9	3.6	7.0	3.1	2.6	2.6	2.6
Transportation	16.0	13.3	13.5	14.2	14.7	15.3	15.8	13.4	13.5	14.2	14.7	15.4	15.8
Community and regional development	10.3	8.9	8.9	8.9	8.9	8.9	8.9	10.5	8.9	8.9	8.9	8.9	8.9
Education, training, employment, and social services	46.7	46.6	52.1	54.2	54.2	54.1	54.0	46.6	52.2	54.2	54.2	54.1	54.0
Health	26.4	30.1	30.6	31.0	30.8	30.8	30.8	30.2	30.6	31.0	30.8	30.8	30.8
Medicare	2.7	3.0	2.9	2.9	2.9	2.9	2.9	3.0	2.9	2.9	2.9	2.9	2.9
Income security	29.7	32.8	30.2	36.4	36.2	36.2	36.2	32.6	30.2	36.4	36.2	36.2	36.2
Social Security	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2
Veterans benefits and services	18.9	19.3	19.3	19.3	19.3	19.3	19.3	19.3	19.3	19.3	19.3	19.3	19.3
Administration of justice	24.8	26.2	26.4	26.8	26.9	26.7	26.8	26.3	26.4	26.9	27.0	26.8	26.9
General government	12.1	13.2	12.7	13.5	13.2	13.3	13.2	13.5	12.7	13.5	13.2	13.3	13.2
Allowances	....	7.6	−0.3	−47.7	−41.6	−20.5	−22.5	0.5	0.5	−47.7	−43.5	−20.5	−22.5
Undistributed offsetting receipts	....	....	−2.8	1.1	1.1	−0.2	−0.2	....	−2.8	1.1	1.1	−0.2	−0.2
Total without Social Security and Medicare Reform	**534.2**	**575.0**	**555.0**	**540.3**	**547.2**	**578.0**	**585.5**	**583.8**	**559.6**	**540.4**	**545.4**	**578.0**	**585.5**
Memorandum:													
Total with Social Security and Medicare Reform	534.2	575.0	555.0	590.9	594.8	607.4	619.9	583.8	559.6	586.0	598.0	607.5	619.9

Table 21. FEDERAL GOVERNMENT FINANCING AND DEBT WITH SOCIAL SECURITY AND MEDICARE REFORM[1]

(In billions of dollars)

	1998 Actual	Estimates					
		1999	2000	2001	2002	2003	2004
Financing:							
Surplus or deficit (–)	69.2	98.8	137.4	144.1	154.2	165.1	175.0
(On-budget)	–29.9	–24.8	—	—	—	—	—
(Off-budget)	99.2	123.6	137.4	144.1	154.2	165.1	175.0
Means of financing other than borrowing from the public:							
Medicare solvency transfers	—	—	4.8	0.3	12.3	5.2	6.9
Changes in:[2]							
Treasury operating cash balance	4.7	–6.1	—	—	—	—	—
Checks outstanding, etc.[3]	–10.5	–1.6	–1.2	—	—	—	—
Deposit fund balances	–0.8	–1.7	—	—	—	—	—
Seigniorage on coins	0.6	1.0	1.0	1.0	1.0	1.0	1.0
Less: Net financing disbursements:							
Direct loan financing accounts	–11.5	–25.2	–21.2	–20.1	–19.6	–19.2	–17.7
Guaranteed loan financing accounts	–0.5	1.6	0.9	1.8	1.8	1.8	2.0
Total, means of financing other than borrowing from the public	–18.0	–32.0	–15.8	–17.0	–4.4	–11.2	–7.8
Total, repayment of the debt held by the public	51.3	66.8	121.6	127.1	149.8	154.0	167.2
Change in debt held by the public	–51.3	–66.8	–121.6	–127.1	–149.8	–154.0	–167.2
Debt Outstanding, End of Year:							
Gross Federal debt:							
Debt issued by Treasury	5,449.3	5,586.7	5,675.9	5,754.3	5,840.5	5,924.1	6,006.8
Debt issued by other agencies	29.4	28.6	27.7	26.7	25.7	24.3	23.0
Total, gross Federal debt	5,478.7	5,615.3	5,703.6	5,781.0	5,866.1	5,948.4	6,029.8
Held by:							
Government accounts	1,758.8	1,962.2	2,172.2	2,376.6	2,611.6	2,847.9	3,096.5
The public	3,719.9	3,653.0	3,531.4	3,404.4	3,254.5	3,100.5	2,933.3
Federal Reserve Banks[4]	458.1						
Other	3,261.7						
Debt Subject to Statutory Limitation, End of Year:							
Debt issued by Treasury	5,449.3	5,586.7	5,675.9	5,754.3	5,840.5	5,924.1	6,006.8
Less: Treasury debt not subject to limitation[5]	–15.5	–15.5	–15.5	–15.5	–15.5	–15.5	–15.5
Agency debt subject to limitation	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Adjustment for discount and premium[6]	5.5	5.5	5.5	5.5	5.5	5.5	5.5
Total, debt subject to statutory limitation[7]	5,439.4	5,576.7	5,665.9	5,744.3	5,830.5	5,914.1	5,996.8

[1] Treasury securities held by the public and zero-coupon bonds held by Government accounts are almost entirely measured at sales price plus amortized discount or less amortized premium. Agency debt is almost entirely measured at face value. Treasury securities in the Government account series are measured at face value less unrealized discount (if any).

[2] A decrease in the Treasury operating cash balance (which is an asset) is a means of financing the deficit and therefore has a positive sign. An increase in checks outstanding or deposit fund balances (which are liabilities) would also be a means of financing the deficit and therefore would also have a positive sign.

[3] Besides checks outstanding, includes accrued interest payable on Treasury debt, miscellaneous liability accounts, allocations of special drawing rights, and as an offset, cash and monetary assets other than the Treasury operating cash balance, miscellaneous asset accounts, and profit on sale of gold.

[4] Debt held by the Federal Reserve Banks is not estimated for future years.

[5] Consists primarily of Federal Financing Bank debt.

[6] Consists of unamortized discount (less premium) on public issues of Treasury notes and bonds and unrealized discount on Government account series securities, except, in both cases, for zero-coupon bonds.

[7] The statutory debt limit is $5,950 billion.

Table 22. FEDERAL DEBT WITH SOCIAL SECURITY AND MEDICARE REFORM

(In billions of dollars)

	Estimates										Projections				
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Debt held by the public:															
Debt held by the public, beginning of period	3,653	3,531	3,404	3,255	3,101	2,933	2,744	2,525	2,262	1,964	1,625	1,249	944	637	335
Debt reduction from:															
Off-budget surplus:															
Surplus pending Social Security and Medicare reform	–137	–144	–154	–165	–175	–193	–202	–215	–225	–233	–243	–246	–248	–246	–241
Social Security solvency transfers	0	0	0	0	0	0	0	0	0	0	0	–107	–125	–145	–166
Returns on investment of transfers [1]	0	0	0	0	0	0	0	0	0	0	0	–3	–14	–27	–43
Medicare solvency transfers	–5	–0	–12	–5	–7	–10	–29	–59	–83	–113	–142	–67	–68	–65	–58
Less purchase of equities by Social Security trust fund [1]	0	0	0	0	0	0	0	0	0	0	0	110	139	172	209
Other financing requirements [2]	21	17	17	16	15	13	12	11	9	8	8	8	8	9	9
Total changes	–122	–127	–150	–154	–167	–189	–219	–263	–298	–339	–376	–305	–307	–302	–291
Debt held by the public, end of period	3,531	3,404	3,255	3,101	2,933	2,744	2,525	2,262	1,964	1,625	1,249	944	637	335	44
Less market value of equities	0	0	0	0	0	0	0	0	0	0	0	–110	–248	–420	–629
Debt held by the public, less equity holdings, end of period	3,531	3,404	3,255	3,101	2,933	2,744	2,525	2,262	1,964	1,625	1,249	834	388	–85	–585
Debt held by Government accounts:															
Debt held by Government accounts, beginning of period	1,962	2,172	2,377	2,612	2,848	3,096	3,363	3,667	4,012	4,394	4,823	5,299	5,822	6,374	6,949
Increase prior to Social Security reform	205	204	222	230	240	254	271	280	289	299	310	315	318	317	314
Social Security and Medicare solvency transfers	5	0	12	5	7	10	29	59	83	113	142	173	193	210	224
Earnings on solvency transfers invested in Treasury securities	0	0	1	1	2	2	3	6	11	17	25	35	42	48	55
Less purchase of equities by Social Security trust fund [1]	0	0	0	0	0	0	0	0	0	0	0	–110	–139	–172	–209
Total changes	210	204	235	236	249	266	304	345	382	429	476	523	552	575	593
Debt held by Government accounts, end of period	2,172	2,377	2,612	2,848	3,096	3,363	3,667	4,012	4,394	4,823	5,299	5,822	6,374	6,949	7,543
Plus market value of equities	0	0	0	0	0	0	0	0	0	0	0	110	248	420	629
Debt and equities held by Government accounts, end of period	2,172	2,377	2,612	2,848	3,096	3,363	3,667	4,012	4,394	4,823	5,299	5,932	6,623	7,369	8,172

[1] Includes accrued capital gains.

[2] Primarily credit programs.

Note: Projections for 2010 through 2014 are an OMB extension of detailed agency budget estimates through 2009.

Highlights of Treasury Analysis of Key Provisions in Archer Bill
July 16, 1999

The Estate Tax

The Administration has supported proposals that have significantly reduced the burden of the estate and gift tax, especially on small businesses and farms. The Tax Payer Relief Act of 1997 (TRA97) will eventually raise the estate tax deduction from $600,000 in 1998 to $1,000,000 by 2006.

- the percentage of estates subject to tax will decline from 2 percent in 1997 to 1.5 percent in 2006. (US Department of Treasury)

In addition, TRA 97 provides special relief for small businesses and family farms:

- A special additional deduction exempts from estate tax small businesses and family farms worth up to $1,300,000 from estate tax. (US Department of Treasury)

- Estate taxes on closely-held farms and other businesses can be deferred for up to 14 years. (US Department of Treasury)

- Farm asset account for just 0.26% of all assets filed as estate taxes. (US Department of Treasury)

Also, the estate tax promotes fairness by ensuring that income that escapes taxation during life is taxed at death.

Captial Gains Tax Cut

The proposed tax cuts would disproportionately benefit the wealthiest Americans. The proposal would reduce the top tax rate on long-term capital gains to its lowest level since 1941 – lower than rates that prevailed during the supply-side Reagan years.

- It would provide a huge windfall to the wealthiest Americans — who have been riding a phenomenal wave of good fortune in the stock market. Annual gains for the S&P 500 index have averaged 20 percent since 1993 (not including dividends).

  - In 1996, taxpayers with AGI between $200,000 and $500,000 had average long-term capital gains of over $32,000; taxpayers with AGI between $20,000 and $25,000 have average long-term gains of about $41. That would translate into a tax benefit of <u>over $1,600</u> for the high-income taxpayer compared with a tax reduction of <u>about $1.00</u> for the lower-income person.

  - A 1997 CBO study found that the 0.1 percent of returns with capital gains larger than $1 million accounted for nearly one-third of capital gains in 1993. More than one-half of capital gains were realized by the 0.5 percent of returns with the largest capital gains.

- That study also found that high-income taxpayers (i.e., those with over $200,000 in income in 1993) were more than 4 times as likely to realize a capital gain as middle-income taxpayers (i.e., those with $40,000 to $50,000 of income).

- High income people's gains are also larger. The average gain for the high-income group was $143,943 — more than 45 times as large as the typical gain realized by a middle-income taxpayer.

The tax cuts would have little or no effect on savings and economic growth Although rate cuts provide a higher return to saving, the effects on savings are mixed because some people respond to the higher rate of return by saving less.

- A large capital gains differential could rejuvenate the unproductive individual tax shelter industry of the early 1980s, just as we are trying to contain corporate tax shelter activity.

- The proposed 25 percentage point difference between the top rate on ordinary income and the top rate on long-term gains would create a huge incentive to convert ordinary income into capital gains.

- Such conversions are economically inefficient and cause indirect losses of tax revenues (in addition to the direct effect of lower taxes on capital gains). For example, a top-bracket investor could borrow at 10 percent to finance an investment that produces capital gains at an 7.5-percent annual rate and make money after tax, even though the investment is–absent tax considerations–economically irrational.

The timing of the proposal is particularly questionable since it comes just two years after a major capital gains rate cut and at a time of full employment and robust economic growth.

The proposed tax cuts are fiscally irresponsible. Preliminary estimates are that the proposal would cost $18 billion over five years and $44 billion over ten years. Any tax cut of such magnitude should be targeted to achieving other higher priorities. Because unlocking effects would partly offset revenue losses in the first few years, the cost of the proposal would increase in the second five years and continue growing thereafter.

Estimated Revenue Effect of Capital Gains Tax Cut, in Billions of Dollars (Very Preliminary)

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	1999-2004	1999-2009
Revenue Loss	-3.4	-0.1	-3.7	-5.3	-5.2	-5.0	-5.3	-5.3	-5.4	-5.6	-17.6	-44.3

Source: Department of the Treasury July 7, 1999

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JULY 26, 1999

Congress Focuses On Taxes, Health Care And Trade

OUTLOOK

THREE OF THE MOST HIGH PROFILE and difficult issues Congress must confront — taxes, Medicare and managed care reform, and trade — are in the spotlight this week. After House Republicans managed to push through their tax bill last week, that battle shifts to the Senate with floor action beginning Tuesday and scheduled for completion Thursday or Friday on the $792 billion measure approved by the Finance Committee. The floor debate should be a replay of the Finance panel markup in some ways, with amendments ranging from complete substitutes to minor items based on the parochial interest of individual senators.

Unlike the situation in the House, where leaders stood by the package authored by **Ways and Means Chairman Archer**, Senate leaders will seek at least a debate on their own ideas of how to provide tax relief. **Majority Leader Lott** and **Majority Whip Nickles** want to see more of an across-the-board approach than **Finance Chairman Roth** offered. There could be a few bipartisan proposals as well. **Sens. Bob Kerrey**, D-Neb., and **John Breaux**, D-La., joined with **Senate Environment and Public Works Chairman Chafee** and **Senate Health, Education, Labor and Pensions Chairman Jeffords** in offering a $500 billion tax relief alternative at the markup. **Sens. Paul Coverdell**, R-Ga., and **Robert Torricelli**, D-N.J., might also push their $350 billion measure.

Roth sought to aim the bulk of the re- *continued on page 5*

Hear That Train (Wreck) A'Coming?

APPROPRIATIONS

SINCE THE TOP Republican congressional leadership and Budget committee chairmen agreed in early March to an FY2000 budget framework based on sticking to the 1997 Balanced Budget Act's spending cap, and agreed not to spend the "Social Security surplus," pundits, the press and even fellow Republicans have predicted they will be forced to break the cap and dip into the politically sacrosanct Social Security trust fund.

Under this year's budget resolution, Congress must cut spending from the FY99 level of $564.6 billion — which includes the $20.8 billion in emergency FY99 spending, but not the one-time International Monetary Fund payment of $17.8 billion — to the FY2000 cap of $538 billion.

At each step along the way, from adopting the budget resolution and the resulting 302(b) Appropriations subcommittee spending allocations for FY2000, to the release of the CBO's budget re-estimate July 1, and through passage of the initial FY2000 appropriations bills, GOP leaders in both chambers have deferred making the toughest calls on spending cuts until later in the process.

But appropriators have worked their way through all but the final spending bills facing the deepest cuts — the VA-HUD and particularly the Labor-HHS measures — and "later" is fast becoming "now." That means the question of how to stick to the caps and pass appropriations bills must be answered in the immediate future.

House Military Construction Appropriations Subcommittee Chairman David Hobson, R-Ohio, was confident of the ultimate outcome, if a bit unsure of how the congressional leadership will get there.

Hobson believes House leaders can get the remaining bills through the House, "But where I think the bubble breaks is in the Senate and in the conference committee. ... The day will be here and the powers that be will have to react, and I don't think most members know where that is."

The CBO now *continued on page 5*

TODAY'S HIGHLIGHTS

This Week's Floor Schedule

Senate

The Senate will convene at 11 a.m. today to consider a resolution to reinstate Rule 16 and a motion to invoke cloture on a motion to proceed to juvenile justice legislation. A series of roll call votes is expected to begin at 5:30 p.m. The Senate Tuesday begins consideration of tax relief legislation.

House

The House will convene 12:30 p.m. today to consider four measures under suspension of the rules and the Regulatory Right to Know Act. For the balance of the week, the House will consider a measure disapproving of the extension of Normal Trade Relations to China, and the FY2000 Energy and Water, District of Columbia and Foreign Operations appropriations bills.

(Committee schedules begin on page 8.)

Highlights of Analysis of Sen. Roth Tax Proposal from Key Organizations

July 23, 1999

COST OF THE MAJOR COMPONENTS OF THE SENATE TAX BILL (Billions)				
PROVISION	**1999-2004**	**2000-2009**	**2009**	**2009 (percent of total tax cuts)**
Reduce 15% bracket to 14 %	$86.8	$216.1	$26.9	17%
Increase start of 28% bracket	$0.0	$81.5	$20.1	13%
Family tax cuts	$12.0	$222.5	$54.1	35%
Retirement Savings Tax cuts	$10.3	$84.0	$16.4	11%
Education Tax cuts	$4.3	$12.2	$1.9	1%
Health Care Tax cuts	$7.9	$52.2	$11.8	8%
Estate and gift tax cuts	$7.2	$63.1	$17.2	11%
Other	$27.6	$60.3	$6.6	4%
Total	**$156.2**	**$791.9**	**$154.9**	**100%**
[Estimates by the Joint Committee on Taxation, July 21, 1999]				

Roth Tax Cut Benefits the Wealthy

The Citizens for Tax Justice estimated the following distribution of the tax relief for the main provisions in the Roth Bill (see attached):

Distributional Effects of Senate GOP Tax Plan			
Income Group	**Income Range**	**Average Tax Cut**	**Share of Tax Cut**
Lowest 20%	Less than $13,300	$22	0.6%
Second 20%	$13,300 – 23,800	$120	3.0%
Third 20%	$23,800 – 38,200	$276	7.0%
Fourth 20%	$38,200 – 62,800	$532	13.6%
Highest 20%	$62,800 or more	$2,969	75.7%
Addendum			
Bottom 60%	Less than $38,200	$139	10.7%
Top 5%	$124,000 or more	$7,347	46.8%
Top 1%	$301,000 or more	$22,964	29.2%
[Citizens for Tax Justice, July 19, 1999]			

Income Tax Rate Cut
Reduce 15 percent rate to 14 percent.

- Roth has claimed that a middle income family of four would receive a tax cut of $450. However, according to the Center on Budget and Policy Priorities that would only apply to families with incomes that exceed $61,000. (Center on Budget and Policy Priorities, July 19, 1999)

- The median income for a family of four is in fact $37,000 and would receive $188. (Center on Budget and Policy Priorities, July 19, 1999)

Shifting tax rate ceiling
Increasing the boundary point between the 14 and 28 percent bracket by $2,500 ($5,000 for joint filers)

- This provision would benefit only the quarter of taxpayers with incomes high enough to be above the cut-off for the 15 percent tax bracket (those with incomes that exceed $61,000) (Center on Budget and Policy Priorities, July 19, 1999)

IRA expansion
1) Remove income limits (currently $160,000 for married filers) on the use of Roth IRAs:
2) Increase the income limit (scheduled to be $90,000 by 2007 for married filers) on the use of conventional, deductible IRAs to $137,000 by 2008:
3) Double the amount that a taxpayer and spouse can contribute each your to either convention or Roth IRA:

- Since current law limits the ability of only the 20 percent of taxpayers with the highest incomes to use conventional IRAs and a still smaller percentage of high-income taxpayers to use Roth IRAs – eliminating and raising the limits would exclusively benefit upper income taxpayers. (Center on Budget and Policy Priorities, July 19, 1999)

Marriage penalty
The Roth proposal claims to "eliminate" marriage penalties by allowing taxpayers the option of filing as though they were single taxpayers on a combined form, with income from jointly-owned assets split evenly.

- Unlike marriage penalty reduction options that target relief on middle-class taxpayers, such as proposals to increase the standard deduction for married couples, allowing married taxpayers the option of filing as though they were single taxpayers provides a disproportionate share of the tax-cut benefits to higher-income couples.

- Analysis of similar proposals in the past indicates that more than 80 percent of the tax cut benefits provided would go to couples with incomes in the top third of the income distribution (i.e., to married filers with incomes exceeding $50,000). (Center on Budget and Policy Priorities, July 19, 1999)

Estate Tax
Increase the exemption to $1.5 million from $1 million.

- Only 2 percent of all deaths result in estate tax liability.
- Only 1.96 percent of descendants in 1999 will have estates large enough to require payment of any estate tax. (Center on Budget and Policy Priorities, July 19, 1999)
- An IRS analysis of the 32,000 taxable estates filing in 1995 showed that the one-sixth of taxable estates with gross value exceeding 42.5 million paid nearly 70 percent of total estate taxes. (Center on Budget and Policy Priorities, July 19, 1999)
- The same IRS analysis found that all farm property regardless of size accounted for less than one-half of one percent of all assets include in taxable estates. (Center on Budget and Policy Priorities, July 19, 1999)

Health insurance deductions
Tax deduction for the purchase of health insurance by taxpayers who pay at least 50 percent of the cost of the premium.

- Some 18 million - 43 percent of all of the non-elderly uninsured – owe no income tax. These individuals would receive no benefit from a tax deduction. (Center on Budget and Policy Priorities, July 19, 1999)

- Another 20 million – some 50 percent of the non-elderly people without health insurance – pay income tax at a 15 percent marginal tax rate. (A top marginal rate of 15 percent applies to two parent families of four with gross incomes up to at least $61,250). A deduction would provide these taxpayers with a subsidy equal to only 15 percent of the cost of insurance not covered by an employer. (Center on Budget and Policy Priorities, July 19, 1999)

- For example, for a family earning $35,000 whose employer does not offer insurance, the proposed deduction would reduce the out-of-pocket cost of a typical family health insurance policy that carries a $1,000 deductible from $6,700 to $5,860 — or from 19 percent of income to 17 percent of income. (Center on Budget and Policy Priorities, July 19, 1999)

July 22, 1999

MEMORANDUM TO GENE SPERLING

FROM: JASON FURMAN

SUBJECT: MAIN PROVISIONS OF SENATE REPUBLICAN TAX CUT BILL

Roth Tax Bill Passed through Senate Finance Committee on a Vote of 13-7.

The Senate Finance Committee approved the "Taxpayer Refund Act of 1999" on a vote of 13-7 with Sens. Bob Kerrey and John Breaux voting with the Republicans. The bill was only slightly modified from its original version, and thus all of the previous analysis and numbers are largely unchanged. The main modification adopted by the committee was a smaller reduction in the income limits for deductible IRA contributions.

Democratic Substitute Failed on Party Line Vote, 11-9

Senator Moynihan's offered a democratic substitute, with a net tax cut of $290 billion over 10 years, as an alternative. It failed on a straight party line vote, 11-9. Senator Graham's amendment to delay the tax cuts until legislation had extended the solvency of Social Security until 2075 and Medicare until 2027 also failed on a straight party line vote.

Republican Amendments to Benefit Wealthy Even More Failed

Several amendments were offered to tilt the tax reductions more toward the wealthy. Senator Gramm's amendment included a 10 percent across-the-board reduction in tax rates. Senator Nickles proposed keeping the lowest bracket at 15% and using the savings to increase the income level for the 28% bracket. Roth, Chaffee, Jeffords, and all of the Democrats voted against both of these amendments.

Key Components of the Roth Tax Cut

The Roth tax cut includes several different provisions. The most important difference from the Archer Bill is that the rate reductions apply only to the 15 percent bracket – there is no across the board 10 percent rate reduction.

The main provisions of the Bill are:

Reduction of 15 percent rate to 14 percent. This would benefit everyone who pays taxes. Only the top 25 percent of filers, those in the 28 percent bracket and above, would get the full $450 reduction this provides. Most families of four with incomes below $61,000 would get less than this amount. **Cost from 2000-2009: $216 billion; share of phased-in tax reduction (i.e., in 2009): 17 percent.**

Increase in the starting point of the 28 percent bracket by $2,500 ($5,000 for Joint Returns). This would benefit the one-quarter of taxpayers above the 14 percent bracket and near the margin. **The 10-year cost is $81 billion and it represents 13 percent of the tax cut in 2009.**

Family tax provisions. The costliest provision is the option for couples to file single returns on a combined form, which represents half of the total tax reduction. Note that this contrasts with other "marriage penalty" relief proposals which typically raise the standard deduction for married couples. The effect would be to allow some wealthy couples to shift income out of the 31+ percent brackets into lower brackets by dividing income. This change represents half of the cost of the family tax provisions. Most of the remaining cost comes from modifications of the Alternative Minimum Tax. In addition, other provisions include the provision of "marriage penalty relief" for the EITC and the increase and expand the Dependent Care Tax Credit. **The total cost is $222 billion over 10 years, or 35 percent of the 2009 cut.**

Retirement savings tax provisions. Half of the cost comes from increasing the annual contribution limit for IRAs to $5,000 and then index for inflation. Another quarter of the costs comes from expanding the coverage of IRAs to wealthier taxpayers. It also includes numerous other provisions related to retirement. **The total 10 year cost is $84 billion and when fully phased in will represent 11 percent of total cuts.**

Education tax provisions. A small number of the provisions affect education, including increasing student loan deduction income limits and extending and expanding tax exclusions for employer provided educational assistance. **The total 10-year cost is $12 billion and the share of total costs in 2009 is 1 percent.**

Healthcare provisions. Mainly providing an above-the-line deduction for health insurance expenses where the taxpayer pays at least 50 percent of the premium. Also deductions for long-term care insurance and other measures. **The 10-year cost is $52 billion and it represents 8 percent of 2009 tax cuts.**

Estate and gift tax provisions. The main cost comes from raising the exemption to $1.5 million and reducing the effective marginal rates for some taxpayers. **Together with other provisions this would cost $63 billion over 10 years, representing 11 percent of the phased-in package.**

Other provisions. Other provisions concern small businesses, tax-exempt organizations, international transactions, housing and real estate, and extend expiring provisions. There are also offsets, totaling $9 billion over 10 years, about one-third of which is from loophole closers. **The total cost of other provisions is $60 billion over 10 years, representing 4 percent of the total cost.**

The Joint Committees estimates of the magnitudes of the reduction of different taxes are given in the following table (see attached).

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Total	$156.2	$791.9	$154.9	100%
[Estimates by the Joint Committee on Taxation, July 21, 1999]				

Roth Tax Cut Benefits the Wealthy

The Joint Tax Committee has produced a distributional analysis of the Roth plan. The results, however, are meaningless, as the Center for Budget and Policy Priorities has pointed out (see attached). They do not include many of high-income tax cuts (like estate taxes) and they cover the 2000-2004 period, before many of the tax cuts for high-income households are phased in.

The Citizens for Tax Justice estimated the following distribution of the tax relief for the main provisions in the Roth Bill (see attached):

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Income Group	**Income Range**	**Average Tax Cut**	**Share of Tax Cut**
Lowest 20%	Less than $13,300	$22	0.6%
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Top 1%	$301,000 or more	$22,964	29.2%
[Citizens for Tax Justice, July 19, 1999]			

The Effects on the Deficit and Debt over the Next 20 years

Treasury has not yet done an analysis of the 20-year cost of the tax plan. According to Center on Budget and Policy Priorities, the cost of the tax cuts rises from $792 billion in the first 10 years to $2,041 billion in the second 10 years (see attached).

OMB analysis indicates that the interest cost from the first 10 years will be $179 billion, bringing the total 10-year cost of the tax bill to $971 billion. That leaves the CBO on budget baseline surplus at $25 billion over that period – which is contingent on maintaining the discretionary caps.

We do not yet have estimates of the interest costs of the second 10 years. My approximate estimate using the Center for Budget and Policy Priorities data is $1.0 trillion. This would leave the debt held by the public $4.0 trillion higher in 2019 than it would have been without this plan. (By contrast, the Archer bill would leave debt held by the public about $5 trillion higher after 20 years.)