



UNITED STATES SENATE
**REPUBLICAN
POLICY COMMITTEE**

Larry E. Craig, Chairman
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Spending Increases, Not Tax Cuts, Threaten the Budget
Hey, Big Spender!

When Senator Domenici was chairman, we had a surplus. We were not spending any of the so-called surplus in Medicare. We were not spending a penny of the Social Security surplus. We had a general surplus in the rest of the budget. Now that the Senator from North Dakota has taken control and apparently things have almost spontaneously gone to hell, it seems to me he has a lot of explaining to do. I look forward to hearing it.

— Senator Gramm, *Congressional Record*, July 10, 2001

Since becoming the majority party in the Senate, Democrats have been arguing that the budget, which had been in surplus under the Republican majority, is now in “deficit.” They claim the budget surplus projected over the next 10 years will fall below the combined Social Security and Medicare Part A surpluses. In new Budget Committee Chairman Conrad’s words, “We do have a problem of dipping into the trust funds to finance the other operations of Government, even in a time of economic growth.”

But the Democrats’ numbers are an inaccurate accounting of what Congress has passed and the President signed. They assume numerous spending increases that have yet to be enacted into law. They literally concede an entire array of policy and spending debates that have yet to take place! Without these new spending items, the 10-year surplus is \$1 trillion more than the combined Social Security and Medicare trust fund surpluses, even after deducting the tax relief.

And, while upcoming re-estimates may reduce that “available” surplus, Congress has the ability to forego some spending increases or even – gasp! – reduce spending in non-priority areas. Those are the budget realities facing the new Democrat majority. They are in control not only of the Senate, but of the budget process that controls whether the surplus falls below certain trust fund balances. And while Senator Conrad may not like the choices he faces as the new chairman of the Budget Committee, primarily they are his choices.

Masquerading as a “Technical Budget Redefinition”

Do we still have a surplus? Yes. We've had budget surpluses for the last four years, and this year, revenue re-estimates notwithstanding, we will continue to have a surplus. Even with the \$72 billion tax rebate/economic stimulus checks going out the door over the next two months, the surplus for the fiscal year that ends September 30 will be around \$175-\$200 billion. That's pretty good, considering that until Republicans took over the federal purse strings in 1995, we hadn't had any budget surplus in 26 years.

But over the past few years, a new definition of surplus has been invented. Under this definition, those revenues derived from the Social Security and Medicare Part A trust fund don't count. They're "off-budget."

Senator Gramm observed on the Senate floor July 10 that fiscal conservatives are loath to fight this definition as it encourages frugality and debt reduction. The more funds we wall off, the less there are available to spend. Nonetheless, dividing the federal budget into parts and pieces is bad policy that encourages gimmicks like the Medicare Home Health transfer of 1997 [see RPC paper, "Conrad Lockbox – Badly Flawed," 3/15/01]. As Robert Samuelson observed in the *Washington Post* July 11:

The virtue of the unified budget is that it gives the big picture. A smaller and selective budget provides a distorted picture. Even if all the federal debt is repaid, the rising costs of retirement benefits for baby boomers will exert upward pressure on future taxes. . . . What masquerades as a technical budget redefinition is really a subtle effort to confuse the public and suppress political debate. Though clever, it deserves our contempt.

Is the "Available" Surplus Used Up?

Setting aside the on-budget/off-budget definitions debate for the moment, it is important to examine whether the Bush tax cut has really reduced the surplus so far as to dip below the Social Security and Medicare Part A trust fund levels. Politically speaking, has the tax cut used up all the "available" surplus?

Again, the answer is no. The table below, supplied by the Republican Budget Committee staff using the most recent estimates, shows the surplus, minus the surpluses in the Social Security and Medicare Part A trust funds, is \$1.069 trillion after the tax cut, increased entitlement spending, and associated interest expenses enacted so far this year.

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	02 to 11
Available Surplus	96	106	132	155	172	223	275	318	377	447	524	2729
Tax Cut	74	32	84	101	100	126	142	151	158	176	117	1186
New Mandatory	0	6	7	7	7	10	10	9	10	11	12	88
Net interest	2	5	8	14	21	29	38	49	61	74	87	386
Resulting Surplus	21	63	33	33	44	59	85	109	149	186	307	1069

This analysis agrees with the June 28 press release by the Democratic staff of the Senate Budget Committee, which shared Senator Conrad's calculations that the remaining surplus after Social Security, Medicare Part A, Bush tax cut, and associated interest expenses are subtracted, is "just under" \$1.1 trillion. The relevant part of the release states:

According to data released by Conrad, when we subtract the cost of the tax bill from the most recently revised surplus figures from the Congressional Budget Office (CBO), we see that the projected surplus in 2002 drops from \$95 billion to \$52 billion, while the projected 10-year surplus drops from \$2.7 to just under \$1.1 trillion.

So there you have it. Both Republican and Democrat Budget Committee staff agree that the tax bill enacted by Republicans and signed by President Bush leaves more than \$1 trillion available to be targeted at spending priorities and additional debt reduction — even after Social Security and Medicare are removed from the equation. Again, while these levels may change with the CBO's August re-estimate, right now they represent the only measuring stick we have.

Conrad's Dilemma

So how does Senator Conrad claim that Medicare is being raided? Simple — he assumes numerous spending increases that have yet to be debated by the Senate. In the June issue of "The Newsletter of the Senate Budget Committee Majority Staff," his staff writes, "Looking forward, if we assume enactment of the policies already laid out in the budget resolution, we see that the available surplus will be further reduced to \$5 billion in 2001, \$25 billion in 2002, and \$471 billion over the ten years." That reduction assumes more than \$600 billion in new spending.

But the budget resolution adopted in May did not enact \$600-plus billion in new spending. It did include mechanisms that such spending might be considered by the full Senate without falling prey to Budget Act points of order, but that's as far as it goes. New spending — either for discretionary items like defense or mandatory spending like interest reductions for student loans — must be debated, adopted by Congress, and signed by the President, just like any other law.

More importantly, the decision about whether to allow most of this new spending to be adopted by a simple majority is under the control of Senator Conrad! The Budget Act gives the Chairman of the Budget Committee broad authority to enforce spending levels. If the Senate is in danger of spending more than the available surplus, nobody is in a better position than Senator Conrad, as the Chairman of the Budget Committee, to hold the line and enforce fiscal discipline.

As Senator Gramm observed during floor debate on July 10:

I would have to say that the distinguished chairman of the Budget Committee has a power that no other Member of the Senate has because under the budget resolution, he

unilaterally controls \$423.8 billion worth of reserve funds, and simply by saying “no,” that money cannot be spent. No one is in a better position than the distinguished chairman of the Budget Committee to deal with the crisis that he has talked about.

Yet Senator Conrad appears to have already thrown in the budget towel. Faced with declining tax collections (from the slowing economy, not the enacted tax relief), he claims to be “powerless” to curb the growth of spending. Instead, he appears ready to best the remarkable spending spree that took place the second half of 2000, when Congress and President Clinton conspired to increase spending over 10 years by almost \$600 billion.

It’s the Spending

Senator Conrad’s own numbers belie his conclusion that “in the past six months, this administration . . . has put us right back into the bad old days of raiding every trust fund in sight.” According to the most recent available estimates, if the Senate refuses to increase spending more than \$1 trillion over the next 10 years, then the Medicare Part A and Social Security surpluses will continue to pay down public debt, just as they were doing under Senate Republican leadership.

If the Senate is unable to keep new spending below those levels, then the appropriate place to lay blame is at the feet of the single member who has the ability, right now, to control the spending – Senator Conrad. Judging by his recent comments, however, looking for leadership in his direction is futile. He already has given up the fight.

Written by Brian Reardon, 224-2946
Attachment: Current Snapshot, prepared by
the Republican Budget Committee Staff

MEDICARE HI SURPLUS SCORECARD
(\$ BILLIONS)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2002-06	2002-11
SBC March Baseline:													
Unified surplus	281.118	312.934	359.148	396.809	432.940	504.996	572.721	635.089	710.386	795.963	888.707	2006.827	5609.693
On-budget	124.942	142.097	171.286	195.686	211.605	266.799	316.203	359.195	416.669	484.265	558.187	987.473	3121.992
Off-budget	156.176	170.837	187.862	201.123	221.335	238.197	256.518	275.894	293.717	311.698	330.520	1019.354	2487.701
Discretionary	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Mandatory 1/	0.003	6.223	6.600	7.006	7.081	9.597	9.542	9.360	9.668	11.080	12.244	36.507	88.401
Net interest	1.653	4.902	8.378	14.250	20.843	28.596	38.182	48.994	60.806	73.934	87.057	76.968	385.940
Tax cuts 2/	-73.809	-31.544	-84.007	-100.701	-100.323	-125.609	-142.123	-150.711	-158.157	-175.925	-117.288	-442.184	-1186.388
Total change	75.465	42.669	98.985	121.957	128.247	163.802	189.847	209.065	228.631	260.939	216.589	555.659	1660.729
Total including legislation:													
Unified surplus	205.653	270.265	260.163	274.852	304.693	341.194	382.874	426.024	481.755	535.024	672.118	1451.168	3948.964
On-budget	49.477	99.428	72.301	73.729	83.358	102.997	126.356	150.130	188.038	223.326	341.598	431.814	1461.263
Off-budget	156.176	170.837	187.862	201.123	221.335	238.197	256.518	275.894	293.717	311.698	330.520	1019.354	2487.701
HI surplus	28.714	35.899	39.282	40.674	39.935	43.752	41.459	40.702	39.327	37.158	34.406	199.542	392.594
On-budget less HI surplus	20.763	63.529	33.019	33.055	43.423	59.245	84.897	109.428	148.711	186.168	307.192	232.272	1068.669

1/ Includes effects of H.R. 581 and H.R. 1836 (JCT scoring).

2/ Includes effects of H.R. 1836 (JCT scoring) and H.R. 1727.

Source: Senate Republican Budget Committee Staff