

Statement of  
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before the  
Committee on Ways and Means  
U.S. House of Representatives

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**NOTICE**

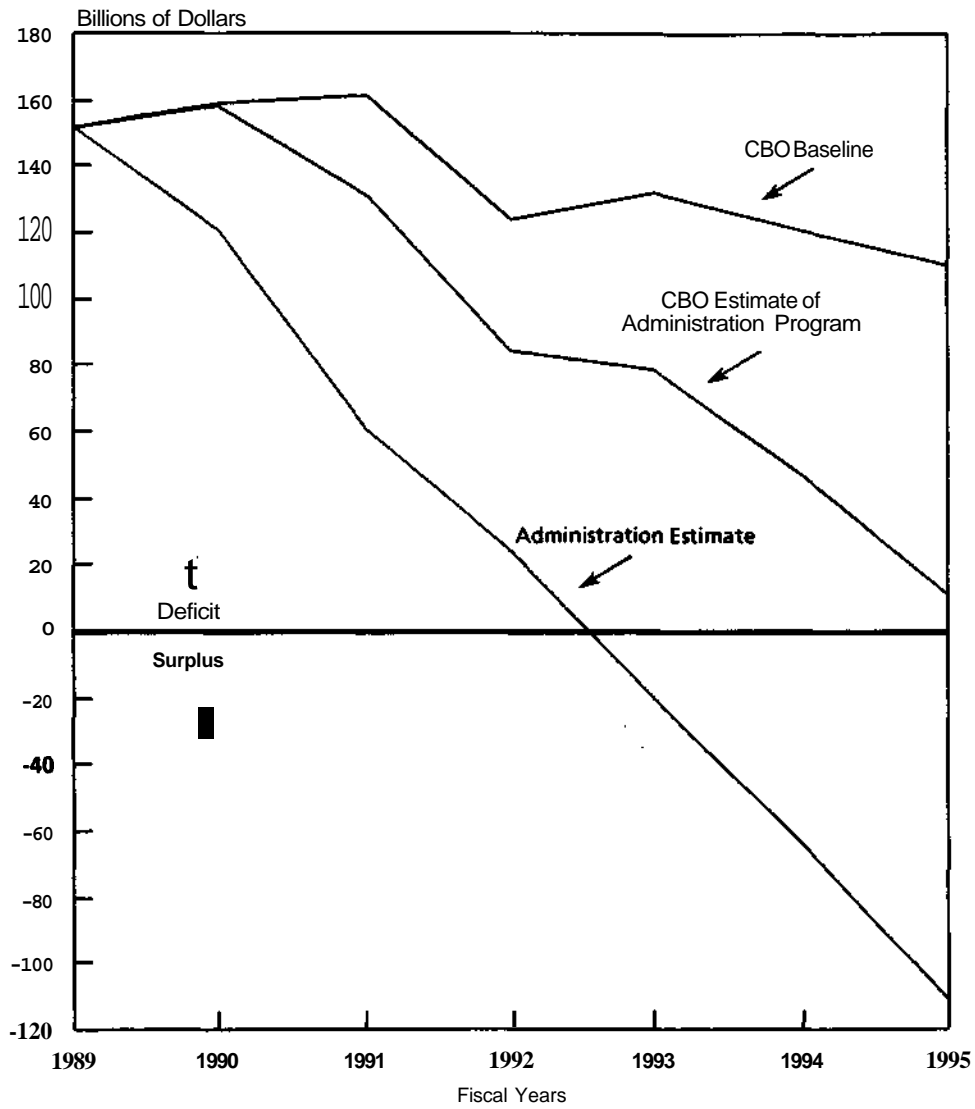
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Mr. Chairman, I am pleased to appear before you to discuss President Bush's budget recommendations. My testimony will summarize our findings, which are detailed in the Congressional Budget Office report, *An Analysis of the President's Budgetary Proposals for Fiscal Year 1991*.

CBO estimates that the Bush Administration's budget proposals would cut more than \$30 billion from the projected 1991 deficit, bringing it down to \$131 billion. CBO's deficit estimate is almost \$70 billion higher than the **Administration's**. The difference in estimates arises largely because the Administration's budget makes no allowance for the sizable needs of the Resolution Trust Corporation (RTC) for working capital and uses more optimistic economic assumptions.

The Administration projects that its proposals will bring the federal budget into surplus by 1993, when it will begin retiring debt held by the public. In contrast, CBO estimates that carrying out the policies proposed in the Administration's budget would still leave a deficit of \$79 billion in 1993, although it would nearly balance the budget by 1995. Figure 1 compares CBO and Administration projections of the federal budget.

Figure 1.  
Federal Deficit Projections



SOURCE: Congressional Budget Office; Office of Management and Budget.

NOTE: The budget figures include Social Security and exclude the Postal Service.

## CBO AND ADMINISTRATION BUDGET ESTIMATES

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CBO analyzes the Administration's fiscal program in terms of changes from CBO's baseline budget projections, which show what would happen if current taxing and spending policies were continued without change. CBO reestimates, or reprices, the Administration's budget using CBO's economic assumptions and technical estimating methods. The differences between the baseline and the CBO estimate of the budget measure the effect of the Administration's proposed policy changes.

### Baseline Budget Projections

Under CBO's baseline budget projections, the deficit is projected to rise from \$152 billion in 1989 to \$159 billion in 1990 and \$161 billion in 1991. The baseline deficit then drops to an average of \$125 billion in 1992 through 1994 and to **\$110** billion in 1995. In relation to the size of the economy, the baseline deficit is near 3 percent of gross national product (GNP) in 1989, 1990, and 1991, 2 percent of GNP in 1992 and 1993, and 1.5 percent of GNP in 1995.

These baseline budget projections update those published in CBO's annual report of January 1990 to reflect newly available information. While CBO has substantially increased its estimate of the Resolution

Trust Corporation's outlays, other revisions are small. In its annual report, CBO noted that RTC's outlays were constrained because it lacked sufficient funds to deal with the hundreds of insolvent thrift institutions that had been entrusted to it. Since then, the Department of Justice has informed RTC that it is eligible for bridge loans from the the Federal Financing Bank (FFB). CBO now estimates that the RTC will borrow some \$24 billion from the FFB in 1990 and another \$31 billion or so in 1991. The additional costs of case resolutions financed by this borrowing will count as budget outlays and swell the federal deficit for the next two years. In later years, when the RTC sells the assets that it acquires from insolvent thrifts, the proceeds from the sales will reduce the deficit.

### Projections of the Bush Administration's Policies

CBO estimates that the 1991 budget deficit under the Bush Administration's policies would be \$131 billion--~~\$69~~ billion more than the **Administration's** own estimate of \$61 billion. About \$44 billion of the \$69 billion in reestimates is attributable to differing technical estimating assumptions, primarily for RTC working capital and other costs of deposit insurance. The remaining \$26 billion difference stems from differences in economic assumptions. CBO's deficit estimates exceed the Administration's by \$60 billion in 1992, \$99 billion in 1993,

and \$122 billion in 1995--**mostly** because of different economic assumptions (see Table 1).

Economic Assumptions. The Administration is considerably more optimistic than CBO on the outlook for **noninflationary** growth, as shown in Table 2. Over the 1990-1995 period, the Administration

TABLE 1. CBO AND ADMINISTRATION ESTIMATES OF THE DEFICIT UNDER ADMINISTRATION POLICIES (By fiscal year, in billions of dollars)

|  | 1990      | 1991     | 1992      | 1993      | 1994      | 1995      |
|--|-----------|----------|-----------|-----------|-----------|-----------|
| Administration Deficit or Surplus Estimate | 121       | 61       | 24        | (20)a     | (64)a     | (111)a    |
| CBO Economic Reestimates                   |           |          |           |           |           |           |
| Revenues                                   | 1         | 19       | <b>36</b> | 55        | 64        | 63        |
| Interest                                   | -1        | 6        | 17        | 27        | 36        | 44        |
| Other outlays                              | b         | <u>1</u> | <u>1</u>  | <u>3</u>  | <u>5</u>  | <u>9</u>  |
| Subtotal                                   | b         | 26       | 54        | 84        | 105       | 117       |
| CBO Technical Reestimates                  |           |          |           |           |           |           |
| Revenues                                   | 5         | 5        | 3         | -4        | -12       | -17       |
| Deposit insurance                          | 31        | 29       | -6        | 4         | -6        | -3        |
| Medicaid and Medicare                      | -2        | 2        | 4         | 7         | 10        | 12        |
| Interest                                   | 4         | 4        | 6         | 8         | 10        | 11        |
| Asset sales and leases                     | 0         | 3        | b         | b         | b         | b         |
| Other                                      | <u>-1</u> | <u>1</u> | <u>-1</u> | <u>-2</u> | <u>-5</u> | <u>-1</u> |
| Subtotal                                   | 36        | 44       | 5         | 15        | 6         | 5         |
| Total Reestimates                          | 37        | 69       | 60        | 99        | 112       | 122       |
| CBO Deficit Estimate                       | 158       | 131      | 84        | 79        | 47        | 11        |

SOURCES: Office of Management and Budget; Congressional Budget Office.

NOTE: The budget figures include Social Security and exclude the Postal Service. Following **standard** budgetary accounting, the **estimates** of the Administration budget do not treat **payments** to the Social Security Integrity and Debt Reduction Fund as budget **outlays**.

a. Figures in parentheses represent estimated surpluses.

b. **Less than \$0.5 billion.**

TABLE 2. COMPARISON OF CBO, ADMINISTRATION,  
AND *BLUE CHIP* ECONOMIC ASSUMPTIONS,  
CALENDAR YEARS 1989-1995

|  | Estimated | Forecast |       | Projected  |       |       |       |
|--|-----------|----------|-------|------------|-------|-------|-------|
|  | 1989      | 1990     | 1991  | 1992       | 1993  | 1994  | 1995  |
| <b>Nominal GNP</b><br>(Billions of dollars)                                    |           |          |       |            |       |       |       |
| CBO  | 5,235     | 5,534    | 5,893 | 6,279      | 6,688 | 7,121 | 7,579 |
| Administration   | 5,236     | 5,583    | 6,002 | 6,439      | 6,881 | 7,324 | 7,771 |
| <b>Real GNP (Percentage change, year over year)</b>                            |           |          |       |            |       |       |       |
| CBO  | 2.9       | 1.7      | 2.4   | 2.5        | 2.5   | 2.4   | 2.4   |
| Administration   | 3.0       | 2.4      | 3.2   | 3.2        | 3.1   | 3.0   | 3.0   |
| <i>Blue Chip</i>   | 2.9       | 1.6      | 2.4   | 3.1        | 3.0   | 2.6   | 2.5   |
| <b>Consumer Price Index<sup>a</sup></b><br>(Percentage change, year over year) |           |          |       |            |       |       |       |
| CBO  | 4.8       | 4.0      | 4.3   | 4.3        | 4.3   | 4.3   | 4.3   |
| Administration   | 4.8       | 3.9      | 4.0   | 3.9        | 3.6   | 3.3   | 3.0   |
| <i>Blue Chip</i>   | 4.8       | 4.3      | 4.2   | 4.3        | 4.3   | 4.3   | 4.2   |
| <b>Implicit GNP Deflator</b><br>(Percentage change, year over year)            |           |          |       |            |       |       |       |
| CBO  | 4.2       | 4.0      | 4.0   | 4.0        | 4.0   | 4.0   | 4.0   |
| Administration   | 4.2       | 4.1      | 4.2   | 3.9        | 3.6   | 3.3   | 3.0   |
| <i>Blue Chip</i>   | 4.2       | 4.0      | 4.0   | 4.1        | 4.1   | 4.2   | 4.1   |
| <b>Unemployment Rate<sup>b</sup></b>   |           |          |       |            |       |       |       |
| CBO  | 5.3       | 5.6      | 5.5   | <b>5.5</b> | 5.5   | 5.5   | 5.5   |
| Administration   | 5.2       | 5.4      | 5.3   | <b>5.2</b> | 5.1   | 5.0   | 5.0   |
| <i>Blue Chip</i>   | 5.3       | 5.6      | 5.6   | 5.6        | 5.4   | 5.3   | 5.2   |
| <b>Three-Month Treasury Bill Rate (Percent)</b>                                |           |          |       |            |       |       |       |
| CBO  | 8.1       | 6.9      | 7.2   | 6.9        | 6.5   | 6.1   | 5.8   |
| Administration   | 8.1       | 6.7      | 5.4   | 5.3        | 5.0   | 4.7   | 4.4   |
| <i>Blue Chip</i>   | 8.1       | 7.3      | 7.3   | 6.9        | 7.0   | 6.9   | 6.8   |
| <b>Ten-Year Government Note Rate (Percent)<sup>c</sup></b>                     |           |          |       |            |       |       |       |
| CBO  | 8.5       | 7.8      | 7.7   | 7.6        | 7.5   | 7.4   | 7.3   |
| Administration   | 8.5       | 7.7      | 6.8   | 6.3        | 6.0   | 5.7   | 5.4   |
| <i>Blue Chip</i>   | 8.5       | 7.9      | 7.9   | 7.9        | 7.8   | 7.9   | 7.9   |

SOURCES: Congressional Budget Office; Office of Management and Budget; Eggert Economic Enterprises, Inc., *Blue Chip Economic Indicators*.

NOTE: The CBO forecast is based on data available through December 1989 and does not reflect fourth-quarter data for GNP or CPI published in January 1990. The *Blue Chip* forecasts through 1991 are based on a survey of 50 private forecasters, published on February 10, 1990. The *Blue Chip* projections from 1992 through 1995 are based on a survey of 41 forecasters, published on October 10, 1989.

- Consumer price index for all urban consumers (CPI-U) for CBO and the *Blue Chip*; consumer price index for urban wage earners and clerical workers (CPI-W) for the Administration.
- The Administration's projection is for the total labor force, including armed forces residing in the United States, while the CBO projection is for the civilian labor force excluding armed forces. In recent years, the unemployment rate for the former has tended to be 0.1 to 0.2 percentage point below the rate for the civilian labor force alone.
- Blue Chip* does not project a 10-year note rate. The values shown here are based on the *Blue Chip* projection of the Aaa bond rate, adjusted by CBO to reflect the estimated spread between Aaa bonds and 10-year government notes.

projects average real growth that is 0.7 percent a year higher than CBO's. Despite this stronger growth, the Administration assumes about the same inflation rates as CBO through 1992 and somewhat lower inflation thereafter. The **Administration's** assumed inflation-adjusted interest rates are also lower than CBO's by an average of more than one percentage point.

Revenues and interest account for almost all of the differences in projected deficits between CBO and the Administration attributable to economic factors. Because of its projected higher growth rates, the Administration has projected higher taxable incomes than **CBO--and** therefore larger tax **collections--in** all years. In addition, the Administration's higher revenues and lower interest rates lead to lower federal borrowing costs. In total, substituting CBO's economic assumptions for the Administration's increases the estimated deficit by \$26 billion in 1991, \$54 billion in 1992, and \$117 billion in 1995.

Technical Estimating Assumptions. CBO's technical reestimates increase the estimated 1991 deficit by \$44 billion. Of this amount, \$29 billion represents RTC working capital and other deposit insurance requirements. In its budget submission, the Administration deliberately excluded the RTC's working capital needs from its estimates. The reason given was the problematic treatment of these transactions under the Balanced Budget Act, an issue that is considered later in my statement. Since the budget was released, however, the RTC has



indicated its intention to meet its working capital needs through borrowing from the FFB, and CBO has included an estimate of this borrowing in its figures.

More than \$7 billion in technical differences in 1991 result from lower CBO estimates of the effects of various Administration proposals. The Administration estimates that its proposal to exclude up to 30 percent of gains realized on capital assets will raise \$4.9 billion in revenue in 1991 and from \$1 billion to \$3 billion each year thereafter. CBO estimates a revenue gain of \$3.2 billion in 1991 and annual revenue losses of \$3 billion to \$4 billion thereafter. CBO also assumes that no additional revenues will result from the Administration's proposed improvements to Internal Revenue Service management, changes that the Administration estimates will yield \$2.5 billion in new revenue in 1991.

On the outlay side of the budget, CBO estimates that the proposed sale of part of the Southeastern Power Marketing Administration, which the Administration assumes will produce \$1.2 billion in offsetting receipts in 1991, cannot be consummated until 1992. Also, leasing a portion of the unassigned radio spectrum is likely to raise only \$0.4 billion in 1991, not the \$2.3 billion counted on by the Administration.

## THE ADMINISTRATION'S BUDGET PROGRAM

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CBO's baseline projections provide a benchmark against which the Administration's budget program can be measured. Because the baseline and the CBO estimate of the President's budget employ the same economic and technical estimating assumptions, differences between the two are solely the result of proposed policy changes. CBO estimates that the Administration's budget proposals would reduce the deficit by \$31 billion in 1991, substantially more than has been achieved in most recent years. The proposed deficit reduction grows to \$41 billion in 1992 and \$99 billion in 1995, as shown in Table 3.

TABLE 3. THE ADMINISTRATION'S DEFICIT REDUCTION PROGRAM AS ESTIMATED BY CBO  
(By fiscal year, in billions of dollars)

|   | 1991      | 1992      | 1993      | 1994       | 1995       |
|---|-----------|-----------|-----------|------------|------------|
| CBO Baseline Deficit                      | 161       | 124       | 132       | 121        | 110        |
| Policy Changes                            |           |           |           |            |            |
| <b>Revenues</b> <sup>a</sup>              | -9        | -4        | b         | -2         | -2         |
| National defense                          | -3        | -8        | -16       | -26        | -35        |
| <b>Nondefense</b> discretionary spending  | -1        | -2        | -4        | -7         | -11        |
| Entitlements and other                    |           |           |           |            |            |
| mandatory spending                        | -13       | -18       | -21       | -23        | -26        |
| Offsetting receipts                       | -3        | -4        | -6        | -6         | -8         |
| Net interest                              | <u>-1</u> | <u>-4</u> | <u>-7</u> | <u>-11</u> | <u>-17</u> |
| Total                                     | -31       | -41       | -54       | -74        | -99        |
| President's Budget<br>as Estimated by CBO | 131       | 84        | 79        | 47         | 11         |

SOURCE: Congressional Budget Office.

NOTE: The budget figures include Social Security and exclude the Postal Service.

a. Revenue increases are **shown** with a negative **sign** because they reduce the **deficit**.

b. Less than \$0.5 billion.

## Spending Proposals

For the first time since the end of the Vietnam War, the President's budget proposes a sustained reduction in real defense spending. Despite nominal annual increases, the budget calls for a 2 percent decline each year in inflation-adjusted dollars. Thus, by 1995, defense budget authority would decline by about 11 percent in real terms. Compared with the baseline, the outlay savings would be small at first--only \$3 billion in 1991--but would grow to \$35 billion by 1995. By 1994 and 1995, cuts in defense spending represent fully one-third of the Administration's proposed deficit reduction. The Administration's budget proposals would cause defense outlays to fall from 5.4 percent of GNP in 1990 to 4.3 percent of GNP in 1995, which would be (except for 1948) the lowest level since before World War II.

In the aggregate, nondefense discretionary spending is not a major target of the Administration's deficit reduction proposals. Some programs would be cut deeply, however, while a few would be increased substantially. Increases are slated for the space station and other space-related activities, the National Science Foundation, the superconducting super collider, aviation facilities and equipment, and Head Start. The budget also provides for renewing long-term subsidized housing contracts that are about to expire. Significant cuts would be made in the direct loan programs of the Farmers Home and Rural Electrification administrations, construction grants for sewage treatment

plants, mass transit subsidies, community and regional development, and low-income energy assistance. Now at 3.8 percent of GNP, its lowest level in more than 30 years, nondefense discretionary spending would fall to 3.3 percent of GNP in 1995 under the **Administration's** proposals.

In 1991, the largest amount of deficit **reduction--\$13 billion--is** to be achieved from entitlements and other mandatory spending. Proposed cuts in Medicare payments to doctors and hospitals, including the extension of cost-saving provisions that expire in 1990, total \$5 billion. Reducing **cost-of-living** adjustments in the Civil Service and Military Retirement systems and other changes in federal employee retirement would save \$3 billion. Yet-to-be-specified reforms in farm price supports and federal employee health benefits would reduce outlays by almost \$2 billion each. The only major increase in entitlement spending recommended by the Administration is a new refundable tax credit for working families with children under four years of age. Together with making the existing child care credit refundable, this proposal would cost \$2 billion by 1995. In total, entitlement spending in 1995 would be cut by \$26 billion. As a share of GNP, however, entitlement spending would remain near recent levels (excluding extraordinary deposit insurance **outlays**).

The budget proposals would increase offsetting receipts by \$3 billion in 1991 and more in later years. One-time savings would arise

from selling the Alaska and Southeastern power marketing administrations and other unspecified assets, leasing rights for oil and gas production in the naval petroleum reserves and Arctic National Wildlife Refuge, and charging for the use of certain **unassigned** radio frequencies. Continuing reductions would result from maintaining premiums for Part B of Medicare at a level sufficient to pay for 25 percent of the program's costs and from extending customs user fees that are about to expire. The Administration also proposes to charge government-sponsored enterprises a fee for issuing **securities**.

### Revenue Proposals

CBO, in conjunction with the Joint Committee on Taxation, estimates that the **Administration's** proposals would increase revenues by \$9 billion in 1991 but only by \$2 billion per year on average in 1992 through 1995 (see Table 4). Under the Administration's proposals, revenues would represent 19.8 percent of GNP in 1991 but would grow less rapidly than the economy thereafter.

The President proposes three incentives for saving and **investment--excluding** up to 30 percent of capital gains from taxation, establishing Family Savings Accounts, and allowing **penalty-free** early withdrawals from Individual Retirement Accounts (**IRAs**) for first-time **homebuyers**. The capital gains exclusion would produce a \$3

billion spurt of revenues in 1991. From 1992 through 1995, however, these proposals would reduce revenues an average of \$5 billion per year.

The proposed incentives would increase the return to saving, but they cannot be counted on to raise the personal saving rate significantly. There is little evidence that people save more when the rate of return increases. During the first half of the 1980s, for

TABLE 4. CBO ESTIMATES OF REVENUE PROPOSALS  
IN THE **ADMINISTRATION'S** 1991 BUDGET  
(By fiscal year, in billions of dollars)

| Proposal   | 1991       | 1992       | 1993     | 1994        | 1995        |
|--|------------|------------|----------|-------------|-------------|
| CBO Baseline Revenues                            | 1,137.0    | 1,203.8    | 1,276.7  | 1,354.6     | 1,437.8     |
| Proposed Changes                                 |            |            |          |             |             |
| Savings and investment incentives                | 2.6        | -5.1       | -4.7     | -5.7        | -5.0        |
| Extensions of expiring income tax provisions     | -1.8       | -2.7       | -3.1     | -3.5        | -3.9        |
| Oil and gas industry incentives                  | -0.3       | -0.5       | -0.5     | -0.6        | -0.6        |
| Payroll tax <b>increases</b> <sup>a</sup>        | 4.6        | 6.1        | 1.0      | 4.2         | 4.4         |
| Excise tax and fee <b>increases</b> <sup>b</sup> | 3.5        | 5.5        | 6.0      | 6.5         | 7.0         |
| Internal Revenue Service initiatives             | 0.3        | 0.4        | 1.0      | 1.2         | 1.2         |
| Other revenue proposals                          | <u>0.5</u> | <u>0.4</u> | <u>c</u> | <u>-0.5</u> | <u>-0.9</u> |
| <b>Total</b> <sup>b</sup>                        | 9.4        | 4.0        | -0.4     | 1.6         | 2.3         |
| President's Budget Revenues as Estimated by CBO  | 1,146.4    | 1,207.8    | 1,276.3  | 1,356.2     | 1,440.0     |

SOURCES: **Congressional** Budget Office and Joint Committee on Taxation revenue estimates.

- a. **Revenues** are net of reduced income **taxes**.
- b. Revenues are net of reduced income and payroll taxes.
- c. Revenue decrease of **less** than \$50 million.

**instance**, real interest rates rose sharply compared with the 1970s, marginal tax rates were cut, and several other policy measures were adopted to encourage saving. But the personal saving rate actually fell. Moreover, even if these new proposals did increase private saving somewhat, national saving would not rise unless the higher saving by individuals exceeded the government's loss in tax revenues caused by the three proposals, and that is not likely.

The budget also proposes extending four income tax provisions scheduled to expire by the end of 1990--the research and experimentation (R&E) credit, the R&E allocation rules, the low-income housing credit, and the partial deduction for health insurance premiums for the self-employed. Taken together, these extensions would increase the deficit by \$2 billion in 1991 and \$4 billion in 1995. Four new or increased tax preferences for the energy industry would lose less than \$1 billion per year.

The Administration would pay for these revenue losses through increases in payroll taxes, higher excise taxes and fees, and improved management of the Internal Revenue Service (IRS). Changes in payroll taxes would raise \$5 billion in 1991 and a total of \$20 billion over the 1991-1995 period. The Administration proposes to extend Social Security coverage to state and local government employees not covered by a retirement plan, to extend Medicare coverage to all state and local workers, and to accelerate further the deadlines by which employers

must remit withheld taxes. Excise tax and fee **increases--primarily** an extension of the telephone tax and an increase in airport and airway taxes-would raise \$4 billion in 1991 and \$7 billion in 1995.

The Administration plans to improve the management of IRS enforcement activities by reallocating staff and reorienting programs. CBO estimates, however, that this initiative will raise no revenue above baseline levels. Past performance provides insufficient evidence of the ability of the IRS to generate revenue increases through reorganization, and the IRS has been unable to document how the proposed reorganization would be any different from previous ones. The Administration also requests an increase in funding for the IRS to establish eight new enforcement programs. CBO agrees that these programs could increase revenues, but not as rapidly or substantially as the Administration estimates.

## ISSUES IN MEASURING THE DEFICIT

Recent discussions of budgetary policy have become mired in confusion over what the real deficit is. For the most part, this confusion has arisen over accounting for the surpluses of the Social Security trust funds and the costs of the savings and loan rescue. The President's budget contains a proposal to change the way Social Security surpluses are treated under the Balanced Budget Act but does not deal with the



thrift insurance issue. In both cases, CBO argues, the proper deficit to target is one that measures the extent to which the federal government draws on private saving to finance government consumption.

### Social Security

The current deficit targets are \$64 billion for 1991, \$28 billion for 1992, and zero for 1993. The Balanced Budget Act includes Social Security in these calculations and thereby makes Social Security subject to the same fiscal discipline as the rest of the budget. From an economic perspective, this treatment of Social Security makes sense.

The chief importance of the federal deficit is accounting for the government's use of private saving. When the deficit increases (other than for additional spending on physical or human investments), the government is diverting more private saving to public consumption. When the deficit is cut, the government is using less saving. The annual balance in the Social Security programs affects national saving in exactly the same way as the balance in any other government accounts.

It is also difficult to make the case that the Social Security surplus has been hiding the deficit in the remainder of the budget. The Bal-

anced Budget Act took Social Security off-budget precisely to highlight its importance to the overall deficit. Both CBO and the Administration have been showing figures on the Social Security surplus and the deficit in the rest of the budget since early 1986, as have the budget resolutions adopted by the Congress (see Table 5).

TABLE 5. ON- AND OFF-BUDGET TOTALS IN CBO'S ESTIMATE OF THE PRESIDENT'S BUDGET (By fiscal year, in billions of dollars)

|   | 1990         | 1991  | 1992         | 1993  | 1994  | 1995  |
|---|--------------|-------|--------------|-------|-------|-------|
| <b>On-Budget</b><br>(Excludes Social Security and Postal Service) |              |       |              |       |       |       |
| Revenues  | 780          | 835   | 875          | 923   | 978   | 1037  |
| Outlays   | <b>1,003</b> | 1,042 | 1,047        | 1,100 | 1,140 | 1,178 |
| Deficit   | 223          | 207   | 172          | 177   | 162   | 142   |
| Off-Budgeta<br>(Social Security)                                  |              |       |              |       |       |       |
| Revenues  | 288          | 311   | 333          | 353   | 379   | 403   |
| Outlays   | 223          | 235   | 245          | 255   | 264   | 273   |
| Surplus   | 65           | 76    | 88           | 98    | 114   | 130   |
| Total   |              |       |              |       |       |       |
| Revenues  | 1,068        | 1,146 | 1,208        | 1,276 | 1,356 | 1,440 |
| Outlays   | 1,226        | 1,277 | <b>1,292</b> | 1,355 | 1,404 | 1,451 |
| Deficit   | 158          | 131   | 84           | 79    | 47    | 11    |

SOURCE: Congressional Budget Office.

- a. For comparability with the Balanced Budget Act targets, the estimates exclude the **Postal** Service, which is also off-budget.

Despite these arguments, recent months have produced a plethora of proposals to exclude Social Security from the Balanced Budget Act process. The Administration's budget contains a two-part variation on this theme. First, the Administration would extend the requirement of a balanced budget indefinitely, rather than allow it to expire after 1993. Second, the Administration proposes a Social Security Integrity and Debt Retirement Fund, which would record a growing portion of the anticipated Social Security surpluses as a budget outlay.

The Administration's proposed fund, however, is not really a fund at all. It is merely an accounting change that would classify reduction of debt as an outlay rather than simply as a use of the budget surplus. Under standard accounting practices, the federal deficit is a good measure of the amount the government must borrow from the public. Similarly, if the government ran a surplus as normally measured, the surplus would approximate the amount of publicly held debt that would be retired.

By treating the retirement of debt as an outlay, the Administration's plan for balancing the budget in fact involves running a budget surplus under traditional accounting. Because the Administration's proposed accounting change would have no substantive effect and would exaggerate the reported deficit, CBO's budget estimates follow standard budgetary accounting rules.

## Thrift Insurance

The budgetary landscape for the next several years is clouded by the costs of the savings and loan crisis. The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) authorized \$50 billion for the Resolution Trust Corporation to close or sell hundreds of insolvent institutions. This amount was intended to pay for deposit insurance losses that would never be recovered, although it is almost certainly insufficient for that purpose. CBO estimates that, by 1992, RTC will need at least \$25 billion to \$30 billion more to cover net losses. In addition, RTC will need substantial amounts of working capital--\$40 billion to \$100 billion by the Administration's estimate.

The costs of the savings and loan crisis can wreak havoc with achieving the Balanced Budget Act targets. The Congress effectively excluded the \$50 billion down payment authorized in FIRREA from the Balanced Budget Act process: \$20 billion was appropriated for fiscal year 1989 when it was too late to affect the automatic reduction procedure, and \$30 billion is to be borrowed by an off-budget entity. Likewise, borrowing from the FFB to meet working capital needs would no longer affect the Balanced Budget Act process for 1990. But it would put the 1991 deficit target of \$64 billion even farther out of reach. In 1992 and 1993, however, proceeds from asset sales could make it easier to reach the targets.

For some time, CBO has argued that **RTC** spending should be included in the budget totals but largely excluded from the Balanced Budget Act calculations. The rationale for the exclusion is that such spending does not affect national saving in the way that most federal spending does. Unlike most recurrent federal expenditures, **RTC** spending for thrift resolution involves only an exchange of one asset or liability for another. These transfers of assets leave private income and wealth unchanged, and thus do not affect saving or consumption.

Excluding most RTC activities from the deficit calculations in the Balanced Budget Act would also be consistent with the treatment of asset sales under the act. The act excludes **nonroutine** asset sales from the budget baseline used to compute the spending cuts required under the automatic deficit reduction provisions. It is unclear whether RTC asset sales are covered by this exclusion. If they are, it would certainly make sense for the Congress also to exclude RTC's expenditures of working capital to acquire these assets.

The argument for excluding RTC activities from the Balanced Budget Act does not apply to its interest expenses. RTC's interest outlays are not merely an exchange of assets but represent a true increase in the government's costs. Table 6 shows how the baseline and the CBO reestimate of the President's budget would be affected by removing RTC's noninterest outlays from the deficit calculation.

Excluding RTC, CBO estimates that the President's policies would produce a deficit of \$103 billion in 1991. In 1992 and 1993 the deficit would hardly decline at all, but the budget would come close to balance by 1995. If reached, it would represent a substantial achievement. Compared with today's deficits, balancing the budget would increase national saving by 3 percent of GNP. Added saving will increase the productivity of the **economy**, raise the growth of living standards, and ease the strain of the baby boom's retirement 20 years hence.

TABLE 6. CBO BASELINE AND CBO ESTIMATE OF THE **PRESIDENT'S BUDGET EXCLUDING NONINTEREST OUTLAYS OF THE RESOLUTION TRUST CORPORATION** (By **fiscal** year, in billions of dollars)

|  | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 |
|--|------|------|------|------|------|------|
| <b>CBO Baseline</b>                            |      |      |      |      |      |      |
| Baseline Deficit                               | 159  | 161  | 124  | 132  | 121  | 110  |
| Resolution Trust Corporation (Except interest) | 32   | 28   | -17  | -16  | -12  | -8   |
| Baseline Deficit Excluding RTC                 | 127  | 134  | 141  | 148  | 133  | 119  |
| <b>President's Budget</b>                      |      |      |      |      |      |      |
| Deficit as Estimated by CBO                    | 158  | 131  | 84   | 79   | 47   | 11   |
| Resolution Trust Corporation (Except interest) | 32   | 28   | -17  | -16  | -12  | -8   |
| Deficit Excluding RTC                          | 126  | 103  | 101  | 94   | 59   | 19   |

SOURCE: **Congressional** Budget Office.