HOUSE BUDGET COMMITTEE

Democratic Caucus

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

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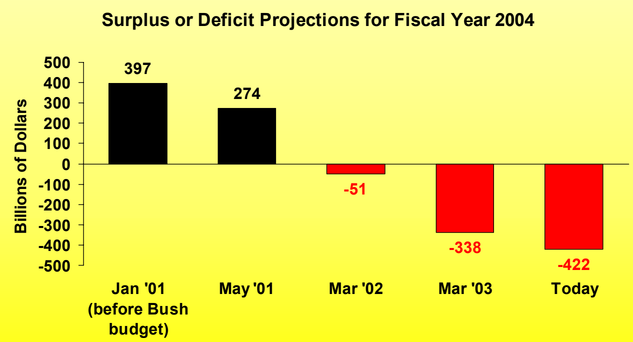
Frequently Asked Questions About the Federal Budget

1. What is the expected deficit for 2004?

CBO projects that the federal deficit for 2004 will be a record $422 billion, up $47 billion from the previous record: $375 billion in 2003. In 2001, before President Bush submitted his first budget plan, CBO projected a 2004 surplus of $397 billion. Since then, there has been a deterioration of nearly $820 billion under Republican leadership.

Under President Bush's Watch, 2004 Surplus Turns to Deficit



2. What comprises federal spending and revenues?

The federal government will collect $1.871 trillion in revenues in 2004. Individual income taxes make up $811 billion of the amount, or 43.3 percent.

Total federal government spending (including Social Security) for 2004 will be $2.293 trillion. "On-budget" spending, which excludes Social Security and net spending of the Postal Service, will be $1.912 trillion. "Off-budget" spending will be $381 billion.[1]

2004 Revenues By Source

	$ in Billions	*% of Total*
Individual Income	811	*43.3*
Corporate Income	182	*9.7*
Social Insurance	732	*39.1*
Excise	71	*3.8*
Estate and Gift	24	*1.3*
Customs Duties	21	*1.1*
Miscellaneous	31	*1.7*

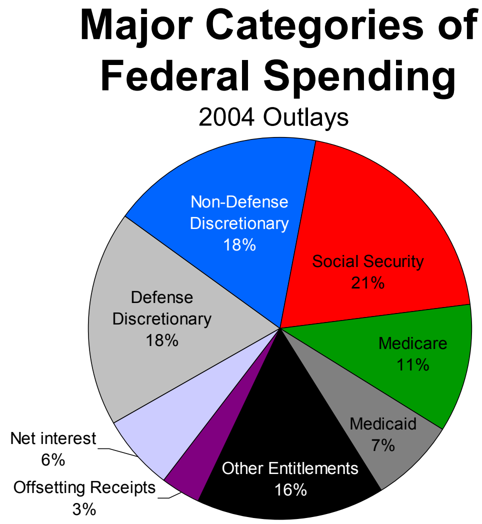
2004 Federal Budget Summary (Amounts Include Social Security)

Revenues: $1.871 trillion   Spending: $2.293 trillion   Deficit: $422 billion

[1]Net off-budget spending consists primarily of spending for Social Security ($496 billion) minus offsetting receipts to the Social Security Trust Fund.

Major Categories of Spending - 2004 Outlays	
Discretionary spending:	
Defense	$452 billion
Non-Defense	$436 billion
Entitlements:	
Social Security	$492 billion
Medicare (net of premiums)	$266 billion
Medicaid	$176 billion
Other Mandatory /a	$392 billion
Miscellaneous receipts that offset spending: /b	$-78 billion
Net interest	$159 billion

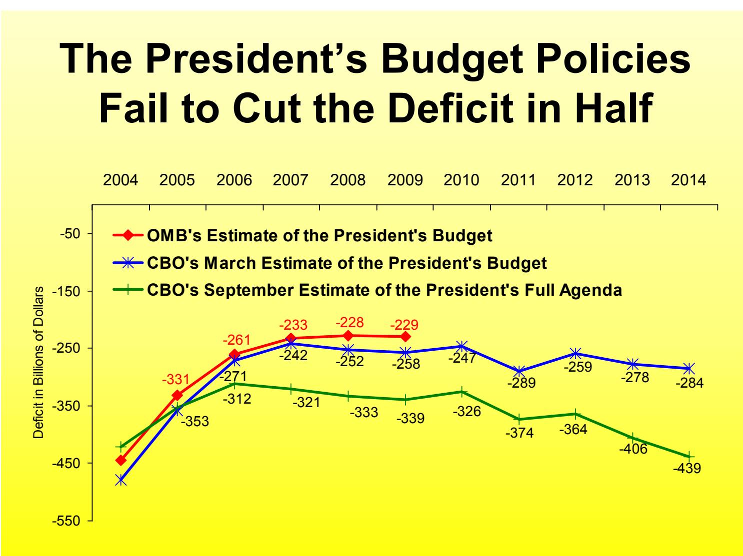
/a Civil Service and Military Retirement, SSI, EITC, Veterans' Benefits, etc.
/b Not including Medicare premiums



3. What is the budget outlook for the future?

CBO projects budget deficits for the entire ten-year window of its estimate. The 2005 deficit will be $348 billion, and over the ten-year period (2005-2014) the deficit will total $2.3 trillion. When Social Security is removed from the figures, the 2005 deficit grows to $521 billion, with a ten-year total of $4.7 trillion. These structural deficits increase the national debt and interest on that debt, thereby reducing the amount available for other important government services.

4. The President claims he will cut the deficit in half over five years. Will that happen? Does that mean his plan will bring the budget back to balance in ten years?



No. The Administration will not halve the deficit in five years. The President's budget never reaches balance, even though the President's numbers omit several key items of his agenda. While the Administration will not release its own estimates of its budget policies after the first five years, in March CBO estimated that deficits continue under the President's budget submission, never improving above a deficit of $247 billion in 2010.

However, after making realistic adjustments to include CBO's estimates of additional, declining expenditures for operations in Iraq, Afghanistan, and the global war on terrorism, as well as reform of the Alternative Minimum Tax (AMT) – which the Administration has not yet proposed but which is likely to become law – the deficit picture grows worse. The President's full agenda does not meet even the meager goal of halving the deficit in five years, and large deficits continue throughout the ten-year period.

5. What is the status of the congressional budget resolution?

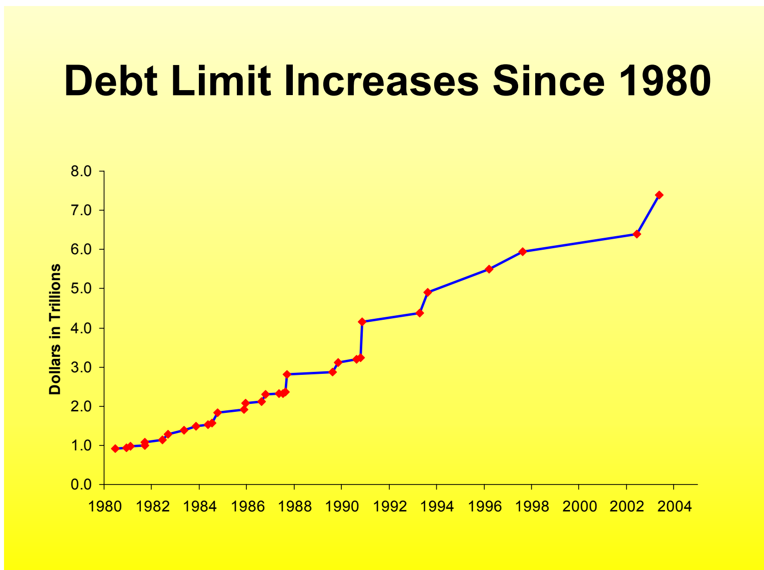
For the first time in history when the same party controls the White House, the Senate, and the House of Representatives, Republicans this year failed to pass a budget resolution. Congress did not adopt a conference report on the budget resolution, and without this blueprint for funding and revenue priorities, Congress cannot consider spending and tax cut measures within the context of an overall fiscal framework.

6. Congress failed to pass a budget resolution. What are the consequences of this failure?

Aside from neglecting to complete one of its most important responsibilities, Congress makes many of its other tasks more difficult by failing to agree on a final budget resolution. When there is no budget resolution, the law requires Congress to remain subject to the totals set forth in the most recently passed budget resolution conference report. This year, however, the House and Senate circumvented that requirement by using other legislation to "deem" the adoption of new budget levels. But without an official budget resolution, the House must take a separate vote to raise the debt limit and the Senate loses its ability to put tax and entitlement legislation on a fast track.

7. What is the debt limit, and when will it have to be increased?

The federal debt limit is $7.384 trillion. For the third time in three years, Republicans need to increase the debt limit. Last year, they enacted the largest debt limit increase in history: $984 billion. In 2002, they raised the debt limit by $450 billion. Now, they need another $690 billion increase to keep the federal government solvent for just one more year.



Republicans are unwilling to recognize the fiscal consequences of their actions. First, Republicans tried to use the "Hastert Rule" to produce an increase in the debt limit through their budget resolution without having to take a separate vote. Then, House Republicans tried to cloak the urgently needed debt limit increase in an unrelated must-pass bill. Because both attempts were unsuccessful, the federal government is now running up against the debt ceiling limit. This means the Treasury will be forced to take certain extraordinary actions, such as transferring funds from the federal employee retirement system and the civil service retirement system, to avoid government insolvency.

8. What happened to the budget process?

All of the budget rules in effect in the 1990s, including the pay-as-you go rule (PAYGO) and spending caps, have expired. The PAYGO rule required tax cuts and spending increases to be offset with other tax increases or spending reductions, so new policies would have no net effect on the deficit. Statutory caps on appropriations placed a strong limit on the funding amount Congress could provide in a given year. These budget rules were instrumental in providing the discipline that helped turn large structural deficits into surpluses. House Republicans brought several ill-conceived budget process reform measures to the floor for consideration in June. The lopsided Republican proposal to restrain spending without limiting tax cuts was a bad idea, and the draconian entitlement cap procedure included in some Republican amendments was even worse. Because Republicans were unwilling to compromise, they squandered the opportunity to enact meaningful, bipartisan budget process reform; instead, every major proposal was rejected, including a return to the budget rules that worked throughout the 1990s.

9. What is the status of the Social Security Trust Fund?

According to the 2004 *Trustees' Report*, the Social Security program took in $632 billion in income and paid out $471 billion in benefits in 2003. The trust fund balance on December 31 was $1.531 trillion. Under the most likely scenario, Social Security will remain in surplus on a cash basis until 2018. Beginning that year, Social Security will need to draw down the trust fund to pay benefits. In 2042, the trust fund will be exhausted, and either benefits will need to be cut 27 percent or payroll taxes raised from 12.4 percent under current law to roughly 17 percent. The present value of the shortfall between promised benefits and expected revenues of the program through calendar year 2078 is $3.7 trillion. These figures represent the actuaries' best guess at the demographic and economic variables affecting the program's finances. Under the pessimistic scenario in the *Trustees' Report*, the trust fund will be exhausted in 2031. Under its optimistic scenario, however, the trust funds will not be depleted within the 75-year window.

10. What is the cost of Medicare and how much does the Medicare Modernization Act and the new prescription drug benefit cost?

Overall Medicare Spending
CBO estimates gross federal mandatory spending for Medicare at $297 billion in 2004. However, once premiums paid by Medicare beneficiaries are taken into account, net federal mandatory spending is estimated at $265 billion in 2004.

Medicare consists of the Hospital Insurance Trust Fund (HI or Part A), which pays for hospital benefits and post-acute care, and the Supplementary Medical Insurance Trust Fund (SMI or Part B), which pays for physician visits and other outpatient care. HI spending accounts for approximately 56 percent of Medicare benefits and SMI accounts for 44 percent.

According to the 2004 Medicare *Trustees' Report*, Medicare spending from the HI Trust Fund will begin to exceed Medicare revenues (excluding interest income) in 2004. In 2010, the HI Trust Fund will begin to run an annual deficit as the cost of benefits will exceed both Medicare revenues and the interest earned on the bonds in the HI Trust Fund. The trustees estimate that the HI Trust Fund will be insolvent by 2019, seven years earlier than the projection in the 2003 *Trustees' Report*. The SMI Trust Fund is financed by transfers from the general fund and beneficiary premiums, and is by definition solvent.

Cost of Medicare Modernization Act

The Medicare Prescription Drug, Improvement, and Modernization Act (P.L. 108-173, referred to as MMA) creates a prescription drug benefit in 2006, increases payments to managed care plans starting in 2004, and changes Medicare provider payments and other parts of the program. Overall, the MMA costs less than projected Medicare spending for the prescription drug benefit because: (1) the law includes provisions affecting providers that yield Medicare savings; and (2) the cost to Medicare of the prescription drug benefit is partially offset by Medicaid savings. CBO estimates the overall cost of MMA at $395 billion from 2004 to 2013.

The Administration estimates the MMA will cost $534 billion over ten years. This estimate is $139 billion higher than CBO's for several reasons. First, the Administration forecasts higher prescription drug spending due to higher beneficiary participation, greater per capita costs, and greater spending on low-income subsidies. Second, the Administration predicts many more seniors will move into private plans under the new law, as compared to CBO's assumptions.

On September 19, the *Washington Post* reported that an internal Administration estimate indicates the ten-year cost of MMA could increase by up to $42 billion. The Administration asserts that it has not done a full re-estimate of MMA and that it is incorrect to add the existing score with this new number to reach a new MMA score of $576 billion. While there are some technical concerns with the $42 billion estimate, it appears that the Administration's estimates of spending "related to MMA" are on an upward trend and the increase is tens of billions of dollars over the ten-year period.

- ***Cost of Prescription Drug Benefit*** — CBO estimates the cost of the MMA prescription drug benefit at $551 billion over the ten-year period of 2004 to 2013. This cost is offset by savings to Medicaid and other federal programs, resulting in a net cost for the prescription drug benefit of $407 billion over the ten-year period.

  The President's budget estimates the cost to Medicare of the prescription drug benefit at $649 billion. This cost is offset by savings to Medicaid and other federal programs, resulting in a net cost for the prescription drug benefit of $510 billion.