A CBO REPORT

BUDGET OPTIONS

The Congress of the United States
Congressional Budget Office

NOTES

Unless otherwise indicated, all years referred to in this report are fiscal years.

Numbers in the text and tables may not add up to totals because of rounding.

In Chapter 3, savings for most of the nondefense discretionary spending options are estimated in two ways: relative to the freeze variation of the Congressional Budget Office's baseline, referred to as WODI (without discretionary inflation), and relative to the inflation-adjusted version, or WIDI (with discretionary inflation). Savings for most of the defense options are estimated relative to program levels that are assumed to be roughly the same under WODI or WIDI.

Preface

This volume—part of the Congressional Budget Office's (CBO's) annual report to the House and Senate Committees on the Budget—is intended to help inform policymakers about options for the federal budget. The report has two main components. First, it discusses some major proposals to increase spending or cut taxes that have been prompted by the emergence of large budget surpluses. Second, it presents some 250 specific policy options to reduce spending or increase revenues in a wide variety of programs; those options could be used to offset the cost of new initiatives, maintain budgetary discipline, reorder priorities, or accomplish other goals.

The broad proposals and specific policy options come from many sources. In keeping with CBO's mandate to provide objective and impartial analysis, the discussion of each proposal or option presents the cases for and against it. The inclusion or exclusion of a particular proposal or option does not represent an endorsement or rejection by CBO. As a nonpartisan Congressional staff agency, CBO does not make recommendations about policy.

The report begins with an introduction that discusses the debate over surpluses and explains how to use the proposals and options. Part One of the volume examines a range of major policy initiatives for increasing spending (Chapter 1) or cutting taxes (Chapter 2) that have been prominent in the public debate. Part Two summarizes around 190 specific options for reducing spending (Chapter 3) and about 60 specific options for increasing revenues (Chapter 4). The spending options in Chapter 3 are organized by the functional categories of the budget—national defense; international affairs; general science, space, and technology; and so on. Each functional category is introduced by a page of background data and information about recent trends within that function. The report concludes with an appendix listing the scorekeeping guidelines used to enforce the discretionary spending limits and pay-as-you-go requirement of the Budget Enforcement Act of 1990 (as amended).

All divisions of the Congressional Budget Office contributed to this report, which was coordinated by Arlene Holen. Sandy Davis wrote the introduction. Chapter 1 was prepared by the Health and Human Resources Division, under the direction of Joseph Antos, Sandra Christensen, Ralph Smith, and Bruce Vavrichek. Chapter 2 was prepared by Roberton Williams, G. Thomas Woodward, and Richard Kasten. The spending options in Chapter 3 were coordinated by David H. Moore, R. Mark Musell, R. William Thomas, and Bruce Vavrichek. The revenue options in Chapter 4 were coordinated by Roberton Williams. Budget authority and outlay estimates were coordinated by Tom B. Bradley, Kim P. Cawley, Paul R. Cullinan, and Michael A. Miller. The background pages for each function were prepared by R. Mark Musell and Peter H. Fontaine. The staff of the Joint Committee on Taxation prepared most of the revenue estimates. Laurie Brown designed the interactive version of the report, with technical support from Frank Gibbs.

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Introduction

As the 21st century begins, the Congress confronts a fiscal environment that has changed dramatically in a short period of time. For nearly three decades, lawmakers fought persistent deficits. Over the past three years, those deficits have disappeared and been replaced with large and growing surpluses. The surprising speed with which those surpluses have emerged—and the bright budget and economic outlook under which they are projected to grow—has caused a major shift in the public and political debate over federal budget policy.

The budget debate is no longer dominated by initiatives to reduce the deficit; it is now focused on various alternatives for using projected surpluses. In general, that debate involves the extent to which projected surpluses should be devoted to paying down public debt or used to increase spending and lower taxes. Many lawmakers have concluded that any spending increases or tax cuts should not exceed the amount of projected on-budget surpluses—that is, excluding the portion of the surplus attributable to Social Security (which accounts for nearly all off-budget spending and revenues). Social Security surpluses would be used to reduce public debt.

Yet the recent turnaround in federal fiscal fortunes remains uncertain. The budget projections generally do not show large on-budget surpluses until later years, when the current outlook is the most unsure. Those surpluses are also based in part on assumptions about future levels of total discretionary spending that may be difficult to attain.[1] A significant downturn in the economy, or other unforeseen events, could further reduce or even eliminate surpluses and drive the budget back into deficit.[2]

Limiting the cost of new policy initiatives to the amount of on-budget surpluses may prove difficult. The major policy initiatives to increase spending or lower taxes that have been most actively debated would involve significant sums of money. Even relatively modest spending increases or tax cuts could substantially reduce projected surpluses.

If the fiscal outlook remains bright and surpluses are realized as projected, lawmakers will still face budgetary choices and trade-offs and may decide to reorder federal budgetary priorities. No amount of budget surplus justifies waste and inefficiency. Citizens should expect value for their tax dollar and a tax burden that is not excessive.

In this fiscal environment, it is useful for lawmakers to be informed about the range of major budget options and choices that they now face. Accordingly, this volume has two broad purposes. Part One illustrates the possible scope and effect of some of the broad policy proposals to increase spending or cut taxes that are now being offered and vigorously debated. Part Two provides specific policy options that lawmakers may adopt to help offset the cost of those new initiatives, maintain budgetary discipline, or reorder priorities.

1. Discretionary spending is provided anew each year in appropriation acts. It accounts for about one-third of total spending. The remaining two-thirds, known as mandatory (or direct) spending, is controlled by other laws that generally are permanent.

2. For further discussion about the uncertainty of budget projections, see Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2001-2010* (January 2000), Chapter 5.

The Changing Fiscal Environment

The Congressional Budget Office (CBO) estimates that fiscal year 2000 will mark the first time since the mid-1920s that the federal government will record growing total budget surpluses for three consecutive years. The total surplus for 2000, estimated at about $180 billion, would be the largest in history in nominal dollars and the largest since 1951 as a percentage of gross domestic product (GDP).

CBO projects that under current policies and assumptions about the economy, total budget surpluses will grow dramatically over the coming decade and will total between $3.1 trillion and $4.2 trillion, depending on assumptions about the path of discretionary spending (see Table 1).[3] Between 2007 and 2009, those surpluses would be large enough to pay off all publicly held federal debt that is available for redemption.[4] CBO's projections also include growing on-budget surpluses that total between $0.8 trillion and $1.9 trillion over the next 10 years. The off-budget surpluses of the Social Security trust funds are projected to total about $2.3 trillion during that period.

The projected on-budget surpluses assume spending restraint as well as high levels of tax receipts. Surpluses at the higher end of the range ($1.9 trillion over 10 years) assume that the statutory limits on discretionary spending are adhered to through 2002—which has not been the case for the past two years—or that discretionary spending is frozen at the current level with no adjustment for inflation (a cut in real resources of over 20 percent by 2010). Surpluses at the lower end ($0.8 trillion over 10 years) assume that discretionary spending grows at an average annual rate of 2.7 percent. All surplus projections assume no changes in mandatory spending or tax laws, which means in part that some tax breaks that are routinely extended are assumed to expire. Revenues are projected to remain near historically high levels over the next 10 years, averaging just below 20 percent of GDP each year.

CBO's budget projections are based on economic forecasts that could turn out worse than expected and on budget policies that are likely to change. Alternative economic assumptions that are also reasonable would produce surpluses that differ from CBO's projections by hundreds of billions of dollars a year several years from now. Substantial spending increases or tax cuts, in the absence of offsetting savings, would further erode those surpluses. Such changes could also make it more difficult to continue paying down federal debt and to comply with current budget enforcement procedures.

Paying Down Debt

Reducing federal debt increases national saving and thereby promotes the economic growth that will be needed to help meet the long-term budgetary challenges facing the nation. Surpluses that are lower than the levels assumed in CBO's baseline variations would make it harder to deal with those long-term budgetary problems.

Despite the favorable budget outlook over the next decade, budgetary pressures linked to the aging of the baby-boom generation loom just beyond that 10-year horizon. For example, about 3.4 workers are now paying taxes to support each Social Security beneficiary. In 2030, that ratio will drop to about 2 workers for each beneficiary and is expected to decline further after 2030.[5] Those and other, related trends could drive the budget back into deficit after 2010 and lead to serious fiscal problems in the future. The timing and magnitude of those long-term fiscal pressures are

3. Because discretionary spending is provided anew each year (and for other reasons), projecting its possible future path is more difficult than projecting mandatory spending and tax receipts, for which permanent laws generally are in place. CBO's current projections include three variations for discretionary spending—levels adjusted for inflation after 2000, levels frozen at the total enacted for 2000, and levels equal to CBO's estimates of the statutory limits on discretionary spending for 2001 and 2002 and adjusted for inflation thereafter. See CBO's report *The Budget and Economic Outlook*, pp. 2-5.

4. Ibid., Table 1-5. Paying off available public debt does not mean that there will be no federal debt in circulation. For example, some outstanding debt with longer maturities will not be available for redemption during the 2001-2010 period. For further discussion, see *The Budget and Economic Outlook*, p. 19.

5. See *1999 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (March 30, 1999),Table II.F19.

Table 1.
The Budget Outlook Under Current Policies (By fiscal year, in billions of dollars)

	Actual 1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total, 2001-2010
Discretionary Spending Grows at the Rate of Inflation After 2000													
On-Budget Surplus	1	23	11	26	31	37	43	86	115	131	162	195	838
Off-Budget Surplus	124	153	166	182	195	209	225	239	254	268	281	295	2,314
Total Surplus	124	176	177	209	227	246	268	325	368	399	444	489	3,152
Discretionary Spending Is Frozen at the Level Enacted for 2000													
On-Budget Surplus	1	23	22	50	76	102	129	194	245	288	346	407	1,858
Off-Budget Surplus	124	153	166	182	196	209	226	240	255	269	282	296	2,320
Total Surplus	124	176	188	232	271	312	355	434	500	556	628	703	4,179
Discretionary Spending Equals CBO's Estimates of the Caps Through 2002 and Grows at the Rate of Inflation Thereafter													
On-Budget Surplus	1	23	69	112	126	136	151	199	231	258	298	339	1,918
Off-Budget Surplus	124	153	166	182	195	209	225	239	254	268	281	295	2,314
Total Surplus	124	176	235	294	321	345	376	438	485	526	579	633	4,232

SOURCE: Congressional Budget Office.

also linked to how lawmakers respond to projected surpluses.[6]

Saving the surplus by paying off debt does not come without costs. Government debt, which would be essentially eliminated with currently projected surpluses, may serve a special function in the economy by providing an asset free of default risk. The loss of such an asset could increase costs for some financial intermediaries and could impose a burden on private investors. Yet despite those concerns, saving the surplus would yield significant benefits. The main gains from higher national saving would be a modestly higher level of income and wealth over the next 10 years and a larger stock of capital and wealth, all of which would help finance the coming costs of the baby boomers' retirement consumption and health care coverage. The effects of saving the surplus depend on the balance between those current costs and future benefits.

Complying with Budget Enforcement Procedures

The Budget Enforcement Act of 1990 established limits on total discretionary spending and a pay-as-you-go (PAYGO) requirement for new legislation affecting mandatory spending or revenues. Under those procedures, legislation that would increase baseline deficits or lower baseline surpluses generally must be offset. The discretionary spending limits and PAYGO requirement, which were extended most recently in the Balanced Budget Act of 1997, are scheduled to expire after 2002.

6. For a discussion of the long-term budget outlook, see Congressional Budget Office, *The Long-Term Budget Outlook: An Update* (December 14, 1999), available at www.cbo.gov.

For fiscal years 1999 and 2000, lawmakers have enacted total appropriations well in excess of the caps that were set in 1997. For example, they have enacted record amounts of emergency appropriations—about $30 billion each year—for which the caps are adjusted automatically. Because emergency spending, advance appropriations, and other devices have been used to enact higher levels of discretionary spending, many lawmakers question whether the caps are still an effective budgetary discipline. For example, CBO estimates that discretionary outlays for 2000 exceed the outlay caps for 2001 by about $25 billion.[7] The CBO baseline variation that projects total discretionary spending at capped levels implies deep cuts in current discretionary spending programs.

Some lawmakers are proposing that a portion of the projected on-budget surpluses be used to increase the current caps and to set new caps for future years. For example, the President has proposed in his fiscal year 2001 budget to increase the current caps and set new caps through 2010.[8] Regardless of whether or how the discretionary caps are revised, proposals that would produce budgetary savings are still likely to be needed to meet those caps or to hold discretionary spending within any of the three alternative versions of CBO's baseline. In particular, proposals to substantially increase funding for high-priority discretionary programs, such as education and defense, may have to be offset with savings elsewhere in the budget.

Reordering Priorities and Improving Federal Programs

Budgeting involves making choices among competing priorities. Although large surpluses may widen the policy options available to lawmakers, they do not by themselves justify more resources for federal programs or other activities that are ineffective, inefficient, or unnecessary. For example, under GPRA (the Government Performance and Results Act of 1993), federal agencies must now report on their strategic goals and program performance as part of the President's budget. Lawmakers may use that information to help reorder priorities and improve federal programs.

Options to cut spending may also help achieve policy or programmatic goals for which enacting savings is not the only or even the primary concern. For example, some options in this volume could be used to reduce the size of government, limit its rate of growth, or scale back activities for which a federal role is questioned. Other options would enable lawmakers to eliminate programs that may have outlived their usefulness, may have achieved the purposes for which they were created, or might be better performed outside the federal government.

Using This Volume

Part One of this volume provides background on and a general discussion of a range of major policy initiatives for increasing spending or cutting taxes that have been considered by lawmakers and that have been prominent in the public debate. Part Two summarizes specific options for reducing spending or increasing revenues. A companion CBO volume discusses options to increase funding for defense programs. That report also includes the options for defense savings that appear in Part Two of this volume.

Part One

The set of proposals outlined in Part One is not comprehensive. Rather, it includes major proposals that have been actively debated and that would significantly change federal spending or taxes and be relatively complicated to carry out. Proposals for increasing spending, which are discussed in Chapter 1, include expanding and reforming Medicare, subsidizing the purchase of health insurance for people under age 65, increasing the adequacy of financing for long-term care services, and expanding federal funding for all levels of education. The chapter also discusses ways to increase retirement income and maintain adequate financing for Social Security. Proposals for cutting taxes, which are discussed in Chapter 2, include

7. Congressional Budget Office, *Sequestration Preview Report for Fiscal Year 2001* (February 4, 2000), p. 5.

8. See, for example, *Budget of the United States Government, Fiscal Year 2001: Analytical Perspectives*, p. 286.

broad-based reductions; more narrowly focused cuts intended to reduce existing disincentives or to create or strengthen incentives affecting work, saving, and marriage; and changes that would simplify the tax system or encourage greater compliance.

Part One provides background and perspective on the various proposals, evaluates their possible scope and effect, and indicates the magnitude of possible budgetary effects. Unlike Part Two, which presents specific options, Part One does not include detailed cost estimates. Instead, it is intended to provide context for lawmakers and others as the budget debate proceeds.

Part Two

Part Two presents specific spending and revenue options (in Chapters 3 and 4, respectively) that would produce budgetary savings. Spending options are categorized according to the functional categories of the budget—national defense (050), international affairs (150), general science, space, and technology (250), and so on. Each spending option is further identified as affecting either mandatory or discretionary spending. For each function, an introductory page provides summary information and data for the past 10 years on overall trends in mandatory and discretionary spending within that function.

The options are numbered individually and include, where appropriate, references to related options in the volume and to relevant CBO publications. Spending options are numbered beginning with the number for the functional category within which they are grouped. For example, defense spending options are numbered 050-01, 050-02, and so on. Closely related options are grouped together under a single number, with individual options identified by a letter suffix. (For example, 050-01-A and 050-01-B both cut strategic nuclear force levels.)

For each option, the volume provides some general background, discusses the pros and cons of the proposal, and estimates the annual budgetary savings (that is, the cut in spending or the increase in revenues) for the 2001-2005 period. Cumulative savings are summed both for that five-year period and for the 10-year period that ends in 2010.

The projected savings for mandatory spending and revenue options are computed from baseline levels estimated to occur under current law.[9] Savings for discretionary spending options are calculated from two baseline levels: the level appropriated for 2000 (the so-called freeze level) and the 2000 level adjusted for inflation. Savings for most defense options are estimated relative to program levels that are assumed to be roughly the same under the freeze or the inflation-adjusted baseline variation. Therefore, only one set of savings estimates appears with each defense option.

In the nondefense spending options, the freeze variation is referred to as WODI (without discretionary inflation) and the inflation-adjusted version as WIDI (with discretionary inflation). The narrative discussion of each option uses the savings from the freeze (WODI) level as the basis for analysis. New or increased fees may be classified as offsets to spending (offsetting receipts or collections) or as new revenues (governmental receipts).[10]

The Interactive Volume

An interactive version of this volume is available on CBO's Web site (www.cbo.gov) in HTML. That version allows users to search the specific spending and revenue options in Part Two in four ways, singly or in combination:

9. For cost estimates of legislation that amends the Internal Revenue Code, CBO is required by law to use estimates provided by the Joint Committee on Taxation. JCT estimated the increased revenue that would be collected as a result of all but two of the options in Chapter 4 (REV-18 and REV-19). CBO prepared the estimates for those two options. In addition, the estimated reductions in revenue proposals described in Chapter 2 were developed by CBO and should be viewed as approximate.

10. The term "user fee" is not a formal budget category. It is an informal term that generally refers to collections from individuals or entities that benefit from or are regulated by some federal program, and the collections are used solely to support that program. In general, if the fee supports a business-type activity, it is classified as an offset to spending. If it is based on the government's sovereign power to tax, it is classified as a revenue. User fees classified as spending offsets may be further classified as either mandatory or discretionary, depending generally on the type of spending legislation in which the fee is included.

- o By type of option (spending—by budget function—or revenue),
- o By spending category (discretionary or mandatory),
- o By agency (the federal agency whose programs would be affected by the option), and
- o By word or phrase.

For example, a user could search for all options related to natural resources and the environment (budget function 300) that affect discretionary spending; all options that would produce savings in mandatory spending within the Department of Health and Human Services; all options that deal with submarines; or all options that eliminate something (a program, some kind of assistance, or some other key factor).

Exclusions and Limitations

The broad budgetary proposals and specific options discussed in this volume stem from various sources. They are derived from legislative proposals, the President's budget, past CBO options volumes, Congressional and CBO staff, other government entities, and private groups. The proposals and options are intended to reflect a range of possibilities; they are neither ranked nor comprehensive. The inclusion or exclusion of a particular proposal or option does not represent an endorsement or rejection by CBO. As a nonpartisan Congressional staff agency, CBO does not make policy recommendations.

The specific options in Chapters 3 and 4 exclude policy changes that are not counted under the Budget Enforcement Act (BEA). For example, options that would affect off-budget programs (Social Security and the Postal Service), fully fund existing commitments for deposit insurance, or provide for the sale of federal assets that result in net costs to the federal government are not included.[11]

The savings options are also intended to facilitate the case-by-case review of individual programs. They therefore exclude certain types of governmentwide options that would produce savings in many programs or agencies. Such options would, for example, freeze spending across the board, eliminate an entire department or major agency, or make an across-the-board cut in federal salaries. Savings for such options cannot always be reliably estimated because the options may affect numerous programs and may simply result in a shift in spending among programs or accounts. Moreover, such options cut effective and ineffective programs alike.

Some of the options affecting states, localities, or the private sector may involve federal mandates. The Unfunded Mandates Reform Act of 1995 establishes procedures that are intended to control such mandates. It also requires CBO to estimate the costs to states and localities of any mandates imposed by new legislation that the Congress is considering. Individual options in this volume do not include estimates of any potential mandates.

The calculations of savings for individual options do not include savings in federal interest costs. Interest savings are typically estimated as part of a comprehensive budget plan, such as the Congressional budget resolution, but such adjustments are usually not made for individual options of the type discussed in this volume.

Subsequent CBO cost estimates, which generally accompany any bill reported by a Congressional committee, may not match the savings estimates shown in this report. The policy proposals on which the cost estimates are based may differ slightly from the specifications used in developing the options. Further, the budget baseline estimates or levels against which the proposals ultimately are measured may have been updated and thus would differ from those used here.

11. The Balanced Budget Act of 1997 (BBA) changed the treatment of asset sales under the Budget Enforcement Act. Previously, asset sales were not counted for any purpose under the BEA. Guidelines for calculating the net cost of an asset sale are included in the BEA scorekeeping guidelines set forth most recently in the BBA conference report; see U.S. House of Representatives, *Balanced Budget Act of 1997*, conference report to accompany H.R. 2015, Report 105-217 (July 30, 1997), p. 1012.

Scorekeeping Guidelines

The Budget Enforcement Act included scorekeeping guidelines to ensure that the budgetary effects of legislation are measured consistently and in accord with standard conventions. Those guidelines are revised and updated periodically and were printed most recently in the conference report accompanying the Balanced Budget Act of 1997. (The scorekeeping guidelines are reprinted in the appendix of this volume.) Among other things, they specify how to score asset sales and lease purchases and how to treat legislation that crosses between the discretionary spending and PAYGO enforcement categories.

The guidelines, however, are subject to interpretation, and CBO and the Office of Management and Budget (OMB) sometimes view them differently. Those differing interpretations may affect how certain options are counted under BEA procedures. OMB estimates are final for the purpose of BEA enforcement. CBO estimates are advisory under the BEA but generally are used in the Congressional budget process.