



FISCAL YEAR 2002

MID-SESSION REVIEW

**BUDGET OF THE
UNITED STATES GOVERNMENT**



THE DIRECTOR

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

August 22, 2001

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 surplus, receipts, outlays, and budget authority for fiscal years 2001 through 2011 and other summary information required by statute.

This report also includes the OMB Sequestration Update Report to the President and Congress for Fiscal Year 2002, as required by the Budget Enforcement Act of 1990 (BEA), as amended. The report provides current estimates of the status of discretionary spending and the discretionary spending limits. It also provides the status of pay-as-you-go legislation based on reports transmitted to date. The report shows that, in the absence of changes in the caps and pay-as-you-go requirements, the law would require large automatic reductions in both discretionary and mandatory programs. The Administration will work with Congress to ensure that no unintended sequesters of spending occur.

Sincerely,

A handwritten signature in black ink, appearing to read "M E Daniels Jr".

Mitchell E. Daniels, Jr.
Director

Enclosure

Identical Letter Sent to The President of the Senate

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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 due to rounding.
4. Web address: <http://www.whitehouse.gov/omb/budget>

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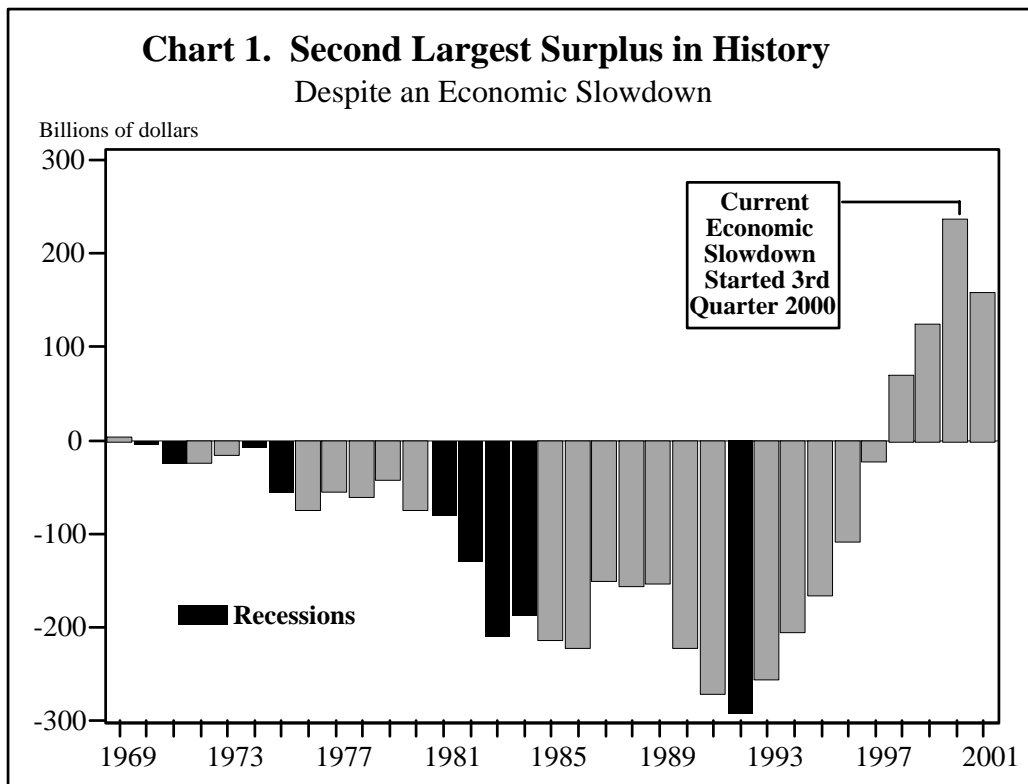
SUMMARY

Despite a nearly stagnant economy, the government's finances are remarkably sound. The budget's enormous surpluses have allowed us to deliver significant tax relief to working Americans, providing badly needed fiscal stimulus to counteract the year-long slowdown in the economy. Even while weathering the slowdown and taking action on tax relief, we continue to take in huge surplus revenues, and to use the extra receipts to steadily reduce the nation's outstanding debt.

The current estimate for the 2001 surplus is \$158 billion, the second highest in history. This is lower than the \$281 billion surplus estimated in the April Budget. The lower surplus is due largely to the year-long economic slowdown and the decision to incorporate immediate fiscal stimulus, in the Economic Growth and Tax Relief Reconciliation

Act. The 2002 surplus projection is \$173 billion, compared to April's \$231 billion estimate. Over the 10 years from 2002 to 2011, the surplus totals \$3,113 billion, down from the \$3,433 billion estimated in April.

Both this year and next year, the overall budget surpluses are equal to the surpluses generated by Social Security payroll taxes (and interest earnings). The President and Congress are both committed to preserving the Social Security surplus for debt reduction. As a result, the additional surplus available for new spending or further tax relief in the next few years is limited. In order to fully reserve the Social Security surplus for debt reduction, any further initiatives beyond those included in this review will also have to be accompanied by offsets in other areas.



Tax Relief for Working Americans

From the Administration's first day in office, President Bush worked to deliver on his campaign promise of meaningful tax relief. This package, which was originally crafted to ensure long-term economic growth and to return excess surplus funds to taxpayers, became even more urgent as the extent of the economic slowdown became apparent. Congress moved with exceptional speed in response to the President's plan. On June 7, 2001 the President signed the Economic Growth and Tax Relief Reconciliation Act of 2001.

This historic measure of tax relief reduces the bottom marginal tax rate from 15 percent to 10 percent, delivering savings to every income taxpayer, and reduces the top rate to a maximum of 35 percent. It also doubles the child tax credit from \$500 to \$1,000, enhances incentives for investment in education, eliminates the marriage penalty, phases out the death tax, and encourages retirement saving.

Of immediate importance, the tax measure includes a rebate provision that puts \$38 billion in savings from the new 10 percent bracket quickly and directly back in the taxpayers' hands. The rebate checks, which taxpayers are receiving in the months of July, August, and September, could not have come at a better time to invigorate today's shaky economy. Economic growth has slowed steadily for over a year to a point that it has nearly stopped. The rebate checks will help prevent further deterioration by supporting consumer spending.

Reserving the Social Security Surplus for Debt Reduction

A strong bipartisan consensus has arisen in this country, and in the Congress, to preserve very large surpluses as a threshold condition of public finance. Both parties and both the Legislative and Executive Branches, in this Administration and the previous one, have concurred in maintaining a surplus at least the size of the Social Security surplus.

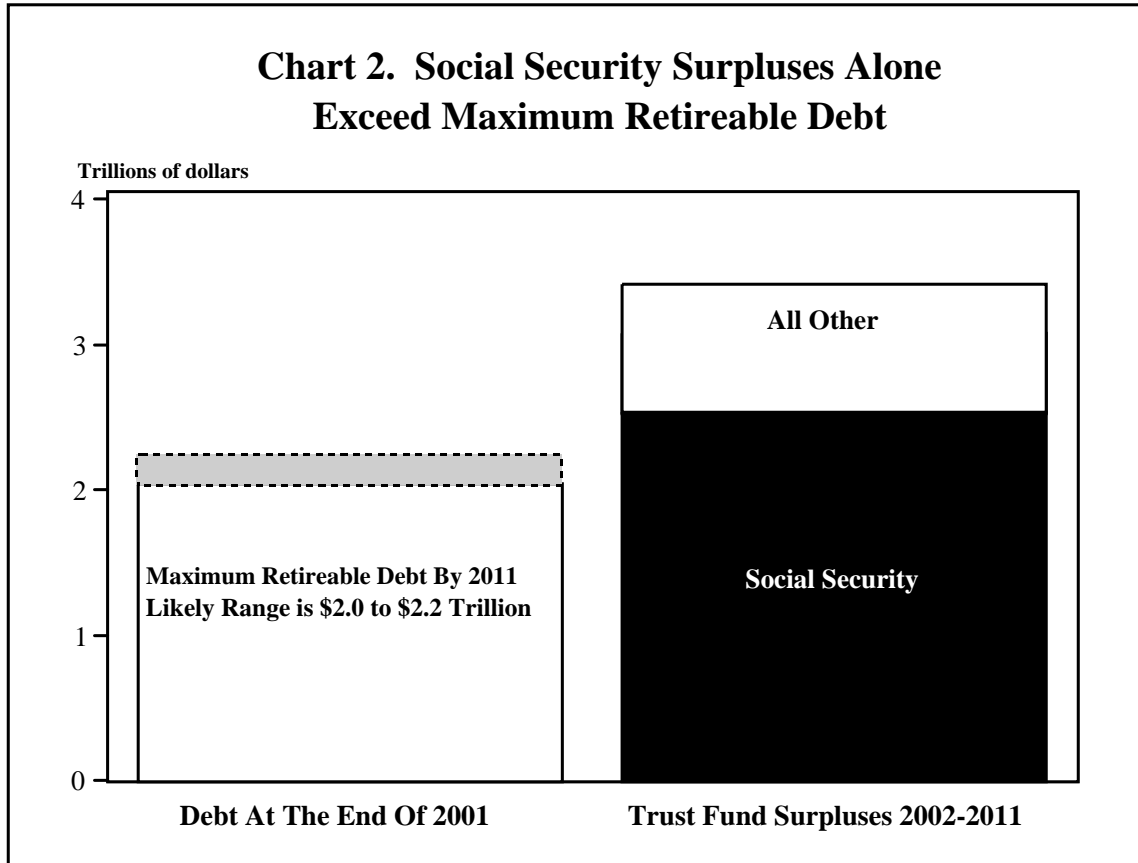
Some would set the minimum surplus level even higher, using as a target the artificial

coverage in the Medicare Part A trust fund. This is a relatively modest difference, amounting to a question of whether the minimum surplus should be more like 8.0 percent or 9.5 percent of total receipts. It is also a difference that is completely irrelevant either to the level of future Medicare benefits or to the health of the trust fund financing those benefits, which will be exactly the same size regardless of the level of the overall budget surplus. (For further discussion, see the Medicare section of this document.)

There are several reasons that the Social Security surplus makes a good surplus target. First, unlike Medicare, which costs much more than it takes in, Social Security is in true surplus for the moment. Second, the Administration and a majority of Americans hope for reform that converts a portion of Social Security receipts from mere IOUs to real assets, owned by the worker who paid those taxes. At that point, the notion of a Social Security "lockbox" will take on real, literal meaning.

The final reason for choosing this surplus target is that it permits the Treasury to achieve—with some room to spare—the maximum amount of debt retirement possible. Over the next 10 years, Social Security will take in excess funds of \$2.5 trillion, whereas maximum debt retireable without incurring unjustifiable premium expenses is between \$2.0 trillion and \$2.2 trillion. This year, the Treasury will eliminate well over \$100 billion of existing debt, marking the fourth year in a row of such reductions. Further such reductions are scheduled for each succeeding year. This is an important accomplishment for which both political parties, both branches of government, and both the current and prior administrations deserve credit.

The update of the budget outlook in this Mid-Session Review foresees continued large surpluses above the size of the Social Security surplus for all years in the budget horizon. The President is determined to preserve surpluses at this level, and to continue using these funds for the steady reduction of outstanding publicly held debt.



Changes in the Economic and Budget Outlook Since April

Since the President submitted his budget in April, the extent of the economic slowdown has become more evident. In retrospect, its length and depth are clear: the stock market began to fall in March, 2000; manufacturing employment in August, 2000; and GDP growth in the third quarter of 2000. Overall, the economy has grown at only a 1.3 percent

rate since the second quarter of last year, including an estimated 0.7 percent annual growth rate in the most recently completed quarter. As discussed in a subsequent section of this review, the Administration—and other forecasters—believe that recent interest rate cuts by the Federal Reserve, coupled with the fiscal stimulus from the Economic Growth and Tax Relief Reconciliation Act, will spur the economy back to solid, sustainable growth by next year.

Table 1. CHANGE IN BUDGET POLICY SURPLUSES

(In billions of dollars)

	2001	2002	2002-2011
April budget estimate of total surplus	281	231	3,433
Social Security surplus	159	175	2,583
Non-Social Security surplus	122	56	850
Change since April:			
Tax rebates and other enacted tax changes	-40	-40	25
Corporate tax timing shift	-28	28	28
Medicare Reform policy	3	11	-37
Tax proposals		3	43
Defense requirements	-4	-11	-198
Farm assistance and other policy	-5	-1	1
Economic and technical adjustments	-46	-44	-46
Related debt service	-1	-6	-136
Total, change	-123	-59	-320
Current policy surplus	158	173	3,113
Social Security surplus ¹	157	171	2,538
Non-Social Security surplus ¹	1	1	575

¹The 2001 estimate is adjusted to assign \$5.6 billion in prior year receipts to their correct year. See text box on page 9 and Appendix A on page 49.

Economic weakness, coupled with the tax rebate action that is designed to counteract that weakness, results in a lower surplus outlook this year and next year. In the current year, economic revisions and technical factors reduce the surplus \$46 billion from the April estimate, a difference of about two percent of receipts. Tax rebates and related provisions account for \$40 billion, a legislated shift in timing of corporation income tax receipts reduces the surplus another \$28 billion, and supplemental spending for meeting national defense and other needs uses \$5 billion. This combination of factors and a technical adjustment described below still leaves a very small on-budget surplus for 2001.

In 2002, economic and technical revisions are slightly smaller than in 2001. The effect of the tax relief provisions stays level at about \$40 billion, while the shift of corporate receipts is recaptured. The net result is a small on-budget surplus.

One factor artificially reducing the 2001 on-budget surplus from the April estimate is an upward revision to the Social Security trust fund due to reestimates of payroll taxes paid in previous years. As explained in the accompanying box, this practice has the effect of inflating the current Social Security surplus by adding credits during

2001 for taxes actually paid and collected in 2000, 1999, and earlier years. This reduces the apparent 2001 on-budget surplus by \$6 billion. Correcting this distortion by assigning the extra revenues to their appropriate year makes clear that there is a small on-budget surplus in 2001. OMB will review with the Department of the Treasury the possibility of prospective changes to record the adjustments in the correct years.

Over the full 10-year budget horizon, the surplus outlook is relatively unchanged from April. The unified surplus total for 2002 through 2011 is now estimated at \$3,113 billion, down from the \$3,433 billion estimated in the April Budget. The largest factor in the reduction is incorporating the outyear implications of the Administration's \$18.4 billion defense amendment for 2002. This is the first installment, totaling \$209 billion, of investment in restoring our national defense capabilities after years of neglect. The tax bill, because it was scaled back during Congressional consideration, increases the surplus slightly relative to the April Budget (which assumed the President's proposals), while the 10-year economic and technical adjustments reduce the surplus by \$46 billion.

This update to the President's budget increases the resources set aside for Medicare modernization, and an integrated prescription

drug benefit, to \$190 billion over the period 2004 to 2011. This new estimate is consistent with the Framework to Strengthen Medicare that the President announced on July 12th and is \$37 billion more than was allocated in total to additional Medicare spending in the April Budget submission over 10 years.

The President's April Budget proposed a program to help low income seniors and those with particularly high prescription drug costs get immediate assistance while Congress considered comprehensive reform. However, with the President's support, a consensus is now building in Congress which focuses on comprehensive Medicare modernization. The President's Framework to Strengthen Medicare and his budget reflect this emerging agreement, setting aside substantial resources to meet this objective which could be implemented as soon as 2004. The Administration is committed to continuing to work with the Congress on enacting legislation to strengthen Medicare consistent with the President's framework.

Although the Administration is committed to enacting comprehensive Medicare legislation soon, the President believes we must help seniors get the prescription drugs they need at an affordable price now. That is why the Administration has begun the voluntary Medicare Prescription Drug Discount Card program. This program will allow seniors access to the same kinds of drug discounts that other Americans with good private health insurance currently receive. The President believes that seniors, who face the heaviest burden for prescription drug costs, should not also have to pay the highest retail prices for drugs. The discount card is not a substitute for prescription drug coverage in a reformed Medicare system, but it will bring important relief to seniors who need it beginning next year.

Of the current 10-year total surplus, \$2,538 billion is from the Social Security trust fund, down slightly from \$2,583 billion in April. As noted above, the Administration is devoting as much of this amount as possible to the reduction of publicly held debt. After reserving the Social Security surplus, the remaining 10-year surplus is \$575 billion, down from \$850 billion in April,

with most of this difference attributed to the \$198 billion increase in spending on national defense and the additional commitment to Medicare.

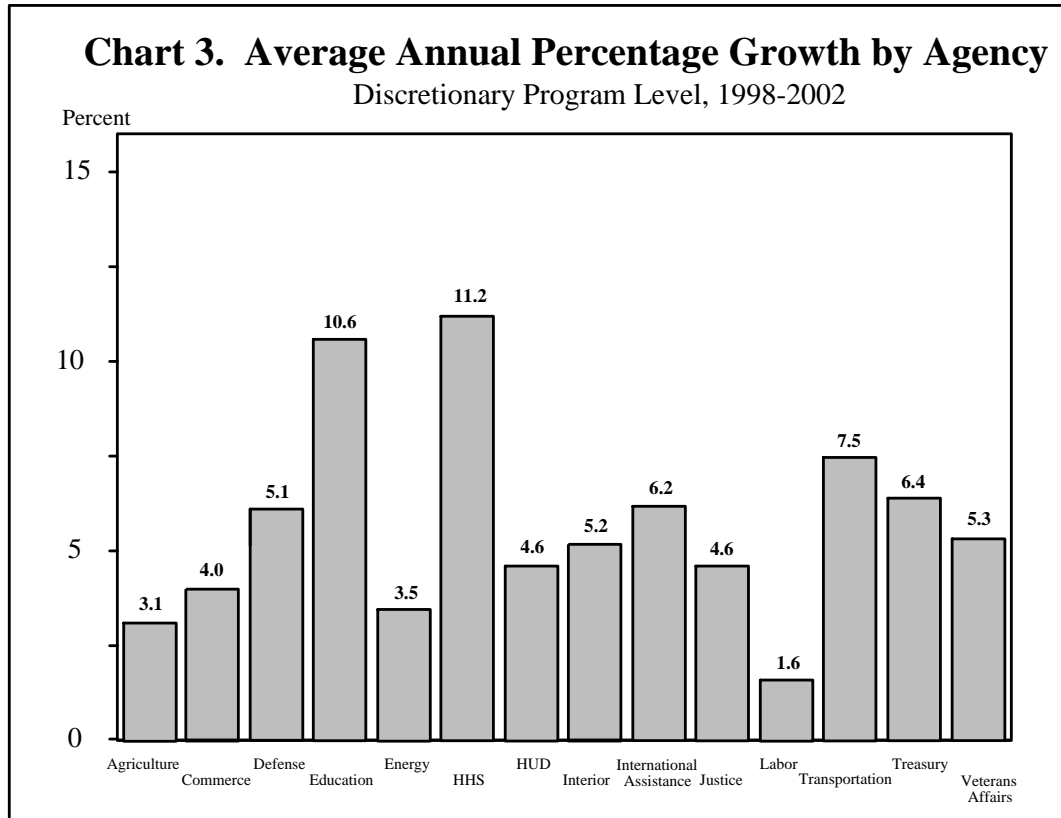
The Best Course Forward

The government's finances are extremely sound. Only persistent, long-term economic weakness can threaten this position. Hence, promoting a return to vigorous growth must be our common objective. The best course forward is clear: first, we must contain spending over the coming year.

Last year's appropriations, agreed to 8 months ago by the last Congress and the last President, contained the largest one-year spending increase in history, about \$50 billion over 2000. Obviously, a smaller surge in spending last year would have ensured a larger surplus today. The spending growth rates of 1999 through 2001 cannot be repeated if we are to preserve the on-budget surpluses that we have all worked so hard to create. Congress must limit this year's appropriations to the level of the 2002 Budget Resolution, including the defense amendment recently proposed by the President.

Second, Congress and the President must work together to continue restraining total spending in the next few years. Businesses, states, cities, and families do not hesitate to limit their spending when revenues diminish. The fifty state governments recently reported that collectively they are lowering spending growth from 8 percent last year to a more sustainable 3-1/2 percent in 2002. Spending in the federal domestic agencies exploded during the last three years, including growth of 45 percent at the Department of Health and Human Services and 27 percent at Department of Transportation. These departments can benefit from a period of digestion without great growth beyond these expanded levels.

The Administration is prepared where necessary to extend the principle of restraint to its own high priority initiatives. The Administration continues to propose several tax initiatives from the April Budget, with the effective dates delayed two years until January 1, 2004. In addition, the Administration proposes to fund other initiatives that



can not be delayed within the additional discretionary resources provided in the budget resolution, and will work with Congress to revise these proposals as necessary to ensure their enactment.

There are a number of other items that may place demands on the budget. Consistent with the requirements of the Budget Enforcement Act, action on these or other items with additional costs to the budget must be accompanied by provisions to offset the costs to ensure that no automatic reductions are triggered. Alternatively additional requirements could be funded within the discretionary levels agreed to in the Congressional Budget Resolution including the defense amendment recently proposed by the President. Living within these constraints will ensure that the Social Security surplus is protected and can be fully reserved for debt reduction. Examples of these further requirements include:

- *Farm bill.* The costs of the farm bill now moving through Congress, which restructures farm programs through the next sev-

eral years, will have to be offset where necessary to maintain on-budget surplus.

- *Tax provisions.* Several long-standing tax credits and other provisions expire at the end of 2001. The Administration supports the extension of these provisions in a fiscally responsible manner and looks forward to working with Congress to achieve that goal. These expiring provisions include Archer Medical Savings Accounts, the work opportunity tax credit, the welfare-to-work tax credit, provisions dealing with the minimum tax for individuals, and the treatment of active financial services income of foreign subsidiaries.
- *Response to natural disasters.* A high level of disaster related needs could require spending beyond the amounts assumed.
- *Railroad Retirement Investment Trust.* The House-passed Railroad Retirement and Survivors' Improvement Act (HR 1140) would authorize a new federal trust fund to purchase stocks and bonds. The purchases could amount to \$15 billion. Under

long-standing budget scoring rules, these purchases would be scored as outlays, the same as purchases of stocks, bonds, and any other asset by all agencies within the federal government. However, section 105 of the House-passed bill directs OMB and CBO not to score outlays for these purchases.

Regardless of how the purchases are scored, Treasury would have to pay for them in the same way—by using some of the budget surplus that otherwise would be used to redeem debt held by the public. If all of the purchases were made in 2002, they would exceed the non-Social Security surplus by \$14 billion. Treasury would have to use \$14 billion of the surplus generated by Social Security to finance the remainder.

This Mid-Session Review presumes a policy of fiscal restraint, but restraint does not mean paralysis. The President's management initiatives and the on-going review of programs at all levels will result in our ability to do more with the same or similar resources. In government, as in any business or family, the burden of proof must be placed on spending proponents to demonstrate the ongoing value received for whatever money is being spent today. Any healthy organization constantly searches for ways to redeploy money from less efficient to more efficient purposes, and it is past time for the federal government to adopt this outlook. We expect that improvements in managing resources that are already underway will pay greater dividends than the exclusive focus on incremental new resources. Excellence is defined by continuing to raise the bar of performance and achievement.

Table 2. CURRENT SURPLUS TOTALS

(In billions of dollars)

	2001	2002
Overall Surplus	158	173
Social Security ¹	157	171
Postal Service	-1	-3
On-Budget ¹	2	4
Non-Social Security	1	1

Examples of potential further requirements

- Extend expiring tax provisions
- Farm Bill
- Funding for natural disasters
- Railroad Retirement Investment Trust

¹The 2001 estimate is adjusted to assign \$5.6 billion in prior year receipts to their correct year. See text box on page 9 and Appendix A on page 49.

Table 3. APRIL AND MID-SESSION BUDGET TOTALS

(In billions of dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2002–2006	2002–2011
April Budget:													
Revenues	2,137	2,192	2,258	2,339	2,438	2,529	2,643	2,771	2,910	3,058	3,233	11,755	26,370
Outlays	1,856	1,961	2,016	2,077	2,169	2,224	2,303	2,398	2,490	2,593	2,706	10,446	22,938
Surplus	281	231	242	262	269	305	340	373	420	465	526	1,309	3,433
Social Security	159	175	193	210	235	251	270	286	301	322	341	1,063	2,583
Non-Social Security	122	56	49	52	34	54	70	87	118	143	186	246	850
Mid-Session Review:													
Revenues	2,013	2,135	2,220	2,328	2,463	2,553	2,668	2,797	2,941	3,095	3,245	11,698	26,444
Outlays	1,855	1,962	2,025	2,111	2,208	2,272	2,354	2,447	2,543	2,648	2,761	10,578	23,331
Surplus	158	173	195	217	254	281	314	350	398	447	484	1,119	3,113
Social Security ¹	157	171	192	211	236	249	266	280	293	311	328	1,059	2,538
Non-Social Security ¹	1	1	2	6	19	32	47	70	105	136	157	60	575
Change:													
Revenues	-124	-57	-38	-11	25	24	24	27	31	36	13	-58	74
Outlays	-1	2	9	34	40	48	51	49	52	54	55	132	393
Surplus	-123	-59	-47	-45	-15	-24	-26	-22	-21	-18	-42	-190	-320
Social Security	-2	-4	-*	1	*	-1	-3	-6	-8	-11	-13	-4	-45
Non-Social Security	-121	-55	-47	-46	-15	-23	-23	-17	-13	-7	-29	-186	-275

* \$500 million or less.

¹The 2001 estimate is adjusted to assign \$5.6 billion in prior year receipts to their correct year. See text box on page 9 and Appendix A on page 49.

Accurate Accounting for Social Security

The President is committed to reserving the Social Security surplus for debt reduction and Social Security reform. It is evident that there is a widespread, bipartisan consensus that this is the right goal for fiscal policy this year and in the years ahead.

Current estimates indicate the total budget surplus will be \$158 billion in 2001, or about \$1 billion more than the Social Security surplus.

2001 Surplus Estimates

(In billions of dollars)

Total Budget Surplus	158
Social Security Surplus	157
Non-Social Security Surplus	1
On-budget Surplus	2
Postal Service Loss (off-budget)	-1
Non-Social Security Surplus	1

Given the heightened status, real and symbolic, of the Social Security surplus, it is important to measure it accurately. Current budget practices potentially confuse that measurement in two important ways.

First, the shorthand approach of using the off-budget surplus as a proxy for the Social Security surplus combines Social Security transactions with those of the Postal Service, the only other “off-budget” program. The Postal Service is supposed to break even at a minimum, and in most past years it did. But in 2001 it is estimated to lose approximately \$1 billion, so the true Social Security surplus is larger than the off-budget figure by that amount.

Second, a large correction to prior year estimates of Social Security payroll tax collections will be booked in 2001, crediting the trust fund balances with an additional \$5.6 billion. This correction reflects the fact that the Social Security surplus was larger than previously thought in 1998, 1999, and in 2000. (There is a lag of a year or more before the necessary information is available to determine exactly what portion of tax proceeds stemmed from Social Security payroll taxes.) Counting this revenue as though it had been paid in 2001 overstates the Social Security surplus for this year.

Precise accuracy in determining the Social Security surplus in any year requires comparing revenue to actual expenditures.* In 2001, the excess of Social Security revenues over expenditures is \$157 billion.

(See Appendix A for additional details).

*This correction has been made in this report for the sake of accuracy. Other official publications may use the historical method and therefore report slightly different figures. OMB will review with the Department of the Treasury the possibility of prospective changes to record the adjustments in the correct years.

MAXIMUM DEBT RETIREMENT AND PROJECTED SURPLUSES

The Mid-Session Review (MSR) estimates that federal budget surpluses will continue to allow the government to repay historic amounts of the publicly held debt. Since its peak in 1997 at \$3.8 trillion, the debt held by the public has fallen by \$363 billion through the end of 2000. This review projects that debt held by the public will fall to \$3.3 trillion at the end of the current year. From 2002 through 2011, the MSR estimates that surpluses will allow a total of \$2.0 trillion to \$2.2 trillion in debt repayment. At the end of 2011, the debt will total around \$1.1 trillion, or 6.1 percent of gross domestic product (GDP). This will be the lowest ratio of debt to GDP since 1917.

As in the April Budget, the MSR projects that before the end of the budget horizon, the large budget surpluses will exceed the amount of publicly held debt that is available to be redeemed. While short-term Treasury bills roll over constantly and hence can be paid down easily, a significant amount of Treasury debt is longer-term notes and bonds that do not mature for as long as 30 years. Certain types of outstanding debt, such as savings bonds, serve other public policy purposes besides financing past government deficits and are expected to continue to be issued for a number of years. The amount of non-redeemable debt will depend on many debt management decisions that have not yet been made and will not be made until the appropriate future occasions. The MSR therefore makes a number of simplified assumptions that are not intended to prejudge future debt management decisions.

As of June 2001, there were \$0.5 trillion in bonds with maturity dates beyond 2011, the end of the current 10-year budget horizon. This review assumes that Treasury will diminish its auctions of notes and bonds over the next few years, but that the remaining

auctions will add another \$0.1 trillion in securities with post-2011 maturity dates.

The MSR also assumes that nonmarketable securities will total \$0.5 trillion in 2011. About three-quarters of these securities consist of savings bonds and securities issued to state and local governments to meet certain tax requirements. The remainder includes zero-coupon securities issued to foreign governments and the Resolution Funding Corporation, as well as securities held by the Federal Thrift Savings Plan on behalf of federal employees and retirees.

Treasury's current program to repurchase outstanding bonds before maturity will reduce somewhat the amount of these long-maturity securities that will remain outstanding in 2011. The MSR assumes that \$35 billion in buybacks will be settled in 2001 and another \$40 billion in 2002. While the buyback program may well continue beyond that year, at some point the remaining long-maturity Treasury securities would acquire a scarcity premium, making it financially unwise for Treasury to continue the program.

The reduction in publicly held debt closely tracks the size of the unified surplus, but the two are not identical. Certain transactions create cash requirements that are not included in the measured surplus. These transactions include increases in the government's cash balances, issues of student loans and other federal direct loans, and premiums paid to repurchase Treasury debt. These cash requirements are usually small in relation to the surplus.

Because surpluses in 2010 and beyond exceed the estimated amount of debt that is available to be redeemed, running larger surpluses does not result in additional debt repayment. These amounts are instead assumed to accumulate as excess balances. The Administration opposes investing such

balances outside the federal government on the grounds that this would inevitably lead to unwarranted government interference in the private economy.

MEDICARE TRUST FUNDS¹

Every dollar of Medicare funding is spent on Medicare and Medicare alone in the President's budget.

The President's budget fully funds both the Medicare Hospital Insurance (HI) Trust Fund and Medicare benefits for our nation's seniors and disabled, as required by law. Under the President's budget, the Medicare HI Trust Fund balance will increase by \$537 billion, and Medicare spending will reach the highest levels ever, nearly doubling over the next 10 years. The President's budget protects the Medicare program for future generations and continues the promise of full financing of Medicare benefits.

In 2001 the Medicare HI Trust Fund, which provides hospital insurance to seniors and is funded by a payroll tax, will collect \$175 billion and spend \$143 billion, yielding a \$32 billion surplus. Federal law requires that this \$32 billion overage be credited to the Medicare HI Trust Fund. However, the federal government does not keep actual dollars in the Medicare Trust Fund, or any other trust fund for that matter. Instead, it lends the money to itself and issues an IOU, in the form of a Treasury security, to the trust fund.

In sum, over the period 2002 to 2011, the projected HI accounting "surplus" of \$537 billion is overwhelmed by the SMI's shortfall

of \$1.14 trillion. There is actually a Medicare shortfall in every year, with a total of \$603 billion over the next 10 years. The President has proposed a unified trust fund to make it easier to understand Medicare finances.

The gap between Medicare's dedicated receipts and spending will widen as the baby boomers enter the program. Between now and 2030 the number of persons age 65 and older is expected to increase rapidly from 40 million to 77 million. Expenses will also rise because healthcare costs are expected to increase.

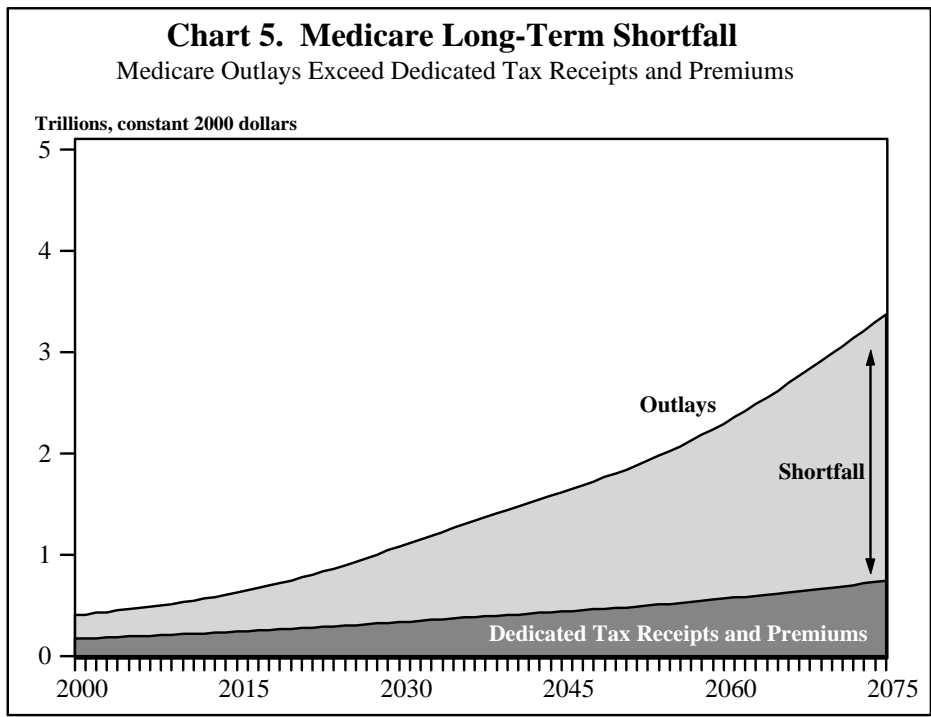
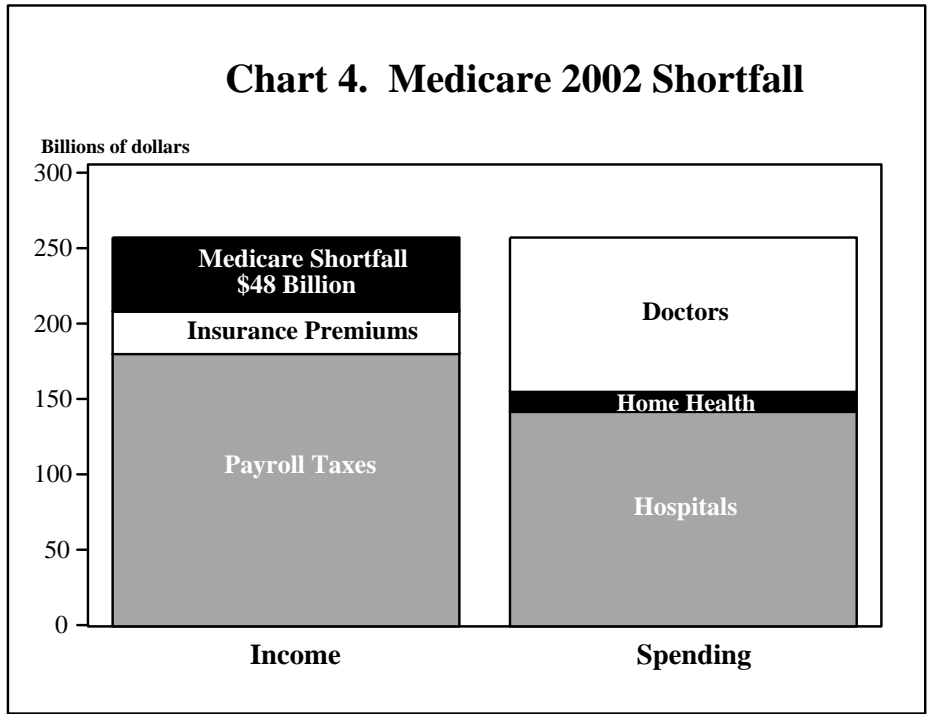
There is a common misperception that there is a Medicare surplus and that Congress must take action to preserve its assets. There is no Medicare surplus. Any excess cash collected from the payroll tax that is not used to provide hospital insurance is used for other Medicare spending such as doctor bills, which are not fully covered by premiums paid by beneficiaries. These premiums cover only about 25 percent of doctor bills and other costs paid from Medicare's other trust fund, the Part B, or Supplementary Medical Insurance trust fund. Additional funds come from the general fund of the government to cover Medicare's remaining costs. In fact, in 2002, without this general fund transfer, Medicare would face a \$48 billion shortfall.

¹Trust fund estimates in this section refer to the Mid-Session Review baseline.

Table 4. MEDICARE FULLY FUNDED UNDER ALL BUDGET SCENARIOS

(Dollar amounts in billions)

	Current Projections	Alternative Projections		
Unified Budget Surplus in 2002	173	200	225	250
Total Medicare Spending in 2002	254	————	No change	————
HI Trust Fund Balance in 2002	234	————	No change	————
Increase in Benefits Paid in 2011 Compared to 2002	196	————	No change	————
HI Exhaustion Date	2029	————	No change	————



Myths About the Medicare Trust Fund

Today there is much confusion about Medicare spending and the Medicare Trust Funds. Some contend that if the on-budget surplus is less than the size of the Medicare Hospital Insurance (HI) “surplus,” this constitutes a “raid” on the HI Trust Fund. *This contention is factually false. Under the President’s budget the Medicare HI Trust Fund is fully funded; there is no “raid.” And Medicare spending continues to rise, as required by law.*

Despite the fact that neither Medicare spending nor solvency is affected by the unified budget surplus, some have been misled by assertions that Medicare financing is shrinking. Some worry that this means Medicare won’t be there when they need it. This is not true.

The facts are:

- The Medicare trust funds are completely unaffected by the enactment of the President’s tax plan or the size of the government’s surplus. In other words the trust fund balances would not be one cent larger if no tax cut had ever passed. This is also true for the Social Security trust funds.
- The President’s budget increases Medicare spending \$196 billion over the next 10 years, from \$228 billion in 2002 to \$423 billion in 2011.
- The President’s budget increases the Medicare HI Trust Fund balance by \$537 billion over the next 10 years, rising from \$200 billion in the beginning of 2002 to \$737 billion at the end of 2011.
- According to the Medicare Trustees, Medicare is projected to remain solvent until 2029.
- This will be true regardless of short-term fluctuations in budget surplus projections.
- The long-term solvency of Medicare depends not on the size of any annual surplus, but preservation of sustained economic growth, and on comprehensive reform of the Medicare program.

Third party experts and commentators clarify that there is no relationship between Medicare trust fund balances and the unified budget surplus:

“Does how you use the Medicare annual surplus have any effect on the solvency of the Medicare program? No. [I]rrespective of how the Congress decides to use the annual Medicare surpluses (e.g. tax cuts, spending increases, paying down the debt held by the public), trust fund solvency will not be affected in any way.” David M. Walker, Comptroller General of the United States and former Social Security and Medicare trustee, 7/25/01

“The image of raids on the Medicare and Social Security trust funds is false. The surpluses in these trust funds reflect a temporary excess of payroll taxes over current benefits. When this occurs, the trust funds transfer their spare cash to the Treasury, which gives them ‘special issue’ Treasury securities in return. The trust funds get the securities regardless of how the Treasury uses the spare cash—whether to repay publicly held federal debt or to pay the government’s bills. The trust funds simply aren’t being raided.” Robert J. Samuelson, *Newsweek*, 7/16/01

“**Q.** What can the government do with the surplus? **A.** It has to spend it, because the federal government can’t park that much money in a bank without affecting the financial markets. **Q.** [I]f we spend money intended for Social Security or Medicare on other government programs, aren’t we raiding those programs? **A.** No. Under government accounting rules, no matter if we use the Social Security and Medicare payroll taxes for debt reduction or plain old spending, the programs receive an equivalent amount in interest-earning Treasury bonds. [N]o matter how the money is used, the programs’ trust funds are unaffected because, in effect, they are lending the money to the United States. **Q.** So does it make a difference whether we use some of the Medicare funds for spending this year? **A.** Economically, it means virtually nothing in the short run. The government is still running a substantial surplus and paying down debt, but because the U.S. economy is so large, the amount of money involved is like pennies.” Glenn Kessler, *Washington Post*, 7/22/01

“When an individual buys a government bond, he or she has established a financial claim against the government. When the government issues a security to one of its own accounts, it hasn’t purchased anything or established a claim against some other person or entity. The key point is that the Trust Funds do not hold financial resources to pay benefits rather, they provide authority for the Treasury Department to use whatever money it has on hand to pay them. ...[T]he trust funds themselves do not hold or receive money.” David Koitz, Congressional Research Service report, 3/20/01

“They [trust funds] do not consist of real economic assets that can be drawn down in the future to fund benefits. Instead, they are claims on the Treasury that, when redeemed, will have to be financed by raising taxes, borrowing from the public, or reducing benefits or other expenditures. The existence of large trust fund balances, therefore, does not, by itself, have any impact on the government’s ability to pay benefits.” President Clinton’s 2000 Budget, *Analytical Perspectives*, page 337

ECONOMIC ASSUMPTIONS

Introduction

For the past year, economic growth has been sluggish, restrained by slower growth of domestic and foreign demand. After a period of unsustainably rapid growth, slower growth was widely expected. The extent of the slowdown, however, has been greater than most forecasters anticipated.

Nonetheless, the economy appears poised to recover. Most forecasters, including the Administration, expect a return soon to solid, sustainable growth. Monetary and fiscal policy are acting in concert to provide a powerful stimulus to growth in the coming months. During the first six months of this year, the Federal Reserve cut the federal funds rate by 2-3/4 percentage points, the largest reduction in such a short period since 1984. Given the lags between changes in monetary policy and its effects on the real economy, interest-sensitive sectors are likely to strengthen during the second half of this year.

The recently enacted Economic Growth and Tax Relief Reconciliation Act of 2001 is likely to provide a boost to consumer spending during the second half of this year and into 2002. In the current quarter, households will receive \$38 billion in rebate checks reflecting the lower tax liabilities associated with the new, 10 percent tax bracket. Beginning next January, these lower liabilities will be permanently reflected in lower income tax withholding from paychecks. In addition, income tax withholding schedules were lowered July 1st to reflect the first installment of the phase-in of permanently lower marginal income tax rates for those currently in the 28 percent bracket and higher. This change is estimated to boost take-home pay by \$5 billion during the second half of this year. With the prospect of permanently lowered income taxes, consumers are likely to spend a significant part of this addition to their disposable income.

While the economy has been battered by a series of negative shocks, recent months have seen some positive developments. Inven-

tory liquidation during the first half of this year has helped reduce the excess stocks that accumulated when sales slowed unexpectedly. When stocks have been cut enough, increases in demand will require increases in production. In addition, energy prices have declined recently, after rising sharply in 1999 and 2000. Lower energy prices reduce overall inflation, increase the purchasing power of consumers, and boost the profits of most industries. Finally, the stock market, which fell sharply between March 2000 and April 2001, has recovered from its earlier lows.

The long-term economic outlook continues to appear bright. The technological innovations and business practice changes that helped propel productivity growth to a new higher trend during the last half of the 1990s are likely to sustain strong productivity growth into the future. Even during the current slowdown, productivity growth remains healthy. Inflation remains low and under control, which will enable businesses and households to plan and invest for the long haul.

Moreover, the reductions in marginal tax rates enacted this year are likely to have important positive effects in coming years on the supply of labor and saving, which will benefit long-term growth. In the interest of cautious budgeting, however, the Administration has not built these long-term supply-side effects into its long-term economic assumptions, choosing instead to remain close to consensus forecasts.

Recent Developments

Real Gross Domestic Product (GDP) is estimated to have grown at only a 0.7 percent annual rate in the second quarter. According to the initial estimate released at the end of July, the principal restraint on growth was weak business investment in equipment and software, which fell at a 14.5 percent annual rate in the second quarter. Faced with unexpectedly sluggish demand, excess capacity, falling profits, and a more difficult equity-financing environment,

businesses have had to cut back or postpone capital spending, especially for high-tech equipment.

In contrast to business investment, consumer spending has held up well, increasing at a 2.1 percent annual rate in the second quarter. This is slower than consumption was growing prior to the slowdown, but unlike business investment, consumption continues to expand, with especially strong spending on consumer durables. Because the consumer accounts for two-thirds of GDP, the willingness of households to continue spending despite the stock market correction and recent job losses has been key to maintaining positive overall growth in recent quarters.

Residential investment, after adjustment for inflation, also has supported overall growth this year, rising at a 7.4 percent rate in the second quarter, following a similar advance in the first quarter. The swing from falling residential investment in the second half of last year to positive growth this year reflects the upturn in housing starts. Homebuilding has been stimulated by relatively low mortgage interest rates. During the first six months of this year, the fixed rate 30-year mortgage averaged just over 7 percent, more than one percentage point below the rate a year earlier, and almost one percentage point below the average rate during the 1990s.

Government spending on consumption and investment, primarily at the state and local level, has also added to demand and helped keep real GDP rising. Real state and local consumption and investment purchases rose at a 7.5 percent annual rate in the second quarter; federal purchases increased at a 1.6 percent rate. Changes in inventories and in net exports in the second quarter had very little impact on overall growth.

Inflation, which was already low, has abated further as a consequence of slower growth and falling energy prices. The Consumer Price Index (CPI) rose at a 3.1 percent annual rate in the second quarter, slightly less than the 3.4 increase over the prior year. The core CPI, which excludes food and energy prices, rose at a 2.6 percent rate in the second quarter, close to the pace during the prior year. The GDP chain-

weighted price index, a broader measure of inflation than the CPI, rose at a 2.3 percent annual rate in the second quarter, the same pace as during the preceding four quarters.

Sluggish growth during the past year has also begun to affect labor markets. Businesses began to slow the pace of hiring during the second half of last year and continued to do so into the first quarter. During April through July, private sector payrolls were reduced by almost 400,000. The manufacturing sector more than accounted for all of these job losses. Since its recent peak in July 2000, the manufacturing sector has lost 840,000 jobs. The unemployment rate has edged up from 4.0 percent in December to 4.5 percent in June and July, but this rate is still 2 percentage points below the average unemployment rate of the past 25 years.

In financial markets, short-term interest rates have fallen sharply this year in response to the slowing economy and the Federal Reserve's reductions in the federal funds rate. The 3-month Treasury bill rate fell from 5.8 percent in December to 3.5 percent in early August. In contrast, at the longer-end of the maturity spectrum, interest rates have been relatively steady this year. The yield on the 10-year Treasury note was 5.2 percent in early August, the same level as in December and 1.2 percentage points below the average of the prior 10 years. Together, the sharp drop in short-term rates has shifted the yield curve from relatively flat to upward sloping, a signal that investors believe that economic growth will soon pick up.

Equity prices have recovered from their April lows in response to further easing of monetary policy and investors' expectations that the economy and corporate profits are likely to improve. Nonetheless, the major indexes remain well below their levels at the end of last year.

Revised Economic Assumptions

The economic projections for the Mid-Session Review, summarized in Table 5, have been revised from those used in the Administration's 2002 Budget to incorporate recent devel-

opments and policy actions, notably the weaker economic growth and profits, the near-term fiscal stimulus from the recently enacted tax package, and the Federal Reserve's easing of monetary policy.²

The Mid-Session Review projections are similar to those of private-sector forecasters and, except for the near term, close to those used for the 2002 Budget. The Administration projects economic growth to slow this year to a greater extent than anticipated earlier, and to recover next year. The long-run sustainable rates of GDP growth and unemployment, which are maintained during the second half of the 10-year projection horizon, are the same as in the budget projections. Beginning with 2002, the inflation projection is nearly identical to that in the Budget. Interest rates, however, are lower than in the Budget assumptions, especially short-term rates.

Real GDP, Potential GDP and Unemployment: The most important revision to the economic assumptions is the lowered real growth projection for this year. By the end of the year and into 2002, however, real growth is expected to increase significantly as the fiscal and monetary stimulus takes hold and as the cutbacks in capital spending wane. During the outyears of the projection period, real GDP is projected to rise 3.1 percent per year, the Administration's estimate of the nation's potential GDP growth during this period. Over the 10 years, 2002-2011, real GDP growth averages 3.2 percent per year, the same as in the April Budget, and slightly below the Blue Chip consensus

of private-sector forecasts published in March, the latest consensus long-range projection.

As a consequence of slow growth this year, the unemployment rate is forecasted to edge up slightly. During 2002 and 2003, as economic growth picks up, the unemployment rate is projected to move down again. In 2004 and beyond, the unemployment rate is projected to remain on a plateau of 4.6 percent, the same level as the private sector consensus.

Inflation: The CPI and GDP measures of inflation have been raised slightly in 2001 to incorporate recent data. For 2002 and beyond, the inflation projections are virtually the same as in the Budget. For 2002-2011, the Consumer Price Index is projected to rise 2.5 percent per year on average; the GDP chain-weighted price index is projected to increase 2.1 percent yearly. The slower rise in the GDP measure reflects the fixed weighting in the CPI; the higher weights for housing in the CPI combined with a relatively faster rise projected for housing prices; and the lower weight for computers in the CPI combined with a projected decline in computer prices. The 10-year inflation projections are very close to those of the private sector consensus.

Interest Rates: Short-term interest rates this year have fallen significantly below the levels projected in the Budget as a consequence of weaker-than-expected growth and monetary policy actions. The yield on the 10-year Treasury note has also been below the earlier budget projection. The Mid-Session Review assumptions anticipate some rise in the 91-day Treasury bill rate through the end of 2002 as the recovery strengthens. Thereafter, the rate is projected to remain at 4.3 percent. During the last five years of the projection period, this T-bill rate is 0.7 percentage point lower than assumed in the budget. The yield on the 10-year Treasury note is projected to remain at 5.2 percent, consistent with the historical spread between short-term and long-term interest rates.

² The economic growth assumptions are based on data available as of June, 2001. The Addendum to Table 5 adjusts the levels of the Mid-Session Review assumptions for revisions to the National Income and Product Accounts, released on July 27, covering the period from the first quarter of 1998 through the first quarter of 2001. The effect of these revisions was to restate real and nominal GDP downward; the GDP inflation measure was hardly revised. On the income side, by the first quarter of 2001 the level of corporate profits before tax was lowered while wages and salaries were revised up by a slightly larger amount. Adjusting the MSR assumptions for consistency with the revised historical data does not affect the projections of receipts or outlays because these are based on the economic assumption's projections of growth rates of GDP and incomes, not the projections of levels of these variables.

Table 5. ECONOMIC ASSUMPTIONS ¹—Continued

(Calendar years; dollar amounts in billions)

	Actual 2000	Projections										
		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Percent change, year over year:												
Current dollars	6.5	4.1	5.5	5.8	5.6	5.3	5.2	5.2	5.2	5.2	5.2	5.2
Real, chained (1996) dollars	4.1	1.7	3.2	3.5	3.4	3.2	3.1	3.1	3.1	3.1	3.1	3.1
Chained price index (1996 = 100)	2.3	2.3	2.2	2.2	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Incomes, billions of current dollars:												
Corporate profits before tax	845	714	870	916	991	1,045	1,061	1,079	1,099	1,125	1,159	1,200
Wages and salaries	4,837	5,085	5,374	5,730	6,066	6,391	6,699	7,022	7,363	7,735	8,123	8,532
Other taxable income ²	2,236	2,341	2,387	2,476	2,558	2,661	2,755	2,855	2,961	3,074	3,193	3,293

¹ Based on information available as of June 2001.² Rent, interest, dividend and proprietor's components of personal income.³ Seasonally adjusted CPI for all urban consumers.⁴ Percentages apply to basic pay only; additional rank-specific adjustments are proposed for 2002; 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.⁷ Assumptions adjusted to reflect revised historical series for GDP and incomes released by the Bureau of Economic Analysis in July 2001.

RECEIPTS

The current estimates of receipts for 2001 and 2002 are below the April Budget estimates by \$124.2 billion and \$57.0 billion, respectively. The current estimates are below the April Budget estimates for 2003 and 2004, but exceed the April Budget estimates in 2005 and subsequent years, resulting in a net upward revision in receipts of \$73.7 billion over the 10-year period 2002 to 2011. These changes are the net effect of enactment of the Economic Growth and Tax Relief Reconciliation Act of 2001 (Tax Relief Act), modification of the Administration's proposals to reflect the Administration's National Energy Policy tax incentives and enactment of the Tax Relief Act, revised economic projections, and technical reestimates.

The Tax Relief Act, which was signed by President Bush on June 7, 2001, provides over \$1.3 trillion in tax relief over the 11-year period 2001 to 2011. Because this Act (1) provides individual income tax relief beginning this year, with the first installment provided through payments of advanced credits and reduced withholding, which began in July, (2) increases the child tax credit to \$600 beginning January 1, 2001, and (3) delays the payment of estimated taxes by corporations, otherwise due on September 17, 2001, until October 1, 2001, receipts are reduced relative to the April Budget proposals by \$67.9 billion in 2001. However, because the tax relief provided in this Act is less than the relief proposed by President Bush in the budget, receipts are increased relative to the April Budget proposals by \$505.0 billion over the 10 years, 2002 through 2011.

The Administration's policy initiatives are estimated to reduce receipts by \$0.6 billion in 2002 and \$314.2 billion over the 10-year period 2002 through 2011. These initia-

tives include the Administration's National Energy Policy tax incentives, many of the Administration's April Budget proposals that were not enacted in the Tax Relief Act, and permanent extension of the provisions provided in the Tax Relief Act that are scheduled to expire in 2010.

Revised economic projections reduce receipts by \$21.2 billion in 2001 and \$27.3 billion in 2002. For the 10-year period 2002 to 2011, revised economic assumptions account for \$147.9 billion of the downward revision in receipts. Collections of individual income taxes and Social Security and Medicare payroll taxes are reduced by \$4.6 billion in 2001, \$13.6 billion in 2002 and \$71.2 billion over the 10-year period 2002 through 2011, in large part due to lower levels of wages and salaries in most years. Lower corporate profits in most years reduce collections of corporation income taxes by \$14.1 billion in 2001, \$7.3 billion in 2002, and \$25.7 billion over the 10 years, 2002 to 2011. Lower levels of nominal and real GDP, which affect excise taxes, and lower interest rates, which affect deposits of earnings by the Federal Reserve, also contribute to the reduction in receipts in each year. Customs duties are lower in most years, reflecting lower levels of imports than forecast for the April Budget.

Technical adjustments reduce receipts by \$35.1 billion in 2001, \$26.2 billion in 2002, and declining amounts through 2004. Technical adjustments increase receipts in each subsequent year, resulting in a net increase in receipts of \$30.8 billion for the 10-year period 2002 to 2011. These technical adjustments are in large part attributable to revisions in estimating models and actual collection experience.

Table 6. CHANGE IN RECEIPTS

(In billions of dollars)

	2001	2002	2003	2004	2005	2006	2002–2006	2002–2011
April estimate	2,136.9	2,191.7	2,258.2	2,338.8	2,437.8	2,528.7		
Revisions due to:								
Enacted legislation, relative to April proposals ¹	-67.9	-3.0	-14.8	-2.5	32.1	46.4	58.2	505.0
Proposed legislation ¹		-0.6	-1.3	-6.0	-13.6	-20.5	-41.9	-314.2
Economic assumptions	-21.2	-27.3	-9.8	3.7	5.3	-4.5	-32.6	-147.9
Technical reestimates	-35.1	-26.2	-12.2	-6.4	0.9	2.5	-41.4	30.8
Total change	-124.2	-57.0	-38.0	-11.3	24.7	23.9	-57.7	73.7
Mid-session estimate	2,012.7	2,134.7	2,220.2	2,327.5	2,462.5	2,552.6		

¹ Affects both outlays and receipts; only the receipt effect is shown here.

SPENDING

Total outlays for 2001 are now estimated to be \$1,854.9 billion, \$1.3 billion below the April Budget estimate. The reduction is the net effect of the Supplemental Appropriations Act, inaction on the Administration's Immediate Helping Hand prescription drug program, enactment of relief for farmers, and revised economic and technical assumptions. For 2002, the estimate of total outlays has increased by \$1.5 billion relative to April to \$1,962.1 billion. Increases related to the Administration's assessment of immediate defense needs and enactment of the Economic Growth and Tax Relief Reconciliation Act are partially offset by reductions resulting from economic and technical factors.

For the 10-year period 2002 through 2011, the Administration now estimates total outlays at \$393.4 billion higher than in April. Enacted legislation and revisions to Administration policies increase the 10-year projections by \$412.9 billion. Changes due to revised economic and technical assumptions, on net, reduce outlays by \$19.5 billion for the period.

Policy changes

In total, policy changes increase total outlays by \$8.2 billion and \$8.4 billion for 2001 and 2002, respectively. Over 10 years, outlay changes resulting from policy differences total \$412.9 billion.

The Supplemental Appropriations Act increased 2001 outlays by \$4.9 billion, largely for additional needs of the Department of Defense. The Agricultural Economic Assistance Act, which provided relief for farmers affected by continuing low prices for farm products, increases outlays for 2001 by \$5.5 billion. The Economic Growth and Tax Relief Reconciliation Act included provisions that increased the refundable portion of the earned income and child tax credits beyond what was proposed in the April Budget, raising outlays by \$5.0 billion in 2002.

Congressional inaction on the Administration's Immediate Helping Hand prescription drug program reduces outlays by \$2.5 billion

and \$11.2 billion, in 2001 and 2002 respectively. On the other hand, new estimates reflect the President's Framework to Strengthen Medicare, announced on July 12. From 2004–2011, the Administration now proposes to spend \$190 billion for Medicare modernization efforts, including a prescription drug benefit. This amount is up \$37 billion from the April Budget, and occurs in 8 years rather than ten.

Upon taking office, the Administration discovered that the Defense Department (DOD) had serious unmet needs in several critical areas, such as readiness and health care. As a result, the Administration requested, on top of new funds in the 2001 supplemental, an additional \$18.4 billion in funding for 2002, increasing 2002 outlays by \$9.5 billion. The longer-term defense review, which will establish funding requirements for future years, is still ongoing. Pending the completion of the defense strategy review, this Review assumes a current services budget for DOD in the outyears based on the proposed 2002 level, an increase in budget authority of \$209 billion over the next 10 years.

Revisions in Administration tax policy since the April Budget have changed the composition of the proposed health tax credit, increasing the proportion that will be reflected on the outlay side of the budget. In addition, the effective date of the credit has been delayed. On net, outlays for the credit have increased by \$22.5 billion over 10 years as a result of these changes.

Debt service costs associated with policy changes, including the tax rebates in the Economic Growth and Tax Relief Reconciliation Act, increase outlays by \$0.9 billion in 2001 and \$3.3 billion in 2002.

Economic assumptions

Revisions in economic assumptions, discussed earlier in this report, reduce outlays by \$1.6 billion in 2001 and \$6.3 billion in 2002. Over the 10-year period 2002 through 2011, however, outlay estimates increase by

a net of \$21.8 billion due to revised economic assumptions. Outlays are increased by higher unemployment and inflation rates. Through 2005, these increases are more than offset by lower interest rates that reduce debt service costs. The savings from lower interest rates gradually decreases as the total debt being financed grows smaller. By 2009, lower interest rates increase assumed outlays as earnings on assumed escalating cash balances are reduced.

Technical changes

For 2001, estimated outlays are \$1.3 billion lower than in April for technical reasons. For 2002, technical changes increase outlays by \$1.5 billion. The following changes in outlay projections all arise from technical factors.

Discretionary programs.—Estimated outlays for discretionary programs have decreased by \$2.2 billion and \$4.2 billion in 2001 and 2002, respectively, relative to the April Budget, to reflect revisions in expected rates of spending appropriated funds. The Department of Justice expects to spend state and local law enforcement grants more heavily in 2001, shifting spending that was expected in 2002. Training and employment programs are expected to spend more slowly in both 2001 and 2002, while spending more rapidly in 2003 and beyond. In addition, outlays for the highway program have been reduced for 2003 and beyond to reflect lower than expected revenues to the Highway Trust Fund.

Commodity Credit Corporation (CCC) farm programs.—Spending on farm programs through the Commodity Credit Corporation is projected to increase by \$2.2 billion in 2002 and \$12.5 billion over the 10 years 2002 through 2011, relative to the April Budget. These changes largely reflect increases in projected demand for USDA commodity loans and payments due primarily to increased crop production estimates and slower price recovery for certain commodities. The reduction shown for 2001 is primarily the result of a reduction in the estimated subsidy cost of loans made in previous years, which is reflected here as required by the Credit Reform Act.

Postal service.—Administrative decisions to postpone capital improvements and limit general operating expenses have reduced projections of outlays for the Postal Service by \$1.3 billion in 2001. The \$0.5 billion reduction in 2002 projected outlays is a result of increased revenues from the July 2001 postage rate increase. Projections for 2003 and beyond continue to assume that the postal fund achieves balance on an accrual basis.

Universal service fund.—The estimate of spending from the universal service fund has declined by \$1.1 billion in 2001, reflecting a decrease in expected collections in various programs and a slower rate of spending from obligated balances within the schools and libraries program than had previously been assumed.

Medicaid.—Projected outlay estimates for Medicaid are \$1.5 billion above the April estimate for 2001, \$0.6 billion for 2002, and \$30.0 billion higher for the 10-year period 2002 through 2011 for technical reasons. This is primarily the result of higher projections of state spending on nursing facilities, prescription drugs, managed care, and inpatient facilities, offset in part by administrative actions aimed at improving Medicaid program integrity. Because changes in economic assumptions have lowered Medicaid outlay projections, the net change in Medicaid outlays over the 10-year period is \$25.4 billion.

Medicare.—Technical revisions reduce current estimates of Medicare outlays by \$1.8 billion in both 2001 and 2002 relative to the April estimate. Medicare outlays are projected to be \$29.4 billion lower over the 10-year period, 2002 through 2011 due to technical factors. About half of this decrease is driven by reductions in estimates for physician fee schedule expenditures, reflecting lower actual outlays for the year to date, lower estimates for certain new preventive services mandated by last year's Benefits Improvement and Protection Act, and a lower performance adjustment for 2002. The remaining decrease reflects reductions in outpatient hospital, home health, and managed care payments offset slightly by increases for inpatient hospital, durable medical equipment and lab payments. Including the impact of

revised economic assumptions, the total decrease in Medicare current law outlays over the 10-year period is \$44.2 billion.

Unemployment compensation.—As a result of revised technical assumptions, outlays for unemployment compensation have increased by \$1.7 billion for 2001 and \$2.2 billion for 2002 relative to the April estimates. The assumed ratio of the insured unemployment rate to the total unemployment rate has increased thereby increasing the projected number of people eligible for benefits at each level of total unemployment. Average weekly benefits are also assumed to be greater than projected in April.

Temporary Assistance for Needy Families (TANF).—Technical revisions have increased projections of TANF outlays by \$1.3 billion in 2001 and \$1.1 billion in 2002. This increase is due to states spending for the year to date at a higher rate than previously estimated.

Social Security.—Estimated outlays for Social Security are lower than the April Budget by \$0.4 billion in 2001, \$1.3 billion in 2002, and \$44.5 billion over 10 years as the result of technical factors. The reduction is primarily the result of updated demographic

projections contained in the 2001 Trustees Report and additional actual experience through March 2001. The downward technical reestimates are partially offset by upward reestimates for cost-of-living increases and other economic factors so that the net change in the program over 10 years is a decrease of \$25.5 billion.

Spectrum auction receipts.—Receipts from the auction of electromagnetic spectrum, which are recorded as offsets to spending in the budget, are projected to be \$1.2 billion lower in 2002 and \$1.0 billion higher in 2004 than in April. This reflects regulatory action taken by the Federal Communications Commission, which shifts the expected receipts from two major auctions.

Net interest.—Estimates of net interest outlays are \$27.2 billion higher than in April over the 10-year period 2002 through 2011, primarily reflecting increased debt service costs related to technical changes in receipts and outlays. The Mid-Session estimates assume that the Treasury will buy back securities in face value amounts of \$35 billion in 2001 and \$40 billion in 2002. The Budget assumed \$35 billion for 2001 and had no buybacks for 2002.

Table 7. CHANGE IN OUTLAYS

(In billions of dollars)

	2001	2002	2003	2004	2005	2006	2002–2006	2002–2011
April estimate	1,856.2	1,960.6	2,016.2	2,076.7	2,168.7	2,223.9	10,446.2	22,937.5
Change due to:								
Policy:								
Defense review	0.0	9.5	13.3	23.3	18.8	22.1	87.0	196.5
Supplemental	4.9	1.5	0.3	0.1	0.1	*	1.9	1.9
Farm assistance	5.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Earned income and child tax credits	0.0	5.0	6.3	5.7	5.3	7.6	29.9	72.5
Health tax credit	0.0	–0.1	–1.9	–0.8	2.2	3.5	2.9	22.5
Medicare modernization ¹	–2.5	–11.2	–12.9	–0.8	7.5	8.2	–9.2	37.0
Other	–0.6	0.4	–0.6	–0.6	–0.4	–0.3	–1.5	–2.0
Debt service	0.9	3.3	4.5	6.0	7.4	8.5	29.7	84.4
Subtotal, policy	8.2	8.4	8.9	32.9	40.9	49.6	140.7	412.9
Economic assumptions:								
Social Security	0.3	2.3	3.0	2.4	2.1	1.5	11.2	19.0
Medicare	*	–0.3	–0.5	–0.4	–0.3	–0.6	–2.0	–14.8
Other mandatory programs	0.8	2.2	3.0	3.1	2.9	2.8	14.0	16.9
Net interest:								
Effect of rates and CPI	–3.0	–11.7	–10.6	–9.1	–6.8	–4.4	–42.5	–30.9
Debt service	0.2	1.2	2.0	2.0	1.7	1.7	8.6	31.5
Subtotal, economics	–1.6	–6.3	–3.1	–2.0	–0.4	1.2	–10.7	21.8

Table 7. CHANGE IN OUTLAYS—Continued

(In billions of dollars)

	2001	2002	2003	2004	2005	2006	2002–2006	2002–2011
Technical reestimates:								
Discretionary programs:								
Highways	0.0	0.0	-1.7	-4.4	-5.6	-6.0	-17.7	-52.4
State and local law enforcement assistance	0.8	-0.9	0.0	*	0.0	0.0	-0.8	-0.8
Training and employment services	-0.8	-1.0	0.4	0.6	0.1	0.1	0.1	0.6
Other	-2.2	-2.4	-0.7	1.6	0.6	0.2	-0.7	-2.0
Total, discretionary programs	-2.2	-4.2	-2.1	-2.2	-4.9	-5.7	-19.1	-54.6
Commodity Credit Corporation	-2.4	2.2	2.1	2.6	1.9	1.0	9.8	12.5
Postal service	-1.3	-0.5	0.4	0.5	0.5	0.6	1.6	5.1
Universal service fund	-1.1	0.6	0.1	0.6	0.2	0.2	1.7	3.1
Medicaid	1.5	0.6	2.2	2.5	2.7	2.8	10.8	30.0
Medicare	-1.8	-1.8	-2.4	-3.7	-3.1	-2.4	-13.4	-29.4
Unemployment compensation	1.7	2.2	1.1	0.7	0.6	0.6	5.1	8.3
TANF	1.3	1.1	1.0	0.7	0.5	*	3.5	-1.0
Social Security	-0.4	-1.3	-2.1	-2.8	-3.5	-4.2	-13.9	-44.5
Spectrum auction receipts	0.4	1.2	0.0	-1.0	0.0	0.0	0.2	0.2
Other mandatory programs	-3.0	-0.2	*	0.9	0.1	-*	0.8	1.8
Net interest	-0.4	-0.4	3.0	4.4	4.0	4.1	15.1	27.2
Subtotal, technical	-7.8	-0.6	3.4	3.1	-0.9	-3.0	2.0	-41.3
Total, changes	-1.3	1.5	9.2	34.0	39.6	47.7	132.0	393.4
Current estimate	1,854.9	1,962.1	2,025.4	2,110.7	2,208.3	2,271.6	10,578.2	23,330.9

* \$50 million or less.

¹The President proposed to add \$153 billion over 10 years in the April Budget for Medicare modernization. This table displays a \$37 billion increase to the April Budget. In total the Mid-Session Review proposes to increase spending for Medicare modernization by \$190 billion.

SUMMARY TABLES

SUMMARY TABLES

**Table 8. ESTIMATED SPENDING FROM 2002
BALANCES OF BUDGET AUTHORITY: DISCRE-
TIONARY PROGRAMS ¹**

(In billions of dollars)

	Total
Total balances, end of 2002	767.1
Spending from 2002 balances:	
2003	288.7
2004	161.8
2005	100.6
2006	68.9
Expiring balances, 2003 through 2006 .....	.....
Unexpended balances at the end of 2006	147.1

¹This table is required by section 221(b) of the Legislative Re-organization Act of 1970.

Table 9. OUTLAYS FOR MANDATORY PROGRAMS UNDER CURRENT LAW ¹

(In billions of dollars)

	2000 Actual	Estimate										
		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Human resources programs:												
Education, training, employment and social services	10.3	9.0	14.5	15.0	15.5	16.0	17.0	17.8	18.6	19.6	20.7	21.8
Health	124.5	140.3	152.6	170.3	185.4	201.0	217.5	235.7	255.4	276.7	300.7	324.4
Medicare	194.1	214.2	224.3	235.8	248.1	267.4	276.4	297.0	315.9	336.3	357.8	387.0
Income security	206.5	220.0	239.7	248.2	257.1	268.5	278.1	284.5	296.4	306.0	317.8	333.9
Social security	406.0	429.9	452.5	474.4	497.6	522.9	550.3	580.4	613.6	651.5	693.5	738.4
Veterans' benefits and services	26.3	22.8	27.9	29.9	31.5	35.7	34.3	33.3	36.7	38.7	39.8	40.8
Subtotal, human resources programs	967.8	1,036.1	1,111.5	1,173.6	1,235.1	1,311.5	1,373.5	1,448.7	1,536.7	1,628.8	1,730.3	1,846.3
Other mandatory programs:												
International affairs	-4.1	-6.3	-3.3	-3.2	-3.3	-3.2	-3.2	-3.1	-3.0	-2.9	-2.9	-2.9
Energy	-4.0	-3.3	-3.4	-3.2	-3.7	-3.6	-3.6	-3.5	-2.7	-2.4	-2.3	-2.3
Agriculture	32.0	23.5	15.2	11.6	10.9	10.2	9.6	9.3	9.4	9.6	9.5	9.6
Commerce and housing credit	-1.3	-6.8	6.3	5.6	5.4	4.6	3.8	5.4	4.7	5.3	5.0	5.1
Transportation	2.1	2.2	1.8	2.0	2.0	1.9	1.9	1.9	1.9	2.0	2.0	2.0
Undistributed offsetting receipts	-42.6	-47.0	-48.5	-64.0	-64.2	-57.3	-59.2	-61.6	-64.5	-66.7	-69.8	-73.2
Other functions	0.8	1.0	3.2	2.7	4.1	3.5	3.5	3.6	3.7	3.7	3.8	4.0
Subtotal, other mandatory programs	-17.0	-36.8	-28.8	-48.4	-48.8	-43.8	-47.2	-48.0	-50.5	-51.5	-54.8	-57.8
Total, outlays for mandatory programs under current law	950.8	999.3	1,082.7	1,125.2	1,186.4	1,267.7	1,326.3	1,400.7	1,486.2	1,577.3	1,675.5	1,788.6

¹This table meets the requirements of Section 221(b) of the Legislative Reorganization Act of 1970.

Table 10. MANDATORY PROPOSALS

(In millions of dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2002–06	2002–11
Allowance for Medicare Modernization				14,000	20,000	21,000	22,000	25,000	27,000	29,000	32,000	55,000	190,000
Health care tax credit				419	4,104	5,517	5,910	6,061	6,224	6,392	6,564	10,040	41,191
Other mandatory proposals:													
Agriculture:													
Long-term recreation fee program with four-year reauthorization			-25	-13	-2	-2	28	13	1			-42	
Energy:													
ANWR, lease bonuses				-1,200								-1,200	-1,200
HUD													
FHA mark-to-market extension		-218										-218	-218
Interior:													
Use recreation fees to reduce NPS backlog (NPS/FWS/BLM)			-39	-2	49	80	134	92	44			88	358
ANWR, lease bonuses:													
State of Alaska's share:													
Receipts				-1,201	-1	-1	-1	-1	-1	-1	-1	-1,203	-1,208
Expenditure				1,201	1	1	1	1	1	1	1	1,203	1,208
Federal share				-1	-1	-1	-1	-1	-1	-1	-1	-3	-8
Treasury:													
Modify and simplify EITC												-335	-335
Veterans Affairs:													
OBRA Extenders:													
IRS income verification on means tested veterans and survivors benefits				-6	-6	-6	-6	-6	-6	-6	-6	-18	-48
Round-down disability benefits to nearest dollar after COLA			-15	-37	-60	-85	-107	-133	-163	-188	-208	-196	-996
Limit VA pensions to Medicaid recipients in nursing homes (includes Medicaid offsets)										-127	-138	-149	-415
Continue current housing loan fees										-275	-280	-286	-841
Loan resale loss										-24	-27	-25	-76
Eliminate Vendee loan program		19	-9	-12	-21	-26	-29	-34	-37	-36	-40	-49	-225
Army Corps of Engineers:													
Recreation user fee increase		-10	-5	-5	-5							-25	-25
FCC:													
Shift spectrum auction deadlines and promote clearing			3,600	-5,100	-2,000	-4,000						-7,500	-7,500
Analog spectrum lease fee		-198	-200	-200	-200	-200	-175	-150	-75	-25		-998	-1,423
FDIC:													
State Bank examination fees:													
Reduction in FDIC outlays		-92	-97	-101	-106	-112	-118	-123	-129	-136	-143	-508	-1,157
FEMA:													
Phase out subsidized premiums for non-primary residences in the flood insurance program		-12	-41	-93	-194	-334	-410	-416	-421	-421	-421	-674	-2,763

Table 10. MANDATORY PROPOSALS—Continued

(In millions of dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2002–06	2002–11
Reform flood insurance program for repetitive loss properties that experience chronic flooding			-20	-30	-38	-43	-46	-49	-51	-53	-55	-131	-385
OPM:													
Extend higher agency contributions to the Civil Service Retirement Fund			-469	-482	-449	-415	-380	-343	-306	-268	-222	-1,815	-3,334
Other:													
Indirect impact of other proposals			-2	-4	-7	-7	-6	-3	-4	-4	-7	-20	-44
Total, other mandatory proposals		-511	2,678	-7,286	-3,040	-5,151	-1,116	-1,153	-1,575	-1,584	-1,899	-13,309	-20,635
Total, mandatory proposals		-511	2,678	7,133	21,064	21,366	26,794	29,908	31,650	33,809	36,666	51,730	210,557
Fund with discretionary appropriations:													
Education:													
Expand teacher loan forgiveness		11	5	5	5	6	6	6	6	7	7	32	64
HHS:													
Child welfare preventative services		30	158	192	196	200	200	200	200	200	200	776	1,776
Education and training for older foster children		9	46	58	60	60	60	60	60	60	60	233	533
Charity State tax credit, TANF outlays			400	300	150			-200	-200	-200	-250	850	
Interior:													
Correct trust accounting deficiencies (individual Indian money investments)		7										7	7
Justice:													
Radiation exposure compensation		97	155	150	108	68	55	40	20	12	5	578	710
Total, fund with discretionary appropriations		154	764	705	519	334	321	106	86	79	22	2,476	3,090

Table 11. EFFECT OF PROPOSALS ON RECEIPTS

(In millions of dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2002–2006	2002–2011
2002 Budget Proposals:													
Incentives for charitable giving:													
Provide charitable contribution deduction for nonitemizers				-527	-1,844	-3,252	-4,879	-6,569	-7,537	-7,568	-7,639	-5,623	-39,815
Permit tax-free withdrawals from IRAs for charitable contributions				-195	-210	-225	-241	-258	-277	-299	-322	-630	-2,027
Raise the cap on corporate charitable contributions				-100	-158	-154	-163	-173	-183	-206	-227	-412	-1,364
Strengthen and reform education:													
Allow teachers to deduct out-of-pocket classroom expenses				-18	-179	-209	-227	-244	-247	-250	-253	-406	-1,627
Assist Americans with disabilities:													
Exclude from income the value of employer-provided computers, software and peripherals				-2	-6	-6	-6	-6	-6	-6	-7	-14	-45
Invest in health care:													
Provide refundable tax credit for the purchase of health insurance ¹				-174	-1,641	-3,445	-3,626	-3,930	-4,029	-4,131	-4,234	-5,260	-25,210
Provide an above-the-line deduction for long-term care insurance premiums				-346	-574	-1,150	-2,007	-2,365	-2,646	-2,945	-3,287	-2,070	-15,320
Allow up to \$500 in unused benefits in a health flexible spending arrangement to be carried forward to the next year				-423	-713	-782	-831	-878	-926	-980	-1,036	-1,918	-6,569
Provide additional choice with regard to unused benefits in a health flexible spending account				-22	-39	-45	-52	-60	-69	-81	-94	-106	-462
Permanently extend and reform Archer MSAs				-79	-362	-431	-482	-510	-534	-567	-589	-872	-3,554
Provide an additional personal exemption to home caretakers of family members				-370	-463	-490	-518	-529	-540	-557	-552	-1,323	-4,019
Help farmers and fishermen manage economic downturns:													
Establish FFARRM savings accounts				-88	-230	-161	-116	-85	-65	-50	-41	-479	-836
Increase housing opportunities:													
Provide tax credit for developers of affordable single-family housing				-4	-46	-202	-525	-987	-1,514	-2,020	-2,406	-252	-7,704
Encourage savings:													
Establish Individual Development Accounts				-154	-265	-281	-297	-306	-143	-34	-35	-700	-1,515
Protect the environment:													
Permanently extend expensing of brownfields remediation costs				-236	-373	-364	-355	-344	-333	-321	-310	-973	-2,636
Exclude gains from the sale of property for conservation purposes		-1	-3	-49	-102	-115	-132	-155	-187	-231	-292	-270	-1,267

Table 11. EFFECT OF PROPOSALS ON RECEIPTS—Continued

(In millions of dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2002–2006	2002–2011
Energy policy proposals:													
Modify treatment of nuclear decommissioning funds		-91	-160	-172	-181	-192	-202	-212	-223	-235	-247	-796	-1,915
Extend and modify tax credit for producing electricity from certain sources		-116	-203	-222	-125	-58	-59	-57	-55	-56	-58	-724	-1,009
Provide tax credit for residential solar energy systems		-7	-15	-19	-25	-15	-10	-5				-81	-96
Promote trade:													
Extend and expand Andean trade preferences ²				-154	-214	-55						-423	-423
Additional Energy Proposals:													
Provide tax credit for purchase of certain hybrid and fuel cell vehicles ²		-22	-81	-180	-358	-615	-1,026	-817	-108	-126	-179	-1,256	-3,512
Provide tax credit for energy produced from landfill gas		-23	-51	-75	-103	-138	-156	-158	-161	-164	-66	-390	-1,095
Provide tax credit for combined heat and power property		-119	-197	-200	-212	-268	-126		6	5	5	-996	-1,106
Provide excise tax exemption (credit) for ethanol													
Expiring Provisions:													
Permanent extension of provisions expiring in 2010:													
Marginal individual income tax rate reductions										-13,910	-67,757		-81,667
Expanded child tax credit											-4,639		-4,639
Marriage penalty relief ¹											-4,532		-4,532
Education incentives		-1	-5	-10	-15	-20	-26	-32	-39	-45	-890	-51	-1,083
Repeal of estate and generation-skipping transfer taxes, and modification of gift taxes		-271	-614	-1,215	-1,792	-2,475	-2,726	-3,226	-4,040	-4,884	-26,651	-6,367	-47,894
Modifications of IRAs and pension plans										-1	-2,371		-2,372
Other incentives for families and children										61	-257		-196
Permanent extension of R&E tax credit ..				-1,055	-3,431	-5,415	-6,543	-7,388	-8,019	-8,567	-9,168	-9,901	-49,586
Other Provisions that Affect Receipts:													
Recover State bank supervision and regulation expenses (receipt effect) ²		70	74	76	80	84	88	92	96	101	105	384	866
Total effect of proposals ^{1 2}		-581	-1,255	-6,013	-13,581	-20,479	-25,243	-29,202	-31,779	-48,067	-138,029	-41,909	-314,229

¹Affects both receipts and outlays; only the receipt effects are shown here. The outlay effects are shown in Table 10.²Net of income offsets.

Table 12. OUTLAYS BY CATEGORY

(In billions of dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
April estimates											
Discretionary:											
Defense	299.6	319.2	322.1	333.5	347.6	354.6	361.0	374.1	384.9	396.0	411.4
Non-defense	349.8	372.5	389.7	397.8	406.8	415.8	425.5	435.3	445.1	458.4	465.1
Subtotal, discretionary	649.4	691.7	711.8	731.2	754.5	770.4	786.5	809.5	830.0	854.4	876.5
Mandatory:											
Social Security	430.0	451.6	473.5	498.0	524.3	553.0	584.1	618.0	656.2	698.3	743.6
Medicare	216.0	226.4	238.6	252.2	279.1	292.2	314.0	335.6	358.4	384.3	419.2
Medicaid	128.9	142.4	152.7	166.0	180.5	196.4	213.6	232.2	252.6	274.6	297.9
Other	225.6	260.3	264.3	267.8	285.7	284.8	296.2	312.3	323.9	336.2	349.4
Subtotal, mandatory	1,000.5	1,080.7	1,129.2	1,184.0	1,269.6	1,326.3	1,408.0	1,498.2	1,591.2	1,693.5	1,810.1
Net interest	206.4	188.1	175.2	161.5	144.7	127.2	108.9	90.3	69.1	45.7	19.8
Total, outlays	1,856.2	1,960.6	2,016.2	2,076.7	2,168.7	2,223.9	2,303.4	2,397.9	2,490.3	2,593.5	2,706.3
Mid-session estimates:											
Discretionary:											
Defense	304.0	329.9	335.7	357.0	366.6	376.8	385.3	395.8	406.9	418.5	430.5
Non-defense	347.4	369.5	387.8	395.5	401.9	410.1	419.2	428.5	438.0	450.9	457.4
Subtotal, discretionary	651.4	699.4	723.5	752.5	768.5	786.9	804.5	824.3	844.9	869.4	887.9
Mandatory:											
Social Security	429.9	452.5	474.4	497.6	522.9	550.3	580.4	613.6	651.5	693.5	738.4
Medicare	214.2	224.3	235.8	262.1	287.4	297.4	319.0	340.9	363.3	386.8	419.0
Medicaid	130.3	143.0	155.1	168.9	183.6	199.3	216.5	234.8	255.3	277.1	300.7
Other	224.9	262.4	262.6	264.9	294.8	300.6	311.6	326.7	338.7	351.8	366.9
Subtotal, mandatory	999.3	1,082.2	1,127.8	1,193.5	1,288.8	1,347.6	1,427.4	1,516.0	1,608.8	1,709.2	1,825.1
Net interest	204.2	180.5	174.1	164.8	151.0	137.1	122.3	106.9	88.9	69.0	48.1
Total, outlays	1,854.9	1,962.1	2,025.4	2,110.7	2,208.3	2,271.6	2,354.2	2,447.2	2,542.6	2,647.6	2,761.0
Difference:											
Discretionary:											
Defense	4.4	10.7	13.6	23.5	18.9	22.2	24.3	21.7	22.1	22.5	19.1
Non-defense	-2.4	-3.0	-1.9	-2.3	-4.9	-5.7	-6.3	-6.9	-7.1	-7.4	-7.7
Subtotal, discretionary	2.1	7.6	11.7	21.2	14.0	16.5	18.0	14.8	14.9	15.1	11.4
Mandatory:											
Social Security	-0.1	0.9	0.8	-0.4	-1.4	-2.7	-3.8	-4.4	-4.7	-4.8	-5.1
Medicare	-1.8	-2.2	-2.8	9.9	8.3	5.2	5.0	5.3	4.9	2.5	-0.2
Medicaid	1.4	0.6	2.4	2.9	3.1	2.9	2.9	2.6	2.7	2.5	2.8
Other	-0.7	2.1	-1.7	-3.0	9.1	15.8	15.4	14.4	14.8	15.6	17.5
Subtotal, mandatory	-1.2	1.5	-1.3	9.5	19.2	21.3	19.4	17.9	17.6	15.8	15.0
Net interest	-2.2	-7.6	-1.1	3.3	6.4	9.9	13.4	16.6	19.8	23.3	28.3
Total, outlays	-1.3	1.5	9.2	34.0	39.6	47.7	50.8	49.3	52.3	54.2	54.7

Table 13. RECEIPTS BY SOURCE

(In billions of dollars)

	Estimates										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
April estimates											
Individual income taxes	1,072.9	1,078.8	1,092.3	1,117.9	1,157.0	1,196.6	1,255.2	1,330.4	1,410.2	1,499.6	1,598.2
Corporation income taxes	213.1	218.8	227.3	235.5	244.2	252.2	259.9	268.1	275.8	283.5	294.3
Social insurance and retirement receipts	689.7	725.8	766.0	806.0	855.8	896.4	942.0	984.4	1,030.8	1,087.9	1,145.1
Excise taxes	71.1	74.0	76.3	78.3	80.5	82.3	84.8	87.3	90.0	92.8	95.7
Estate and gift taxes	31.1	28.7	26.6	28.3	24.9	22.5	20.4	15.7	13.4	0.7	0.7
Customs duties	21.4	22.5	24.3	25.0	26.0	27.7	29.3	30.7	33.0	34.5	36.2
Miscellaneous receipts	37.6	43.1	45.4	47.8	49.3	51.0	51.6	54.1	56.8	59.5	62.4
Total	2,136.9	2,191.7	2,258.2	2,338.8	2,437.8	2,528.7	2,643.3	2,770.6	2,909.9	3,058.4	3,232.6
Mid-Session estimates											
Individual income taxes ¹	1,014.3	1,024.2	1,068.0	1,115.9	1,171.1	1,215.2	1,281.0	1,356.0	1,439.3	1,529.6	1,627.1
Corporation income taxes	155.4	229.1	221.3	231.0	258.7	259.3	264.2	270.9	277.9	285.8	295.3
Social insurance and retirement receipts ¹	689.4	721.9	768.7	810.1	860.3	897.7	941.5	982.8	1,027.2	1,082.9	1,139.2
Excise taxes	67.6	70.4	72.8	74.8	76.8	78.3	80.5	83.0	85.7	88.4	91.1
Estate and gift taxes	30.0	28.0	23.6	26.9	24.3	27.2	23.8	24.6	25.9	19.6	0.1
Customs duties	19.8	21.5	23.2	24.2	25.3	26.8	28.0	29.2	31.3	32.5	33.7
Miscellaneous receipts	36.2	39.6	42.6	44.6	46.1	48.1	48.7	50.9	53.5	56.0	58.8
Total	2,012.7	2,134.7	2,220.2	2,327.5	2,462.5	2,552.6	2,667.8	2,797.4	2,940.8	3,094.8	3,245.3
Difference											
Individual income taxes	-58.6	-54.6	-24.3	-2.0	14.1	18.6	25.8	25.6	29.1	30.0	28.9
Corporation income taxes	-57.7	10.3	-6.0	-4.5	14.5	7.2	4.2	2.9	2.2	2.4	0.9
Social insurance and retirement receipts	-0.2	-3.9	2.7	4.0	4.5	1.3	-0.5	-1.6	-3.6	-4.9	-5.9
Excise taxes	-3.6	-3.6	-3.4	-3.6	-3.8	-4.1	-4.2	-4.3	-4.4	-4.4	-4.6
Estate and gift taxes	-1.1	-0.7	-3.0	-1.4	-0.6	4.7	3.4	8.9	12.6	18.9	-0.5
Customs duties	-1.6	-1.0	-1.0	-0.7	-0.7	-1.0	-1.3	-1.5	-1.7	-2.0	-2.6
Miscellaneous receipts	-1.4	-3.5	-2.8	-3.2	-3.2	-2.9	-2.9	-3.2	-3.3	-3.5	-3.5
Total	-124.2	-57.0	-38.0	-11.3	24.7	23.9	24.5	26.9	30.9	36.4	12.8

¹The 2001 estimate is adjusted to correct for \$5.6 billion in prior year receipts. See text box on page 9 and Appendix A on page 49.

Table 14. OUTLAYS BY AGENCY

(In billions of dollars)

	2000 Actual	April estimates						Mid-Session estimates					
		2001	2002	2003	2004	2005	2006	2001	2002	2003	2004	2005	2006
Legislative Branch	2.9	3.1	3.3	3.4	3.4	3.4	3.5	3.2	3.3	3.4	3.4	3.4	3.5
Judicial Branch	4.1	4.3	4.9	5.0	5.1	5.2	5.3	4.3	4.9	5.0	5.1	5.2	5.3
Agriculture	75.7	69.6	63.2	61.4	61.9	63.8	65.9	72.1	65.7	63.6	64.5	65.6	66.7
Commerce	7.8	5.5	5.2	5.4	5.3	5.4	5.5	5.4	5.2	5.4	5.3	5.4	5.5
Defense—Military	281.2	283.9	303.4	306.2	317.2	331.0	337.7	288.3	313.9	319.6	340.5	349.8	359.9
Education	33.9	36.7	45.2	49.6	50.6	51.9	53.3	36.9	45.5	50.2	51.4	52.5	54.0
Energy	15.0	16.7	17.2	17.5	17.7	18.1	18.4	17.3	17.3	17.5	17.7	18.2	18.4
Health and Human Services	382.6	430.5	468.8	498.8	532.7	566.7	594.1	428.3	457.1	486.7	532.7	574.4	602.1
Housing and Urban Development	30.8	37.3	34.8	34.9	33.5	33.4	33.6	35.9	34.4	34.8	33.6	33.7	33.7
Interior	8.0	8.7	9.3	9.6	11.1	10.1	10.3	8.2	9.1	9.7	11.4	10.4	10.6
Justice	19.6	20.7	22.5	25.4	23.9	23.3	23.6	20.9	21.7	25.4	24.0	23.3	23.6
Labor	31.4	38.2	42.0	42.3	43.1	44.8	46.7	39.4	43.7	44.3	45.1	46.2	48.3
State	6.8	9.3	9.7	9.7	9.9	10.1	10.4	8.3	10.0	9.7	10.0	10.2	10.4
Transportation	46.0	50.6	54.9	56.9	59.2	61.7	63.4	50.5	54.6	55.2	54.9	56.3	57.5
Treasury	391.2	388.5	381.5	385.1	388.2	388.9	390.3	387.0	380.9	388.0	395.2	399.9	406.7
Veterans Affairs	47.1	45.2	51.5	53.5	55.7	60.3	59.5	45.0	51.0	53.5	55.7	60.3	59.5
Corps of Engineers	4.3	4.6	4.4	4.2	4.3	4.3	4.2	4.4	4.2	4.0	4.1	4.1	4.2
Other Defense Civil Programs	32.9	34.4	35.4	41.2	42.4	43.7	44.9	34.4	35.6	41.5	42.7	43.9	45.1
Environmental Protection Agency	7.2	7.5	7.6	7.6	7.6	7.6	7.6	7.3	7.5	7.6	7.6	7.6	7.6
Executive Office of the President	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Federal Emergency Management Agency	3.1	3.1	3.2	3.0	2.7	2.4	1.9	3.4	3.2	2.9	2.9	2.3	1.9
General Services Administration	*	0.6	-0.2	0.3	0.4	0.4	0.3	0.6	-0.2	0.3	0.4	0.4	0.3
International Assistance Programs	12.1	11.4	12.1	12.4	12.5	12.4	12.7	11.3	12.0	12.3	12.5	12.7	13.0
National Aeronautics and Space Ad- ministration	13.4	13.8	14.2	14.7	15.1	15.4	15.8	13.8	14.2	14.7	15.1	15.4	15.8
National Science Foundation	3.5	4.0	4.4	4.5	4.7	4.7	4.8	4.0	4.3	4.5	4.7	4.7	4.8
Office of Personnel Management	48.7	51.0	53.4	56.3	59.5	62.8	66.0	51.0	53.7	56.7	59.8	63.1	66.3
Small Business Administration	-0.4	-1.0	0.7	0.6	0.5	0.5	0.6	-1.0	0.7	0.6	0.5	0.5	0.6
Social Security Administration	441.8	463.0	488.2	511.5	537.4	567.7	595.5	462.6	489.2	512.6	537.2	566.6	593.1
Other Independent Agencies	10.6	4.9	19.0	16.8	17.1	17.8	17.7	1.4	18.7	17.6	18.5	18.2	18.5
Allowances			2.4	3.9	4.7	5.4	5.7		2.4	3.3	4.0	4.9	5.3
Undistributed Offsetting Receipts	-172.8	-190.2	-201.8	-226.0	-251.0	-254.9	-275.8	-189.5	-201.7	-225.4	-250.0	-251.6	-271.0
Total	1,788.8	1,856.2	1,960.6	2,016.2	2,076.7	2,168.7	2,223.9	1,854.9	1,962.1	2,025.4	2,110.7	2,208.3	2,271.6

* \$50 million or less.

Table 15. OUTLAYS BY FUNCTION

(In billions of dollars)

	2000 Actual	April estimates						Mid-Session estimates					
		2001	2002	2003	2004	2005	2006	2001	2002	2003	2004	2005	2006
National defense	294.5	299.1	319.2	322.1	333.1	347.2	354.0	303.6	329.8	335.5	356.5	366.0	376.2
International affairs	17.2	17.5	21.0	21.3	21.5	21.6	22.2	16.6	21.4	21.4	21.7	22.1	22.6
General science, space, and technology	18.6	19.7	20.8	21.4	22.2	22.6	23.1	19.7	20.7	21.4	22.2	22.6	23.1
Energy	-1.1	-0.7	-0.3	-0.1	-0.6	-0.4	-0.3	-0.3	-0.4	-0.1	-0.6	-0.4	-0.3
Natural resources and environment ..	25.0	27.4	27.5	27.7	28.0	28.4	28.7	26.6	27.1	27.6	28.1	28.7	29.0
Agriculture	36.6	25.9	18.6	15.0	14.0	14.1	14.5	28.9	20.7	16.8	16.2	15.5	14.9
Commerce and housing credit	3.2	-0.8	6.9	4.7	3.6	3.5	2.3	-5.2	6.4	5.5	4.9	4.0	3.2
Transportation	46.9	51.1	55.0	57.5	59.7	62.1	63.8	51.0	54.8	55.7	55.3	56.8	57.9
Community and regional development	10.6	10.6	11.7	11.3	10.8	10.5	10.1	10.8	11.8	11.3	11.1	10.5	10.2
Education, training, employment, and social services	59.2	65.3	76.6	81.3	82.6	84.7	87.2	64.2	75.5	82.1	84.0	85.4	88.0
Health	154.5	175.3	201.5	224.4	243.3	250.7	264.8	173.8	190.7	212.0	231.7	251.8	271.1
Medicare	197.1	219.3	229.9	242.1	255.9	282.8	296.0	217.4	227.7	239.3	265.8	291.1	301.2
Income security	247.9	262.6	275.7	285.9	295.9	308.8	317.1	265.1	286.5	296.7	306.2	318.4	328.6
Social Security	409.4	433.6	455.1	477.1	501.6	528.1	556.8	433.5	456.1	478.0	501.3	526.7	554.1
Veterans benefits and services	47.1	45.4	51.6	53.6	55.8	60.4	59.6	45.1	51.1	53.6	55.8	60.4	59.6
Administration of justice	27.8	29.4	32.3	35.4	35.5	35.2	35.8	29.7	31.4	35.4	35.5	35.2	35.8
General government	13.5	16.8	16.3	16.7	18.4	17.4	17.6	17.2	16.5	16.9	18.6	17.6	17.8
Net interest	223.2	206.4	188.1	175.2	161.5	144.7	127.2	204.2	180.5	174.1	164.8	151.0	137.1
Allowances			2.4	3.9	4.7	5.4	5.7		2.4	3.3	4.0	4.9	5.3
Undistributed offsetting receipts	-42.6	-47.7	-49.4	-60.4	-70.6	-58.9	-62.4	-47.0	-48.7	-61.0	-72.4	-59.9	-63.8
Total	1,788.8	1,856.2	1,960.6	2,016.2	2,076.7	2,168.7	2,223.9	1,854.9	1,962.1	2,025.4	2,110.7	2,208.3	2,271.6

Table 16. DISCRETIONARY BUDGET AUTHORITY BY AGENCY

(In billions of dollars)

	2000 Actual	April estimates						Mid-Session estimates					
		2001	2002	2003	2004	2005	2006	2001	2002	2003	2004	2005	2006
Legislative Branch	2.5	2.7	3.0	3.0	3.1	3.1	3.2	2.8	3.0	3.0	3.1	3.1	3.2
Judicial Branch	3.7	4.0	4.6	4.5	4.6	4.7	4.9	4.0	4.6	4.5	4.6	4.7	4.9
Agriculture	17.1	19.3	17.9	18.8	19.0	19.4	19.8	19.3	17.9	18.8	19.0	19.4	19.8
Commerce	8.7	5.1	4.8	5.3	5.3	5.4	5.5	5.0	4.9	5.3	5.3	5.4	5.5
Defense—Military	287.3	296.3	310.5	319.0	327.9	337.1	346.6	301.9	328.9	337.9	347.4	357.1	367.1
Education	29.4	39.9	44.5	45.5	47.0	48.1	49.1	40.1	44.6	45.5	47.0	48.1	49.1
Energy	17.8	19.7	19.2	19.7	20.3	20.7	21.2	20.0	19.2	19.7	20.3	20.7	21.2
Health and Human Services	45.5	53.9	56.7	61.7	63.3	64.9	66.5	54.1	56.8	61.8	63.4	65.0	66.7
Housing and Urban Development	21.1	28.5	30.4	32.2	33.3	34.6	35.7	28.4	30.4	32.2	33.3	34.6	35.7
Interior	8.5	10.2	9.8	10.0	10.2	10.4	10.6	10.3	9.9	10.1	10.3	10.5	10.7
Justice	18.8	20.9	19.9	21.9	22.0	22.3	22.8	20.9	20.0	22.1	22.2	22.4	22.9
Labor	8.8	11.9	11.3	11.8	12.1	12.4	12.6	11.7	11.4	12.0	12.3	12.6	12.8
State	7.8	7.5	9.1	9.3	9.5	9.7	9.9	7.5	9.1	9.3	9.5	9.7	9.9
Transportation	14.5	18.4	16.3	17.3	17.7	18.1	18.5	18.5	16.3	17.3	17.7	18.1	18.5
Treasury	12.5	14.0	14.7	15.0	15.4	15.7	16.1	14.2	14.7	15.0	15.4	15.7	16.1
Veterans Affairs	20.8	22.4	23.4	23.9	24.4	25.0	25.6	22.3	23.2	23.7	24.3	24.8	25.3
Corps of Engineers	4.1	4.5	3.9	4.0	4.1	4.2	4.3	4.7	3.9	4.0	4.1	4.2	4.3
Other Defense Civil Programs	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.2	0.2
Environmental Protection Agency	7.6	7.8	7.3	7.4	7.6	7.2	6.6	7.8	7.3	7.4	7.6	7.2	6.6
Executive Office of the President	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Federal Emergency Management Agency	3.9	2.4	2.2	2.3	2.3	2.4	2.4	2.4	2.2	2.3	2.3	2.4	2.4
General Services Administration	—*	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
International Assistance Programs ...	13.6	12.9	12.8	13.1	13.4	13.6	13.9	13.0	12.9	13.2	13.5	13.8	14.1
National Aeronautics and Space Ad- ministration	13.6	14.3	14.5	15.0	15.4	15.7	16.1	14.3	14.5	15.0	15.4	15.7	16.1
National Science Foundation	3.9	4.4	4.5	4.6	4.7	4.8	4.9	4.4	4.5	4.6	4.7	4.8	4.9
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	0.9	0.3	0.5	0.6	0.6	0.6	0.6	0.9	0.5	0.6	0.6	0.6	0.6
Social Security Administration	5.7	6.0	6.4	6.5	6.7	6.8	7.0	6.0	6.4	6.5	6.7	6.8	7.0
Other Independent Agencies	5.8	6.3	6.0	6.0	6.3	6.3	6.4	6.3	6.1	6.0	6.2	6.3	6.4
Allowances			5.3	5.4	5.6	5.7	5.8		5.4	5.0	5.1	5.3	5.5
Total	584.4	634.9	660.6	685.1	702.7	720.1	737.9	642.1	679.8	704.0	722.2	740.1	758.4

* \$50 million or less.

Table 17. DISCRETIONARY BUDGET AUTHORITY BY FUNCTION

(In billions of dollars)

	2000 Actual	April estimates						Mid-Session estimates					
		2001	2002	2003	2004	2005	2006	2001	2002	2003	2004	2005	2006
National defense	300.8	311.3	325.1	333.9	343.2	352.7	362.5	317.1	343.7	353.0	362.8	372.7	383.1
International affairs	23.5	22.7	23.9	24.4	24.9	25.5	26.0	22.7	24.0	24.5	25.0	25.6	26.1
General science, space, and technology	19.2	20.9	21.2	21.9	22.4	22.9	23.5	20.9	21.2	21.9	22.4	22.9	23.5
Energy	2.7	3.1	2.8	2.9	3.1	3.2	3.3	3.1	2.8	2.9	3.1	3.2	3.3
Natural resources and environment ..	24.6	28.7	26.4	27.0	27.6	27.6	27.4	28.9	26.4	27.1	27.6	27.7	27.5
Agriculture	4.7	5.1	4.8	5.2	5.2	5.3	5.4	5.1	4.8	5.2	5.2	5.3	5.4
Commerce and housing credit	5.1	0.7	-0.3	-0.1	-0.4	-0.5	-0.5	0.6	-0.1	-0.1	-0.4	-0.5	-0.5
Transportation	15.2	18.9	16.8	17.8	18.2	18.6	19.0	19.0	16.8	17.8	18.2	18.6	19.0
Community and regional development	12.2	11.0	10.4	10.7	10.9	11.1	11.3	11.6	10.4	10.7	10.9	11.1	11.3
Education, training, employment, and social services	44.4	61.1	65.4	67.1	69.0	70.7	72.3	61.1	65.7	67.4	69.4	71.0	72.7
Health	33.8	38.9	41.0	45.7	46.9	48.1	49.4	38.8	40.9	45.6	46.8	48.0	49.3
Medicare	3.0	3.4	3.5	3.5	3.6	3.7	3.8	3.4	3.5	3.5	3.6	3.7	3.8
Income security	31.6	39.5	42.8	45.1	46.7	48.3	49.6	39.7	42.9	45.1	46.8	48.4	49.6
Social Security	3.2	3.4	3.5	3.6	3.7	3.8	3.8	3.4	3.5	3.6	3.7	3.8	3.8
Veterans benefits and services	20.9	22.5	23.5	24.0	24.5	25.1	25.7	22.4	23.3	23.8	24.3	24.9	25.4
Administration of justice	27.1	30.0	29.8	31.9	32.3	32.8	33.5	30.0	29.8	31.9	32.3	32.8	33.5
General government	12.4	14.0	14.8	15.0	15.4	15.7	16.0	14.2	14.8	15.1	15.4	15.7	16.1
Allowances			5.3	5.4	5.6	5.7	5.8		5.4	5.0	5.1	5.3	5.5
Total	584.4	634.9	660.6	685.1	702.7	720.1	737.9	642.1	679.8	704.0	722.2	740.1	758.4

Table 18. MID-SESSION BASELINE TOTALS

(In billions of dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2002–2011
Discretionary:												
Defense	304.0	317.1	325.5	336.8	351.0	357.5	363.7	376.5	387.3	398.4	413.9	3,627.8
Non-defense	347.4	368.6	387.3	398.0	406.2	416.4	427.8	439.2	450.7	462.6	474.9	4,231.6
Subtotal, discretionary	651.5	685.7	712.7	734.7	757.2	773.9	791.5	815.7	838.0	861.0	888.8	7,859.4
Mandatory:												
Social Security	429.9	452.5	474.4	497.6	522.9	550.3	580.4	613.6	651.5	693.5	738.4	5,775.1
Medicare	214.2	224.3	235.8	248.1	267.4	276.4	297.0	315.9	336.3	357.8	387.0	2,946.0
Medicaid	130.3	143.0	155.1	168.9	183.6	199.3	216.5	234.8	254.9	276.7	300.3	2,133.1
Other	224.9	262.9	259.9	271.8	293.8	300.3	306.9	321.9	334.6	347.5	362.8	3,062.5
Subtotal, mandatory	999.3	1,082.7	1,125.2	1,186.4	1,267.7	1,326.3	1,400.7	1,486.2	1,577.3	1,675.5	1,788.6	13,916.7
Net interest	204.2	180.2	173.1	162.7	147.1	130.6	112.8	93.8	72.1	47.7	19.7	1,139.8
Total, outlays	1,855.0	1,948.7	2,011.0	2,083.8	2,172.0	2,230.9	2,305.0	2,395.8	2,487.4	2,584.3	2,697.2	22,916.0
Receipts	2,012.7	2,135.3	2,221.5	2,333.5	2,476.1	2,573.1	2,693.0	2,826.6	2,972.6	3,142.9	3,383.4	26,758.0
Surplus	157.8	186.6	210.5	249.8	304.1	342.2	388.0	430.9	485.2	558.6	686.2	3,842.0
On-budget surplus ¹	1.9	18.0	18.2	38.9	67.8	92.0	122.2	150.3	191.4	247.3	357.7	1,303.8
Postal service surplus	-1.3	-2.6	0.1	0.2	0.8	1.2	-0.1	0.7	0.9	1.1	1.4	3.7
Social Security surplus ¹	157.1	171.2	192.2	210.6	235.5	248.9	265.9	279.9	293.0	310.2	327.1	2,534.5

¹The 2001 estimate is adjusted to correct for \$5.6 billion in prior year receipts. See text box on page 9 and Appendix A on page 49.

Table 19. FEDERAL GOVERNMENT FINANCING AND DEBT

(In billions of dollars)

	2000 actual	Estimate										
		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Financing:												
Unified budget surplus	236	158	173	195	217	254	281	314	350	398	447	484
Financing other than the change in debt held by the public:												
Premiums paid (–) on buybacks of Treasury securities ¹	–6	–11	–10	.....	.....	.....	.....	.....	.....	.....	.....	.....
Changes in: ²												
Treasury operating cash balance	4	–2	–5	.....	–5	.....	.....	–5	.....	.....	–5	.....
Checks outstanding, deposit funds, etc. ³	3	–4	1	.....	.....	.....	.....	.....	.....	.....	.....	.....
Seigniorage on coins	2	1	1	2	2	2	2	2	2	2	2	2
Less: Net financing disbursements:												
Direct loan financing accounts	–22	–31	–4	–17	–18	–17	–16	–16	–16	–16	–16	–15
Guaranteed loan financing accounts	4	–1	–1	1	–*	–*	1	1	1	1	1	1
Total, financing other than the change in debt held by the public	–13	–48	–17	–15	–21	–16	–14	–19	–14	–14	–18	–13
Total, amount available to repay debt held by the public	223	110	155	180	196	239	267	295	337	385	429	471
Change in debt held by the public: ^{4 5}												
Change in debt held by the public	–223	–110	–155	–180	–196	–239	–267	–295	–337	–385	–155	–35
Less change in excess balances .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	–274	–436
Change in net indebtedness	–223	–110	–155	–180	–196	–239	–267	–295	–337	–385	–429	–471
Debt Subject to Statutory Limitation, End of Year:												
Debt issued by Treasury	5,601	5,727	5,829	5,935	6,040	6,125	6,201	6,266	6,303	6,310	6,568	6,963
Adjustment for Treasury debt not subject to limitation and agency debt subject to limitation ⁶	–15	–15	–15	–15	–15	–15	–15	–15	–15	–15	–15	–15
Adjustment for discount and premium ⁷	6	6	6	6	6	6	6	6	6	6	6	6
Total, debt subject to statutory limitation ⁸	5,592	5,717	5,819	5,926	6,031	6,115	6,192	6,256	6,294	6,300	6,558	6,954
Debt Outstanding, End of Year:												
Gross Federal debt: ⁹												
Debt issued by Treasury	5,601	5,727	5,829	5,935	6,040	6,125	6,201	6,266	6,303	6,310	6,568	6,963
Debt issued by other agencies	28	27	27	26	25	23	22	20	20	20	20	20
Total, gross Federal debt	5,629	5,753	5,855	5,961	6,065	6,148	6,223	6,286	6,323	6,330	6,588	6,983
Held by:												
Debt securities held as assets by Government accounts	2,219	2,453	2,711	2,996	3,296	3,618	3,959	4,317	4,691	5,082	5,495	5,926
Debt securities held as assets by the public: ⁵												
Debt held by the public	3,410	3,300	3,145	2,965	2,769	2,531	2,264	1,969	1,632	1,248	1,093	1,057
Less excess balances .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	–274	–710
Net indebtedness ¹⁰	3,410	3,300	3,145	2,965	2,769	2,531	2,264	1,969	1,632	1,248	819	348

* \$500 million or less.

¹ This table includes estimates for Treasury buybacks of outstanding securities only through 2002. These estimates assume that Treasury will buy back \$35 billion (face value) of securities in 2001 (in terms of settlements) and \$40 billion in 2002. The premiums paid on buybacks are based on experience to date and the interest rates in the economic assumptions.

² A decrease in the Treasury operating cash balance (which is an asset) would be a means of financing a 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 a deficit and therefore would also have a positive sign.

³ Besides checks outstanding and deposit funds, 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 Indian tribal funds that are owned by the Indian tribes and held and managed in a fiduciary capacity by the Government on the tribes' behalf were reclassified from trust funds to deposit funds as of October 1, 1999. Their holdings of Treasury securities were accordingly reclassified from debt held by Government accounts to debt held by the public, which affected the change in debt held by the public without affecting borrowing or the repayment of debt.

⁵ The amount of the unified budget surplus that is available to repay debt held by the public is estimated to be more than the amount of debt that is available to be redeemed in 2010 and subsequent years. The difference is assumed to be held as "excess balances." ("Excess" means in excess of the amounts held for operational and programmatic purposes.) The debt held by the public is the amount of Federal debt securities held by the public. The net indebtedness is the debt held by the public less the excess balances.

⁶ Consists primarily of Federal Financing Bank debt.

⁷ Consists of unamortized discount (less premium) on public issues of Treasury notes and bonds (other than zero-coupon bonds) and unrealized discount on Government account series securities.

⁸ The statutory debt limit is \$5,950 billion.

⁹ 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).

¹⁰ At the end of 2000, the Federal Reserve Banks held \$511 billion of Federal securities and the rest of the public held \$2,899 billion. Debt held by the Federal Reserve Banks is not estimated for future years.

APPENDIX A.

Basis of Social Security Tax Receipts in the Budget

BASIS OF SOCIAL SECURITY TAX RECEIPTS IN THE BUDGET

Most budget receipts equal cash collections. However, Social Security records the estimated tax liability incurred, adjusted for the estimated timing of tax payments and for reestimates of tax liability in previous years. Individual income taxes are a residual, after subtracting the estimated Social Security employment tax liabilities from total cash collections of income taxes and employment taxes.¹ Adjustments for reestimates of Social Security tax liability amounted to \$5.6 billion in the first three quarters of 2001. In the past, this has not concerned decision makers, because it has no effect on the unified surplus. However, it reduces the apparent on-budget surplus for 2001 by \$5.6 billion. When the fiscal policy goal is defined as avoiding a budget deficit excluding Social Security, the inaccuracies of the traditional estimation system can distort perceptions about the success or failure of the Nation's fiscal policy.

Receipts as Estimated Liability.—By law, the Social Security trust funds are credited with amounts equal to the tax liability incurred. The budget records receipts equal to the estimated tax liability, with the receipts spread over the months that taxes are expected to be paid. If actual tax payments are less than the estimated liability, the general fund implicitly makes up the difference. The initial estimate is based on the economic assumptions for the President's budget at the time the estimate is made. For example, the receipts reported in the March 2000 *Monthly Treasury Statement* were estimates of liability prepared in December 1999, using the economic assumptions for the 2001 budget. Beginning about one year after the initial estimate, as information about employers' reports of wages paid becomes available, adjustments are made to correct for differences between the es-

timated and actual tax liability incurred. For example, the first adjustment for January-March 2000 was made in March 2001. The adjustments can be increases or decreases. Because wage reports trickle in over many years, each adjustment reflects reestimates of tax liability for several years.

Budget Scoring of Adjustments.—(Reestimates of Social Security tax receipts are recorded as adjustments to current year receipts, not as revisions to the published estimates for the year in which the liability was incurred.)² About one-half of the June 2001 adjustment reflected actual reported wage data for 2000, one-third for 1999, and the remainder for all prior years. As a result, the amount of employment taxes recorded in the budget do not correspond to either the tax liability incurred or the taxes actually paid in that year. As explained above, the adjustments also affect the amounts reported as individual income tax receipts. If employment tax receipts are adjusted upwards, income tax receipts are automatically reduced by the same amount.

On-budget Surplus Effect.—These adjustments have no effect on the unified budget surplus, but they affect the Social Security surplus and the on-budget surplus by equal and opposite amounts. If Social Security tax receipts for the current year are increased by an adjustment for employment tax liability for previous years, then income tax receipts for the current year are decreased by the same amount. This artificially inflates the Social Security surplus and decreases the on-budget surplus. As a result, the reported on-budget surplus for the current year is distorted by the amount of the reestimates of employment tax liability in previous years. The impact can be large in comparison to the on-budget surplus. For the first three quarters of 2001, the

¹Companies are not required to distinguish income taxes separately from employment taxes, when they remit tax withholdings to Treasury. Therefore, while Treasury knows the total cash collections, it must estimate the amount of tax payments made for the various purposes.

²This correction has been made in this report for the sake of accuracy. Other official publications may use the historical method and therefore report slightly different figures. OMB will review with the Department of the Treasury the possibility of prospective changes to record the adjustments in the correct years.

adjustments raised the reported Social Security surplus and reduced the on-budget surplus by \$5.6 billion.

This raises the following question for policy makers. If the fiscal policy target is set in terms of the on-budget surplus, should

the success or failure of achieving the target be affected by a scoring convention that has nothing to do with actual tax collections in that year? Or should the targets exclude adjustments for events that occurred in prior years?

TABLE A-1. ON-BUDGET AND SOCIAL SECURITY SURPLUSES

(In billions of dollars)

	2001
On-budget Surplus:	
Current rule—adjustment recorded in 2001	-3.7
Assign receipts to year actually collected	5.6
	1.9
Real 2001 surplus	1.9
Social Security Surplus:	
Current rule—adjustment recorded in 2001	162.7
Assign receipts to year actually collected	-5.6
	157.1
Real 2001 surplus	157.1
Postal Service (off-budget)	-1.3
Unified Surplus:	
Current rule—adjustment recorded in 2001:	
On-budget surplus	-3.7
Social Security surplus	162.7
Postal Service	-1.3
	157.8
Subtotal, unified surplus	157.8
Real 2001 surplus:	
On-budget surplus	1.9
Social Security surplus	157.1
Postal Service	-1.3
	157.8
Subtotal, unified surplus	157.8
Memorandum—Real Non-Social Security Surplus:	
Real on-budget surplus	1.9
Postal Service deficit	-1.3
	0.6
Real Non-Social Security Surplus	0.6

APPENDIX B.

Sequestration Update Report to the President and Congress for 2002

I. OVERVIEW

The Budget Enforcement Act of 1997 (BEA of 1997) extended and modified the expiring enforcement requirements of the Budget Enforcement Act of 1990 (BEA of 1990). The BEA of 1997 established limits, or “caps,” for discretionary spending through 2002. It also extended the pay-as-you-go (PAYGO) requirement that legislation affecting direct spending or receipts not result in net costs to the Federal Government. The Transportation Equity Act for the 21st Century (TEA-21) further modified the discretionary spending limits and created new categories for highway and mass transit spending. An across-the-board reduction of non-exempt spending, known as “sequestration,” enforces compliance with these constraints.

Based on preliminary OMB scoring of the latest House and Senate action for the 13 annual appropriations bills, if offsets are not enacted or the caps are not raised,

a sequester of discretionary programs would be required under current law as shown in Table 4. In addition, if this year ended with no further action on PAYGO, a sequester of mandatory programs at the maximum level achievable under current law would be required as shown in Table 6. Notwithstanding the potential for sequestration in 2002, both appropriations set to be enacted and authorizing legislation already enacted this year are within the 2002 congressional budget resolution framework. The current PAYGO scorecard contains \$16 billion of costs in 2002 from legislation enacted last year. The Administration will work with Congress to ensure that no unintended sequesters of spending occur under current law or through enactment of any other proposals that meet the President’s objectives to reduce the debt, fund priority initiatives, and grant tax relief to all income tax paying Americans.

II. DISCRETIONARY SEQUESTRATION REPORT

The Budget Enforcement Act (BEA) requires that OMB issue reports after enactment of individual bills on the scoring of those bills and three times a year on the overall status of discretionary legislation. This report provides OMB's updated estimates, reflecting legislation for which OMB has issued reports as of August 15, 2001. As the BEA requires, the estimates rely on the same economic and technical assumptions as in the President's 2002 budget, which the Administration transmitted to Congress on April 9, 2001.

Discretionary programs are funded annually through the appropriations process. The scorekeeping guidelines accompanying the BEA identify accounts with discretionary resources. The BEA limits—or caps—budget authority and outlays available for discretionary programs each year through 2002. For 2001 and 2002, the BEA specified a single category for all discretionary spending. The Transportation Equity Act for the 21st Century (TEA-21) established two additional categories for highway and mass transit outlays for 1999 through 2003. The Department of the Interior and Related Agencies Appropriations Act, FY 2001 established a new category for conservation spending with limits

on budget authority and outlays for 2002 through 2006. In addition to specifying overall limits for the conservation category, the Act also specifies levels of spending for six subcategories.

The statutory spending limits established by the BEA are set to expire in 2002. To maintain the viability of the caps as a tool for fiscal discipline, the Administration proposed in the President's 2002 budget to raise the 2002 discretionary spending limits and extend them through 2005. Although an agreement has not yet been reached with the Congress on this proposal, the Administration remains committed to ensuring that the success of the caps is continued in the future.

OMB monitors compliance with existing discretionary spending limits throughout the year. Appropriations that cause a breach in the budget authority or outlay limits would trigger an across-the-board reduction (sequester) to eliminate that breach. The BEA, however, does not require that Congress appropriate the full amount available under the discretionary limits. Table 1 summarizes historical changes to the caps since 1990.

Table 1. HISTORICAL SUMMARY OF CHANGES TO DISCRETIONARY SPENDING LIMITS

(In billions of dollars)

		1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
TOTAL DISCRETIONARY													
Statutory Caps as set in OBRA 1990, OBRA 1993, and 1997													
Bipartisan Budget Agreement	BA	491.7	503.4	511.5	510.8	517.7	519.1	528.1	530.6	533.0	537.2	542.0	551.1
	OL	514.4	524.9	534.0	534.8	540.8	547.3	547.3	547.9	559.3	564.3	564.4	560.8
Adjustment to 1998 OBRA limits to reach discretionary spending limits included in the 1997 Bipartisan Budget Agreement	BA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-6.9	N/A	N/A	N/A	N/A
	OL	N/A	N/A	N/A	N/A	N/A	N/A	N/A	6.8	N/A	N/A	N/A	N/A
Adjustments for changes in concepts and definitions	BA	.....	7.7	8.2	8.2	8.8	-0.6	-0.4	3.1	-0.2	2.8	-0.1	-3.3
	OL	.....	1.0	2.4	2.3	3.0	-0.5	-2.6	-2.8	-0.3	0.1	-0.1	-3.3
Adjustments for changes in inflation	BA	.....	-0.5	-5.1	-9.5	-11.8	3.0	2.6	0.0	N/A	N/A	N/A	N/A
	OL	.....	-0.3	-2.5	-5.8	-8.8	1.8	2.3	0.9	N/A	N/A	N/A	N/A
Adjustments for credit reestimates, IRS funding, debt forgiveness, Arrearages, EITC, IMF, and CDRs	BA	0.2	0.2	13.0	0.6	0.7	0.1	0.2	1.0	19.4	1.0	0.6	.....
	OL	0.3	0.3	0.8	0.8	0.9	0.1	0.3	0.6	1.1	0.7	1.2	0.2
Adjustments for emergency requirements	BA	0.9	8.3	4.6	12.2	7.7	5.1	9.3	5.7	31.9	43.6	0.0	0.0
	OL	1.1	1.8	5.4	9.0	10.1	6.4	8.1	7.0	22.9	35.8	20.3	6.3
Adjustment pursuant to Sec. 2003 of P.L. 104-19 ¹	BA	.....	.....	.....	.....	-15.0	-0.1	-0.1	.....	N/A	N/A	N/A	N/A
	OL	.....	.....	.....	.....	-1.1	-3.5	-2.4	-1.5	N/A	N/A	N/A	N/A
Adjustments for special allowances:													
Discretionary new budget authority	BA	.....	3.5	2.9	2.9	2.9	.....	.....	.....	N/A	N/A	3.2	N/A
	OL	.....	1.4	2.2	2.6	2.7	1.1	0.5	0.1	N/A	N/A	N/A	N/A
Outlay allowance	BA	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
	OL	2.6	1.7	0.5	1.0	.....	.....	.....	1.2	.....	0.8	2.4	.....
Subtotal, adjustments excluding Desert Shield/Desert Storm	BA	1.1	19.3	23.6	14.3	-6.7	7.5	11.6	2.9	51.1	47.4	3.7	-3.3
	OL	3.9	5.9	8.8	10.0	6.8	5.4	6.3	12.3	23.7	37.3	23.8	3.3
Adjustments for Operation Desert Shield/Desert Storm	BA	44.2	14.0	0.6	*	*	.....	.....	.....	N/A	N/A	N/A	N/A
	OL	33.3	14.9	7.6	2.8	1.1	.....	.....	.....	N/A	N/A	N/A	N/A
Rounding Adjustment	BA	N/A	N/A	N/A	N/A	N/A	N/A	.....	.....	.....	1.1	0.0	.....
	OL	N/A	N/A	N/A	N/A	N/A	N/A	.....	.....	.....	.....	.....	.....
TEA-21 Adjustment (Net) ²	BA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-0.9	-0.9	-0.9	-0.9
	OL	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.1	2.6	5.2	7.1
Adjustment to reach spending limits mandated in P.L. 106-429 ³	BA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	95.9	N/A
	OL	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	58.6	N/A
Adjustment for conservation limits established by P.L. 106-291 ⁴	BA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.8
	OL	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.2
Total adjustments	BA	45.3	33.2	24.2	14.3	-6.7	7.5	11.6	2.9	50.2	47.6	98.8	-2.4
	OL	37.2	20.8	16.4	12.8	7.9	5.4	6.3	12.3	24.9	40.0	87.6	11.6
Update Report spending limits⁵	BA	537.0	536.6	535.7	525.1	511.0	526.6	539.7	533.5	583.2	584.8	640.8	548.7
	OL	551.6	545.7	550.4	547.6	548.7	552.7	553.6	560.2	584.2	604.2	652.0	572.4

AANA=Not Applicable

* Less than \$50 million.

¹P.L. 104-19, Emergency Supplemental Appropriations for Additional Disaster Assistance, for Anti-Terrorism Initiatives, for Assistance in the Recovery from the Tragedy that Occurred at Oklahoma City, and Rescissions Act, 1995, was signed into law on July 27, 1995. Section 2003 of that bill directed the Director of OMB to make a downward adjustment in the discretionary spending limits for 1995-1998 equal to the aggregate amount of reductions in new budget authority and outlays for discretionary programs resulting from the provisions of the bill, other than emergency appropriations.

²Sec. 8101(a) of P.L. 105-178, the Transportation Equity Act for the 21st Century (TEA-21), which was signed by the President on June 6, 1998, established two new discretionary spending categories: Highway and Mass Transit. Sec. 8101(b) of TEA-21 provided for an offsetting adjustment in the existing discretionary spending limits.

³Sec. 701 of P.L. 106-429, the Foreign Operations and Related Agencies Appropriations Act, 2001, included revised budget authority and outlay caps for 2001. In addition, this section provided for a budget authority rounding adjustment of 0.5 percent, and also prohibited OMB from making adjustments in the Final Sequestration Report for emergency requirements.

⁴Title VIII of P.L.-291, the Interior and Related Agencies Appropriations Act, FY 2001, created a new conservation category with limits on budget authority and outlays for 2002-2006.

⁵Reflects combined Defense Discretionary, Non-Defense Discretionary, Violent Crime Reduction, Highway Category, Mass Transit Category, and Conservation Category spending limits.

Table 2. DISCRETIONARY SPENDING LIMITS

(In millions of dollars)

		2000	2001	2002
VIOLENT CRIME REDUCTION SPENDING				
Preview Report Violent Crime Reduction Spending Limits	BA	4,500	N/A	N/A
	OL	6,344	N/A	N/A
Adjustments for the Update Report:				
No Adjustments	BA	.....	N/A	N/A
	OL	.....	N/A	N/A
Update Report Violent Crime Reduction Spending Limits	BA	4,500	N/A	N/A
	OL	6,344	N/A	N/A
Anticipated Adjustments for the Final Sequestration Report:				
No Adjustments	BA	.....	N/A	N/A
	OL	.....	N/A	N/A
Anticipated Final Sequestration Report Limits	BA	4,500	N/A	N/A
	OL	6,344	N/A	N/A
HIGHWAY CATEGORY				
Preview Report Highway Category Spending Limits	BA	.....	.....	.....
	OL	24,574	26,920	28,489
Adjustments for the Update Report:				
No Adjustments	BA	.....	.....	.....
	OL	.....	.....	.....
Update Report Highway Category Spending Limits	BA	.....	.....	.....
	OL	24,574	26,920	28,489
Anticipated Adjustments for the Final Sequestration Report:				
No Adjustments	BA	.....	.....	.....
	OL	.....	.....	.....
Anticipated Final Sequestration Report Limits	BA	.....	.....	.....
	OL	24,574	26,920	28,489
MASS TRANSIT CATEGORY				
Preview Report Mass Transit Category Spending Limits	BA	.....	.....	.....
	OL	4,117	4,639	5,275
Adjustments for the Update Report:				
No Adjustments	BA	.....	.....	.....
	OL	.....	.....	.....
Update Report Mass Transit Category Spending Limits	BA	.....	.....	.....
	OL	4,117	4,639	5,275
Anticipated Adjustments for the Final Sequestration Report:				
No Adjustments	BA	.....	.....	.....
	OL	.....	.....	.....
Anticipated Final Sequestration Report Limits	BA	.....	.....	.....
	OL	4,117	4,639	5,275
CONSERVATION CATEGORY				
Preview Report Conservation Category Spending Limits	BA	N/A	N/A	1,760
	OL	N/A	N/A	1,232
Federal and State Land and Water Conservation Fund subcategory	BA	N/A	N/A	540
	OL	N/A	N/A	.....
State and Other Conservation subcategory	BA	N/A	N/A	300
	OL	N/A	N/A	.....
Urban and Historic Preservation subcategory	BA	N/A	N/A	160
	OL	N/A	N/A	.....
Payments in Lieu of Taxes subcategory	BA	N/A	N/A	50
	OL	N/A	N/A	.....
Federal Deferred Maintenance subcategory	BA	N/A	N/A	150
	OL	N/A	N/A	.....

Table 2. DISCRETIONARY SPENDING LIMITS—Continued
(In millions of dollars)

		2000	2001	2002
Coastal Assistance subcategory	BA	N/A	N/A	440
	OL	N/A	N/A	
Unallocated	BA	N/A	N/A	120
	OL	N/A	N/A	
Adjustments for the Update Report:				
No Adjustments	BA	N/A	N/A	
	OL	N/A	N/A	
Update Report Conservation Category Spending Limits	BA	N/A	N/A	1,760
	OL	N/A	N/A	1,232
Anticipated Adjustments for the Final Sequestration Report:				
No Adjustments	BA	N/A	N/A	
	OL	N/A	N/A	
Anticipated Final Sequestration Report Limits	BA	N/A	N/A	1,760
	OL	N/A	N/A	1,232
OTHER DISCRETIONARY SPENDING				
Preview Report Other Discretionary Spending Limits	BA	580,289	640,803	546,945
	OL	569,224	617,507	537,091
Adjustments for the Update Report:				
Appropriations Enacted in P.L. 107–20, the 2001 Supplemental Appropriations Bill	BA	N/A	N/A	
	OL	N/A	N/A	
Contingent Emergency Appropriations Released	BA	N/A		
	OL	N/A	451	292
Special Outlay Allowance	BA	N/A		
	OL	N/A	2,434	
Subtotal, Adjustments for the Update Report	BA	N/A		
	OL	N/A	2,885	292
Update Report Other Discretionary Spending Limits	BA	580,289	640,803	546,945
	OL	569,224	620,392	537,383
Anticipated Adjustments for the Final Sequestration Report:				
EITC Tax Compliance Initiative	BA	N/A	N/A	146
	OL	N/A	N/A	146
Continuing Disability Reviews	BA	N/A	N/A	433
	OL	N/A	N/A	390
Adoption Incentive Payments	BA	N/A	N/A	20
	OL	N/A	N/A	2
Subtotal, Adjustments for the Final Sequestration Report	BA	N/A	N/A	599
	OL	N/A	N/A	538
Anticipated Final Sequestration Report Spending Limits	BA	580,289	640,803	547,544
	OL	569,224	620,392	537,921

Table 2. DISCRETIONARY SPENDING LIMITS—Continued

(In millions of dollars)

		2000	2001	2002
TOTAL DISCRETIONARY SPENDING				
Preview Report Total Discretionary Spending Limits	BA	584,789	640,803	548,705
	OL	604,259	649,066	572,087
Update Report Total Discretionary Spending Limits	BA	584,789	640,803	548,705
	OL	604,259	651,951	572,379
Anticipated Final Sequestration Report Spending Limits	BA	584,789	640,803	549,304
	OL	604,259	651,951	572,917

N/A = Not Applicable.

Adjustments to discretionary limits.—Table 2 shows how adjustments pursuant to section 251(b) of the BEA of 1997 affect the discretionary limits in 2000 through 2002.

Section 251(b)(2) of the BEA authorizes certain adjustments after the enactment of appropriations. Table 2 includes those adjustments that can be made now due to legislation enacted to date. Table 2 also includes anticipated adjustments that would be made assuming enactment of 2002 appropriations bills, although the Administration cannot determine the actual adjustments that would be included in the final sequestration report at the end of this year's session of Congress until all appropriations are enacted. The section 251(b)(2) adjustments include:

Emergency Appropriations.—These adjustments include funding for amounts that the President designates as “emergency requirements” and that Congress so designates in law. Since the President submitted the 2002 budget in April, Congress has not enacted any additional emergency spending for fiscal year 2001.

The President has authorized the release of some previously enacted emergency appropriations since the April Budget submission. These funds will allow the Federal Emergency Management Agency to carry out its mission in response to natural disasters like Tropical Storm Allison. While adjustments to the caps were made for these funds in the Preview Report, the effects of new estimates of the rate at which these funds will be spent are included here.

Additional Adjustments that Would Be Made Contingent Upon Final Congressional Action.—Table 2 also shows how adjustments permitted under section 251(b) of the BEA would affect the discretionary limits if the following were included in 2002 appropriations bills.

Earned Income Tax Credit (EITC) Compliance Initiative.—The Balanced Budget Act of 1997 authorized appropriations for the Treasury Department to enforce EITC compliance and made specific allowance for adjustment of the caps by the appropriated amounts. This funding is provided in order to reduce the number of erroneous EITC claims, including the detection of erroneous claims and enforcement of EITC eligibility rules. The House-passed version of the 2002 Treasury and General Government appropriations bill provides \$146 million for this initiative.

Continuing Disability Reviews (CDRs).—The BEA authorizes adjustment of the caps by the amounts appropriated for CDRs, which are periodic examinations conducted to verify that recipients of Social Security disability insurance benefits and Supplemental Security Income benefits for persons with disabilities are still disabled. Cap adjustments are limited to the exact levels of budget authority and outlays specified in the BEA, but the Administration has requested appropriations below the level set for 2002. While the Congress has yet to take up the 2002 Labor, Health and Human Services, and Education appropriations bill, OMB has included an adjustment of \$433 million, the funding level in the 2002 budget requested for CDRs.

Adoption Incentive Payments.—The Adoption and Safe Families Act of 1997 authorizes bonus payments to States that increase the number of adoptions from the foster care system. It provides for a discretionary cap adjustment for appropriations up to \$20 million annually in each of the years 1999 through 2003, because the cost of adoption bonuses are assumed to be offset by reductions in mandatory foster care costs. Again, OMB has included an adjustment equal to the level requested in the budget (\$20 million in budget authority) since the Congress has not yet acted on the 2002 Labor, Health

and Human Services, and Education appropriations bill.

Summary of 2001 discretionary appropriations.—Table 3 summarizes the status of enacted 2001 discretionary appropriations, relative to the discretionary caps. Enacted budget authority and outlays for all categories for 2001 are within the specified cap levels. The outlays cap for the other discretionary category includes a special outlay adjustment made pursuant to section 251(b)(2)(B) of the BEA. This section gives OMB the authority to adjust upward the outlay cap by up to 0.5 percent of the total pre-adjustment level.

Table 3. SUMMARY OF 2001 DISCRETIONARY APPROPRIATIONS

(In millions of dollars)

	BA	Outlays
Violent Crime Reduction Spending		
Adjusted discretionary spending limits	N/A	N/A
Total enacted	N/A	N/A
Spending over/under (–) limits	N/A	N/A
Highway Category		
Adjusted discretionary spending limits		26,920
Total enacted		26,897
Spending over/under (–) limits		–23
Mass Transit Category		
Adjusted discretionary spending limits		4,639
Total enacted		4,639
Spending over/under (–) limits		
Other Discretionary Spending		
Adjusted discretionary spending limits	640,803	620,392
Total enacted	640,801	620,392
Spending over/under (–) limits	–2	
Total Discretionary Spending—All Categories		
Adjusted discretionary spending limits	640,803	651,951
Total enacted	640,801	651,928
Spending over/under (–) limits	–2	–23

Status of 2002 discretionary appropriations.—Table 4 shows preliminary OMB scoring of the latest House and Senate action for the 13 annual appropriations bills. If offsets

to discretionary spending are not enacted or the caps are not raised, OMB estimates of House and Senate action to date would exceed the outlay limits in the conservation category

and would exceed both the budget authority and outlay limits in the other discretionary category. Current OMB estimates of House action to date indicate that a sequester of approximately \$192.8 billion in budget authority and \$115.7 billion in outlays would be triggered. Current estimates of Senate action, unless offset, would trigger a budget authority sequester of approximately \$192.4 billion, and an outlay sequester of \$115.5 billion.

OMB estimates of a sequester under House and Senate action to date are based on the following assumptions:

- Bills that have not been acted on are assumed to be funded at the 302(b) allocation.
- The spending limits shown for the House and Senate have been adjusted upward for the earned income tax compliance initiative included in the Treasury and General Government appropriations bill and for CDR and Adoption Incentive Payment levels requested in the budget.

Table 4. STATUS OF 2002 APPROPRIATIONS ACTION

(In millions of dollars)

	House			Senate		
	BA	Outlays		BA	Outlays	
DEFENSE DISCRETIONARY						
Commerce, Justice, State and the Judiciary	567	546	F	604	574	C
Defense	300,209	294,026	A	298,568	291,692	A
Energy and Water Development	14,034	13,958	F	15,249	14,747	F
Military Construction	10,152	9,447	A	9,649	9,284	A
Transportation	340	340	F	695	624	F
Veterans Affairs, HUD, Independent Agencies	143	156	F	138	154	F
Total, Defense Discretionary	325,445	318,473		324,903	317,075	
NON-DEFENSE DISCRETIONARY						
Agriculture and Rural Development	15,812	16,733	F	16,392	16,807	C
Commerce, Justice, State and the Judiciary	37,454	38,829	F	37,670	38,798	C
District of Columbia	382	401	A	392	412	A
Energy and Water Development	9,652	9,960	F	9,689	9,959	F
Foreign Operations	15,167	15,692	F	15,526	15,761	C
Interior and Related Agencies	17,616	17,815	F	17,381	17,685	F
Labor, HHS, and Education	119,725	106,224	A ¹	119,000	107,513	A ¹
Legislative	2,241	2,293	F	1,944	2,029	F
Transportation and Related Agencies	14,850	18,545	F	14,907	18,578	F
Treasury, Postal Service, and General Government	17,107	16,514	F ²	17,111	16,548	C ²
Veterans Affairs, HUD, Independent Agencies	85,195	89,964	F	83,427	89,891	F ³
Deficiencies		445	A		691	A
Total, Non-Defense Discretionary	335,201	333,415		333,439	334,672	
TOTAL OTHER DISCRETIONARY						
Subtotal, Other Discretionary, excluding P.L. 107-20	660,646	651,888		658,342	651,747	
Total, 2002 effects of the 2001 supplemental appropriations bill (P.L. 107-20)	73	1,549		73	1,549	
Total, Other Discretionary Spending	660,719	653,437		658,415	653,296	
Estimated Final Sequestration Report Other Discretionary Category Limits.	549,079	538,572		549,079	538,572	
CONGRESSIONAL ACTION OVER/UNDER(-) LIMITS	111,640	114,865		109,336	114,724	

Table 4. STATUS OF 2002 APPROPRIATIONS ACTION—Continued
(In millions of dollars)

	House		Senate	
	BA	Outlays	BA	Outlays
HIGHWAY CATEGORY				
Transportation and Related Agencies		28,491 F	–9	28,493 F
Total, Highway Category		28,491	–9	28,493
Estimated Final Sequestration Report Highway Category Limits		28,489		28,489
CONGRESSIONAL ACTION OVER/UNDER(–) LIMITS		2	–9	4
MASS TRANSIT CATEGORY				
Transportation and Related Agencies		5,271 F ⁴		5,272 F ⁴
Total, Mass Transit Category		5,271		5,272
Estimated Final Sequestration Report Spending Limits ..		5,275		5,275
CONGRESSIONAL ACTION OVER/UNDER(–) LIMITS		–4		–3
CONSERVATION SPENDING CATEGORY				
Commerce/Justice/State and the Judiciary	440	361 F	251	238 C
Interior and Related Agencies	1,320	1,085 F	1,320	1,083 F
Total, Conservation Spending Category	1,760	1,446	1,571	1,321
Estimated Final Sequestration Report Spending Limits ..	1,760	1,232	1,760	1,232
CONGRESSIONAL ACTION OVER/UNDER(–) LIMITS		214	–189	89
TOTAL, DISCRETIONARY SPENDING				
Total, Discretionary Spending	662,479	688,645	659,977	688,382
Estimated Final Sequestration Report Discretionary Spending Limits	549,304	572,917	549,304	572,917
CONGRESSIONAL ACTION OVER/UNDER(–) LIMITS	113,175	115,728	110,673	115,465

Key: S=Marked Up by the Subcommittee; C=Bill Reported Out by Committee; F=Bill Passed by House or by Senate; CN=Conference Action has Occurred; E=Enacted bill; A=current 302(b) allocation

NOTE: OMB scoring of latest House and Senate action is preliminary

¹Estimates include numbers for House and Senate Continuing Disability Reviews and Adoption Incentive Payments.

²Estimates include \$146 million in BA and outlays for the Earned Income Tax Credit Initiative (EITC)

³The Senate added an amendment on the Floor that would make \$2.0 billion in emergency FEMA funding available upon enactment of the bill. OMB assumes enactment prior to September 30th and, therefore, scores the BA in 2001—the fiscal year in which the funding becomes available. However, OMB assumes that the funding will not actually outlay until 2002.

⁴The Administration, House, and Senate have proposed \$1.35 billion in Mass Transit BA. However, this amount does not count towards the Mass Transit nor any other cap. The Administration has proposed to score this BA in 2002 against a new cap for all Discretionary spending.

Comparison of OMB and CBO discretionary limits.—Section 254(d)(5) of the BEA requires that this report explain the differences between OMB and CBO estimates for discretionary spending limits. Table 5 compares OMB and CBO limits for 2001 and 2002. CBO uses the discretionary limits from OMB’s preview report as a starting point for adjustments in its sequestration update report.

There is no difference between OMB and CBO for estimates of budget authority limits in 2001 and 2002. This is the first time in several years that OMB has matched CBO’s estimates of budget authority limits and results primarily from OMB adopting a scoring treatment of contingent emergencies that matches with CBO’s policy.

Differences in 2001 outlay limits total \$2,885 million, \$2,434 million of which is due to OMB's adjustment of 2001 outlays by the special outlay allowance. CBO did not make a similar adjustment in its update report. The remaining \$451 million outlay limit difference in 2001, and all of the \$21 million

outlay limit difference in 2002, results from different technical assumptions about the spendout of recently released contingent emergency appropriations for the Federal Emergency Management Agency that occurred since the transmission of the 2002 budget to Congress.

Table 5. COMPARISON OF OMB AND CBO DISCRETIONARY SPENDING LIMITS

(In millions of dollars)

	2000	2001	2002
Violent Crime Reduction			
CBO Update Report limits:			
BA	4,500	N/A	N/A
OL	6,344	N/A	N/A
OMB Update Report limits:			
BA	4,500	N/A	N/A
OL	6,344	N/A	N/A
Difference:			
BA		N/A	N/A
OL		N/A	N/A
Highway Category			
CBO Update Report limits:			
BA			
OL	24,574	26,920	28,489
OMB Update Report limits:			
BA			
OL	24,574	26,920	28,489
Difference:			
BA			
OL			
Mass Transit Category			
CBO Update Report limits:			
BA			
OL	4,117	4,639	5,275
OMB Update Report limits:			
BA			
OL	4,117	4,639	5,275
Difference:			
BA			
OL			
Conservation Category			
CBO Update Report limits:			
BA	N/A	N/A	1,760
OL	N/A	N/A	1,232
OMB Update Report limits:			
BA	N/A	N/A	1,760
OL	N/A	N/A	1,232
Difference:			
BA	N/A	N/A	
OL	N/A	N/A	
Other Discretionary			
CBO Update Report limits:			
BA	580,289	640,803	546,945
OL	569,224	617,507	537,362
OMB Update Report limits:			
BA	580,289	640,803	546,945
OL	569,224	620,392	537,383
Difference:			
BA			
OL		2,885	21

Table 5. COMPARISON OF OMB AND CBO DISCRETIONARY SPENDING LIMITS—Continued

(In millions of dollars)

	2000	2001	2002
Total Discretionary Spending Limits			
CBO Update Report limits:			
BA	584,789	640,803	548,705
OL	604,259	649,066	572,358
OMB Update Report limits:			
BA	584,789	640,803	548,705
OL	604,259	651,951	572,379
Difference:			
BA .....	.....	.....	.....
OL .....	.....	2,885	21

N/A = Not Applicable.

III. PAY-AS-YOU-GO SEQUESTRATION REPORT

The BEA requires that OMB issue reports after enactment of individual bills and three times a year on the overall status of Pay-as-you-go (PAYGO) legislation. This report provides OMB's updated estimates, reflecting legislation enacted as of August 15, 2001. As the BEA requires, the estimates rely on the same economic and technical assumptions as in the President's 2002 budget, which the Administration transmitted to Congress on April 9, 2001.

PAYGO 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 BEA requires that, in total, receipts and direct spending legislation not result in a net cost in any year. 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 a sequester of non-exempt direct spending programs.

The BEA requires that OMB submit a report to Congress that estimates the change in outlays or receipts for the current year, the budget year, and the following four fiscal years resulting from enactment of PAYGO legislation. The estimates, which must rely on the economic and technical assump-

tions underlying the most recent President's budget, determine whether the PAYGO requirement is met. The PAYGO process requires that OMB maintain a "scorecard" that shows the cumulative net cost of such legislation.

Table 6 presents OMB estimates of PAYGO legislation enacted as of August 15, 2001. In total, these bills have resulted in a net cost of \$75.0 billion for 2001 and a net cost of \$51.7 billion for 2002. As required by the BEA, the 2001 total reflects only Acts added to the scorecard after the OMB Final Sequestration Report for Fiscal Year 2001 was issued. At the end of this session of Congress, OMB will determine the need for sequestration by combining the 2001 and 2002 totals. For legislation enacted as of August 15, 2001, this calculation yields a cost of \$126.7 billion, indicating that a sequester would be required for 2002 if there are no changes to current law. For 2002, the maximum savings achievable from a sequester is \$33.3 billion. The Administration will work with Congress to ensure that no unintended sequesters of spending occur under current law or through enactment of any other proposals that meet the President's objectives to reduce the debt, fund priority initiatives, and grant tax relief to all income tax paying Americans.

Table 6. NET COST OF PAY-AS-YOU-GO LEGISLATION ENACTED AS OF AUGUST 15, 2001¹
(In millions of dollars)

Report Number	Act Number	Act Title	2001	2002	2003	2004	2005	2006	2001–2006
Pay-as-you-go balances in the 2002 Preview Report:²									
		OMB estimate	0	16,053	18,465	19,336	20,673	0	74,527
		CBO estimate	0	12,884	14,651	14,206	14,551	0	56,292
Legislation enacted in the 1st session of the 107th Congress:									
553	P.L. 107–13 H.R. 581	Wildland Fire Management Reimbursement Authority OMB estimate	3	–3	0	0	0	0	0
		CBO estimate	3	–3	0	0	0	0	0
554	P.L. 107–15 H.R. 1727	Fallen Hero Survivor Benefit Fairness Act OMB estimate	0	2	4	4	4	4	18
		CBO estimate	1	7	5	5	5	4	27
555	P.L. 107–16 H.R. 1836	Economic Growth and Tax Relief Reconciliation Act OMB estimate	69,501	35,691	86,399	105,457	106,330	130,781	534,159
		CBO estimate	73,808	37,570	90,335	107,421	107,102	134,887	551,123
556	P.L. 107–18 S. 1029	Manufactured Housing Program User Fee Authority OMB estimate	0	0	0	0	0	0	0
		CBO estimate	2	1	0	0	0	0	3
N/A	P.L. 107–19 S. 657	National 4–H Program Centennial Initiative OMB estimate	OMB does not consider this bill as subject to pay-as-you-go						
		CBO estimate	0	2	–1	–1	0	0	0
557	P.L. 107–25 H.R. 2213	Crop Year 2001 Agricultural Economic Assistance. OMB estimate	5,500	0	0	0	0	0	5,500
		CBO estimate	5,500	0	0	0	0	0	5,500
Subtotal, legislation enacted in the 1st session of the 107th Congress:									
		OMB estimate	75,004	35,690	86,403	105,461	106,334	130,785	539,677
		CBO estimate	79,314	37,577	90,339	107,425	107,107	134,891	556,653
Total, current balances:									
		OMB estimate	75,004	51,743	104,868	124,797	127,007	130,785	614,204
		CBO estimate	79,314	50,461	104,990	121,631	121,658	134,891	612,945
OMB balance for sequester				126,747					

¹ Excludes bills with impact of \$500,000 or less in each fiscal year 2001 through 2006 under both OMB and CBO scoring.

² The Consolidated Appropriations Act of 2001 (P.L. 106–554) set the scorecard to zero for fiscal year 2001.

Table 7. PAY-AS-YOU-GO LEGISLATION WITH IMPACT OF \$500,000 OR LESS ENACTED AS OF AUGUST 15, 2001¹

Public Law Number	Act Number	Act Title
P.L. 107-5	S.J. Res. 6	Disapproval of Ergonomics Regulations
P.L. 107-8	H.R. 256	Family Farmer Bankruptcy Act Extension until June 1, 2001
P.L. 107-14	H.R. 801	Veterans' Survivor Benefits Improvements Act of 2001
P.L. 107-17	H.R. 1914	Family Farmer Bankruptcy Act Extension until October 1, 2001
Pvt. L. 107-1	S. 560	Private relief for Rita Mirembe Revell ²

¹OMB does not issue pay-as-you-go reports for these bills.

²OMB does not consider this bill as subject to pay-as-you-go requirements; CBO does.

Pending legislation.—The Congress completed action on three additional PAYGO bills, but they have not yet been signed into law. These bills are the Federal Firefighters Retirement Age Fairness Act (H.R. 93), the Bull Run Watershed Management Unit Act (H.R. 427), and the Carson City, Nevada, Land Conveyance Act (H.R. 271). OMB estimates that these bills would have a negligible PAYGO impact. Because these bills have not yet been signed into law, OMB did not take them into account for this report.

Comparison with CBO estimates.—The BEA requires that OMB explain differences with CBO estimates of enacted PAYGO legislation. Table 6 shows the CBO estimate for each

Act as it was reported in CBO's PAYGO bill reports. For the sum of 2001 and 2002, OMB estimates a net cost of \$126.7 billion, while CBO estimates a net cost of \$129.8 billion. OMB's estimate is \$3.0 billion lower due to its lower cost estimate of the Economic Growth and Tax Relief Reconciliation Act, partially offset by its higher 2002 PAYGO balance in the Preview Report. The scoring difference for the tax bill is the result of different baseline assumptions and estimating models. Over 2001 through 2006, OMB estimates a net cost of \$614.2 billion, \$1.3 billion higher than CBO. This difference results from OMB's lower scoring of the tax bill, more than offset by its higher PAYGO balances in the Preview Report.