

OMB Chief, Senate Democrats Clash Over Surplus Size

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White House budget director Mitchell E. Daniels Jr. visited the Senate Budget Committee yesterday to deliver what he considered good news -- the federal government this year will enjoy the second-biggest surplus in history. Democrats greeted him with a gift -- a small, thin pie labeled "Shrinking Surplus."

For more than two hours, Daniels sparred with Democrats over the size of the available budget surplus, underscoring how the Bush administration and Democrats differ sharply over even budget terms and concepts, let alone policy.

Daniels argued that much of the shortfall in the projected surpluses was due to a faltering economy and spending increases approved by the Clinton administration. "Obviously a smaller surge in spending would have ensured a larger surplus today," he said.

Democrats countered that the recently enacted tax cut, which many considered irresponsible, was largely to blame for bringing the overall surplus close to a level that they consider fiscally dangerous. While the overall surplus will likely total between \$160 billion and \$200 billion, nearly all of that is composed of surpluses generated by Social Security and Medicare payroll taxes, which Democrats say should not be used for spending but instead to pay down the debt.

While the accounting concepts for the federal budget are complex and often arcane, the dispute has important political ramifications. Budget Committee Chairman Kent Conrad (D-N.D.) warned yesterday that he was unlikely to approve the administration's request for \$18 billion in additional defense spending if it meant surpluses building in the Medicare hospital trust fund could not be used for debt reduction. He challenged Daniels to find other ways to pay for the defense increase.

Daniels complained to reporters after the hearing that the national defense "should not be held hostage to artificial and excessive targets for this year's surplus."

Until the government began running big surpluses in recent years, the excess Social Security and Medicare funds were repeatedly used to fund government operations. Last year, in fact, was the first year that government surpluses were large enough that not only Social Security but also Medicare funds could be used to pay down the debt.

The proper use of excess Medicare funds was also an issue in last year's presidential campaign. During the presidential debates, Vice President Gore charged that under Bush's tax plan, he would be forced to tap the Medicare payroll taxes as a "piggy bank for other programs."

Under government accounting, spending the Medicare surpluses on government programs would not reduce funds building in the Medicare trust fund or current benefits for retirees, because, in effect, the Medicare program loans the money to the government.

But Bush and his advisers are clearly worried about the political ramifications of using Medicare funds. One reason there may be a shortfall this year is that the tax bill adjusted the timing of \$33 billion in corporate tax payments to make next year look better -- but then falling revenue ended up putting a squeeze on this year as well.

During the campaign, Bush had suggested he would use the Medicare surpluses only for funding Medicare reform. But the administration has subtly changed that to cover all spending as the revenue situation has

weakened.

Yesterday, Daniels sought to turn Democratic complaints about the fairness of the tax cut into an argument for not using Medicare funds to pay down the national debt. He said using Medicare funds in this manner would merely reward bondholders. He asserted that 36 percent of the bondholders were foreign banks and individuals, while "of the Americans who hold these bonds, the famous top 1 percent own 43 percent."

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