

Fact Sheet on CBO Surplus Projections for FY 2002-2012

Last January, CBO projected that budget surpluses would total \$5.6 trillion in fiscal years 2002 through 2011. One year later CBO's revised estimates project a cumulative surplus of \$1.6 trillion – a **drop of \$4 trillion or 71 percent**. While terrorism and recession contributed to the decline in the short term, the single largest reason for the ten-year drop in the surplus was the President's tax cut bill.

- The President's tax cut – including associated increases in interest costs – reduced the surpluses by nearly \$1.7 trillion, or by **42 percent**.
- Increased spending – for discretionary defense (\$301 billion) and nondefense (\$249 billion) programs and associated interest costs – reduced the surpluses by \$738 billion, or by **18 percent**.
- The current economic slowdown, downward reestimates of the prospects for long-term productivity and economic growth reduced projected surpluses by \$929 billion, or by **23 percent**.
- Technical reestimates reduced projected surpluses by \$660 billion, or by **17 percent**.

Table 1 – Changes in CBO Surplus Projections Since January 2001

(\$ billions)	2002	2003	2002-11	
	\$	\$	\$	%
January 2001 surplus	+313	+359	+5,610	---
Tax changes	-42	-101	-1,682	42%
Spending changes	-49	-57	-738	18%
Economic changes	-148	-131	-929	23%
Technical reestimates	<u>-94</u>	<u>-84</u>	<u>-660</u>	17%
Total changes	-333	-373	-4,008	
January 2002 deficit/surplus	-21	-14	+1,602	---

For fiscal year 2002, CBO now projects a *deficit* of \$21 billion, compared to its previous surplus estimate of \$313 billion. (By comparison, the federal government posted a \$127 billion surplus in 2001.) The on-budget deficit (without Social Security) is projected to be \$181 billion and the deficit excluding both the Social Security and Medicare Hospital Insurance trust funds is estimated to be \$213 billion.

For fiscal year 2003, CBO now projects a *deficit* of \$14 billion – a decline of \$373 billion from last year's estimate. The deficit without Social Security is estimated to be \$193 billion. The deficit without either the Social Security or Medicare trust fund surpluses is expected to be \$229 billion.

For fiscal years 2003-2012, CBO now projects a total surplus of \$2.3 trillion. However, more

than half of that total comes from the surpluses projected for 2011 and 2012 – the last two years of the projection period. The surpluses for those years reflect the scheduled expiration in December 2010 of the tax cuts enacted last June. Without the scheduled expiration of tax-cut provisions in 2010, the total 10-year budget surplus would fall to \$1.6 trillion.

The government remains in unified deficit until 2004. Surpluses do not reemerge in the on-budget accounts (those excluding Social Security and the Postal Service) until 2010. Surpluses excluding both trust funds are not projected until 2011.

Table 2 – CBO Deficit and Surplus Estimates

(\$ billions)	2002	2003	2002-11	2003-12
Total deficits/surpluses	-21	-14	1,602	2,263
w/o Social Security	-181	-193	-742	-242
w/o Social Security/Medicare	-213	-229	-1,123	-631
Trust Fund surpluses:				
Social Security/Postal	160	178	2,344	2,505
Medicare Hospital Insurance	32	36	381	389

Trust Fund surpluses are used to fund other government programs. CBO’s new projections show that over the period 2002-11, \$1.1 trillion of the Social Security and Medicare surpluses will be used to finance other government programs.

Changes in Debt and Interest Costs

Last year, CBO estimated that net federal debt held by the public minus accumulated assets (“net federal debt”) would be close to zero in 2008. At that time, CBO also projected that the statutory ceiling on all federal debt would not be reached until 2009. Now, CBO estimates that debt held by the public will be \$2.8 trillion in 2008 and that the current debt ceiling will be reached in the next few months. The increased borrowing is projected to result in an extra \$1 trillion in net interest costs over the 10-year period, 2002-2011. These higher interest payments will drain resources from other priorities, including Social Security reform, a Medicare prescription drug benefit, and investing in our children’s education.

Table 3 – Changes in Debt Held by the Public and Net Interest

(\$ billions)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<i>Net Debt 1/</i>										
Jan. 2001	2,848	2,509	2,131	1,714	1,223	662	36	-669	-1,460	-2,346
Jan. 2002	3,380	3,410	3,373	3,288	3,177	3,027	2,840	2,605	2,325	1,900
<i>Net Interest</i>										
Jan. 2001	179	163	142	116	90	60	27	-10	-51	-95
Jan. 2002	<u>170</u>	<u>174</u>	<u>188</u>	<u>188</u>	<u>182</u>	<u>175</u>	<u>165</u>	<u>153</u>	<u>138</u>	<u>120</u>
Change	-9	11	46	72	92	115	138	163	189	215

1/: Estimates assumes debt held by the public net of accumulated excess cash

Revised Economic Assumptions

CBO's latest economic outlook assumes a mild recession that may already have bottomed out. Real GDP in 2002 is assumed to be just 0.8 percent higher than it was in 2001, and the unemployment rate is assumed to average 6.1 percent. Growth of 4.1 percent in 2003 starts to bring the unemployment rate down again. Although the economy grows somewhat faster in 2003-11 than was assumed last year, this growth is necessary to climb out of the recession and bring the unemployment rate down to 5.2 percent. The level of real and nominal GDP is lower in each year than in last year's projections, because actual GDP in 2001 ended up so much lower than was assumed last year.

Table 4 – Revised Economic Assumptions

(Calendar Years)	2001	2002	2003	2004-07	2008-11
Real GDP (percent change)					
January 2001	2.4	3.4	3.3	3.0	3.1
January 2002	1.0	0.8	4.1	3.3	3.1
Nominal GDP (percent change)					
January 2001	4.7	5.6	5.4	4.9	5.0
January 2002	3.2	2.2	6.1	5.4	5.2
Unemployment Rate (percent)					
January 2001	4.4	4.5	4.5	4.8	5.2
January 2002	4.8	6.1	5.9	5.2	5.2

CBO Projections of Discretionary Spending

CBO's baseline projections of discretionary spending are shown in table 5 below. CBO's January 2001 baseline assumed that discretionary budget authority for 2002 would total \$665 billion. The actual amount appropriated for 2002 was \$711 billion. Of this total, \$691 billion was included in the 13 regular appropriation acts, and Congress enacted \$20 billion in supplemental budget authority in response to the September 11 terrorist attacks. An additional \$20 billion in emergency funds was appropriated in 2001.

Table 5 – CBO Projections of Discretionary Spending

(\$ billions)	2001	2002	2003
Defense:			
Budget Authority	331	348	357
Outlays	306	351	356
Nondefense:			
Budget Authority	331	363	376
Outlays	343	381	408
Total:			
Budget Authority	662	711	733
Outlays	649	733	764

Prepared by the Senate Budget Committee Majority Staff
January 23, 2002

Note: On January 23, the Congressional Budget Office (CBO) released testimony which summarizes its revised outlook for the budget and the economy. A full report will be available on January 31. This fact sheet presents the key economic and budget data contained in the CBO testimony. For additional details, consult CBO's web site at www.CBO.gov. Please note that all years are fiscal years unless otherwise designated.