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CBO Figures Show How the Surplus of 2001 Became a Deficit in 2003

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Executive Summary[1]

"If we do not … reaffirm our commitment to fiscal discipline, years of hard effort could be squandered." - Alan Greenspan[2]

Chairman Greenspan recently warned that a 15-year effort to restore fiscal health to the federal budget is in danger of being reversed. Unfortunately, more than half of the reversal has already occurred. Even after the effects of the current economic slump are factored out, more than half of the improvement in the fiscal picture from 1986 to 2001 has been reversed in just two years.

During the 15-year period from 1986 to 2001, big deficits turned to big surpluses. The reduction in deficits and subsequent increase in surpluses equaled an impressive 4.8 percent of the Gross Domestic Product during that period. Yet even if no further tax cuts or spending increases are enacted, almost three-fifths of the improvement made from 1986 to 2001 will have been reversed in 2002 and 2003. Tax cuts, losses in revenue for other reasons unrelated to the economic downturn, and increases in program expenditures (including expenditures for defense and homeland security) have caused the fiscal picture to deteriorate by 2.8 percent of GDP in two years, with surpluses turning to deficits.[3]

All figures used in this analysis reflect the *underlying structure* of the federal budget after the effects of the business cycle have been factored out. These figures on the underlying structure of the budget come from a September 2002 report issued by the Congressional Budget Office, which presents information on the budget after adjustments have been made to remove the transitory effects of the business cycle and other anomalies (see box on page 5). Because CBO's figures correct for the business cycle, one cannot cite the current recession as an

[1] The entire report is available on the web site of the Center on Budget and Policy Priorities at http://www.cbpp.org/1-6-03bud.htm.

[2] Chairman of the Board of Governors, Federal Reserve System, testimony before the Committee on the Budget, U.S. House of Representatives, September 12, 2002. Chairman Greenspan was advocating fiscal discipline generally and the extension of expiring budget enforcement procedures specifically. Available at http://www.federalreserve.gov/boarddocs/testimony/2002/20020912/default.htm.

[3] Figures for 2003 are based on the August 2002 baseline projections of the Congressional Budget Office. The figures used here consequently assume no additional tax or entitlement changes beyond those enacted by August. For annually appropriated programs, the figures for 2003 assume enactment of the levels requested by the Administration.

explanation for the recent decline in revenues or increase in program costs as a share of GDP that shows up in these figures. For the same reason, one cannot cite the economic boom to explain the improvement in the fiscal picture from 1986 to 2001. (In fact, without these CBO adjustments, the reversal of fiscal discipline in 2002 and 2003 would appear even greater than this analysis shows it to be.)

Table 1
Changes in the Budget from 2001 to 2003
Standardized expenditures and revenues as a share of potential GDP

	2001	2003	Percentage point change from 2001 to 2003	Note: 2001-2003 change *without* CBO adjustments
Revenues	**19.1%**	**17.5%**	**-1.6%**	**-2.0%**
Budget programs*	**16.8%**	**17.9%**	**+1.2%**	**+1.6%**
Defense, homeland security, and international affairs	3.4%	4.0%	+0.6%	+0.6%
Domestic appropriations outside homeland security	3.1%	3.3%	+0.2%	+0.2%
Entitlement or "mandatory" programs	10.2%	10.7%	+0.5%	+0.7%
Surplus (+) or deficit (-)*	**+2.4%**	**-0.4%**	**-2.8%**	**-3.6%**

* excluding net interest, may not add due to rounding. Data on standardized expenditures and revenues from CBO.