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# THE DISAPPEARING SURPLUS

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> Two related pieces, "Where Has All the Surplus Gone?" and it's related fact sheet can be accessed via http://www.cbpp.org/11-1-01bud.htm.

Last week, OMB Director Mitchell Daniels disclosed that the President's next budget will show a unified budget deficit not just in 2002, but in 2003 and 2004 as well. (That is, the deficit outside of Social Security will be larger than the surplus in Social Security in those years.) This is news because this budget forecast is substantially more pessimistic than the forecasts issued in recent months by either the Congressional Budget Office or the Budget Committees.

One question is how much the large tax cut of last June has contributed to the disappearance of projected surpluses. Director Daniels and others downplay or ignore the role of those tax cuts. Yet analysis shows that the tax cut was at least twice as important as program increases in explaining the reduction in projected budget surpluses over the ten-year period from 2001 to 2010. In addition, Director Daniels' new and more pessimistic figures suggest that one of the Administration's justifications for the tax cut — that the nation could invest more in education and defense, reserve the entire Social Security surplus to pay off the national debt, and still have plenty left over for a very large tax cut — has turned out to be far too optimistic.

The attached Center analysis, issued on November 1, *Where Has All The Surplus Gone?*, shows that total surpluses recorded or projected for the period 2001-2010 are now $3 trillion lower than the surpluses CBO projected last January. Further, the analysis shows that the largest single cause of the deterioration in the surplus over this period was the tax cut, not the recession or increased government spending. In the short term, the recession and its lingering budgetary effects are substantial, but over the decade, the tax cut becomes by far the most significant factor. Of the $3 trillion deterioration in the ten-year surplus, half comes from last June's tax cut while one quarter comes from program increases, mostly for defense. The remaining quarter comes from the recession and its budgetary aftermath, largely manifested as revenue shortfalls. The Center's analysis is based on budget projections issued by the bipartisan leadership of the House and Senate Budget Committees on October 4, 2001.

Director Daniels' statement that surpluses in the unified budget have disappeared for at least the next three years means the picture is worse than the attached Center analysis indicates. Yet that analysis takes into account the appropriations agreement reached by Congress and the President, the emergency spending enacted after September 11th, and a hypothetical "stimulus" bill. Therefore, most of the further deterioration in the budget picture likely comes from a more pessimistic view of the economy and of revenue collections in both the short and the long term. One obvious conclusion is that the 10-year projections of economic performance and revenue collections that CBO and OMB made last January were noticeably too rosy. The budgetary picture the President laid out in his State of the Union address was based on a surplus projection that seemed to accommodate all major budget claims: increases in domestic programs such as education, a stronger military, an ability to devote 100 percent of the Social Security surplus to paying off the national debt, with so much left over that the nation could still afford an expensive tax cut and have surpluses in reserve, just in case. Yet this earlier projection of a surplus too big to squander has now been proved wrong; warnings issued last spring by some tax-cut skeptics — that the tax cut would *not* simply be financed from leftover funds, but would instead consume resources that would be required for ongoing operations, future obligations such as Social Security, and needs that could not be foreseen in advance — appear to have been borne out.