JOINT ECONOMIC COMMITTEE

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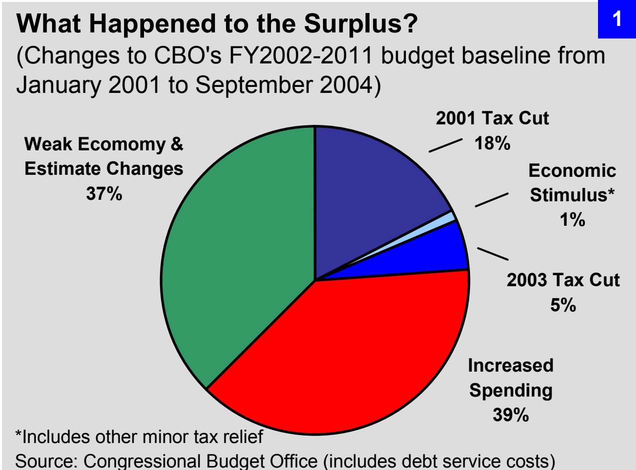
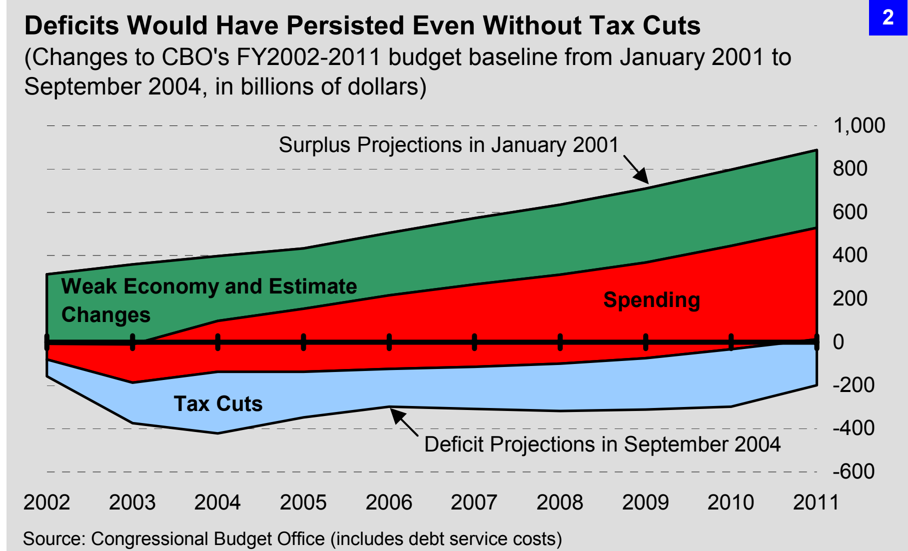
WHAT HAPPENED TO THE SURPLUS?

In the late 1990s, the US experienced budget surpluses for the first time in decades, and at the time, the Congressional Budget Office (CBO) was projecting future surpluses for as far as the eye could see. In 2001, the high point for surplus projections, CBO estimated that the federal government would achieve a $5.6 trillion cumulative surplus for fiscal years 2002-2011. This month, CBO estimates a $3 trillion deficit for the same 10-year period. Some observers argue that tax cuts enacted in 2001, 2002 and 2003 are to blame, but CBO's numbers tell a different story.

- The recession and increased spending growth were the primary causes of the changing fiscal outlook (Figure 1).
- Deficits would have occurred even in the absence of the tax cuts (Figure 2).



Today's deficits reflect the near "perfect storm" that rocked the budget beginning in 2001: 1) revenues plummeted due to a weak economy and a sharp drop in the stock market, 2) spending increased due to two wars and new homeland security measures, and 3) fiscal discipline weakened following the emergence of budget surpluses. These factors account for over three-quarters of the decline in the budget surplus, as illustrated in Figure 1.



The three tax cuts passed by Congress between 2001 and 2003 accounted for only 24% of the reduction in CBO's surplus projections. As Figure 2 illustrates, the federal budget would be in deficit even if the tax cuts had not been enacted. Meanwhile, new federal spending, such as the Medicare prescription drug benefit and funding for the War on Terrorism, accounted for 39% of the decline in CBO's budget projections. The recession -- which reduced the size of the tax base, increased spending on entitlement programs like Medicaid, and revealed technical adjustments that needed to be made to budget estimates -- accounted for 37% of the difference in CBO's projections.