

How Large is the Available Surplus?

In January of 2001, the Congressional Budget Office increased its estimate of the ten-year federal budget surplus by almost \$1 trillion. CBO's latest revision brings the ten-year total projected surplus to \$5.6 trillion. Congressional tax-cutters—and President Bush—see the new projections as an even more compelling argument for substantial tax cuts. On March 8, House Majority Leader Dick Army declared that “over the next 10 years, American taxpayers will be overcharged by a staggering \$5.6 trillion.”

Yet the total amount of surplus revenues available for tax cuts is less than what these rosy figures would indicate. Here's a brief summary of how the projected surplus really adds up in the wake of CBO's latest projections—and how the Bush plan would affect the available surplus.

Of the \$5.6 trillion surplus projected over the next ten years, \$2.5 trillion—almost half—is attributable to the Social Security surplus. There's a general consensus among lawmakers that this “off-budget” surplus should be devoted to shoring up Social Security—and is therefore not available to fund tax cuts. This leaves a projected “on-budget” surplus of \$3.1 trillion over ten years—still a hefty sum. If, as is generally accepted among Congressional lawmakers, we take the surpluses generated by the Medicare Hospital Insurance program off the table too, the available on-budget surplus shrinks to \$2.7 trillion. If we assume that appropriations grow at the same rate as population and wages, the available on-budget surplus falls to just \$1.7 trillion—a lot less than the ten-year cost of the Bush tax plan. Next fix Bush's major minimum tax problem, concede that some technically expiring, but always extended tax credits will be continued, and assume that Congress keeps providing aid to farmers. We're now at a surplus of \$1.3 trillion—and we haven't yet gotten to the hundreds of billions of dollars in new spending on education, prescription drugs, defense, etc. that enjoys widespread support. Add these all up, and over the next decade we shouldn't project even a trillion dollars in surpluses, even if all goes well. And over the next four years, we shouldn't expect more than a few hundred billion dollars.

Depressed? Confused? It gets worse. A less-frequently noticed caveat to the CBO surplus estimates is one that CBO—to its credit—has been quite willing to emphasize: their surplus projections have a pretty good probability of being completely wrong. A recent CBO analysis compared its dollar estimates of the projected ten-year surplus to the likelihood that the estimates would be correct. The table on the following page shows CBO's findings for the fiscal 2006 surplus excluding Social Security.

How Large is the Available Ten-Year Surplus?

CBO Jan. 2001 Estimate:

Total Budget Surplus, FY2002-2011	\$5.6 trillion
<i>Subtract: Social Security Surplus</i>	\$2.5 trillion
Subtotal: CBO "On-Budget" Surplus	\$3.1 trillion
<i>Subtract: Medicare Surplus</i>	\$0.4 trillion
CBO's Available On-Budget Surplus	\$2.7 trillion
<i>Subtract: Appropriations Needed to Keep Appropriations Constant as Share of GDP</i>	\$1.0 trillion
Adjusted On-Budget Surplus	\$1.7 trillion
<i>Subtract: AMT fix, aid to farmers, expiring tax provisions</i>	\$0.4 trillion
Net Available On-Budget Surplus	\$1.3 trillion

Source: CBO, CTJ

CBO says that there's only a 10 percent probability that the surplus will actually be within 16 percent of its official estimate.

Congressional Budget Office estimates of the likelihood that its non-Social Security surplus projections for 2006 will be correct

There's only a fifty-fifty chance that the actual surplus will be within 83 percent, plus or minus, of the projected amount.

Likelihood that estimate will be within +/- 16% of reality	10%
Likelihood that estimate will be within +/- 48% of reality	30%
Likelihood that estimate will be within +/- 83% of reality	50%
Likelihood that estimate will be within +/- 206% of reality	90%

CBO is, however, 90% sure that the total on-budget surplus in 2006 will be somewhere

Source: Congressional Budget Office, January 2001; CTJ, March 2001

between plus or minus 206 percent of its projections. In other words, the surplus could be a lot bigger than projected, or we could actually have a big budget deficit by 2006.

None of this is the CBO's fault. The implausible assumptions about future spending—and the uncertainty about the future economy—are a fact of life. But the CBO estimators don't think we should bet the farm on their projections—and no reasonable person would do so.