



JOINT ECONOMIC COMMITTEE

ROBERT F. BENNETT, CHAIRMAN

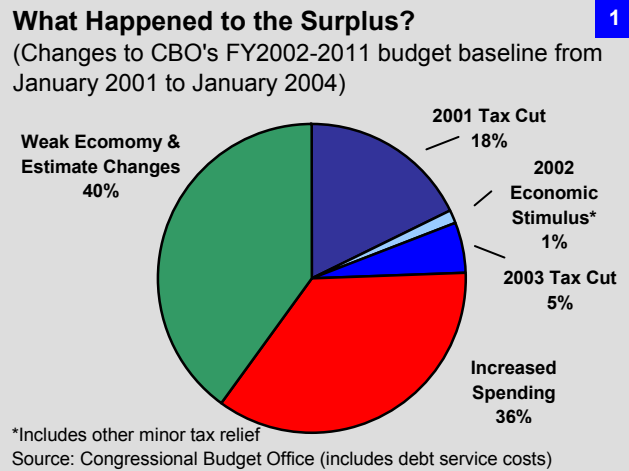
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WHAT HAPPENED TO THE SURPLUS?

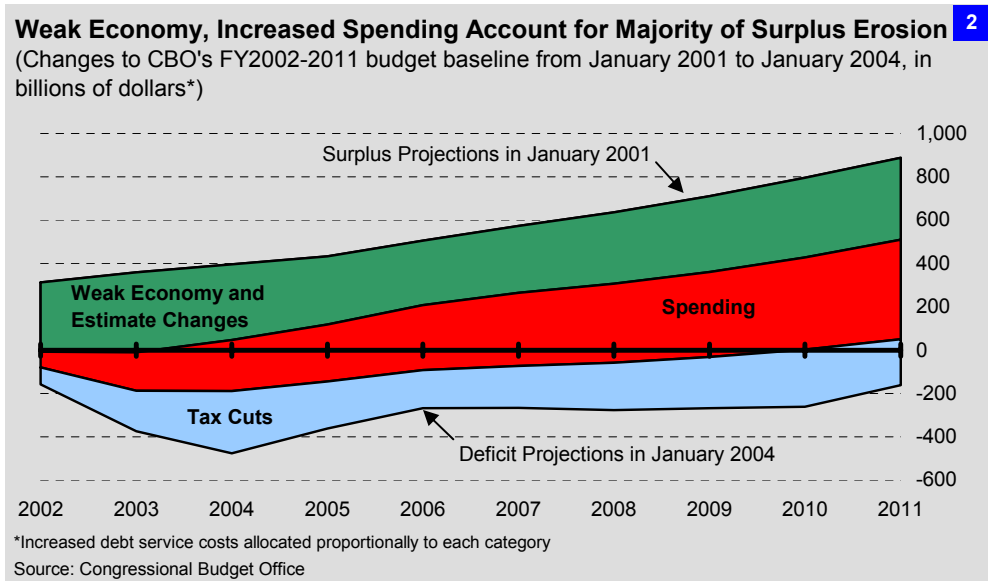
In the late 1990s, the U.S. experienced budget surpluses for the first time in decades, and at the time, the Congressional Budget Office (CBO) was projecting future surpluses for as far as the eye could see. In 2001, the high point for surplus projections, CBO estimated that the federal government would achieve a \$5.6 trillion cumulative surplus for fiscal years 2002-2011. Today, CBO is estimating a \$2.9 trillion deficit for the same 10-year period. Some observers argue that tax cuts enacted in 2001, 2002 and 2003 are to blame for the emergence of deficits, but CBO's numbers tell a different story.

- The weak economy 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, and 2) spending increased, particularly with two wars and new homeland security measures. These factors account for over three-quarters of the decline in the budget surplus, as illustrated in Figure 1.



Without question, economic changes have been the primary cause of budget deterioration. The weak economy 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. In all, those factors account for 40% of the difference in CBO's projections, and none of them was a result of congressional action. Legislated spending increases, including the new Medicare prescription drug benefit, accounted for 36% of the reductions in CBO's surplus projections. The tax cuts enacted between 2001 and 2003 accounted for only 24%.



Committee Publications

Recent JEC reports include:

- “The Complex Challenge of the Uninsured” May 13, 2004. Explains the diversity of the uninsured and the factors driving lack of coverage.
- “Recent Economic Developments: The Economy is Firing on All Cylinders” May 11, 2004. Reviews economic activity for the past month and highlights the employment growth surge.
- “4.2% Economic Growth in the 1st Quarter” April 29, 2004. Discusses the factors that contributed to robust economic growth in the first three months of 2004.
- “Who Pays the Income Tax?” April 14, 2004. A brief overview of how the nation’s income tax share is distributed.
- “A Primer on Individual Retirement Accounts (IRAs),” March 10, 2004. Answers a variety of questions about IRAs and other tax measures designed to reduce the tax burden on personal saving.

Recent JEC hearings include:

- “The Burden of Health Services Regulation” May 13, 2004.
- “The Employment Situation: April 2004,” May 7, 2004
- “Consumer-Directed Doctoring: The Doctor is In, Even if Insurance is Out” April 28, 2004.
- “The Economic Outlook, with Alan Greenspan” April 21, 2004.

Copies of the above publications can be found on-line at the committee’s website at jec.senate.gov. Publications issued by the vice-chair and ranking member can be accessed via the same website.