

DOES THE BUDGET SURPLUS JUSTIFY BIG TAX CUTS?: UPDATES AND EXTENSIONS.

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SUMMARY:

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In the authors' earlier work (Tax Notes, Mar. 22, 1999, p. 1827), they examined emerging federal surpluses, based on CBO projections made last winter, and concluded they did not justify the large tax cuts that had been proposed. Most of the 10-year projected surpluses accrued in the social security trust fund, which lawmakers have agreed should not be used for tax cuts. All of the remaining "on-budget" surplus was due to implausible assumptions about real discretionary spending cuts, and to strong assumptions about the recent surge in income tax revenues proving to be permanent. Even if the surpluses materialized as planned, the authors wrote, more than half of the on-budget surplus was due to accumulations in government trust funds for Medicare and pensions, which -- like social security -- represent future promises to current workers and therefore should not be used to finance tax cuts. The long-term fiscal forecasts were even more troubling. CBO estimated that -- even if the entire surplus were saved -- a permanent and immediate tax increase or spending cut of 0.6 percent of GDP was needed to maintain the same debt/GDP ratio in 2070 as obtains currently; the authors' estimates showed that a 1.5 percent of GDP tax or spending adjustment was needed to maintain the current debt/GDP ratio in the long run. Tax cuts would raise these gaps significantly. And despite record aggregate tax revenues, the authors reported, the data showed that families at most points of the income distribution faced lower federal tax burdens than they would have with similar real income in the past.

In this report, Auerbach and Gale update and extend their previous analysis to take into account the Congressional Budget Office's July 1999 budget forecast, the details of the tax cut plan passed by the House and Senate this summer, and the president's plan for allocating the surplus. They find that the budget forecasts changed by relatively small amounts from January to July 1999, that most of the impact of the changes is short-term, and that the underlying long-term fiscal imbalance is reduced only slightly. All of their prior conclusions regarding the source of the 10-year budget surplus and the role of trust fund accumulations continue to hold. During the next 10 years, the congressional tax cut plan would have reduced the surplus by more than the administration plan, but the administration plan would have spent more resources early in the budget period, before surpluses grow. In the long-term, they conclude, both plans would have exacerbated current estimated fiscal shortfalls by sizable amounts, with the congressional tax cut plan creating a somewhat larger imbalance than the administration's plan.

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I. Introduction

After decades of deficits, the recent emergence of federal budget surpluses and the expectation of even larger surpluses over the next decade or more have dramatically altered debates regarding tax and spending policy. The most recent Congressional Budget Office estimates, released in July 1999, project a unified budget surplus of \$ 2.9 trillion for 2000-2009. This is divided between off-budget (social security) surpluses of \$ 1.9 trillion and on-budget surpluses of \$ 1 trillion.

Choices concerning how to allocate these surpluses will shape fiscal policy for years to come, just as persistent deficits dominated fiscal choices in the 1980s and early 1990s. In practice, leaders of both political parties agree that the accruing surpluses in social security should be used to shore up the program's long-term financial status. The real debate is currently focused on how to allocate the remaining trillion dollars in on-budget surpluses among tax cuts, government spending, and debt repayment.

In an earlier study (Auerbach and Gale 1999), we examined these issues based on CBO's January 1999 forecast and reached several main conclusions. First, the on-budget surplus -- at that time estimated at \$ 787 billion over 10 years -- was based on at least two tenuous assumptions. Real discretionary spending was assumed to be reduced by more than \$ 600 billion during the next decade, which seems unlikely for political reasons. And, more than 84 percent of the surge in income tax revenues relative to GDP from 1994 to 1999 was assumed to be permanent.

In addition, more than \$ 400 billion of the projected on-budget surplus was due to accumulations in trust funds for Medicare and military and civilian pensions. Like social security, these accumulations represent future promises made to current workers and show up as government surpluses only because government books report cash flow rather than accruals. Thus, the general agreement that social security funds should not finance tax cuts also implies that government pension and Medicare trust fund accumulations should not be used for tax cuts.

In short, plausible adjustments of discretionary spending and tax revenue projections, and preservation of government pensions and health reserves would more than eliminate any surplus available for tax cuts over the next 10 years.

Second, despite surpluses in the near future, the long-term forecast showed significant deficits -- even if the entire surplus were saved -- due to rising costs of Medicare and social security. The Congressional Budget Office estimated that an immediate and permanent tax increase or spending reduction of about 0.6 percent of GDP would be required to maintain the same debt/GDP ratio in 2070 as exists currently. These estimates, however, understate the problem because the government in 2070 would be running large deficits. Using a methodology developed by Auerbach (1994, 1997), we found that a permanent tax increase or spending cut of 1.5 percent of GDP would be required to bring the steady-state debt/GDP ratio into line with the current value. Tax cuts would significantly exacerbate the long-term shortfalls. Under the CBO methodology, a 10-percent cut in income tax rates would raise the fiscal gap would rise to 2.2 percent of GDP through 2070. Under our estimates, the permanent fiscal gap would rise to 2.5 percent of GDP. Thus, the long-term budgetary situation provided no justification for a significant tax cut.

Third, although aggregate federal tax revenues in 1999 were the highest relative to GDP in over 50 years, families at most points of the income distribution were paying less in federal taxes in 1999 than they would have with similar real income in most of the past 20 to 30 years. The reconciliation of these two trends is that, among the highest-income taxpayers, average tax rates have risen

slightly and income levels have risen dramatically in recent years.

Finally, a tax cut would do little economic good in the current, booming economy. The Federal Reserve has recently taken an aggressive stance against inflation and could be expected to offset any boom in aggregate demand created by tax cuts.

For all of these reasons, we concluded that the combination of a strong economy, relatively low tax burdens on most households, and short-term surpluses could be best used to address the large and deepening fiscal problems related to social security and medicare. If an on-budget surplus arose after those problems had been resolved, then it would be appropriate to discuss whether the funds should be used for tax cuts, spending increases, or further debt repayments.

In this report, we re-examine the issue of how to use the on- budget surplus, updating our previous study in light of CBO's July 1999 estimates of the budget surplus, the recent \$ 792 billion, 10- year tax package that passed the House and Senate earlier this summer, and the details of the president's plan released this past spring. In section II, we examine differences in the 10-year budget forecasts made in January and July 1999. In section III, we re- examine the role of the assumed decline in real discretionary spending, the assumed permanence of the revenue surge, and the role of trust fund accumulations in generating the on-budget surplus over the next decade. In section IV, we compare the plans put forth by Congress and the administration and examine their budget impacts over the next 10 years. In section V, we estimate the long-term effects of the plans on the budget. Our final section offers some brief conclusions.

We find that the budget forecasts changed by relatively small amounts from January to July 1999, and that most of the impact of the changes is short-term. The underlying long-term fiscal imbalance is reduced only slightly. Over the next 10 years, the congressional tax cut plan would reduce the surplus by more than the administration plan, but the administration plan would spend more resources early in the budget period, before surpluses grow. In the long term, both plans would exacerbate current estimated shortfalls by sizable amounts, with the congressional tax cut plan creating a somewhat larger imbalance than the administration's plan.

II. Changes in the 10-Year Forecast

Table 1 shows the changes between CBO's baseline budget projections made in January and July of this year, breaking the changes down into those on-budget and those off-budget. (The off-budget surplus reflects the amount by which social security tax payments and interest earned by the social security trust fund on the Treasury bonds it holds exceeds social security benefit payments and administrative costs.¹) By July, the unified budget was expected to accumulate \$ 2.895 trillion in surpluses between 2000 and 2009, \$ 331 billion more than the January estimate. The increase in the estimated surplus is due to a \$ 155 billion increase in revenues and a \$ 176 billion decline in outlays, of which all but \$ 97 billion represents a decline in debt service associated with the revenue increases and remaining outlay reductions. While the total 10-year change may seem large, the increase in the surplus amounts to a mere 0.3 percent of GDP over the decade. Moreover, the annual net (excluding debt service) outlay effect is quite small and the revenue effect is temporary -- projected revenues in 2007-9 are essentially the same in the January and July forecasts -- suggesting that the long-term effects are relatively small, a conclusion we confirm below.

III. Aspects of the 10-Year On-Budget Surplus

A key assumption in the budget forecast is that discretionary spending will fall from 6.6 percent

¹ A very small amount of the off-budget surplus represents the operations of the Postal Service.

of GDP in 1998 to 5.0 percent in 2009. The spending caps are assumed to be enforced between 1999 and 2002, and discretionary spending is assumed to stay constant in real terms from 2002 to 2009. These assumptions may be unrealistic. For example, to comply with the spending caps in the Deficit Control Act, discretionary outlays would have to decline in nominal terms over the next three years, from \$ 574 billion in 1999 to \$ 569 billion in 2002.

The implications of the budget's forecasted decline in discretionary spending relative to GDP would be startling. Suppose that all international spending were eliminated, and the rest of the cut were divided equally between domestic and defense spending, so that each was allocated 2.5 percent of GDP in 2009. For domestic spending, this would be the lowest percentage since 1962 (CBO 1999a, p. 135). For defense, it would be the lowest percentage since before World War II (OMB 1999, Tables 1.2 and 3.1).

Changing the discretionary spending trajectory can have huge effects on future budget outcomes. Table 2 reports the results of changes in discretionary spending, accounting for the interest costs of the change as well as the change in discretionary outlays.² Holding discretionary spending at its current share of GDP would cost more than \$ 1.3 trillion over the next 10 years. Just holding discretionary spending constant in real terms from 1999 to 2009 would cost \$ 556 billion relative to baseline. That is, more than half of the 10-year on-budget surplus is based on the assumption that real discretionary spending will fall.³

A second key assumption in the budget forecast is that recent surges in tax revenues relative to GDP will continue into the future. Despite the absence of legislated tax increases, federal revenues rose from 18.4 percent of GDP in 1994 to 20.5 percent in 1998, the highest level since 1944, when they were 20.9 percent. They are projected to rise slightly relative to GDP in 1999 and then to decline by about 0.4 percentage points over the next decade. From 2003-9, revenues are projected to be 20.2 percent, a larger share than in any year from 1946 to 1997. Revenues from corporate income taxes, payroll taxes, and other taxes are each expected to decline slightly as a share of GDP.

Income tax revenues are forecast to grow at 4.3 percent per year, roughly the same as the 4.4 percent growth of GDP from 1998 to 2009. After the explosive income tax growth of the past five years -- during which annual income tax revenues grew by an average of 10.3 percent -- the revenue forecast may seem relatively benign. But the forecast may be less conservative than it appears, because it seems to assume that most of the recent surge of revenue relative to GDP will be permanent.

Estimating the proportion of the revenue surge that is assumed to be permanent is difficult to do in a precise way. In Table 3, we provide some rough measures of this proportion. Most of the revenue surge occurred in the individual income tax, which rose from 7.9 percent of GDP in 1994 (after OBRA 1993 had taken effect) to a projected 10 percent in 1999, only to fall to 9.8 percent in 2003-7, before rising to 9.9 percent in 2008 and 2009. Using the estimated low of 9.8 percent of GDP suggests that 87.5 percent of the rise in income tax revenues relative to GDP from 1994 to 1999 is implicitly assumed to be permanent. Using all federal revenues suggests that 79 percent of the surge is assumed to be permanent in the forecast. The table shows that, depending on the tax

² To account for the added net interest costs of reductions in the surplus relative to baseline, we use the three-month Treasury bill rate (CBO 1999c, p. 18).

³ The Center on Budget and Policy Priorities (1999) has reported unpublished data from the Congressional Budget Office regarding a similar calculation. They show if spending authority is held constant in real terms at currently legislated levels, actual discretionary spending and the associated interest costs will be on the order of \$ 749 billion higher than baseline.

measure and year used, the forecast assumes that somewhere between 79 and 96 percent of the revenue surge is assumed to be permanent.⁴

Whether this assumption is reasonable depends on whether the sources of the gain are considered likely to continue. About one-third of the revenue surge is due to higher capital gains realizations (CBO 1999a), which are in turn due to the surging stock market in the last few years. If half of the surge in realized capital gains continues in the future (as gains accrued in recent years are gradually realized) and all of the other components of the surge continue to hold, then roughly 83 percent of the revenue surge will prove permanent. However, if less than half of the capital gains surge continues and if any of the remaining two-thirds of the surge proves temporary, the permanent component of the revenue surge could fall well below 80 percent.

Small changes in the proportion that is assumed permanent can have large changes in the 10-year budget estimates. If the implicit assumption overstates the actual share of the revenue surge that is permanent by 10 percentage points, then future revenues would be lower by about 0.2-0.3 percent of GDP. Including the costs of added debt service, this would reduce the surplus by \$ 300 billion-450 billion over the 2000-9 period.

Even if the surpluses materialize as planned, just over 50 percent of the projected on-budget surpluses are due to accumulations in federal trust funds for pensions and Medicare. Table 4 shows that from 2000 to 2009, these funds are expected to grow by \$ 376 billion and \$ 129 billion, respectively. Analysts on all sides recognize that it is inappropriate to use social security trust funds to finance tax cuts or non-social security spending programs. The reason is that the government budget -- which focuses on cash flow -- seriously misrepresents the long-term costs of social security. But social security is only the tip of the iceberg when it comes to misleading government accounting. Like the social security trust fund, government pension reserves and the Medicare trust fund represent funds that are owed to current workers when they retire. Thus, it would be appropriate to save the surpluses generated in the trust funds by using the revenues to reduce the debt, rather than cutting taxes or increasing spending. Indeed, for similar reasons, many states already separate their pension reserves from funds available for tax cuts and other spending.

IV. The Congressional and Administration Plans

In August, both houses of Congress passed a tax cut bill that would have reduced revenues by nearly \$ 800 billion over 10 years (Table 5). The conference agreement would have reduced all income tax rates by 1 percentage point, reduced capital gains tax rates, indexed capital gains for inflation, expanded Individual Retirement Accounts, abolished the estate tax, provided relief under the alternative minimum tax, provided dozens of tax breaks for corporations, and subsidized education and health care. The agreement would also have reduced the marriage penalty by expanding standard deductions for couples and by extending the 15 percent tax bracket. Because most of the provisions would have been phased in gradually over time, the cost of the bill would have risen significantly in the second 10 years if the provisions were extended indefinitely. However, to conform to Senate budgetary rules, the bills contained the provision that the entire tax cut would be abolished after 10 years. No one, however, expected this provision would be maintained. Note that this provision of the bill explains the smaller revenue effect in 2009,

⁴ These rough estimates should be qualified by two factors that work in offsetting directions. First, as real incomes grow, revenues should rise relative to GDP in a progressive tax system. Second, capital gains tax rates were cut in the 1997 act, which will likely reduce the long-term level of revenues relative to GDP.

reflecting the sunset of rate reductions after 2008.

Estimates of the costs of the president's plan, based on CBO's (1999b) analysis, are reported in Table 6. The president's plan is somewhat complex and contains two components. The first includes increases in discretionary spending above baseline, increases in mandatory spending, reductions in a variety of taxes, and increases in others. The second component is contingent on adopting what the president calls his framework for social security reform, and includes the creation of the so-called Universal Saving Account (USA) plan, large but offsetting effects on the unified budget due to transfers between the social security trust funds and general accounts, and stock purchases from the social security trust fund. CBO's analysis treats the stock purchases as an outlay, which may be consistent with accounting rules and conventions but is misleading in evaluating the impact of the purchase. It is not clear whether to treat the USA plan as a tax cut or an outlay increase, but of course this choice does not affect the estimated budget effect of the provision. Our table treats this provision as a tax cut.

Aggregating the two components of the president's plan, ignoring stock purchases, and excluding changes in net interest payments -- to make the estimates comparable to the Joint Tax Committee's estimates for the congressional tax cut -- we estimate that the president's plan would reduce surpluses by about \$ 650 billion over the next 10 years.

This is a slightly smaller 10-year impact than the tax cut has, and the president's plan is obviously weighted much more heavily toward increasing spending than the tax cut is. However, comparison of the year-by-year totals in Tables 5 and 6 show that the president's plan spends the money much sooner than the Republican tax cut. Comparisons with Table 1 show further that the president's plan would dip into social security trust fund balances in 2000 and 2001, while the tax cut would not. For both plans, these calculations ignore the change in net interest payments that would occur. Adding the impact on debt service would reduce the difference between the two plans' 10-year budget effects, because the increases in debt service would begin accumulating earlier under the president's plan. On the other hand, one might argue that Congress's recent resort to "emergencies" and other measures to surpass the discretionary spending caps reflects, de facto, a plan to raise discretionary spending, which would widen the gap between the two plans.

By focusing on the budgetary impacts, we do not mean to imply that other differences between the two proposals are unimportant. Indeed, even casual evidence suggests large differences in the distributional impacts of the tax cut versus the president's plan, and arguments will ensue on both sides about the relative merits of the economic effects of each proposal. However, analysis of these issues is beyond the scope of this report; our focus here is on the fiscal effects of the proposal, so we now turn to the long-run fiscal effects.

V. Estimates of the Long-Term Fiscal Imbalance

As in our previous estimates, we base our long-term analysis on the most recent long-term budget forecasts produced by CBO, which extend through the year 2070. After the year 2070, we assume that all revenue and noninterest expenditures remain constant as a share of GDP at their 2070 levels. However, CBO has not yet issued long-term forecasts consistent with the July 1999 budget forecast. Thus, we update the previous long-term CBO forecast in the following manner. For years through 2009, we incorporate the projected changes in revenues and outlays (excluding debt service) shown in Table 1. For years after 2009 (for which no updated CBO projections are currently available) we assume that the changes in revenue and noninterest outlays are equal as a share of GDP to the changes projected for 2009. All other elements of the baseline projections are the same as in our earlier analysis, and are discussed more fully there.

As before, the projections trace out a path under which the current large primary surpluses are replaced by ever-growing primary deficits as the decline (relative to GDP) in discretionary spending ceases and the rise in social security and Medicare spending continues. The slight improvement in the long-run picture pushes back the resumption of primary deficits by one year, from 2024 to 2025.

We also update one other element of our analysis. To estimate debt-service effects, we need a long-term discount factor and a long-term GDP growth rate. Our earlier analysis used those constructed for a similar purpose by the Social Security Trustees, taken from their 1998 report. Our updated analysis uses the discount and growth factors from the recently published 1999 Trustees' report (Table III.B.1), which are slightly different from those used before.

Using these projections, we solve for the "fiscal gap" -- the size of the permanent increase in taxes or reductions in noninterest expenditures (as a constant share of GDP) that would be required to satisfy the constraint that the current national debt equal the present value of future primary surpluses. The primary surplus is revenues minus all expenditures other than net interest. The same result would follow from assuming that the debt/GDP ratio eventually returns to its current level, or even simply that the debt/GDP ratio does not explode.

Table 7 reports estimates of long-run fiscal gaps under different scenarios. Our previous baseline estimate, using the January 1999 forecast, was a permanent fiscal gap of 1.53 percent of GDP. Using the updated growth and discount factors in the latest Social Security Trustees' Report reduces the fiscal gap to 1.45 percent.

The long-term impact of the July 1999 revision to the budget forecast is to reduce the fiscal gap slightly, to 1.3 percent. That is, even if the entire surplus were saved, a permanent and immediate tax increase or spending cut of 1.3 percent of GDP would be required to maintain long-term fiscal balance. That estimate, however, depends crucially on the assumption that real discretionary spending is reduced as projected in the budget forecast. If discretionary spending were held constant at its 1999 level relative to GDP, the long-term fiscal gap would rise to over 3 percent.

To estimate the impact of the plans of Congress and the president, we assume that these plans would remain permanently in place after 2009, and that the annual impacts after 2009 would remain constant, relative to GDP, at their level in the last full year of available estimates (2009 for the president's plan, and 2008 for that of Congress).

The tax cut would have significant effects on the fiscal gap. If the agreement became law, the fiscal gap would almost double, rising to 2.5 percent of GDP. If the agreement passed, and the necessary fiscal adjustment were postponed until 2010, the fiscal gap would more than double, to 3 percent of GDP.

The president's plan is not quite so bad in the long term, but still does significant fiscal damage. If the plan were enacted, the fiscal gap would rise immediately to 1.8 percent of GDP. If actions to remedy the fiscal gap were delayed until 2010, the fiscal gap at that point would rise to 2.2 percent of GDP. It is worth noting that fiscal gap estimates are subject to large amounts of uncertainty. Nevertheless, it remains clear that the government faces a long-term financing problem. There is virtually unanimous agreement, for example, that social security and Medicare face long-term deficits. Indeed, the very existence of uncertainty makes the case for corrective action even stronger, for it means that very large future imbalances -- which would be extremely costly to deal with -- are possible.

The estimated fiscal gaps are intended only to indicate the magnitude of the long-term budgetary imbalance. Our estimates, for example, do not take into account the macroeconomic

effects of policy changes. One might expect that, by omitting feedback effects, we would overstate the needed policy changes, by ignoring the salutary impact of deficit reduction on the economy, but that is not necessarily the case.⁵

VI. Conclusions

This report extends our previous analysis of emerging federal budget surpluses to include the CBO's most recent (July 1999) budget projections, the tax bill passed by the House and Senate this summer, and the president's plan for allocating the surplus. Our conclusions fall into three categories. First, there is little in the updated forecasts that merits a large tax cut. The short-term (10-year) on-budget surplus is based on what we regard as unrealistically low assumptions regarding the level and path of real discretionary spending. The surplus is also based on the assumption that recent increases in tax revenues relative to GDP will largely prove permanent. Even if both conditions hold, and the surpluses do materialize, more than half of the on-budget surpluses are due to accumulation in pension and Medicare trust funds that are quite similar in nature to social security trust funds, which leaders of both parties have agreed should not be used to finance tax cuts.

Second, the updated 10-year forecast implies only small changes in the long-run fiscal position of the government. Thus, the long-term fiscal gap continues to exceed 1 percent of GDP and rises to 3 percent under the plausible assumption that discretionary spending is held constant relative to GDP.

Third, we find that neither the congressional tax cut nor the president's plan represent fiscally responsible uses of the surplus. The president's plan reduces the 10-year surplus by less and raises the fiscal gap by less than the congressional tax cut would, but both plans would create sizable changes in the fiscal stance in both the short term and the long term.

⁵ One reason why is that our calculations do not take account of the negative macroeconomic consequences of labor supply and savings responses to the future marginal tax rate increases that may be needed to close the fiscal gap. As this gap and the associated future tax increases would be substantially increased by an immediate tax cut, any beneficial growth effects of these tax cuts would have to be measured against the offsetting negative growth effects of the tax increase needed in compensation. See Auerbach and Gale (1999) for further discussion.

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Table 1

**Changes in CBO Baseline Budget Surplus Projections since January, 1999
(Billion of Dollars)**

<u>Fiscal Year</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2000-2009</u>
<u>Unified Budget</u>												
January, 1999 Forecast	107	131	151	209	209	234	256	306	333	355	381	2565
Change in Revenues	7	35	40	30	26	14	8	4	1	-1	-2	155
Change in Outlays	-6	5	-2	-8	-12	-18	-23	-24	-29	-31	-34	-176
Net Change	13	30	42	38	38	32	31	28	30	30	32	331
July Forecast	120	161	193	246	247	266	286	334	364	385	413	2895
<u>Excluding Debt Service:</u>												
Change in Outlays	-6	7	0	-4	-6	-10	-13	-14	-18	-19	-20	-97
Change in Surplus	13	28	40	34	32	24	21	18	19	18	18	252
<u>On-Budget Surplus</u>												
January, 1999 Forecast	-19	-7	6	55	48	63	72	113	130	143	164	787
Net Change	15	21	32	27	27	22	20	16	16	14	14	209
July, 1999 Forecast	-4	14	38	82	75	85	92	129	146	157	178	996
<u>Off-Budget Surplus</u>												
January, 1999 Forecast	127	138	145	153	161	171	183	193	204	212	217	1777
Net Change	-3	9	10	11	11	10	12	12	13	16	18	122
July, 1999 Forecast	124	147	155	164	172	181	195	205	217	228	235	1899

Note: Annual totals subject to rounding.

Source: CBO (1999b, Table A-2), CBO (1999c, Table 6).

Table 2

10-Year Costs of Changes in Discretionary Spending

<u>Policy</u>		Discretionary Spending as percentage of GDP <u>2009</u>	Cost Relative to Baseline <u>(billions of dollars)</u>
<u>1999-2002</u>	<u>2002-2009</u>		
Nominal DS Declines	Real DS Constant	4.99	----
Nominal DC Constant	Real DS Constant	5.04	43
Real DS Constant	Real DS Constant	5.43	566
Maintain % of GDP	Maintain % of GDP	6.49	1,343

*Includes added debt service costs to higher outstanding public debt

Source: Authors' calculations using data in CBO (1999c).

Table 3

How Much of the Revenue Surge Relative to GDP is Assumed to be Permanent?

<u>Tax</u>	<u>Revenues as Percent of GDP</u>				<u>Implied Percentage that is Permanent Using:</u>	
	<u>1994</u>	<u>1999</u>	<u>Projected Low 2000-2009</u>	<u>2009</u>	<u>Projected Low 2000-2009</u>	<u>2009</u>
Individual Income Tax	7.930	10.021	9.759	9.936	.875	.959
Individual and Corporate Income	9.980	12.033	11.610	11.715	.794	.845
All Federal	18.376	20.574	20.113	20.115	.790	.791

(1) Calculated as (Column (3) - Column (1))/(Column (2) - Column (1))

(2) Calculated as (Column (4) - Column (1))/(Column (2) - Column (1))

Based on CBO, July 1999, The Economic and Budget Outlook: An Update.

Table 4

Medicare and Retirement Trust Funds in the On-Budget Surplus, 1998-2009 (billions of dollars)

<u>Fiscal Year</u>	<u>Actual</u>	<u>Projected</u>											
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2000-2009</u>
Medicare													
Hospital Insurance (Part A)	1	17	18	19	22	20	18	14	15	8	1	-6	129
Retirement													
Military Retirement	8	7	7	8	8	8	9	9	10	11	11	12	93
Civilian Retirement	29	30	30	31	31	29	29	28	27	27	26	25	283
Subtotal	37	37	37	39	39	37	38	37	37	38	37	37	376
Total	38	54	55	58	61	57	56	51	52	46	38	31	505

Source: CBO (1999d).

Table 5

Impact of Congressional Tax Cut

<u>Fiscal Year</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2000-2009</u>
<u>Billions of Dollars</u>												
Change in Revenues	--	-5.3	-1.1	-34.7	-53.1	-61.7	-85.5	-116.9	-140.1	-167.9	-125.6	-791.9

Source: U.S. Joint Committee on Taxation (1999).

Table 6

Impact of the President's Budget Plan*

<u>Fiscal Year</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2000-2009</u>
<u>Billions of Dollars</u>												
Excluding SS Framework:												
Change in Revenues ¹	--	11	11	11	10	9	10	7	7	9	10	96
Change in Outlays ¹	1	31	18	25	27	24	18	10	7	14	14	187
Interest Portion ²	--	--	1	2	2	3	4	4	4	5	5	31
SS Framework ³ :												
USA Accounts	--	-14	-16	-22	-21	-24	-26	-32	-36	-39	-43	-272
Other Spending	--	1	29	47	47	49	59	67	72	74	79	524
Interest Portion	--	1	3	6	11	15	21	26	33	41	49	206
Overall:												
Change in Revenues	--	-3	-5	-11	-11	-15	-16	-25	-29	-30	-33	-176
Change in Outlays, exc.int.	1	31	43	64	61	54	52	47	42	42	39	474
Total (excluding interest)	-1	-34	-48	-75	-72	-69	-68	-72	-71	-72	-72	-650

Note: Annual totals subject to rounding

Source: CBO 1999b

¹From Table 1-1

²From Table 1-6

³From Table 2-1:

*Details for Social Security Framework omit offsetting transactions between trust fund and general fund, and exclude trust fund stock purchases. USA accounts treated as reduction in revenue, rather than increase in spending.

Table 7

Estimates of the Long-Term Fiscal Imbalance

<u>Details</u>	<u>Fiscal Gap (% of GDP)</u>
Previous Baseline (March 1999)	1.53
Previous Baseline, with updated discount and growth factors	1.45
New Baseline	1.30
Discretionary Spending Constant at 1999 share of GDP	3.17
Conference Agreement; after 2009, 2008 share of GDP	2.47
Conference Agreement; delay adjustment until 2010	2.98
Clinton Plan; after 2009, 2009 share of GDP	1.83
Clinton Plan; delay adjustment until 2010	2.21

Source: Authors' Calculations.