The Vanishing Budget Surplus:
Interpreting CBO's New Projections and Fiscal Prospects

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I. Introduction

The official federal budget outlook has deteriorated dramatically since January 2001. The same period has also witnessed increasing recognition that the official budget projections provide a faulty measure of the nation's underlying fiscal situation. Recent corporate scandals have heightened concern that misleading accounting data can substantially misrepresent an entity's financial health; although federal budget figures are clearly not intentionally fraudulent, as appears to have been the case in some corporate settings, the basic concern about the accuracy of budget figures is relevant to the federal government. With these issues in mind, this paper examines the current budget outlook, the sources of changes in the outlook since January 2001, and adjustments to the official data that more accurately reflect the government's financial status.

We report three sets of conclusions:

- First, the Congressional Budget Office (CBO 2002b) now projects a 10-year baseline surplus of $1 trillion. These projections also show that outside the Social Security Trust Funds, the budget has a deficit of $1.5 trillion over the next 10 years; omitting the Medicare Hospital Insurance Trust Fund as well, the deficit amounts to $1.9 trillion. These figures represent astonishingly large declines from the forecasts made just 20 months ago. The projected outcome for the fixed time period of 2002 to 2010 deteriorated on a unified budget basis from a surplus of $4.7 trillion in January 2001 to essentially zero ($13 billion) in August 2002. The projected outcome for 2002 alone changed by $470 billion, from a surplus of $313 billion in January 2001 to a deficit of

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$157 billion in August 2002.

- Second, although much controversy has surrounded the sources of these changes, the fundamental story is quite clear. The short-term changes are due primarily to worsening economic conditions, which account for about two-thirds of decline in the 2002 budget and half of the projected changes for 2003 to 2005. In contrast, the longer-term changes are due as much to the 2001 tax cut as to economic and technical changes, each of which accounts for just under 40 percent of the decline in projected surpluses between 2007 and 2011.

- Third, federal budgeting methods significantly misrepresent the government's underlying fiscal position. Adjusting the official projections to separate retirement trust funds from the rest of the budget and to provide more realistic estimates of the future implications of current tax and spending policy leaves a far bleaker picture than the official figures suggest. After making these adjustments, the 10-year budget projection shows a deficit of more than $5.5 trillion -- rather than the official surplus of $1 trillion. Moreover, the differences between the official and adjusted projections grow over time, with the official surplus rising over time and the adjusted *deficit* rising over time. By 2012, the annual difference between the official and adjusted budget outcomes is almost $1.3 trillion.

Section II summarizes CBO's recent budget projections and discusses the level and sources of changes in the projections over time. Section III explores adjustments to the official budget baseline. Section IV offers a set of concluding remarks.

II. The Budget Outlook Under the CBO Baseline

Table 1 reports recent baseline projections made by the Congressional Budget Office (CBO) at various points since January 2001. We report the projections over several time horizons and for several budget concepts. (Appendix Table 1 contains the projections for each year, at each projection date, under each budget concept.)

Although all of the projections since January 2001 include all of the years from 2002 to 2011, the most useful fixed period for consistent analysis is the nine-year period from 2002 to 2010. (The reason that this period is the most useful for examining the official projections is that under current law, the 2001 tax cut expires at the end of 2010. This sunset ostensibly causes a substantial increase in projected tax revenues in 2011, but that increase is extremely unlikely to occur precisely as currently legislated.) Between January 2001 and August 2002, the projected unified surplus for 2002 to 2010 fell by 99.7 percent, from \$4.7 trillion to \$13 billion. Most of the decline is concentrated in the non-Social Security, non-Medicare part of the budget, where a projected surplus of \$2.2 trillion in January 2001 switched to a projected *deficit* of \$2.3 trillion by August 2002. The decline is fairly uniform across the decade -- the projected unified surplus for 2002 to 2006 fell by \$2.4 trillion, while the projection for 2007 to 2010 fell by about \$2.3 trillion -- even though the relative importance of the factors explaining the decline change markedly across the decade.

Figure 1 shows the unified budget projections on an annual basis. In January 2001, the projections showed surpluses in excess of \$300 billion annually in 2002 and 2003, with rising surpluses through the rest of the decade. By January 2002, the surpluses projected for 2002 and 2003 had disappeared, and those projected for subsequent years declined by roughly \$300 billion. The official August 2002 CBO projections now suggest that the unified budget will be in deficit until 2006. Concerns about eliminating the public debt too quickly – which had played a prominent role in justifying last year's tax cut – seem quaint just a year-and-a-half later (Gale and Potter 2002). All of the surpluses in Figure 1 rise after 2010 because of the scheduled expiration of the 2001 tax cut.

Figure 2 shows that the non-Social Security budget was projected in January 2001 to run surpluses between \$124 billion and \$558 billion annually through 2011. By August 2002, these projections had turned to deficits in every year through 2010. Figure 3 shows that the August 2002 baseline budget outside of Social Security and Medicare is projected to be in deficit through 2011, returning to surplus only in 2012 and only because of the assumption that the tax cut will be terminated.

Table 2 examines the sources of the decline in projected unified budget outcomes. Of the

$5.3 trillion decline in the cumulative 2002-11 projected surplus, about $1.65 trillion is due to last year's tax cut, the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), including the additional interest on induced increases in federal debt.[2] About $2.3 trillion arises from economic and technical changes, while $1.3 trillion is attributable to increased spending, primarily defense and homeland security outlays in the aftermath of the terrorist attacks.

Figure 4 and Appendix Table 2 show similar figures on annual basis. The decline in the budget surplus over the next few years is due predominantly to economic and technical changes, which in turn are due chiefly to the economic slowdown. In later years, however, these changes decline in importance as EGTRRA phases in more completely. Thus, in the second half of the decade, last year's tax cut accounts for 39 percent of the decline in surplus since January 2001, slightly more than the economic and technical changes. In 2010, just before it sunsets, the tax cut accounts for 42 percent of the decline in the surplus, compared to just 34 percent for economic and technical changes.

III. Adjustments to the Budget Outlook

The CBO baseline is intended to serve as a "neutral benchmark....constructed according to rules [that are] set forth in law and long-standing practices and are designed to project federal revenues and spending under the assumptions that current laws and policies remain unchanged" (CBO 2002a, p. xiii). These rules and practices, however, are not necessarily the most useful or appropriate choices if one wishes to gauge the government's underlying fiscal condition or to estimate the funds that might reasonably be considered available to finance tax cuts or new spending initiatives.[3] We focus on two issues: the treatment of retirement trust funds and assumptions about how spending and tax policy will evolve.

The baseline generally uses cash-flow accounting to measure the costs of programs. This

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[2] This figure includes only the revenue losses, outlay increases and debt services costs that occur within the 2002 to 2011 time period. It omits the direct revenue losses due to the tax cuts that occurred in 2001, but includes the interest costs on those tax cuts in subsequent years.

[3] To be perfectly clear, these rules are imposed on CBO by Congress. Thus, criticism of the rules in no way implies criticism of the CBO, but rather of the circumstances under which the agency is required to operate. Indeed, CBO has been in the forefront of pointing out the incongruities and uncertainties inherent in current budget practices.

is inconsistent with the accounting treatment of private pensions and can provide a distorted view of a program's viability, particularly during a demographic transition to an increased dependency ratio. For example, trust funds for Social Security and Medicare's Hospital Insurance program will run substantial cash-flow surpluses over the next decade, but substantial deficits over longer horizons.[4] Likewise, trust funds holding pension reserves for federal military and civilian employees are projected to run significant cash-flow surpluses over the next 10 years (Appendix Table 3).

A more useful accounting approach would reflect both the accruing contributions *and* the ultimate liabilities of retirement programs. This is possible in a cash-flow framework only if the time horizon is extended beyond 10 years and the flows of different years are combined (see Auerbach, Gale and Orszag 2002 for one such calculation). But since the ten-year horizon has been standard practice for the last several years, it is also worthwhile to consider less extensive retirement trust fund adjustments that are possible within that window. Given that the ten-year window precludes adding future liabilities to the budget, it is less misleading to exclude the retirement programs altogether than to include only the accruing contributions. For Social Security, this logic is already codified in its off-budget status. But the logic applies with equal force to the other retirement programs and we employ this adjustment below.[5]

The second problem with the baseline involves the manner in which it projects revenues and outlays. A variety of statutory requirements, which may be at variance with reasonable expectations, define "current policy." On the spending side, the main issue involves discretionary spending. Because discretionary outlays require appropriations every year, judgments may reasonably differ about the extent to which current spending choices determine future spending. As required by law, the CBO projections assume that real discretionary spending authority will remain constant over the budget period at the level prevailing in the first

[4] See Table 1 above, Board of Trustees, Federal Old Age and Survivors Insurance and Disability Insurance Trust Funds (2002), and Board of Trustees, Federal Hospital Insurance Trust Fund (2002).

[5] This economic logic may help explain the significant, bipartisan political support for the notion that retirement trust funds ought to be kept separate from the rest of the budget. Both Houses of Congress voted overwhelmingly in 2000 to support measures that protected the Medicare Hospital Insurance trust fund from being used to finance other programs or tax cuts (Mohr 2001). A recent legislative proposal would provide similar protection to military pensions (U. S. House of Representatives 2001). Almost all states already separate pension reserves from their operating budgets.

year. This assumption implies that discretionary spending will fall by about 20 percent relative to GDP and by about 9 percent in real per capita terms by 2012. In a growing economy with expanding defense needs and other concerns, such an assumption seems to be a particularly unrealistic projection. It would be somewhat more reasonable for real discretionary spending to grow with the population, to maintain current services on a per-person basis.[6] An alternative--and in light of recent expenditure growth, perhaps even more realistic--baseline would let discretionary spending grow with GDP.[7] In this paper, we follow the latter assumption, but the results would not change significantly if we assumed that real discretionary spending per capita were held constant.

On the revenue side, two broad issues merit consideration. The first concerns expiring provisions. Although temporary spending programs are assumed to be permanent in budgetary projections, statutory rules require that all temporary tax provisions (other than excise taxes dedicated to trust funds) be treated as if they expire as scheduled. There are now three broad sets of expiring tax provisions in the tax code: the "sunset" provisions in EGTRRA; the 2002 economic stimulus package; and an array of "garden variety" provisions.

Under current law, all of the provisions of EGTRRA that had not already phased out by the end of 2010 "sunset" at that time, and the tax code reverts to what it would have been had the tax bill never existed. For example, at the beginning of 2010, EGTRRA repeals the estate tax. At the end of 2010, the estate tax is re-established as if EGTRRA had never existed. The sunset provisions complicate analysis of "current policy" toward taxation. Although CBO is required to follow current law, virtually no one believes the tax provisions will sunset completely as stipulated by EGTRRA. The Administration has indicated the expectation and desire that the tax cuts be made permanent.[8] But exactly when or which parts of the bill might be extended is unclear. We assume that under "current policy," the sunset provisions will be removed, and

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[6] Indeed, as a Presidential candidate, George W. Bush made the same point, arguing that an "honest comparison" of spending growth should take inflation and population growth into account (Slater 1999, Calmes 1999).

[7] In recent years, CBO has presented sensitivity analysis with a variety of alternative discretionary spending paths.

[8] President Bush called for making the tax cuts permanent in his January 2002 State of the Union address (Bush 2002). But even before the tax cut was signed, Treasury Secretary Paul O'Neill indicated that "All these things are going to become permanent. They'll all be fixed." (USA Today 2001). Lindsey (2002) refers to the tax cuts as "permanent."

analyze the tax cut as if it were permanent.[9]

Likewise, we assume that the "garden variety" expiring provisions will be extended.[10] In the past, these provisions have been temporarily extended each time the expiration dates approached. Indeed, CBO (2002a, p. 63) calls the extensions a "matter of course."

The appropriate treatment of the stimulus package is less clear. A stimulus is presumably designed to be a temporary policy, which suggests that allowing it to expire would be most appropriate. On the other hand, the package expires a few months before the 2004 election, which will create political pressure to extend it, and the proponents of the bill wanted a permanent tax cut in the first place. For simplicity and consistency with the other expiring provisions, we treat the stimulus package as a permanent tax cut. Altering this assumption would not materially affect our conclusions.

The second tax issue relates to the alternative minimum tax (AMT). Designed in the late 1960s and then strengthened in 1986 to curb aggressive tax avoidance, the AMT operates parallel to the regular income tax system, using alternative measures of income and deductions and flatter rates. Taxpayers pay the AMT when their AMT liability exceeds their regular income tax liability. In other cases, taxpayers pay regular income tax, but have their use of credits limited due to the AMT. We refer to both groups as "on the AMT."

The AMT is complex and has become poorly targeted: most taxpayers who face the AMT do so because of the value of their personal exemptions or deductions for state and local taxes, not because of aggressive tax sheltering. In 2002, about 2.6 million taxpayers—or about 2.7 percent of those with positive tax liability—faced the AMT. But under current law, 36 million taxpayers -- including 33 percent of all filers and 79 percent of filers with adjusted gross incomes between $75,000 and $100,000 -- will face the AMT in 2010 (Burman et al 2002). The main reasons for the projected increase are that the AMT is not indexed for inflation and last year's tax cut will steadily reduce regular income tax liabilities. Both factors raise AMT liability

[9] Kiefer et al (2002) make a similar assumption. CBO (2001) makes the same assumption when it analyzes the economic effects of the tax cut, even though it cannot make that assumption when analyzing the budget projections themselves.

[10] These include, for example, the research and experimentation tax credit, which is due to expire on June 30, 2004, the Work Opportunity Tax Credit, the Welfare-to-Work Tax Credit, and a variety of other items.

relative to regular income tax liability and so push more taxpayers onto the AMT over time. No one seriously expects the Administration and Congress to allow current law to prevail with respect to the AMT. We therefore define "current policy" towards the AMT as holding constant at 3 percent the share of taxpayers facing the AMT. We regard this as a reasonable benchmark, even if it will be politically difficult to implement given its budgetary cost, because it maintains the share of taxpayers on the AMT at its level in 2002. We estimate the cost of the implied AMT adjustments in Appendix Table 4.[11]

Table 3 shows the sizable effects of adjusting the surplus for retirement trust funds and current policy assumptions. Removing the accumulations in retirement trust funds changes the August 2002 projection for the budget between 2002 and 2011 from a surplus of $1.0 trillion to a *deficit* of $2.4 trillion. Adjusting the revenue baseline to extend the expiring provisions and hold the share of AMT taxpayers at 3 percent increases the deficit by another $1.85 trillion to $4.25 trillion. If discretionary spending grows with the economy, the deficit rises to almost $5.6 trillion.

The cost of keeping the number of AMT taxpayers at 3 percent is particularly noteworthy: it has grown substantially in recent years and expands rapidly over the decade. The total cost is $732 billion between 2003 and 2012, including $630 billion in lost revenue (Table 3), plus another $102 billion in interest payments.

Figure 5 shows the budget adjustments on an annual basis. Under the official forecasts, the unified budget is in deficit through 2006 and then achieves surpluses through 2012. Our adjustments alter both the level and trend. Removing the retirement trust funds reduces the surplus by an amount that rises steadily from about $240 billion in 2002 to about $440 billion in 2012. Adjusting the revenue figures as described above essentially makes the projection turn down over time (and in particular, it eliminates the jump in revenues in 2011 and 2012 associated with the expiration of the tax cut under current law), with adjusted deficits that range from about $390 billion in 2002 to $460 billion in 2011. Allowing real discretionary spending to

[11] To estimate the cost of reducing the AMT so as to keep the share of AMT taxpayers at 3 percent, we interpolate based on results in Burman et al (2002). Burman et al report the cost of repealing the AMT (R1), the cost of indexing the AMT (R2), and the percent of taxpayers on the AMT under indexing (x). Using these figures, the revenue cost of reducing the number of AMT taxpayers to y percent can be interpolated as R3 = R2 + (R1-R2) (x-3)/x. We add debt service costs to each of the revenue figures, using CBO's debt service matrix.

increase in line with GDP not only expands the projected deficits, but causes them to grow larger over the decade, reaching $774 billion by 2012.

After making all these adjustments, the contrast between the official and adjusted figures is striking – and increases over time. In the year 2012 alone, the difference is about $1.3 trillion (assuming discretionary spending grows with GDP). Perhaps more importantly, the trends are quite different: the CBO baseline suggests that the underlying fiscal status of the government will improve over the coming decade, whereas the adjusted baseline suggests precisely the opposite.

Figure 6 reports the same adjustments, except that it does not remove the retirement trust funds from the analysis. Thus, Figure 6 reports the unified budget surplus under different assumptions about current policy toward tax and spending. As shown, just extending the expiring provisions and holding the share of taxpayers at 3 percent is sufficient to keep the unified budget (which, of course, includes Social Security trust funds) in deficit for every year in the forecast period. Adjustments for discretionary spending imply that the deficit will increase, rising from about $150 in 2003 to about $330 billion in 2012.

IV. Conclusions

The official baseline budget surpluses have deteriorated rapidly over the past 20 months. The budget through 2010 essentially projects a cumulative unified surplus of zero. Worse still, that cumulative sum consists of relatively certain deficits occurring in the near term and relatively uncertain surpluses occurring further in the future. Declining economic conditions account for the largest share of the immediate downturn, but toward the end of the decade, the 2001 tax cut has the biggest impact on the change in the surplus projections.

The official baseline seems to be a particularly biased measure of fiscal status under current conditions because of the sunsets embodied in EGTRRA and the stimulus package; the looming AMT explosion; uncertainty about the course of defense, homeland security, and other discretionary spending; and the large role played by retirement trust funds in the budget. Plausible adjustments for these factors suggest that, as bad as the official projections have become, the underlying reality is significantly worse.

These facts imply that the nation is facing a growing and complicated mix of economic, fiscal, and political problems that will not go away unless policy makers act responsibly and promptly. The budget is in free fall. The budget process has collapsed. The economy could potentially benefit from a short-term fiscal stimulus (i.e., increased budget deficits now), and would also benefit from long-term fiscal discipline (i.e, a return to surpluses in the medium- and long-term). Yet such a combination is virtually impossible to imagine as long as the parties are stuck in a political stalemate.

One way out of the stalemate may be a budget summit between the leaders of the two parties. A summit could produce a credible, bi-partisan plan that jointly addresses the difficult trade-offs inherent in restoring fiscal discipline. The plan would need a scheduled transition from short-term stimulus to long-term discipline, balanced adjustments to spending and taxes, and a workable and plausible set of budget rules. The 1990 budget summit addressed similar issues and helped set the stage for fiscal recovery and economic growth over the next decade.

If any additional motivation were required, policy makers can look to 2008, when the leading edge of the baby boomer generation will reach age 62. The pressure that the boomers will put on Social Security, Medicare, and the overall federal budget will make today's budget problems -- serious as they are -- look like child's play.

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Table 1

Changing Budget Projections
(Surplus in $ Billions)[1]

	2003-2012	2002-2011	2002-2010	2002-2006
Unified Budget				
August 2002[2]	1015	336	13	-437
January 2002[3]	2263	1601	1162	250
August 2001[4]		3396	2768	1082
January 2001[5]		5610	4721	2007
Non-Social Security Budget				
August 2002[2]	-1513	-2015	-2019	-1386
January 2002[3]	-242	-745	-877	-725
August 2001[4]		844	561	46
January 2001[5]		3119	2561	986
Non-Social Security, Non-Medicare Budget				
August 2002[2]	-1914	-2396	-2355	-1551
January 2002[3]	-632	-1127	-1222	-912
August 2001[4]		438	186	-162
January 2001[5]		2727	2203	786

[1]Due to rounding, annual data from Appendix Table 1 may not sum to the CBO totals listed in Table 1.

[2]Congressional Budget Office. "The Budget and Economic Outlook: An Update." August 2002. Table 1-1 and Table 1-1 supplement.

[3]Congressional Budget Office. "The Budget and Economic Outlook: Fiscal Years 2003-2012." January 2002. Tables 1-1 and 1-6.

[4]Congressional Budget Office. "The Budget and Economic Outlook: An Update." August 2001. Tables 1-1 and 1-9.

[5]Congressional Budget Office. "The Budget and Economic Outlook: Fiscal Years 2002-2011." January 2001. Tables 1-1 and 1-7.

Table 2

Sources of Change in Budget Projections
January 2001-August 2002

	2002-2011		2002-2006		2007-2011	
	$ Billions	Percent of Change	$ Billions	Percent of Change	$ Billions	Percent of Change
EGTRRA	-1655	31	-554	23	-1101	39
Discretionary Spending	-1018	19	-399	16	-620	22
Other Legislation	-279	5	-217	9	-62	2
Economic and Technical Changes	-2321	44	-1274	52	-1047	37
Total	-5274	100	-2444	100	-2829	100

Source: "Changes in CBO Baseline Projections of the Surplus Since January 2001." CBO, August 2002, and Appendix Table 2.

Table 3

Baseline and Adjusted Budget Outcomes for 2003-2012
August 2002 Projections
(Surplus in $ billions)

	2003-07	2003-12
CBO Baseline Surplus[1]	-229	1015
-Adjustment for Retirement Funds		
Social Security[1]	-1031	-2527
Medicare[2]	-176	-399
Government Pensions[3]	-229	-497
Subtotal	-1436	-3423
=Surplus, Adjusted for Retirement Funds	-1665	-2408
-Adjustment for Expiring Tax Provisions		
EGTRRA Provisions[4]	-42	-553
Economic Stimulus[4]	-123	-264
Other Provisions[4]	-29	-140
Interest[5]	-16	-154
Subtotal	-210	-1111
=Surplus, Adjusted for Retirement Funds and Expiring Tax Provisions	-1875	-3519
-Adjustment for AMT		
Hold Share of Taxpayers on AMT Constant at 3 percent[6]	-92	-630
Interest[5]	-6	-102
Subtotal	-97	-732
=Surplus, Adjusted for Retirement Funds, Expiring Tax Provisions, and AMT	-1973	-4251
-Adjustment for Discretionary Spending/GDP Constant		
Outlays[7]	-233	-1131
Interest[7]	-21	-210
Subtotal	-254	-1341
=Surplus, Adjusted for Retirement Funds, Expiring Tax Provisions, and AMT with DS/GDP constant	-2227	-5592

[1]"The Budget and Economic Outlook: An Update." August 2002. Table 1-1.
[2]"The Budget and Economic Outlook: An Update." August 2002. Table 1-1 supplement.
[3]"CBO Baseline Projections of Trust Fund Balances." August 2002.
[4]"The Budget and Economic Outlook: An Update." August 2002. Box 1-1.
[5]CBO debt service matrix, August 2002.
[6]Authors' calculations. See Appendix Table 4.
[7]The Budget and Economic Outlook: An Update." August 2002. Table 1-3.

Appendix Table 1

Changing Budget Projections
(Surplus in $ Billions)[1]

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Unified Budget												
August 2002[2]	127	-157	-145	-111	-39	15	52	88	133	177	323	522
January 2002[3]	127	-21	-14	54	103	128	166	202	250	294	439	641
August 2001[4]	153	176	172	201	244	289	340	389	450	507	628	
January 2001[5]	281	313	359	397	433	505	573	635	710	796	889	
Non-Social Security Budget												
August 2002[2]	-36	-317	-316	-299	-245	-209	-190	-174	-147	-122	4	185
January 2002[3]	-36	-184	-193	-141	-108	-99	-76	-56	-24	4	132	319
August 2001[4]	-10	0	-18	-3	20	47	78	106	147	184	283	
January 2001[5]	124	141	171	195	212	267	316	359	416	484	558	
Non-Social Security, Non-Medicare Budget												
August 2002[2]	-65	-346	-344	-332	-280	-249	-230	-216	-191	-167	-41	136
January 2002[3]	-65	-217	-229	-179	-146	-141	-117	-96	-63	-34	95	278
August 2001[4]	-39	-38	-59	-45	-22	2	35	63	105	145	252	
January 2001[5]	95	105	132	154	172	223	275	318	377	447	524	

[1]Due to rounding, annual data from Appendix Table 1 may not sum to the CBO totals listed in Table 1.
[2]Congressional Budget Office. "The Budget and Economic Outlook: An Update." August 2002. Table 1-1 and Table 1-1 supplement.
[3]Congressional Budget Office. "The Budget and Economic Outlook: Fiscal Years 2003-2012." January 2002. Tables 1-1 and 1-6.
[4]Congressional Budget Office. "The Budget and Economic Outlook: An Update." August 2001. Tables 1-1 and 1-9.
[5]Congressional Budget Office. "The Budget and Economic Outlook: Fiscal Years 2002-2011." January 2001. Tables 1-1 and 1-7.

Appendix Table 2

Sources of Change in Budget Projections, January 2001-August 2002

	2002		2003		2004		2005		2006		2007		2008		2009		2010		2011	
	$ Billions	Percent of Change	$ Billions	Percent of Change	$ Billions	Percent of Change	$ Billions	Percent of Change	$ Billions	Percent of Change	$ Billions	Percent of Change	$ Billions	Percent of Change	$ Billions	Percent of Change	$ Billions	Percent of Change	$ Billions	Percent of Change
Legislative Changes																				
Total	-150.0	31.9	-238.6	47.3	-258.7	50.9	-250.5	53.0	-272.7	55.7	-303.9	58.4	-333.1	60.9	-362.5	62.8	-407.3	65.8	-375.8	66.4
EGTRRA																				
Revenues	-31.3		-84.0		-100.7		-100.3		-125.6		-142.1		-150.7		-158.2		-175.9		-117.3	
Outlays	-6.2		-6.6		-7.0		-7.1		-9.6		-9.5		-9.4		-9.7		-11.1		-12.2	
Debt Service	-3.8		-8.5		-14.4		-20.7		-28.5		-37.8		-48.4		-60.0		-73.1		-85.7	
Subtotal	-41.4	8.8	-99.1	19.7	-122.1	24.0	-128.1	27.1	-163.7	33.4	-189.5	36.4	-208.5	38.1	-227.8	39.5	-260.1	42.0	-215.2	38.0
Discretionary Spending	-50.2		-72.0		-74.5		-78.6		-81.5		-84.1		-85.8		-87.1		-88.9		-91.3	
Debt service	-0.3		-2.6		-7.7		-13.0		-18.2		-23.7		-29.7		-36.1		-42.9		-50.1	
Subtotal	-50.5	10.8	-74.6	14.8	-82.2	16.2	-91.6	19.4	-99.7	20.3	-107.8	20.7	-115.5	21.1	-123.2	21.3	-131.8	21.3	-141.4	25.0
Other Legislation	-57.2		-61.3		-46.7		-20.3		2.2		5.3		3.5		1.6		-1.6		-4.5	
Debt Service	-0.9		-3.6		-7.7		-10.5		-11.6		-12.0		-12.6		-13.1		-13.8		-14.7	
Subtotal	-58.1	12.4	-64.9	12.9	-54.4	10.7	-30.8	6.5	-9.4	1.9	-6.7	1.3	-9.1	1.7	-11.5	2.0	-15.4	2.5	-19.2	3.4
Economic and Technical Changes	-319.9	68.1	-265.7	52.7	-249.4	49.1	-221.8	47.0	-217.1	44.3	-216.7	41.6	-213.7	39.1	-214.8	37.2	-211.7	34.2	-189.9	33.6
Total Change	-469.9	100.0	-504.3	100.0	-508.1	100.0	-472.3	100.0	-489.9	100.0	-520.6	100.0	-546.8	100.0	-577.3	100.0	-619.0	100.0	-565.7	100.0

Source: "Changes in CBO Baseline Projections of the Surplus Since January 2001." CBO, August 2002, and Appendix Table 2.

Appendix Table 3

Baseline and Adjusted Budget Outcomes for 2003-2012
August 2002 Projections
(Surplus in $ Billions)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
CBO Baseline Surplus[1]	-145	-111	-39	15	52	88	133	177	323	522
-Adjustment for Retirement Funds										
Social Security[1]	-171	-188	-206	-224	-242	-262	-280	-299	-319	-337
Medicare[2]	-28	-33	-35	-40	-40	-42	-43	-45	-45	-49
Government Pensions[3]	-43	-44	-46	-47	-49	-51	-52	-53	-56	-56
Subtotal	-242	-265	-287	-311	-331	-355	-375	-397	-420	-442
=Surplus, Adjusted for Retirement Funds	-387	-376	-326	-296	-279	-267	-242	-220	-97	80
-Adjustment for Expiring Tax Provisions										
EGTRRA Provisions[4]	-1	-1	-5	-15	-20	-25	-29	-33	-157	-265
Economic Stimulus[4]	-1	-6	-35	-43	-38	-34	-30	-28	-26	-25
Other Provisions[4]	0	-1	-5	-9	-14	-18	-20	-22	-25	-27
Interest[5]	0	0	-2	-5	-9	-14	-19	-24	-33	-49
Subtotal	-2	-8	-47	-72	-81	-91	-98	-107	-241	-366
=Surplus, Adjusted for Retirement Funds and Expiring Tax Provisions	-389	-384	-373	-368	-360	-358	-340	-327	-338	-286
-Adjustment for AMT										
Hold Share of Taxpayers on AMT Constant at 3 percent[6]	0	-2	-9	-32	-50	-69	-89	-107	-127	-147
Interest[5]	0	0	0	-1	-4	-7	-12	-18	-25	-34
Subtotal	0	-2	-9	-33	-54	-76	-101	-125	-152	-181
=Surplus, Adjusted for Retirement Funds, Expiring Tax Provisions, and AMT	-389	-386	-382	-401	-414	-433	-440	-452	-490	-467
-Adjustment for Discretionary Spending/GDP Constant										
Outlays[7]	-7	-24	-44	-66	-91	-119	-148	-178	-210	-244
Interest[7]	0	-1	-3	-6	-11	-17	-25	-36	-48	-63
Subtotal	-7	-25	-47	-72	-102	-136	-173	-214	-258	-307
=Surplus, Adjusted for Retirement Funds, Expiring Tax Provisions, and AMT with DS/GDP constant	-396	-411	-429	-473	-516	-569	-613	-665	-748	-774

[1]"The Budget and Economic Outlook: An Update." August 2002. Table 1-1.
[2]"The Budget and Economic Outlook: An Update." August 2002. Table 1-1supplement.
[3]"CBO Baseline Projections of Trust Fund Balances." August 2002.
[4]"The Budget and Economic Outlook: An Update." August 2002. Box 1-1.
[5]CBO debt service matrix, August 2002.
[6]Authors' calculations. See Appendix Table **4.**
[7]The Budget and Economic Outlook: An Update." August 2002. Table 1-3.

Appendix Table 4

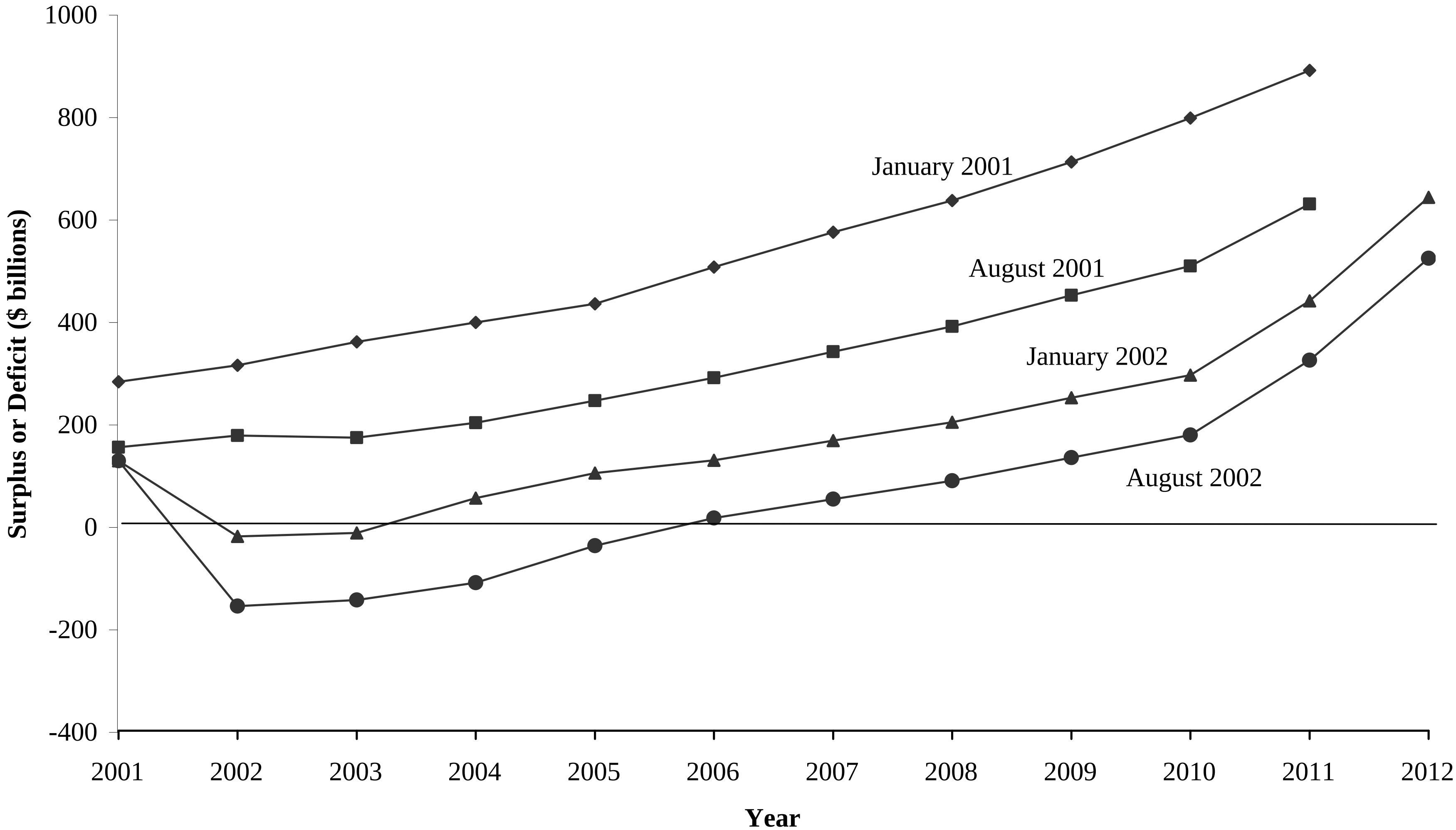
Costs of AMT Reform

Line	Definition	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Post-EGTRRA law with sunset repealed											
1	Percent of taxpayers on AMT	3.0	5.5	13.7	19.9	24.1	28.4	30.9	33.0	35.1	36.9
2	Revenue cost of abolishing the AMT	5.8	16.9	27.0	46.1	66.1	84.5	107.2	127.3	149.8	171.7
3	Percent of taxpayers on AMT under indexing	2.0	3.0	3.0	5.0	6.0	7.0	7.0	7.0	7.0	7.0
4	Revenue cost of indexing	0.3	1.7	8.5	21.9	34.2	47.6	64.0	79.4	96.0	114.6
5	Revenue cost of reducing the share of AMT taxpayers to 3 percent	0.0	1.7	8.5	31.6	50.2	68.7	88.7	106.8	126.7	147.2
6	Interest cost of line 5	0.0	0.0	0.3	1.4	3.7	7.2	11.9	17.9	25.2	34.0
7	Total costs of reducing the share of AMT taxpayers to 3 percent	0.0	1.7	8.8	33.0	53.9	75.9	100.6	124.6	151.9	181.3

Sources, by line:

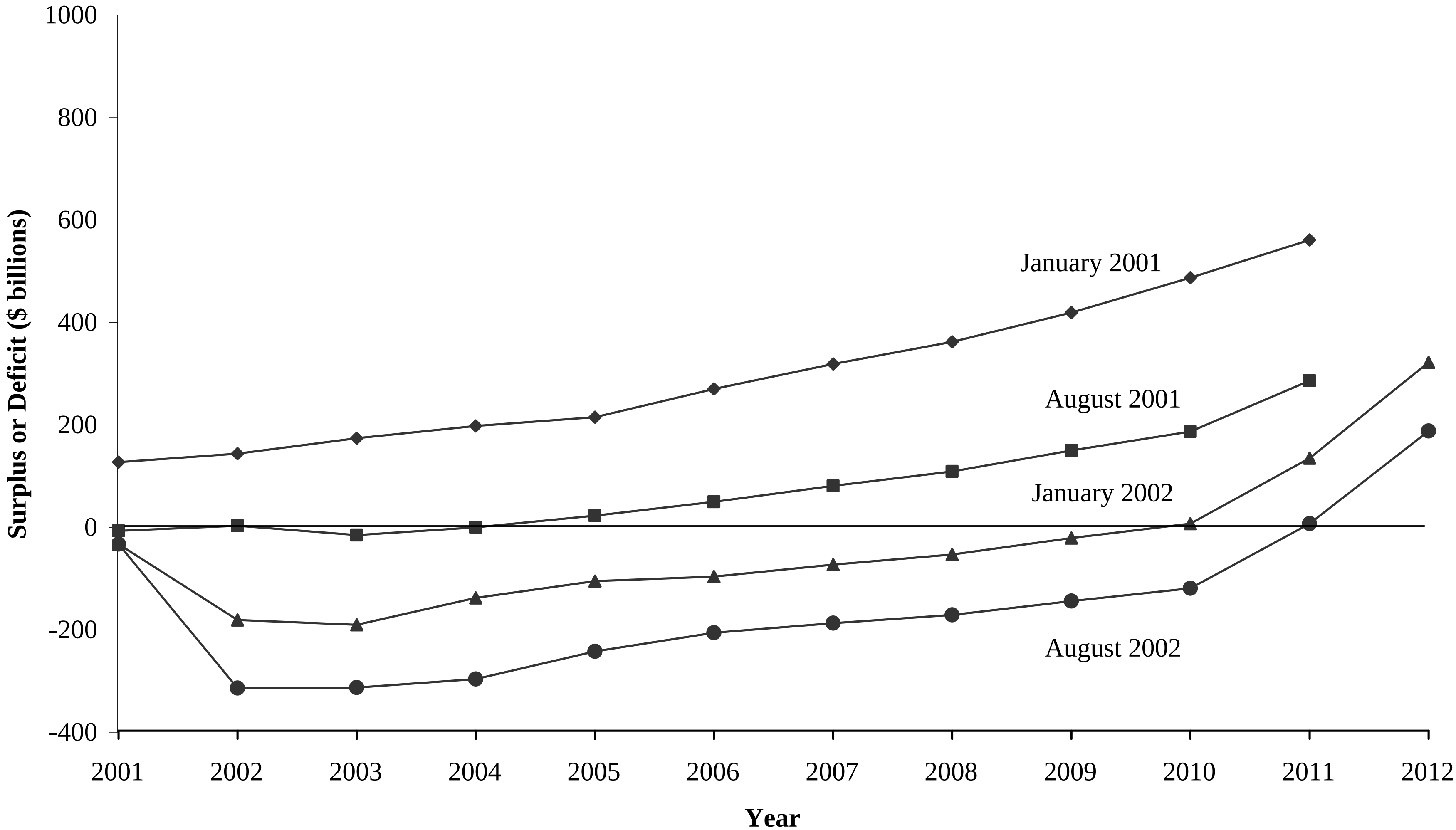
1 Burman, Leonard E., William G. Gale, Jeffrey Rohaly, and Benjamin H. Harris. 2002. Table 3. “The Individual AMT: Problems and Potential Solutions.” Urban-Brookings Tax Policy Center Discussion Paper No. 5, August.
2 Ibid.
3 Ibid.
4 Ibid.
5 Line(4) + [Line(2)-Line(4)]*[(Line(3)-3.0)/Line(3)]
6 CBO debt service matrix, August 2002.
7 Line(5) + Line(6)

Figure 1
Changing Unified Budget Projections



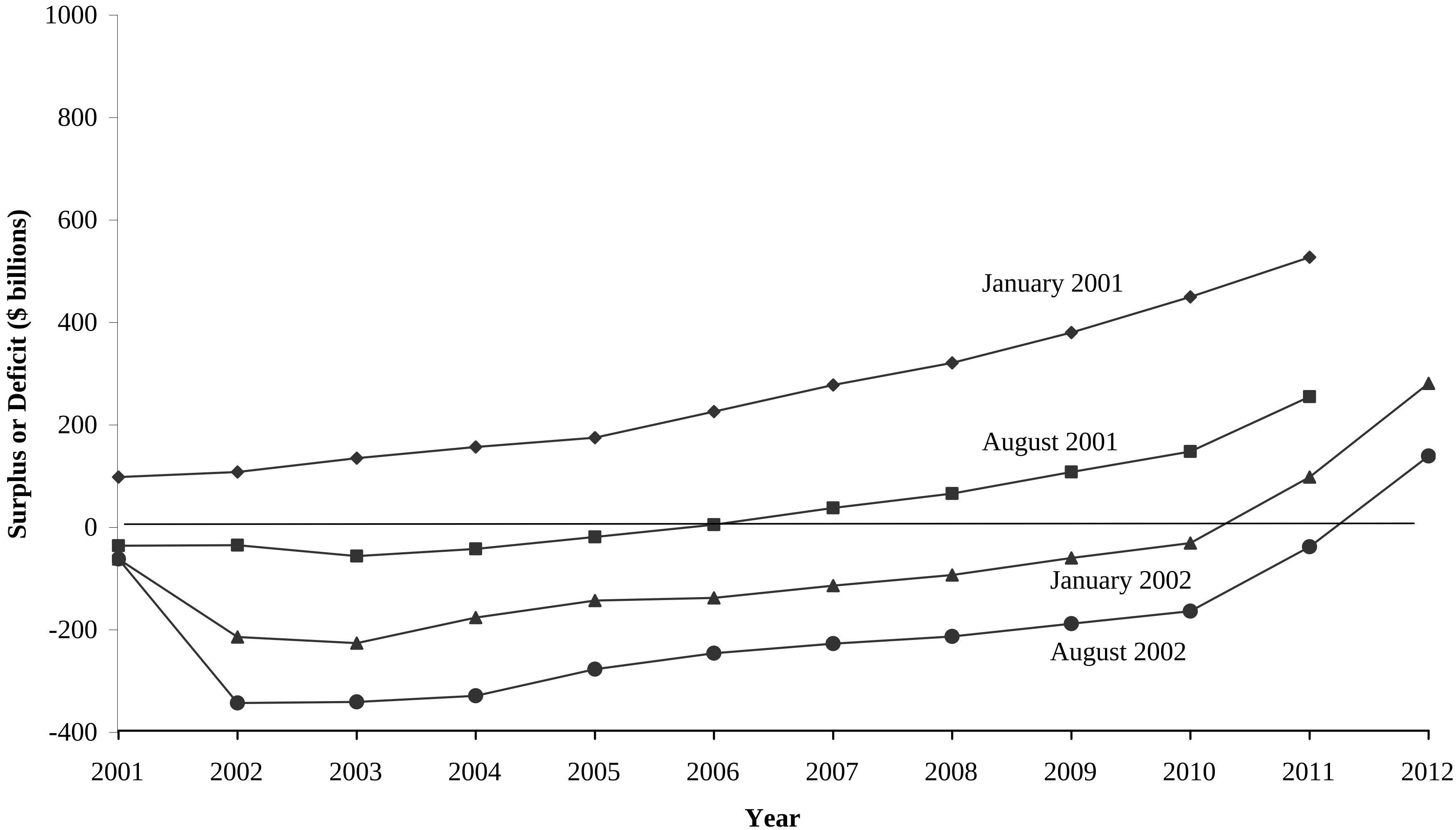
Source: See Appendix Table 1.

Figure 2
Changing Non-Social Security Budget Projections



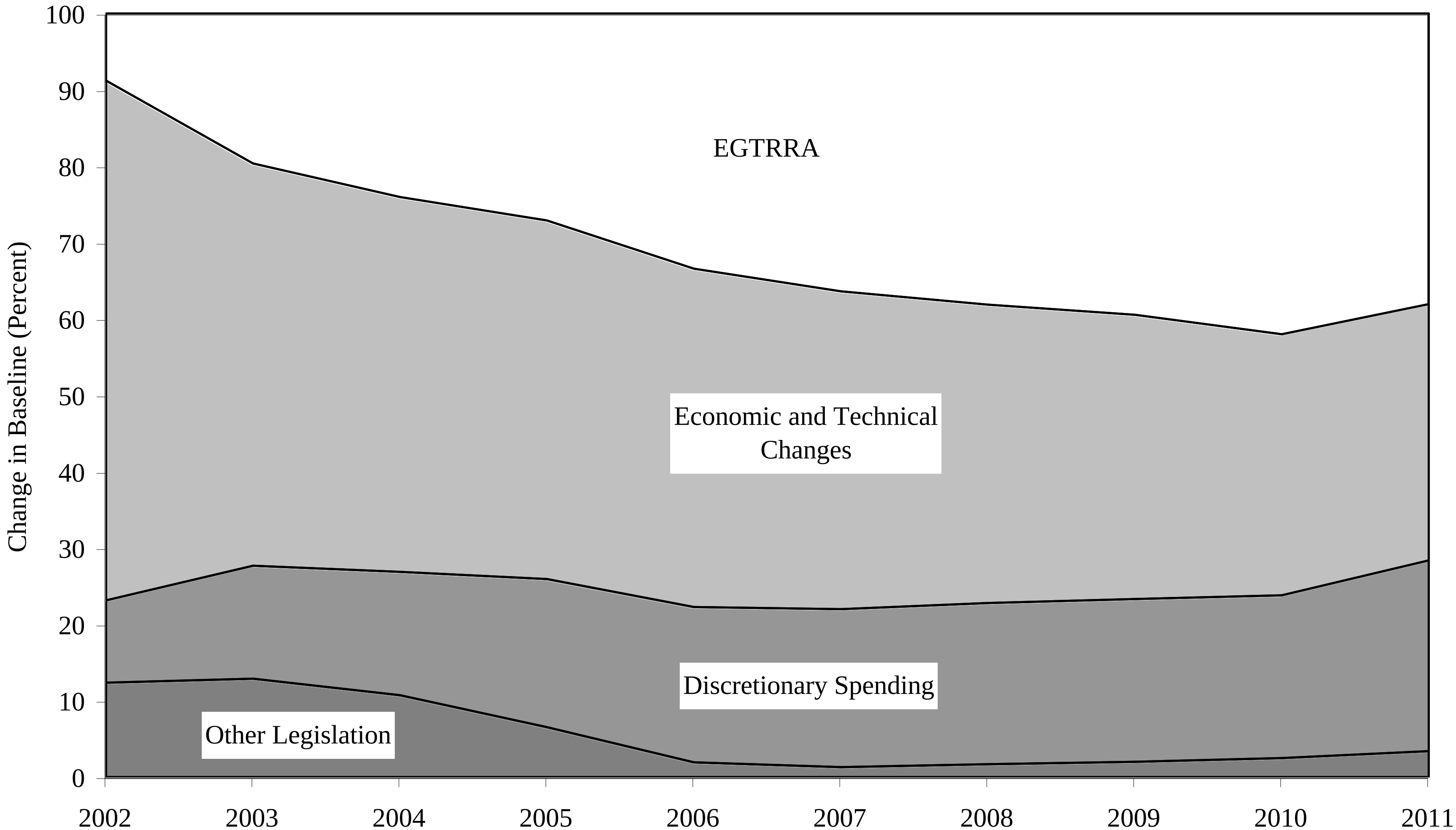
Source: See Appendix Table 1.

Figure 3
Changing Non-Social Security, Non-Medicare Budget Projections



Source: See Appendix Table 1.

Figure 4
Sources of Change in the Unified Budget Baseline from January 2001 to August 2002



Source: See Appendix Table 2.

Figure 5
Baseline and Adjusted Budget Outcomes, 2003-2012

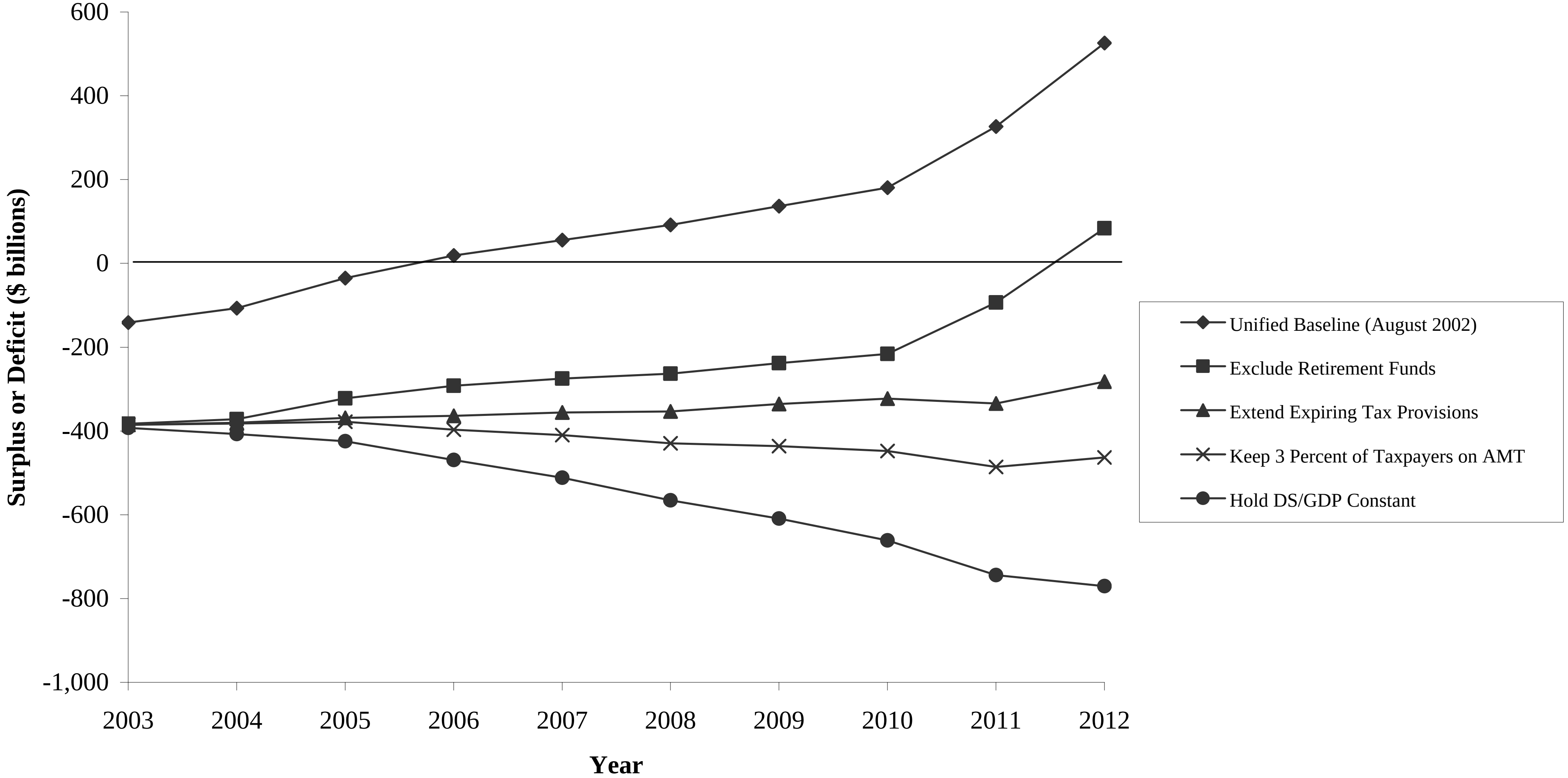


Figure 6
The Baseline Budget Under Alternative Assumptions, 2003-2012