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(202) 226-7270

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Why It's Called a *Tax* Surplus

Central to the case for significant tax reduction is the principle that Federal black ink results from tax collections growing faster than Government spending – meaning the budget surplus is, in fact, a *tax surplus*.

This is not just rhetoric; it is supported by the nonpartisan Congressional Budget Office [CBO]. "CBO projects that mounting Federal revenues will continue to produce growing budget surpluses for the next 10 years," the agency wrote in its January publication, *The Budget and Economic Outlook: Fiscal Years 2002-2011*. CBO's figures show that – if current laws were left unchanged – non-Social Security taxes would grow an average of 4.9 percent a year for the next decade, outpacing the 4.8-percent growth of non-Social Security spending (excluding interest). Over time, this seemingly minor difference adds up to trillions in excess funds (see chart below). A closer look at these trends gives the tax surplus argument even more weight.

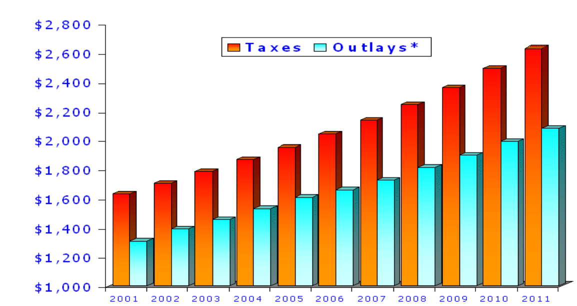
Tax Collections – Most of the tax growth in the recent past and the projected future is from individual income taxes. From 1993 through 1998, these receipts grew more than 10 percent a year. In 1998 and 1999, they continued to rise as a percentage of the Gross Domestic Product [GDP] "despite new tax breaks [from the Taxpayer Relief Act of 1997] concerning children and education," CBO says. In fiscal year 2000, individual income tax receipts increased by more than 14 percent, and at current rates these collections would reach 10.5 percent of GDP by 2011, their highest level ever.

The two principal contributing factors were, and will continue to be: 1) rapid growth of taxable income, such as wages, interest, and business income; and 2) increases in the effective tax rate, because more of taxpayers' incomes fell into higher tax brackets. Individual income taxes will grow at a slower rate – 4.6 percent – for the next several years, then increase to more than 5 percent a year by 2006. Over the decade, their 5.1-percent average annual growth still will outpace non-Social Security spending.

Spending – CBO estimates that mandatory spending (excluding Social Security) will grow about 6.3 percent a year for the next decade, a rate faster than the growth of the economy. This spending will be driven mainly by Medicare (7.5 percent a year) and Medicaid (8.5 percent). CBO also assumes that major entitlement programs subject to reauthorization over the next decade – such as food stamps and Temporary Assistance for Needy Families [TANF] – are assumed to continue without significant changes. These two programs alone contribute roughly $40 billion a year to Federal spending. Total discretionary spending is projected to grow roughly in line with inflation.

Conclusion – The figures above clearly reflect all reasonable factors expected to drive spending under current law. Yet tax collections, in CBO's projections, will continue to outstrip spending by growing amounts. Hence this conclusion: surpluses are mounting not from a shortage of spending, but from an excess of taxes.

Projected Non-Social Security Taxes and Spending
Fiscal Years 2001-2011; Dollars in Billions



*Includes gross entitlement outlays, excluding Social Security, excluding net interest. Source: Congressional Budget Office.

Prepared by . . . . **Patrick L. Knudsen**
Policy Director