Behind the Numbers: How Large is the Available Surplus?

In January, 2001, the Congressional Budget Office increased its estimate of the ten-year federal budget surplus by almost $1 trillion — bringing the total projected ten-year surplus to $5.6 trillion. Congressional tax-cutters — and President Bush — see the projections as an even more compelling argument for substantial tax cuts. On March 8, House Majority Leader Dick Armey 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.

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. 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 the minimum tax problem, concede that some technically expiring, but always extended tax credits are 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, defense, prescription drugs, etc. that enjoys widespread support. Add these 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.

How Large is the Available Ten-Year Surplus?

CBO Jan. 2001 Estimate:	
Total Budget Surplus, FY2002-2011	$5.6 trillion
Subtract: Social Security Surplus	$2.5 trillion
Subtotal: CBO "On-Budget" Surplus	**$3.1 trillion**
Subtract: Medicare Surplus	$0.4 trillion
CBO's Available On-Budget Surplus	**$2.7 trillion**
Subtract:Appropriations Needed to Keep Appropriations Constant as Share of GDP	$1.0 trillion
Adjusted On-Budget Surplus	**$1.7 trillion**
Subtract: AMT fix, aid to farmers, expiring tax provisions	$0.4 trillion
Net Available On-Budget Surplus	**$1.3 trillion**

Source: CBO, CTJ

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.

While the CBO's estimate of the total on-budget surplus for 2006 is $267 billion, they estimate there's only a 10 percent probability that the surplus will actually be within 16 percent of that estimate. There's only a fifty-fifty chance that the actual surplus will be within 83 percent, plus or minus, of the $267 billion estimate.

CBO is, however, 90 percent sure that the total on-budget surplus in 2006 will be somewhere between $820 billion and an actual *deficit* of $280 billion. In other words, the projected 2006 on-budget surplus is $267 billion — plus or minus 206 percent.

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

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%**

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

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.

New JCT Estimates Show Bush Tax Plan Cost Continues to Rise

Newly revised estimates by the Congressional Joint Committee on Taxation show that the cost of the tax plan proposed by President George W. Bush would be substantially greater than the $1.6 trillion estimate generated last year. On March 1, the House Ways and Means Committee approved H.R. 3, which would implement the income tax rate cuts proposed by Bush under a slightly accelerated schedule. A March 7 analysis by Citizens for Tax Justice, based in part on JCT's analysis of H.R. 3, finds that the total ten-year cost of the Bush tax plan, as modified by H.R. 3, would be in excess of $2.4 trillion. In particular, CTJ's analysis shows that:

- H.R. 3's accelerated income tax rate cuts, combined with revised estimates of economic growth since last May, increase the cost of the Bush plan by $150 billion over ten years. This brings the ten-year cost of the Bush plan's provisions to over $1.7 trillion.
- Because the Bush plan (like H.R. 3) reduces income tax rates without modifying the Alternative Minimum Tax (AMT), millions of additional taxpayers would be forced to pay the AMT when the plan is fully phased in, an outcome which all parties agree is unrealistic. According to JCT, adjusting the AMT to fix this problem would add almost $300 billion to the Bush plan's cost. That brings the ten-year cost to just over $2.0 trillion.
- The $2.0 trillion cost of the Bush plan reduces the amount of surplus revenues that can be devoted to reducing the federal debt by $2.0 trillion. This means that the federal government will pay an additional $413 billion in interest payments as a direct result of the Bush plan. Factoring in these additional interest payments brings the ten-year total cost of the Bush plan to $2.417 trillion.

How Much Does the Bush Tax Plan Cost?
Fiscal Years 2002-2011, $Billions

Bush May 2000 Estimate:	$1,564
Add: Speeding up rate cuts, new CBO projections	$148
Subtotal:	$1,712
Add: Cost of fixing AMT (Bush-caused part only)	$292
Subtotal:	$2,004
Add: Interest payments	$413
TOTAL COST:	**$2,417**

How Much Will the Bush Tax Plan Cost?
as of March 2001, $-billions

fiscal years	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2002-11
Campaign estimates per Joint Committee on Taxation, preliminary (no interest), May 2000											
PIT rate cuts	$ –18.3	$ –36.1	$ –57.3	$ –74.6	$ –97.8	$ –107.3	$ –109.5	$ –112.0	$ –114.5	$ –117.0	**$ –844.4**
Other PIT cuts	–2.6	–13.3	–22.7	–32.3	–42.5	–51.2	–53.2	–55.6	–58.0	–60.4	**–391.7**
Estate tax repeal	—	–7.8	–8.3	–15.9	–23.4	–30.7	–42.8	–52.0	–55.3	–61.0	**–297.2**
Corporate	–0.2	–0.2	–0.6	–2.7	–3.4	–4.0	–4.5	–4.9	–5.1	–5.3	**–30.8**
SUBTOTAL	**$ –21.1**	**$ –57.4**	**$ –88.9**	**$ –125.5**	**$ –167.1**	**$ –193.2**	**$ –210.0**	**$ –224.5**	**$ –232.9**	**$ –243.7**	**$ –1,564.2**
Speed up small part of PIT rate cut per Joint Committee, March 2001, and update other items for CBO Jan. 2001 projections. No AMT adjustment											
PIT rate cuts*	$ –54.7	$ –54.4	$ –70.8	$ –80.9	$ –103.0	$ –113.4	$ –116.0	$ –118.7	$ –121.7	$ –124.7	**$ –958.2**
Other PIT cuts	–2.7	–13.6	–23.2	–32.9	–43.4	–52.2	–54.2	–56.7	–59.2	–61.6	**–399.6**
Estate tax repeal	—	–8.1	–8.7	–16.7	–24.7	–32.5	–45.6	–55.5	–59.3	–65.7	**–316.7**
Corporate	–0.2	–0.2	–0.7	–3.3	–4.2	–4.9	–5.5	–6.1	–6.4	–6.7	**–38.2**
SUBTOTAL	**$ –57.6**	**$ –76.3**	**$ –103.4**	**$ –133.8**	**$ –175.2**	**$ –203.0**	**$ –221.3**	**$ –237.0**	**$ –246.5**	**$ –258.7**	**$ –1,712.7**
Fix the AMT (Bush-caused AMT problem only, per Joint Committee, March 2001)											
PIT cuts w/ AMT fix**	$ –58.4	$ –71.7	$ –101.0	$ –127.1	$ –167.3	$ –202.2	$ –212.7	$ –224.2	$ –236.4	$ –249.1	**$ –1,650.0**
Estate tax repeal	—	–8.1	–8.7	–16.7	–24.7	–32.5	–45.6	–55.5	–59.3	–65.7	**–316.7**
Corporate	–0.2	–0.2	–0.7	–3.3	–4.2	–4.9	–5.5	–6.1	–6.4	–6.7	**–38.2**
SUBTOTAL	**$ –58.7**	**$ –80.0**	**$ –110.4**	**$ –147.1**	**$ –196.1**	**$ –239.6**	**$ –263.8**	**$ –285.8**	**$ –302.0**	**$ –321.4**	**$ –2,004.9**
Added interest payments	+1.9	+5.4	+10.6	+17.7	+27.2	+39.1	+52.9	+68.4	+85.5	+104.1	**+412.7**
TOTAL COST	**$ –60.6**	**$ –85.4**	**$ –121.0**	**$ –164.8**	**$ –223.3**	**$ –278.7**	**$ –316.7**	**$ –354.2**	**$ –387.5**	**$ –425.5**	**$ –2,417.6**

*HR 3, as passed by the House Ways and Means Committee, 3/1/2000, per Joint Committee on Taxation, 3/1/2000.
**Includes the $292.2 billion ten-year cost of fixing the Bush-caused AMT problem according to the Joint Committee on Taxation, 3/1/2000.
Notes: PIT means personal income tax. Very small fiscal 2001 costs due to the partial rate cut speed-up (less than $6 billion) are included in fiscal 2002 figures above.
Sources: Joint Committee on Taxation, May 2000 and March 2001; Congressional Budget Office, January 2001; Citizens for Tax Justice March 2001.

If You Don't Like History, Try Rewriting It

Tom DeLay is determined to shephard his fellow Texan's tax cut plan through Congress, and he isn't afraid to ignore some widely accepted truths in order to get the job done. During a recent House debate of President George W. Bush's tax cut plan, DeLay played fast and loose with the historical evidence in an attempt to counter charges by Democrats that the plan was fiscally irresponsible. According to DeLay, it's the Democrats who are the irresponsible party.

The Canard:

"Mr. Speaker, I have to say, that the Democrat leadership has no credibility when it comes to fiscal responsibility. They are the ones that were in charge and who drove up the debt.

They point to Reaganomics as the reason for the debt going up, but what they do not point out is that . . . the Democrat-controlled House drove spending up . . . . It is spending, stupid. It is spending that creates the deficit. It is spending."

House Majority Whip Tom DeLay (R-Texas) , during House debate on the Bush tax cuts, *Congressional Record*, March 8, 2001, p. H801.

The Facts:

As everyone (Tom DeLay included) knows, under Ronald Reagan, the federal budget deficit ballooned — growing from 2.7 percent of the GDP in fiscal 1980 to 5.0 percent of the GDP in 1986. (The deficit actually peaked in 1983, at 6.0 percent of the GDP, before some of the Reagan policies began to be reversed.)

Spending, Taxes & Deficits under Reaganomics

As Shares of the Gross Domestic Product, fiscal 1980 to 1986

	1980	1986	Change	% change
Changes that lowered the deficit—				
Domestic appropriations	4.7%	3.3%	–1.4%	–29%
Mandatory programs, net	9.5%	9.4%	–0.1%	–1%
International programs	0.5%	0.4%	–0.1%	–14%
Non-income tax revenues	7.6%	8.1%	+0.5%	+6%
Effect on the deficit			**–2.1%**	**–76%**
Changes that increased the deficit—				
Personal & corporate income taxes	11.3%	9.3%	–1.9%	–17%
Defense spending	4.9%	6.2%	+1.3%	+27%
Interest on the national debt	1.9%	3.1%	+1.2%	+61%
Effect on the deficit			**+4.4%**	**+163%**
Budget deficit	**2.7%**	**5.0%**	**+2.3%**	**+86%**

Note: Income tax figures are net of the refundable earned-income tax credit. Mandatory spending figures are net of the refundable earned-income tax credit and unallocated offsetting receipts.

Source: Congressional Budget Office, Jan. 2001

Changes that *lowered* the deficit (as shares of GDP)

Domestic appropriations.
Fiscal 1980: 4.7 percent. Fiscal 1986: 3.3 percent.
Change: –1.4 percent

All other non-defense programs, from fiscal 1980-86.
Change: –0.2 percent

Non-income-tax revenues (mostly payroll taxes), from 1980-86.
Change: +0.5 percent

Net deficit-lowering changes: –2.1 percent

Changes that *increased* the deficit (as shares of GDP)

Defense spending.
FY 1980: 4.9 percent. FY 1986: 6.2 percent.
Change: +1.3 percent

Personal & corporate income taxes.
Fiscal 1980: 11.3 percent. Fiscal 1986: 9.3 percent.
Change: –2.0 percent

Interest on the national debt.
Fiscal 1980: 1.9 percent. Fiscal 1986: 3.1 percent.
Change: +1.2 percent

Net deficit-increasing changes: +4.4 percent

Budget deficit (as a share of GDP): Fiscal 1980: 2.7 percent. Fiscal 1986: 5.0 percent. **Change: +2.3 percent**

"It is spending, stupid. It is spending that creates the deficit.

It is spending."

House Majority Whip Tom DeLay (R-Texas)
Congressional Record, March 8, 2001, p. H801.

Catching Up With Good Jobs First

Editor's note: Good Jobs First (GJF), a project of CTJ's sister organization, the Institute on Taxation and Economic Policy (ITEP), is rapidly becoming the national leader in providing timely, accurate information to the public, the media, public officials, and economic development professionals on best practices in state and local job subsidies. GJF works with a broad spectrum of organizations as they seek to ensure that subsidized businesses are held accountable for family-wage jobs and other effective results.

Good Jobs First (GJF) has grown from one staff member to eight since its inception as a project of ITEP in 1998, reflecting the surge of public interest in making economic development subsidies accountable to taxpayers.

While ITEP and CTJ document the federal tax breaks that corporations continue to benefit from, Good Jobs First examines the state and local tax breaks that corporations receive for creating jobs, opening new factories, or simply agreeing not to leave and take their jobs elsewhere.

Property tax abatements, corporate income tax credits, training grants, tax-free loans, enterprise zones, and tax increment financing are among the many types of "entitlements" corporations frequently seek. These tax breaks add up quickly. One respected scholar recently estimated that states and cities spend about $49 billion annually on economic development.

The proliferation of economic development subsidies is one of the reasons why working families are paying an increasingly larger part of the overall tax bill. Corporations have become adept at convincing state and local governments to pay them to operate their businesses within their communities. As a result, the companies avoid paying their fair share of taxes — and taxpayers and their families suffer. When tax revenue is diverted to pay out economic development subsidies, essential public services get squeezed.

Because most economic development spending is in the form of tax breaks, rather than direct spending, it isn't revisited each year during the budget process. In some cases, the subsidies are not subject to periodic evaluation to determine whether taxpayers' investments are producing real benefits. In tight budget times, which many states are already facing, it's much easier politically to slash budget spending than tighten corporate tax breaks.

Legislative activity

Ten states, Arkansas, Connecticut, Hawaii, Iowa, Kentucky, Maine, North Dakota, Texas, Washington, and West Virginia, are considering some form of legislation to make corporations more accountable when they receive economic development subsidies. The next GJF newsletter installment will summarize this activity and previous economic development reforms.

Current projects

No More Secret Candy Store: A Grassroots Guide to Investigating Development Subsidies will be published in April, 2001. Other research projects include an examination of how economic development subsidies divert tax revenue from public schools, the subsidies received by private prisons, and the loosening definitions of "blight" in enterprise zone and tax increment financing programs. Look for updates about these projects in upcoming editions of *CTJ Update*.

Publications

GJF's reports are available in .pdf file format on the internet at www.goodjobsfirst.org. The reports may also be obtained by calling 202-737-4315 or by writing to Good Jobs First, 1311 L Street, NW 4th floor, Washington, DC 20005.

Titles include: Minding the Candy Store: State Audits of Economic Development; The Policy Shift to Good Jobs: Cities, States, and Counties Attaching Job Quality Standards to Development Subsidies; Another Way Sprawl Happens: Economic Development Subsidies in a Twin Cities Suburb; and, Economic Development in Minnesota: High Subsidies, Low Wages, Absent Standards.

The Corporate Research Project (formerly the Center for Comprehensive Corporate Research) affiliated with Good Jobs First this January. The CRP was established in 1998 by a group of community organizing networks from around the country and supports campaigns for economic and environmental justice. For more information see the group's web site at www.corp-research.org.

Good Jobs New York was founded in January of 1999 as a joint project of Good Jobs First and New York's Fiscal Policy Institute (FPI). Founded in 1991, FPI aims to increase public and governmental understanding of issues related to the fairness of New York's tax system and the stability and adequacy of state and local public services.

GJNY documents corporate giveaways in New York City, which awarded nearly $3 billion in subsidies over the past two decades. The project has already produced a database of all "job blackmail" deals since 1987, when the city gave NBC $97 million not to leave the city. The database is available at www.goodjobsny.org.

Arizona Clean Fuel Tax "Incentive" Becomes a Boondoggle That Dirties Up the Air, the State Budget — and the Tax Code

Last April, at the insistence of House Speaker Jeff Groscost (R), the state passed a law offering huge subsidies to people and companies that bought low-emission vehicles or converted existing ones to use cleaner fuels. The program involved both a direct rebate program that was carefully capped at 2,700 applicants and a refundable tax credit that was entirely open-ended.

When enacted, the subsidies were estimated to cost between $3 million and $10 million a year. But once Arizonans figured out that the state would in many cases pay for half the cost of a truck or SUV — including the leather seats and the CD players — tens of thousands of people ordered vehicles and lined up for their tax credits. As a result, the projected cost skyrocketed to $680 million — more than 10 percent of the state's entire budget! To add insult to injury, the supposed "low-emission" vehicles only had to be *capable* of using alternative fuel; running them on regular gasoline was an allowable option.

. . . the projected cost skyrocketed to $680 million — more than 10 percent of the state's entire budget!

When Arizona lawmakers discovered the enormous drain on the state treasury they had created, they moved fairly quickly to stem it, passing a semi-retroactive repeal bill that they claim will lower the cost of the subsidies to $200 million this year. But that has left tens of thousands of angry people with expensive SUVs and trucks on order in the lurch, not to mention lots of car dealers who may or may not have to refund deposits.

Arizona voters were so incensed at Speaker Groscost's stupidity (and alleged mendacity) that they voted him out of office in November by a whopping 2-1 margin.

That's an excellent illustration of how a genuine "term limits" system should work. But when will our lawmakers learn that tax-based spending programs need to be scrutinized at least as carefully as direct appropriations — and that, in fact, larding up the tax code with costly "incentives" is a dumb idea?

No Car Tax In Virginia?

Borrowing to pay for a campaign promise — "a sound, solid, conservative and brilliant approach . . ."

When Virginia Governor Jim Gilmore, who now also chairs the Republican National Committee, successfully ran for governor in 1997, his chief campaign theme was the repeal of the state's local car tax. Critics said that the plan would blow a hole in the state budget, since Gilmore promised to reimburse local governments for their lost revenue. Gilmore got away with the early years of the phased-in repeal because of a huge surge in state income tax revenues in 1999 and early 2000, largely due to taxes paid by Virginians in the high-tech industry who exercised stock options in 1999.

But along with the NASDAQ, the bloom is off the revenue rose in Virginia. In the second half of 2000, total state general revenues were actually lower than in 1999. With car tax repeal predicted to eat up more than a tenth of total state general revenues by next year, many Virginia lawmakers in both parties are getting nervous about its impact on important state programs. They'd prefer to freeze the phase-out at last year's 47.5 percent, stopping the 70 percent phase-out scheduled for 2001 and the full repeal scheduled for 2002 and thereafter.

Despite the state's dire fiscal straits, Gilmore is happily pressing to keep his "No Car Tax" promise. His latest budget plan offers a combination of rosy revenue projections plus what the governor calls "a sound, solid, conservative and brilliant approach to the situation." He wants the state to borrow the money to pay for this year's installment of the car tax cut! Specifically, Gilmore would pledge the next twenty years of the state's tobacco settlement funds — some $460 million — to help pay for one year's worth of car tax relief.

This is Gilmore's last year in office and he seems to be taking a "what do I care?" approach. But Virginia legislators who worry about the state's future have other thoughts. "It's perfectly awful," said Senate Finance Chair John H. Chichester (R), whose committee voted 15-1 on January 11 to stop the car tax phase-out. It will be a hard fight to turn that committee vote into law — Gilmore promises to veto any such bill — but there's a lot riding on it. As Chichester points out, "If the car tax goes forward, then money is being cut from other services to pay for it."

On February 25th,
Tim Russert of NBC's "Meet The Press"
asked Sen. John Kerry, D-Mass.,
what the prospects were on Capitol Hill
for President Bush's tax-cut proposal.

Senator Kerry replied . . .

"There's going to be an enormous battle"

We need your help Now! Your contribution CAN MAKE ALL THE DIFFERENCE!

Please take a moment to complete the enclosed contribution card and make out a check payable to Citizens for Tax Justice. Mail it today in the self-addressed envelope included with this newsletter. Tax deductible contributions may be made to the Institute on Taxation & Economic Policy. Please be generous. We need your help NOW! Thank you.