The Congressional Budget Office’s latest revenue and expenditure projections indicate a movement from deficit to surplus in the unified federal budget, despite a decline in revenue as a percent of GDP. The shift is expected to occur in the year 2001, with the surplus amounting to 1% of GDP by the year 2008. The cumulative surplus between 1998 and 2008 is estimated at $655 billion.

Revenue as a percent of GDP is expected to fall from 19.8% to 19.3%, primarily because of a projected reduction in corporate income taxes from 2.3% of GDP in 1997 to 1.9% in 2008. Most of this decline is expected to occur by 2002 because of an anticipated drop in taxable corporate profits. Throughout the projection horizon, it is expected that individual income taxes will continue accruing at just above 9% of GDP, social insurance contributions will remain steady at 6.8%, and other taxes will hold constant at 1.5%.

Total expenditures are projected to fall from 20.1% of GDP in 1997 to 18.3% by 2008, mainly because of lower discretionary spending and a drop in net interest payments as a percent of GDP. Discretionary spending will decline as a percent of GDP if it is contained within its statutory caps through the year 2002 and then grows with inflation. Declining net interest payments will follow, as debt falls relative to GDP. Mandatory spending, however, will be higher as a fraction of GDP and is expected to continue rising after 2002. The largest contributor to higher mandatory spending is Medicare, followed by means-tested programs that include Medicaid.