Recent projections by the Congressional Budget Office place the cumulative 10-year (FY2002–11) surplus at $5.6 trillion. This figure is more than $1 trillion higher than the estimate given last July for FY2001–10, primarily because the projection window was shifted forward a year.

Of the 10-year total, $3.1 trillion accrues on budget and $2.5 trillion off budget—which includes the Social Security and Postal Service accounts. The improved budgetary projections depend on several economic assumptions—that the recent economic weakness will be short-lived; real GDP growth will average 3% annually in FY2002–11; and interest rates will be slightly lower relative to the Congressional Budget Office’s July assumptions, implying lower debt-service costs.

Almost all ($808 billion) of the increase in the projected 10-year surplus comes from higher revenue projections, which assume an improved economic outlook. Individual income taxes are expected to contribute the most revenue growth as a percent of GDP, especially in the later years of the projection horizon, as the recent increase continues and accelerates. This upsurge in revenue has resulted from rapid growth in several categories: taxable personal income, capital gains realizations, taxable withdrawals from 401(k) plans and individual retirement accounts, and a higher effective tax rate because a greater proportion of Americans are in higher marginal income-tax-rate brackets.

On the outlay side, discretionary spending as a percent of GDP continues its downward trend, primarily because of slower growth in defense expenditures.