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CBPP STATEMENT

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STATEMENT BY JAMES HORNEY, DIRECTOR OF FEDERAL FISCAL POLICY, CENTER ON BUDGET AND POLICY PRIORITIES ON OMB'S MID-SESSION REVIEW

Today's increase in estimated federal revenues for the current year, which the Administration says shows its tax cuts are boosting economic growth, isn't surprising and doesn't really say anything about the effects of the tax cuts on the economy.

Large mid-year increases in revenue estimates for the current year are not surprising at this point in an economic expansion; history shows they are the norm, not the exception. Such increases occurred in the 1980s following tax cuts, and in the 1990s following tax increases. Not only is today's re-estimate not a surprise, it tells us nothing about the effects of the 2001 and 2003 tax cuts on the economy.

In addition, the fact that the Administration has lowered its forecast of economic growth for this year compared to what it projected in February makes it difficult to see how the revenue increase could show that the tax cuts are boosting the economy.

Moreover, there is overwhelming evidence that the Administration's claim that the tax cuts are producing unusually strong economic growth is not accurate. Growth since 2001 has been below average for post-World War II expansions — and weaker than in the expansion of the 1990s, which followed enactment of tax increases rather than tax cuts. Similarly, real per-capita revenues have grown much more slowly over the course of the current expansion (3.1 percent) than during the comparable period of the average post-war business cycle (12 percent).

When it comes to the deficit, the fact is this: Without the President's tax cuts, which will cost $300 billion in 2007 alone (including the increased interest on the national debt), the federal government would be running a nearly $100 billion surplus this year instead of the $205 billion deficit that the Administration estimates.

That the Administration would seize on the good news that this year's deficit will be smaller than previously forecast is not surprising. But this development does not change the overwhelming evidence that the President's tax cuts have not delivered their promised economic benefits and have made the nation's fiscal problems more substantial.

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