CENTER ON BUDGET AND POLICY PRIORITIES
820 First Street, NE, Suite 510, Washington, DC 20002
Tel: 202-408-1080 Fax: 202-408-1056 center@cbpp.org www.cbpp.org

*January 26, 2004*

# CBO FIGURES INDICATE LOWER REVENUES, NOT HIGHER SPENDING, ACCOUNT FOR THE LARGE DEFICIT

## As a Share of the Economy, Revenues to Hit Lowest Level in 54 Years

by Isaac Shapiro and Joel Friedman

The Congressional Budget Office's new report on the federal budget demonstrates that the return of large budget deficits is more a reflection of diminished revenues than, as some have recently implied, of increased spending. CBO estimates that revenues in 2004 will drop to historically low levels, their lowest level as a share of the economy since the Truman Administration. Spending, in contrast, will *not* be at a particularly high level. As a share of the economy, spending will be *lower* in 2004 than it was in every year from 1975 through 1996.

**Key Facts That Emerge from the CBO Data**

In 2004, as a share of the economy:

- Federal revenues will fall to their lowest level since 1950, during the Truman Administration.
- Federal spending will be lower than in every year from 1975 through 1996 (and thus will be lower than throughout the administrations of Presidents Carter and Reagan and the first President Bush).

In explaining the shift from a large surplus in 2000 to a large deficit in 2004, the drop in revenues since 2000 accounts for more than three times as much of the fiscal deterioration as the increase in expenditures.

On the revenue side:

- CBO projects that revenues will fall to 15.8 percent of the economy in 2004. This is the lowest level since 1950. (The figures in this analysis focus on revenues and spending as a share of the Gross Domestic Product, labeled here as the "economy." The Gross Domestic Product is the basic measure of the size of the economy. Measuring spending and revenues as a share of the economy is the standard way that economists and budget analysts examine changes in the levels of revenues and spending over time.)

- CBO projects that income tax revenues (including both the individual and corporate income tax) will equal 8.0 percent of the economy in 2004. This is the lowest level since 1942.

- Without the tax cuts enacted in recent years — which will reduce revenues by $264 billion in 2004, according to Joint Committee on Taxation estimates — revenues as a share of the economy would not be close to a historically low level.

On the spending side:

- CBO estimates that spending will constitute 20.0 percent of the economy in 2004, a lower level than in any year from 1975 through 1996.

- If the nation were devoting the same share of the economy to government expenditures in 2004 as it has, on average, since 1980, expenditures would be $120 billion higher this year.

- The large majority of the spending increases that have resulted from legislation enacted since the beginning of 2001 have come in the areas of defense and homeland security.

**What is Different About 2004?**

Federal Expenditures, Revenues, and Deficits as a Share of GDP

| | Average 1980-2003 | 2004 |
|---|---|---|
| Expenditures | 21.1% | 20.0% |
| Revenues | 18.5% | 15.8% |
| Deficits | 2.6% | 4.2% |

### Shift From Surplus to Deficit Reflects Drop in Revenues Far More than Rise in Spending

The deterioration in the nation's fiscal standing over the past four years primarily reflects the drop-off in revenues. In 2000, the budget surplus peaked at 2.4 percent of GDP. CBO estimates that the deficit in 2004 will be 4.2 percent of GDP, for a swing of 6.6 percent of GDP in four years.

The drop-off in revenues accounts for more than three times as much of this shift as the rise in expenditures. Between 2000 and 2004, revenues as a share of GDP fell by 5.0 percentage points — and thereby accounted for 76 percent of the fiscal deterioration. Spending as a share of GDP increased by 1.6 percentage points, accounting for 24 percent of the deterioration.

**What explains the Shift from Surplus to Deficits?**

Federal Expenditures, Revenues, and Fiscal Balance as a Share of GDP

| | 2000 | 2004 | Change | Share of Change |
|---|---|---|---|---|
| Expenditures | 18.4% | 20.0% | 1.6% | 24% |
| Revenues | 20.9% | 15.8% | -5.0% | 76% |
| Surplus (+)/ Deficit (-) | +2.4% | -4.2% | -6.6% | 100% |

May not add due to rounding

Spending has grown in recent years, particularly in the areas of defense, international affairs, and homeland security. Spending has not attained especially high levels in historical terms, however, and the spending increases that have occurred have been considerably smaller than the revenue declines.[1]

[1] Recent analyses by the Heritage Foundation create a different impression, but do so largely by relying on questionable and sometimes misleading use of budget data. For a discussion of the Heritage reports, see Robert Greenstein, David Kamin, Richard Kogan, and Joel Friedman, "Is Domestic Spending Exploding? An Assessment of Claims by the Heritage Foundation and Others," Center on Budget and Policy Priorities, January 7, 2004 and "A Point-by-Point Response to Heritage Foundation Claims About Federal Spending," The Center on Budget and Policy Priorities, January 24, 2004.