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Statement of Robert Greenstein on the Administration's Mid-Session Review

Today, the Administration released new projections showing a fiscal year 2004 budget deficit of $445 billion. This represents an increase in the deficit of $70 billion over its level of $375 billion in 2003, despite the fact that we are in an economic recovery. The continued deterioration does not bode well for the nation's long-term fiscal health.

Furthermore, the new projection is $138 billion higher than the $307 billion deficit the Administration predicted for 2004 when it submitted its 2004 budget in February 2003. Yet because the new deficit projection is lower than the Administration's projection of *this* February (i.e., February 2004), the White House claims this shows its policies are working.

Such a claim does not withstand scrutiny. It serves only to weaken further the Administration's credibility on budgetary matters.

In a report we issued last February, we warned that the Administration had inflated the 2004 deficit estimate, apparently so that it could produce a lower, more realistic estimate later in the year and claim the drop showed that its tax cuts and other policies were working. The deficit estimate that the Administration issued this February was $43 billion higher than the estimate the Congressional Budget Office had issued the previous week, even though there already was evidence at the time that the CBO estimate itself was likely to be on the high side.

Nor can claims that the deficit will be cut by more than half over five years under Administration policies be taken seriously. The budget figures purporting to show this rest on "cook-the-books" accounting; the costs of extending relief from the Alternative Minimum Tax, which the Administration has consistently said it favors, are omitted from the Administration's budget estimates for years after 2005. Various other costs are omitted as well. Realistic estimates indicate that if the Administration's tax cuts are continued and we remain on our current policy course, deficits will total $4 trillion to $5 trillion over the next ten years.

Another canard is the claim that the new deficit figures demonstrate that the economy is exceeding expectations. In fact, economic growth over the first three quarters of fiscal year 2004 is simply in line with the forecast contained in the Administration's budget in February, and growth is actually below the CBO forecast issued last winter.

The new budget projections also should not be used to suggest that government expenditures are spiraling out of control. Despite costly operations in Iraq and increased spending on homeland security and anti-terrorist activities, the budget figures show that total federal spending remains below its average level of the past four decades, measured as a share of the economy. What stands out is not unusually high levels of spending, but unusually low levels of revenue. The new Administration forecast shows that revenues will fall this year to their lowest level, measured as a share of the economy, since 1959 — a time when Medicare, most environmental protection programs, and most federal aid to education did not yet exist.

The bottom line is that, having experienced a historic swing from surpluses to deficits, the nation faces deficits that threaten to rise to alarming levels in future decades. This is a cause for grave concern, not self-congratulation.