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

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DEFICITS AND THE MID-SESSION REVIEW
The Administration's Efforts to Make Harmful Deficits Appear Benign

by David Kamin, Richard Kogan, and Robert Greenstein

On July 30, the Office of Management and Budget released new projections stating that the budget deficit will grow to $445 billion in fiscal year 2004. This is $70 billion larger than the 2003 deficit, which stood at $375 billion. Despite the economic recovery, the deficit has continued to rise significantly. 2004 will be the fourth consecutive year of fiscal deterioration, following eight consecutive years of fiscal improvement.

The $445 billion projected deficit also is more than $700 billion worse than what the Administration projected for fiscal year 2004 in its first budget, submitted in February 2001. At that time, the Administration forecast a $262 billion *surplus* for 2004.

In the face of this dramatic fiscal deterioration, the Administration is now attempting to downplay the deficits and is citing the new figures as evidence it is making progress on the fiscal front. In spinning the new deficit numbers, the Administration and others have made several dubious claims.

- *The 2004 deficit.* The Administration has hailed the 2004 projected deficit as evidence that its policies are working. The Administration notes that the $445 billion deficit it now forecasts for 2004 represents a significant improvement compared with the larger, $521 billion deficit it projected last February. As the Center on Budget and Policy Priorities reported at that time, however, the Administration's February forecast artificially inflated the projected deficit for 2004, apparently so that subsequent downward adjustments in the deficit estimate could be presented as progress rather than as being, in significant part, the substitution of more realistic estimates for overstated ones.[1] Furthermore, as noted above, the $445 billion deficit now forecast for 2004 represents a deterioration from the level of the deficit in 2003, when the deficit stood at $375 billion.

- *Stronger economic growth.* The Administration also is portraying the drop in the projected 2004 deficit as a sign of stronger-than-expected economic growth. Such a portrayal is not accurate. Overall economic growth has been *no faster* than the Administration forecast earlier this year. The economy grew at a 4.8 percent annual real rate in the first three quarters of the fiscal year, in line with what the Administration projected when it released its earlier deficit projection in

[1] Richard Kogan, "Does the Administration's Budget Overstate the Likely 2004 Deficit?" Center on Budget and Policy Priorities, February 2, 2004.

February. Indeed, economic growth has been equal to the growth rate of 4.8 percent that the Congressional Budget Office projected at the start of the year.[2]

- *Revenues coming in modestly higher than expected.* Although economic growth has not been faster than expected, revenues are coming in modestly above what CBO projected in February. (At the time of CBO's projection, we noted that there already was evidence suggesting its revenue estimate would prove too low.) Possible factors that may help to explain the higher revenues include a greater-than-expected concentration of income among high-income individuals and higher-than-expected inflation (see box on page 5). Even so, revenues remain at unusually low levels. The Administration's new projection shows that federal revenues this year will be at their *lowest level since 1959*, measured as a share of the economy.

- *Cutting the deficit in half by 2009.* The Administration is again contending that under its proposed budget policies, the deficit would be cut in half by 2009. But, the Administration uses a further set of unrealistic budget estimates for years after 2004 to make this case; the Administration omits major costs from its projections for those years, such as the costs of continuing relief from the Alternative Minimum Tax, something that the Administration has made clear it favors. Moreover, the Administration's budget figures extend for five years rather than ten, leaving out the years from 2010-2014 when the baby-boom generation will begin to retire in large numbers and the deficit is expected to rise.

- *Causes of the deficit.* On a related front, a number of policymakers and activists with an ideological axe to grind have claimed the recent tax cuts have contributed little or nothing to the deterioration of the budget outlook. The Administration's own data show, however, that among the deficit-increasing factors over which policymakers have had control, the tax cuts constitute the single largest cause of the shift from surpluses to deficits. Table 7 of the Mid-Session Review shows that, to date, tax cuts account for 57 percent of the budget deterioration that was caused by the enactment of legislation since 2001.

  Examining overall spending and revenue as a share of the economy provides further evidence that it is the low level of revenues, not a high spending level, that is driving the deficit. As noted above, revenues will fall this year to their lowest level, measured as a share of the economy, since 1959. By contrast, spending as a share of the economy is below its average level of the past four decades.

[2] This calculation compares the average size of the economy in the first three quarters of this fiscal year with the average size of the economy in the first three quarters of the previous fiscal year. Alternatively, one could compare the size of the economy in the third quarter of fiscal year 2004 with the size of the economy in the last quarter of fiscal year 2003. By this method, the economy has grown at a real annual rate of 4.0 percent through the third quarter. This remains generally in line with the Administration's forecast, but it is noticeably slower than CBO's earlier projection for a real annual rate of growth of 4.4 percent for this period.

Excerpts from Recent *National Journal* Column on Administration Spin and the Mid-Session Review by Stan Collender

Stan Collender is a noted budget expert and contributing editor at National Journal.com.

"At some point over the next few weeks, the Office of Management and Budget will release the administration's mid-session budget review and try to convince everyone the federal deficit is falling.

Don't believe them.

OMB is likely to say its latest projection shows the fiscal 2004 deficit will be around $420 billion, about $100 billion less than the $521 billion the administration forecast when it released its budget in February. Administration officials will say this is an indication of how much better the budget outlook has gotten over the past few months and that the president's policies are working....

The administration…won't say that the 'improvement' is due to what now must be taken as a consistent pattern of questionable projections and forecasts. Last year's midsession review projected a fiscal 2003 deficit of $455 billion. A mere 10 weeks later, when the actual number turned out to be $80 billion less, the White House claimed the lower number was because of the president's economic program and sound management.

But the 'improvement' was mostly due to the unrealistically high forecast included in the mid-session review. There is almost nothing that can be done in the last quarter of a fiscal year to increase revenues or reduce spending by anything close to $80 billion. This forecasting either was politically motivated or just plain bad, and the characterization of it as an improvement was nothing more than spin.

If the widely expected $420 billion deficit figure turns out to be correct, then it will not be wrong if the White House claims the budget outlook has improved compared to what it previously forecast. But it will be wrong for the administration to say the deficit is falling when, in fact, it is rising....

Moreover, the administration should be careful about using its projections to claim the deficit is shrinking when they can also be used to show the exact opposite.

For example, the Bush 2004 budget that was submitted to Congress on February 3, 2003, said that the 2004 deficit would be $307 billion. Therefore, the $420 billion deficit expected to be projected in the midsession review could be considered an *increase* of more than $100 billion rather than the $100 billion decline the White House is likely to trumpet."

Source: Stan Collender, "Look, Don't Listen," *National Journal.com*, July 13, 2004.

Spinning the 2004 Budget Deficit

In its Mid-Session Budget Review, the Administration forecasts a deficit of $445 billion for 2004, lower than its $521 billion estimate of last February. Based on this revision, the Administration has tried to spin the new deficit forecast for 2004 as a sign that its policies are working to reduce federal borrowing and that the deficit is manageable. Does the new forecast represent real progress?

- The White House's new projections show the 2004 deficit will be $76 billion above last year's level of $375 billion. At this point in previous recoveries, deficits have typically begun to shrink rather than continued to rise. A substantial "structural deficit" has developed — one that will persist as the economy grows, unless policies change. This hardly represents an advance.

Table 1
The Deficit Trend: A Nearly $700 Billion Swing Since 2001
(Surplus/Deficit in billions of dollars)

Date of administration projection	Administration's estimated surplus/deficit for 2004, assuming enactment of its policies (In billions of dollars)
February 2001	+$262
February 2002	-$14
February 2003	-$307
July 2004	-$445
Total change: February 2001-July 2004	**-$707**

Source: OMB.

- Any notion of fiscal "improvement" appears even more dubious in light of the overall fiscal trend since 2001 — a trend of dramatically widening deficits. When the Administration came to office in 2001, the federal government was enjoying large surpluses, and those surpluses were expected to extend through the end of the decade. The surpluses rapidly disappeared.

- As Table 1 shows, the deficit projected for fiscal year 2004 has grown larger in each of the President's first three budgets. The new 2004 deficit estimate is more than $700 billion worse than the estimate for 2004 found in the Administration's first budget issued in February 2001, even though that budget assumed enactment of the President's full 2001 tax-cut package. The new deficit estimate for 2004 also is $138 billion larger than the 2004 deficit estimated in the President's fiscal year 2004 budget, released in February 2003.

The Administration has focused on the drop of $76 billion in the projected 2004 deficit from the deficit level it projected last February, describing this as evidence of progress on the fiscal front. Yet *no* policy changes have been enacted since February that would reduce the 2004 deficit, and economic growth has simply been in line with previous expectations. (See the box on page 5.) As noted, much of the improvement can be attributed to the fact that the Administration's February forecast noticeably overstated the projected 2004 deficit, which we reported in February when the budget was issued. At that time, the Administration projected a deficit for 2004 that was $43 billion higher than the estimate the Congressional Budget Office issued only a week before. Moreover (as we also explained in February), there already was evidence at the time that the CBO estimate itself was likely to prove too high, since revenues for the first quarter of the fiscal year exceeded the level the CBO projection assumed.[3] CBO has

[3] *Ibid*.

Have Administration Policies Promoted Unexpectedly Strong Economic Growth?

The Administration is portraying the drop in its expected 2004 deficit as a sign of unexpectedly strong economic growth. The Administration also claims that this vindicates its tax-cut policies. Such conclusions, however, are misguided. Overall economic growth has been *no* faster than expected earlier this year.

Over the first three quarters of fiscal year 2004, the economy grew at the same rate that CBO forecast in January. The real gross domestic product — the overall measure of the economy — grew at a 4.8 percent annual rate in the first three quarters of the fiscal year. This is in line with previous Administration estimates. In its January *Budget and Economic Outlook*, CBO projected this same annual GDP growth rate of 4.8 percent for this period. There has not been an unforeseen economic boom.

To be sure, the Administration now expects revenues to be higher than it anticipated earlier in the year. Partly, the upward adjustment reflects the fact that the Administration's February revenue estimate was especially conservative, even in light of what was known at the time. It was about $20 billion below what CBO had estimated just a week before. (OMB's original revenue estimate was very close to CBO's, but OMB cut its estimate by $20 billion to reflect "revenue uncertainty." OMB now says that the downward adjustment "no longer appears necessary.")

Revenue collections this year have also been higher than what CBO previously anticipated. In its September update of the "Budget and Economic Outlook," CBO estimates that revenues in 2004 will be $54 billion higher than it projected earlier in the year. (OMB's estimated revenue level for 2004 in the Mid-Session Review is in line with CBO's new forecast.)

Factors that help explain the higher revenues include the following:

- According to CBO, the Treasury has received an additional $30 billion from individual taxpayers receiving smaller refunds and making larger payments than it earlier expected when they filed their 2003 income tax returns this year. This $30 billion in extra revenue comes from 2003 tax returns; it cannot be attributed to "unexpected" economic growth in 2004.

- Inflation has increased, which tends to push up revenue collections. Inflation has been higher this year than both CBO and OMB earlier expected. Over the first three quarters of the fiscal year, inflation has proceeded at a 3.0 percent annual pace. As of January, CBO expected inflation to proceed at a 1.5 percent annual pace over this period.

- High-income individuals and corporations may be receiving a greater share of national income than previously anticipated, with ordinary workers receiving a smaller share. The federal tax system collects a higher percentage of income from high-income households than from typical workers, and an increase in income disparities would tend to increase federal income tax revenues. Payroll tax revenues would decrease, since payroll taxes come disproportionately from the wages of typical workers, but the decline in payroll tax revenues would only partly offset the increase in income tax revenues.

  These effects of income concentration at the top are consistent with what has occurred in 2004. Personal income tax receipts have been modestly higher than expected and corporate tax revenues have enjoyed an unanticipated increase (although they remain well below their historical norm), while payroll tax receipts appear to be lower than CBO expected.

Such trends would result in higher-than-expected revenue intake. CBO does not yet have enough data to know exactly why revenues are higher than expected, and other factors also may help explain the revenue increase. But it is clear that faster-than-expected overall economic growth is not among them.

since indicated that the deficit is likely to be about $56 billion lower than it projected earlier in the year.[4]

Finally, the deficit now forecast for fiscal year 2004 remains high, especially for a time when the economy is on the rebound. With OMB projecting that this year's deficit will equal 3.8 percent of GDP, the federal debt will continue to grow at an unsustainable rate.

There would be little need for concern on economic grounds if deficits of this size were temporary, but they are not. The nation now faces a large structural deficit, little of which can be attributed to temporary phenomena such as economic cycles or the war in Iraq. Large deficits loom "as far as the eye can see."

The 2004 Deficit: Still Overstated?

In the week after the White House announced a projected 2004 deficit of $445 billion in its Mid-Session Review, both CBO and the Administration's own Treasury Department released updated deficit forecasts for 2004 — with both agencies finding that the 2004 deficit would be more than $20 billion below the White House's new estimate. CBO now believes the deficit for the current fiscal year will be $422 billion,[5] and the Treasury Department data produce a very similar estimate of $418 billion.[6] In the Mid-Session Review, OMB itself acknowledges that its $445 billion figure is probably too high. OMB says that its 2004 spending estimate is based on figures supplied by the various federal departments and agencies, which OMB notes "tend to overestimate actual outlays."[7]

It appears that OMB has overstated the 2004 deficit in the Mid-Session Review. When the final deficit numbers are released in October, the Administration may again employ the tactic of using its earlier overstated deficit estimate to confuse the press and public about whether deficits are growing or shrinking. If a deficit of about $420 billion is reported in October, the Administration may contrast that figure with its recent $445 billion forecast to show further "improvement" since the Mid-Session Review, attributing this drop in the 2004 deficit to the success of its policies. But this somewhat lower deficit figure will *not* be due to a brightening deficit picture over the next two months but rather to OMB's $445 billion forecast being too high in the first place. Further, a $420 billion deficit would still be large and represent a $45 billion

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4 CBO first issued the lower deficit estimate in Congressional Budget Office, "August Monthly Budget Review: Fiscal Year 2004," August 5, 2004. CBO reissued this same deficit estimate in CBO, "The Budget and Economic Outlook: An Update," September 2004.

5 *Ibid.*

6 The Treasury reported that the actual fiscal 2004 deficit through June 30 was $327 billion. It also projected a deficit of $91 billion for the period July through September, for a total fiscal 2004 deficit of $418 billion. See U.S. Treasury, "Monthly Treasury Statement, June 2004," July 13, 2004. Also see Office of Debt Management, U.S. Treasury, "Charts (Quarterly Refunding)," August 2, 2004, at http://www.treas.gov/offices/domestic-finance/debt-management/qrc/2004/2004-q3-charts.pdf

7 Office of Management and Budget, "Fiscal Year 2005 Mid-Session Review," page 4.

increase from last year's deficit of $375 billion. In the face of a recovering economy, this could not be called improvement.[8]

Will Deficits Shrink Over Time?

While the White House has twice overstated the 2004 deficit, its long-term estimates understate future deficits. The White House's new forecast shows deficits shrinking from $445 billion in 2004 to $229 billion in 2009, or from 3.8 percent of Gross Domestic Product this year to 1.5 percent in 2009. Unfortunately this deficit projection for fiscal year 2009 is not credible; it omits the costs of a number of the Administration's own policies. The White House's budget projections for future years fail to include:[9]

- *The large costs associated with providing relief from the individual Alternative Minimum Tax after 2005*. The Administration has repeatedly said it plans to propose extending AMT relief beyond 2005 and will submit such a proposal next year, but no costs for that are reflected in the Administration's budget estimate. Unless AMT relief is continued, the AMT will explode into the middle class.

- *The full cost of continuing an array of other tax breaks.* These are the so-called tax "extenders" that always are renewed for a year or two at a time on a bipartisan basis when their term is up. The budget includes the permanent extension of the Research and Experimentation tax credit, but only a one- or two-year extension of most of the other "extenders" — despite the fact that they are almost certain to continue being extended. Noting that most extenders are likely to remain in effect, CBO director Douglas-Holtz Eakin recently testified, "…most of the

Goldman-Sachs on OMB's Deficit Estimates

"The Office of Management and Budget has perfected the art of underpromising and outperforming in terms of its near-term budget deficit forecasts. For example, in its semiannual review, the OMB lowered its deficit forecast for fiscal 2004 to $445 billion from $521 billion. This creates the impression that the deficit is narrowing when, in fact, it will be up sharply from the $375-billion imbalance of a year earlier. This process is likely to continue in October, when the fiscal 2004 deficit turns out to be lower than the current OMB forecast.

In contrast, the OMB's longer term forecasts — a deficit that falls in half in five years — appear to be too optimistic for two reasons. First, spending will almost certainly be higher than projected, both due to the added funds needed for Afghanistan and Iraq and because the assumed freeze in real domestic discretionary spending has no historical precedent. Second, some of the tax law changes sought by the administration, such as relief from the Alternative Minimum Tax (AMT), are not built into the current projections."

Source: Goldman Sachs, "US Economic Analyst," August 6, 2004, p. 3.

[8] For more details, see Richard Kogan, "Administration's Latest 2004 Deficit Projection Appears Overstated: Will the Deficit Figure be Presented as Progress in Deficit Reduction?" August 10, 2004.

[9] For more details on what the Administration's budget projection omits and how we adjust for these costs, see Richard Kogan, Joel Friedman, and John Springer, "Does the President's 2005 Budget Really Cut the Deficit in Half," Center on Budget and Policy Priorities, February 3, 2004.

Table 2
Items Omitted from the Mid-Session Budget Review
But Supported by the Administration
(Costs include direct costs plus increased interest payments on the debt)

	2009	
	In billions of dollars	As a % of GDP
Deficit Shown in Mid-Session Review for 2009	$229	1.5%
Costs left out of Mid-Session Review:		
Relief from the Alternative Minimum Tax	$57	0.4%
Continuation of "tax extenders"	$6	0.0%
Future-Year Defense Plan and ongoing war on terrorism	$70	0.5%
Health Insurance Tax Credit	$8	0.1%
Non-defense discretionary programs	$0 - $39	0.0% - 0.3%
Total costs left out	$141 - $181	0.9% - 1.2%
Deficit in Mid-Session Review, including omitted costs	$370 - $410	2.4% - 2.7%

May not add due to rounding.

expiring provisions were enacted as a step toward making them permanent or extending them indefinitely."[10]

- *The full cost of the Administration's own "Future Year Defense Plan" and ongoing war on terrorism*. The Administration's figures low-ball the cost of defense spending in future years. This year, CBO estimated the cost of funding the Administration's Future Year Defense Plan — which essentially serves as the Administration's multi-year defense blueprint — and the likely cost of the continued war on terrorism, assuming that expenditures in Iraq and Afghanistan ramp down over the next five years. The Center on Strategic and Budgetary Assessments converted the CBO funding figures into estimates of total expenditures for each year if the Future Year Defense Plan and the war on terrorism are fully funded.[11] Comparing these CBO/CSBA estimates to the amounts in the Administration's budget indicates that the Administration has substantially understated the cost of its own policies and plans.

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[10] Douglas Holtz-Eakin, "CBO Testimony: Statement of Douglas Hotlz-Eakin Before the Committee on the Budget, U.S. House of Representatives," July 22, 2004, p. 2.

[11] CBO, "The Long-Term Implications of Current Defense Plans: Detailed Update for Fiscal Year 2004," February 2004; Steven M. Kosiak, "Cost Growth in Defense Plans, Occupation of Iraq and War on Terrorism Could Add Nearly $900 Billion to Projected Deficits" Center for Strategic and Budgetary Assessments, March 9, 2004; Steven M. Kosiak, unpublished estimates, Center for Strategic and Budgetary Assessments.
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- *The cost of the Administration's proposed health insurance tax credit.* The President's budget proposes a health insurance tax credit that it says would increase expenditures by $65 billion over ten years. The Administration leaves this cost out of its budget, however, on the grounds that the costs will somehow be offset. Yet the budget proposes no offset to achieve those savings. This type of a gimmick was dubbed a "magic asterisk" when the Reagan Administration employed it.

- *The cost of realistic funding levels for domestic discretionary programs outside homeland security*. The budget reflects unrealistically low levels of funding in years after 2005 for annually appropriated domestic discretionary programs outside homeland security; it assumes significant and deepening cuts in this part of the budget. Securing and maintaining cuts of the magnitude assumed for this part of the budget — which includes education, child care, environmental protection, veterans' health care, and transportation programs among others — would be unprecedented.

  By 2009, the President's budget proposes cutting overall funding for domestic discretionary programs outside homeland security by 12 percent below the 2004 level adjusted for inflation — with cuts of 17 percent in veterans' medical benefits and 20 percent in programs related to environmental protection and natural resources.[12]

  In Table 2, we assume a range of funding levels for non-defense discretionary programs, with the Administration's budget assumptions at one end of the range and the assumption that domestic discretionary programs outside homeland security will simply keep pace with inflation and population growth after 2005 at the other end. In ten of the last 15 years, funding for domestic appropriations outside homeland security has actually grown faster than inflation plus population growth.

These various adjustments increase the projected deficit in 2009 by between $141 billion and $181 billion. Adding these omitted costs raises the projected 2009 deficit from the Administration's unrealistically low level of $229 billion to a more defensible projection of between $370 billion and $410 billion.

Table 3
A Shrinking Deficit?
(Deficits as a share of GDP)

	Start	End	Percentage point change
2004 to 2009, OMB est.	3.8%	1.5%	-2.3%
2004 to 2009, CBPP est.	3.6	2.7	-0.9
1992 to 1997	4.7	0.3	-4.4

May not add due to rounding.

In short, the Administration's Mid-Session Review significantly understates expected deficits in future years. There certainly will be some reduction in deficits in the years immediately after 2004 as the economy

[12] For a discussion of the consequences of adhering to the 2009 levels of domestic discretionary funding in the Administration's February budget, which are essentially the same as the levels for 2009 in the Mid-Session Review, see Center on Budget and Policy Priorities, "Administration's Budget Would Cut Heavily Into Many Areas of Domestic Discretionary Spending After 2005," March 5, 2004.

continues to recover and as the “bonus depreciation” provision of the 2003 tax cut expires, but realistic projections suggest that the deficit will not fall below $300 billion in any year. In addition, as shown in Table 3, the magnitude of the deficit reduction — even using the Administration’s own unrealistic projections — pales in comparison to the deficit reduction achieved during the first five years of the Clinton Administration, when policymakers of both parties worked to reduce or eliminate deficits.

Even this modest reduction in deficits will not last. As the baby-boom generation begins retiring after 2008 and additional tax cuts such as estate-tax repeal take effect, deficits will start mounting again and eventually will far surpass the 2004 level.

Current High Deficits Not a Temporary Phenomenon

OMB’s new figures, which run only through 2009, may imply that the high deficits in 2003 and 2004 are temporary. Unfortunately, it is the dip in the deficit in years after 2004 that is the transitory phenomenon. Had OMB projected its budget policies over a longer period than five years, the short-lived nature of the improvement would be evident.

Our estimates of the cost of current budget policies — based on CBO deficit projections, as adjusted to reflect continuation of current tax cuts and AMT relief and full funding of the Administration’s multi-year defense plan — show deficits rising from about 2.7 percent of GDP in 2007 to approximately 3.3 percent of GDP by 2014, and higher levels in years after that.[13]

The leading edge of the baby-boom generation becomes eligible to start drawing Social Security benefits in 2008 and Medicare benefits in 2011. As the years pass and the baby boomers’ retirement accelerates, the budgetary consequences of the increased Medicare, Medicaid, and Social Security costs — alongside the revenue losses from the tax cuts if they are made permanent — place the budget on an unsustainable path.

Indeed, in the Administration’s budget issued in February, OMB included a graph showing exploding deficits as the baby boomers retire. (See graph, which is taken direct from the President’s budget, although the title of the graph is not.) Furthermore, if the costs described above that were omitted from the President’s budget are taken into account, projected deficits become even larger than is shown in this graph, and the deficit starts growing again as early as 2008.

In short, claims that current deficits are “manageable” miss the point. Deficits may not be significantly harming the nation *now*, because the economy has not yet fully recovered from the recent recession. But focusing on that point diverts attention from the central issue: The question is not whether the credit markets are willing to finance a high level of deficits temporarily, but whether the nation is able to finance the persistently high deficits we face over

[13] For further details on the causes of the fiscal deterioration and the size of the projected deficits, as well as an explanation of our methodology, see Richard Kogan and David Kamin, “New Congressional Budget Office Estimates Show Continued High Deficits and Further Fiscal Deterioration,” September 9, 2004.

the long term. The answer is no. The current fiscal policy path is neither manageable nor sustainable.

Is the Deficit Entirely "Spending Driven"?

Some people engage in sophistry, implying that since a deficit means expenditures exceed revenues, by definition this means that "excess spending" must be the cause of deficits. This makes little sense. If spending is cut but taxes are cut still more, deficits rise. By the reasoning that some are now employing, the resulting deficits would still be "spending driven" because spending would still exceed revenues.

An honest assessment of the relative role that tax cuts and program increases have played in contributing to the deterioration of the budget over the past 3½ years requires examining the cost of all legislation enacted since the start of 2001. OMB, in Table 7 of the Mid-Session Review, shows the cost to date of legislation enacted since the Administration took office. As shown in Table 4, the Administration's own data show that, over the 2001-2004 period, tax cuts account for 57 percent of the budget deterioration that was caused by the enactment of legislation.

Table 4
Causes of the Deficits: Change Since 2001
(2001-2004, In Trillions of Dollars)

	2001-2004	Share, attributable to legislation
Surpluses projected in January 2001	**1.3**	
Economic and technical reestimates	-1.0	
Tax cuts	-0.6	57%
Spending increases	-0.5	43%
Subtotal enacted and assumed legislation	-1.1	100%
Current deficit estimate	**-2.1**	

Source: OMB, President's Mid-Session Budget Review, Table 7.

Revenues and Spending in Historical Perspective

If the deficits truly were "spending driven," with tax cuts playing little role, one would expect federal spending to be high today in historical terms. Yet it is not. The new OMB figures show that federal spending, measured as a share of the economy, is *below* its 1962-2001 average. Federal spending is below the average for the previous four decades even though operations in Iraq have proved costly and policymakers have had little choice but to enact measures spending

Table 5
What is Different About This Year?
The budget as a share of GDP

	2004	**average, 1962-2001**	**Comments on 2004 fiscal position**
Expenditures	20.1%	20.4%	Lower than average
Revenues	16.2%	18.3%	Lowest since 1959
Deficits	3.8%	2.1%	Above average

Columns may not add due to rounding.
Source: OMB.

money to strengthen homeland security and rebuild after 9/11. As Table 5 indicates, the current deficits primarily stem not from unusually high levels of expenditures but from unusually low levels of revenue.

Revenues will remain at historically low levels after the economy recovers. If the Administration's tax cuts and AMT relief are extended, revenues will be at a lower average level over the next ten years than the average levels for the decades of the 1960s, 1970s, 1980s, and 1990s.