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DOES THE ADMINISTRATION'S BUDGET OVERSTATE THE LIKELY 2004 DEFICIT?

By Richard Kogan

The Administration appears to have noticeably overstated the deficit for the current year, 2004, just as it overstated the 2003 deficit last July.

In issuing its mid-session budget forecast last July, the Administration projected a considerably larger deficit for fiscal year 2003 than the Congressional Budget Office and other analysts were projecting at that time. When, in October 2003, the actual deficit for 2003 turned out to be \$81 billion lower than the Administration's July estimate, the White House trumpeted the difference as good economic news and evidence its policies were working. Yet most of the difference was unrelated to the economy. Two-thirds of the \$81 billion difference occurred because expenditures in 2003 were lower than the Administration showed in its July documents.

With the release of the President's new budget, there again is a difference between the Administration on the one hand and CBO and other analysts on the other hand. Once again, the Administration is predicting a substantially higher deficit for the current year. The Administration may be overstating the size of the deficit for 2004, just as its July budget forecast evidently overstated the deficit for 2003.

Specifically, the Administration is projecting a deficit for fiscal year 2004 of \$521 billion. CBO projects a deficit of \$477 billion, or \$44 billion less. The Administration expects 2004 revenues to be \$19 billion lower than CBO does and shows spending as being \$25 billion higher.¹

Yet CBO's estimate of a \$477 billion deficit for 2004 itself may be too high. CBO estimates that revenues will grow by 2 percent in 2004 and expenditures will grow by 6 percent. Comparing the first three months of fiscal 2004 with the first three months of fiscal 2003, we see that to date, revenues have grown slightly faster than the rate at which CBO projects they will rise, while expenditures have grown slightly more slowly. If this trend continues, the deficit will be below CBO's estimate of \$477 billion.

¹ Because appropriations bills for 2004 have already been enacted and no supplemental 2004 appropriations are planned, the difference between OMB and CBO is caused almost entirely by different estimates of the cost of existing law, *not* because the Administration is planning new legislation that would affect the deficit in 2004. Summary Table 15 on page 388 of the new Budget shows that the Administration is calling for no changes in expenditures in 2004 but \$7 billion in revenues *increases* in 2004, almost entirely related to timing aspects of the proposal to change tax law applicable to the employer-based pension system. Setting aside the Administration's proposal for \$7 billion in increased revenues in 2004, we see that OMB's estimate of the 2004 deficit under existing law is more than \$50 billion higher than CBO's.

Would the Administration Purposely Overestimate the 2004 Deficit?

For more than half a year, the Administration has stated that it has “a plan to cut the deficit in half in five years.” Overstating the deficit for 2004 would raise the “target deficit” for 2009, since that target would be half of the overstated deficit number for 2004. This would make the target somewhat easier to reach. In this respect, overstating the 2004 deficit could be an exercise in setting the bar low.

In addition, overstating the 2004 deficit could allow the President to announce significant “progress” on the deficit in late October — shortly before Election Day — when the Treasury Department announces the final figures for fiscal year 2004. Overstating the 2004 deficit in February could be an attempt to get the bad news out of the way as early in the year as possible, while setting the stage for some October spinning of the “reduction” in the 2004 deficit (compared to the February projection) as good news that shows Administration policies are working.

In reality, a deficit that rises from \$375 billion in 2003 to well over \$400 billion in 2004 — and that increases as a share of the economy at a time the economy is growing at a reasonable rate — is not progress by any meaningful standard. Such an upward trend in the deficit would not show that existing policies are fiscally responsible or are working effectively.