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NEW CBO DATA SHOW DEFICIT WILL BE HIGHER THAN EARLIER FORECAST AS REVENUES FALL TO THEIR LOWEST LEVEL IN DECADES, AS A SHARE OF GDP

With Pending Tax Cut, Revenues This Year Will Hit Lowest Level, As Share of GDP, Since the Eisenhower Administration

By Isaac Shapiro

A new report that the Congressional Budget Office issued on May 9 shows that federal revenues for fiscal year 2003 are falling $50 billion to $80 billion below CBO's earlier projections and that deficits this year consequently will be substantially larger than CBO projected as recently as two months ago, in March.[1] The CBO report, which is based on Treasury data on revenue collections through April 30, comes at a time when legislation is moving through Congress that would cut federal taxes further.

In combination, the deterioration in federal revenues reflected in the new CBO report and the additional tax cuts contained in legislation likely to be enacted within the next few weeks will lead taxes to fall this year to their *lowest level as a share of the economy since 1959, the next-to-last year of the Eisenhower administration*. This finding applies regardless of whether Congress ultimately approves the Senate tax-cut level or the House level. The new CBO figures also have disturbing implications for revenue collections and deficits for years to come.

Even without any new tax cuts, receipts, measured as a percentage of the economy, are on course to fall to levels not seen for a number of decades.

- CBO projects that revenues for this fiscal year will fall $50 billion to $80 billion below its March projection. If federal revenues fall $50 billion below the March projection, they will equal 17.1 percent of the economy (i.e., of the Gross Domestic Product) in 2003.[2] That would be the lowest level since 1965.
- If federal revenues fall $80 billion below CBO's March projection, revenues will equal 16.8 percent of the economy, the lowest level since 1959.
- In short, even without any new tax cuts, receipts as a percent of the economy are on course to fall to their lowest level since either 1965 or 1959.

[1] In its new report — "Monthly Budget Review," May 2003 — CBO raised its deficit estimate for the year from $246 billion to "over $300 billion." (The Center on Budget and Policy Priorities released a report on this trend last week. See "Federal Revenues Appear To Be Drying Up More Than Expected," Center on Budget and Policy Priorities, May 5, 2003.)

[2] This calculation reflects both CBO's projection of receipts and its projection of the size of the economy (i.e., the Gross Domestic Product). With actual GDP information available for the first half of fiscal 2003, CBO's GDP projection is essentially right on the mark. For the various calculations used in this analysis, CBO's GDP projection for the year is used.

	Revenues as a Share of GDP, 2003	Notes
CBO estimate that revenues will be $50 billion below its earlier forecast	17.1%	Lowest since 1965
With Senate Tax Cut	16.9%	Lowest since 1959
With House Tax Cut	16.6%	Lowest since 1959
CBO estimate that revenues will be $80 billion below its earlier forecast	16.8%	Lowest since 1959
With Senate Tax Cut	16.6%	Lowest since 1959
With House Tax Cut	16.3%	Lowest since 1959

- The data in the new CBO report also show that revenues for fiscal year 2003 will fall below their 2002 level. This will mark the third year in a row that revenues have fallen on a nominal basis (i.e., even before adjusting for inflation)[3]. The last time that revenues declined on a nominal basis for three consecutive years was from 1920 to 1923.

The tax cuts moving forward in Congress will cause these levels to drop further and will assure that revenues fall to their lowest level as a share of the economy since 1959.

- If the less-costly Senate bill were to be enacted, revenues would drop another $29 billion in 2003. (This is the cost of the bill the Senate Finance Committee approved on May 8.) Revenues would drop to between 16.6 percent and 16.9 percent of the economy this year, depending upon whether the high end or the low end of CBO's revenue shortfall range is used. Either way, revenues would fall below 17 percent of GDP for the first time since 1959.

- Under the House bill, revenues would drop to between 16.3 percent and 16.6 percent of the economy in 2003.

Moreover, the figures cited so far refer to *total* federal revenues as a share of the economy. The story becomes even more remarkable when just federal *income taxes* are considered. Even under CBO's most optimistic scenario — and before adding in any new tax cuts — *income tax receipts are on course to drop to their lowest level, measured as a share of the economy, since 1943.*

Although the decline in revenues partly reflects the decline in the U.S. economy, other factors clearly are at work as well, since revenues would drop to levels well below those seen in the deeper recessions of the mid-1970s and early 1980s. In particular, these historically low levels of revenue collections reflect the impact of tax cuts enacted in the past few years. The tax cuts enacted in 2001 and 2002 will reduce revenues by $126 billion in 2003, based on CBO estimates.[4] Without those tax cuts, revenues as a percent of the economy would not be close to being at their lowest level since 1959 or 1965.

[3] Revenues were $2.025 trillion in fiscal year 2000. They declined to $1.991 trillion in FY 2001 and $1.853 trillion in FY 2002. CBO now projects they will total $1.811 trillion to $1.841 trillion in FY 2003.

[4] Even if one assumes the level of positive economic feedback from the 2001 tax cut that the President's Council of Economic Advisors has claimed, the tax cuts enacted in the past two years will reduce revenues by an estimated

These findings should give some pause to the current drive to enact further tax cuts. They also intensify concerns over recent press reports that the Administration plans a tax cut every year.[5] Receipts have already fallen to sufficiently low levels that questions about the adequacy of the nation's revenue base must be raised, especially with the retirement of the baby-boom generation fast approaching. Moreover, the data showing that the decline in receipts has been greater than expected also means that the economy already is receiving a larger fiscal stimulus than had previously been recognized; the decline in revenues translates into a larger deficit, which means more fiscal stimulus.

Federal Receipts as a Share of Gross Domestic Product, 1951-2003

Figures do not reflect any further tax cuts

1951	16.1%	1978	18.0%
1952	19.0	1979	18.5
1953	18.6	1980	18.9
1954	18.4	1981	19.6
1955	16.6	1982	19.1
1956	17.4	1983	17.5
1957	17.7	1984	17.4
1958	17.3	1985	17.7
1959	16.1	1986	17.5
1960	17.8	1987	18.4
1961	17.7	1988	18.1
1962	17.5	1989	18.3
1963	17.8	1990	18.0
1964	17.6	1991	17.8
1965	17.0	1992	17.5
1966	17.3	1993	17.6
1967	18.3	1994	18.1
1968	17.6	1995	18.5
1969	19.7	1996	18.9
1970	19.0	1997	19.3
1971	17.3	1998	19.9
1972	17.5	1999	20.0
1973	17.6	2000	20.8
1974	18.3	2001	19.9
1975	17.9	2002	17.9
1976	17.2	2003est.	17.6*
1977	18.0	2003est.	17.1**
		2003est.	16.8***

*CBO baseline, March 2003.
**Estimate if revenues fall $50 billion below the baseline.
***Estimate if revenues fall $80 billion below the baseline.

$109 billion in 2003. See the Center on Budget and Policy Priorities publication, "Are Tax Cuts a Minor or Major Factor in the Return of Deficits? What the CBO Data Show," February 12, 2003.

[5] Dana Milbank and Dan Balz, "GOP Eyes Tax Cuts as Annual Events," *The Washington Post*, May 11, 2003.