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**ADMINISTRATION'S LATEST 2004 DEFICIT PROJECTION APPEARS OVERSTATED;
WILL FINAL DEFICIT FIGURE BE PRESENTED
AS PROGRESS IN DEFICIT REDUCTION?**

By Richard Kogan

On August 2, three days after the Office of Management and Budget (OMB) projected that the fiscal year 2004 deficit will total \$445 billion, the Treasury Department issued data indicating a deficit of \$418 billion, nearly \$30 billion below the OMB projection.¹ Similarly, the latest deficit forecast from the Congressional Budget Office (CBO), issued August 5, projected a 2004 deficit of \$422 billion, more than \$20 billion below the OMB figure.² OMB itself has acknowledged that its \$445 billion figure is probably too high.

These facts strongly suggest that the final deficit figure for 2004 will be in the \$420 billion range, below the OMB estimate of \$445 billion. This somewhat lower deficit figure will *not* be due to a brightening deficit picture over the next two months but rather to OMB's forecast being too high in the first place. In fact, at \$420 billion, the 2004 deficit would be \$45 billion *higher* than the 2003 deficit and would also constitute a larger share of the Gross Domestic Product (3.6 percent, up from 3.5 percent in 2003).

**Does a \$420 Billion Deficit Represent
Fiscal Improvement?**

In its July 30 Mid-Session Review, OMB termed its new \$445 billion deficit estimate "progress" because it was lower than OMB's February forecast of a \$521 billion deficit. But the February forecast was well above what independent analysts were

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.*" (emphasis added)

Goldman Sachs "US Economic Analyst," August 6, 2004, page 3.

¹ 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. Combining those two figures produces 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>

² CBO, "Monthly Budget Review," August 5, 2004, at <http://www.cbo.gov/showdoc.cfm?index=5721&sequence=0>.

estimating at the time. In February, we and others noted that the \$521 billion figure was likely deliberately overstated so the Administration could claim progress on the deficit later this year as the election approached rather than admit that the 2004 deficit was well above the 2003 level.

The White House may repeat this tactic when it issues the actual deficit figure in late October by comparing the actual deficit — likely to be in the \$420 billion range — to OMB’s \$521 billion February forecast and its \$445 billion July forecast. Comparing the actual deficit to those earlier, overstated projections could well confuse the press and public about whether deficits are growing or shrinking.

Any Administration claim that a final deficit below OMB’s \$445 billion forecast demonstrates “improvement” in the deficit should be questioned on the following grounds:

- As noted, the Treasury deficit estimate of \$418 billion was issued just three days after the \$445 billion OMB estimate, while CBO’s estimate of \$422 billion came out six days after the OMB estimate. In other words, *within a week* of OMB’s forecast, both the Administration itself and the independent CBO issued lower forecasts.
- OMB itself suggests that its forecast of \$445 billion is overstated. In its Mid-Session Review, 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.” OMB concludes, “history suggests that the final deficit outcome for this year is likely to be different from [the \$445 billion] estimate — most probably lower.” Since 1981, on average, “the final deficit was lower than estimated in the Mid-Session by ... about \$20 billion in today’s terms,” according to OMB.³

CBO’s latest deficit forecast makes a similar point, noting that most of the difference between its projection and OMB’s occurs “because CBO expects \$26 billion less in spending this year than the Administration does.”

- An increase in the deficit from \$375 billion last year to about \$420 billion this year, in the face of a recovering economy, should not be considered an improvement. A \$420 billion deficit for 2004 would mark four straight years of fiscal deterioration, following eight straight years of fiscal improvement.

³ OMB, “Fiscal Year 2005 Mid-Session Review,” page 4.