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NEW CBO DEFICIT ESTIMATE INDICATES THAT WITHOUT THE TAX CUTS, THE BUDGET WOULD BE BALANCED

By James Horney

The Congressional Budget Office announced on August 4 that it now projects the deficit will be \$260 billion for fiscal year 2006, which ends on September 30.¹ CBO's projection of the deficit for the current year is \$30 billion below the level projected by the Administration when it released its *Mid-Session Review of the Budget* on July 11. (OMB estimated that the deficit for 2006 would be \$290 billion if no new spending or tax laws were enacted, and \$296 billion if policies proposed by the President were enacted. Since the proposed policy changes in question have not been enacted, CBO's deficit estimate does not reflect those changes and is comparable to the Administration's current-services estimate of a \$290 billion deficit.)

Some may assume that the CBO estimate means that tax revenues are coming in at even higher levels than the Administration assumed just a few weeks ago. Such an assumption, however, would be incorrect; CBO's new deficit estimate does not reflect an improvement in either the economic or the revenue outlook since July. Furthermore, the new CBO estimate indicates that were it not for the tax cuts of recent years, the budget would now be in balance.

- CBO is not projecting that revenues will be higher in 2006 than the Administration projected last month. In its baseline projections in the Mid-Session Review, the Office of Management and Budget projected that revenues would total \$2.403 trillion in 2006. This is exactly what CBO is projecting now. CBO's projected deficit for 2006 is \$30 billion lower than the Administration's July estimate because CBO estimates that spending will be \$30 billion lower this year than the Administration's estimates showed.
- CBO's projection that spending in 2006 will be lower than the Administration has estimated is not surprising. Nor is it the result of any improvement since July. OMB commonly overestimates current-year spending when issuing its Mid-Session Review. Federal agencies generally report to OMB each June that they will expend more of their funding by the end of the fiscal year than they actually end up doing. CBO's mid-year estimates more accurately take this factor into account, reflecting the reality that in some cases, the planned spending will not occur until the following year and in other cases, will not occur at all.

¹ Congressional Budget Office, "Monthly Budget Review," August 4, 2006. CBO will release its new 10-year budget projections and more detail on the updated 2006 estimate on August 17.

- CBO's deficit estimate of \$260 billion in 2006 illustrates one other reality, as well. Based on Joint Committee on Taxation estimates, the tax cuts enacted since January 2001 are costing a total of \$258 billion in 2006 (including the increased interest costs of the debt that result from the borrowing that is required to cover the lost revenues). This means that even with the spending for the wars in Iraq and Afghanistan and the response to Hurricane Katrina, the federal budget would essentially be in balance this year if the tax cuts had not been enacted, or if they had been offset by either increases in other taxes or cuts in programs, as would have been required under the Pay-As-You-Go rules that tax-cut proponents first ignored and then allowed to expire.