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DOES THE ADMINISTRATION REALLY HAVE A PLAN TO CUT THE DEFICIT IN HALF?

By Richard Kogan

The budget projections that the Office of Management and Budget issued in July showed deficits of $455 billion in 2003 and $226 billion in 2008. Administration officials have repeatedly cited these figures in claiming that their policies will halve the deficit over five years, and that they thus have "a plan to cut the deficit in half."

Unfortunately, this claim does not withstand scrutiny. Realistic ten-year budget projections that are based on the Congressional Budget Office budget estimates issued on August 26, and that reflect likely or inevitable costs, show a deficit in 2008 as high as or higher than the deficit in 2003.[1] OMB's projections show a large decline in the deficit by 2008 only because the OMB figures omit a series of very likely or inevitable costs in taxes, defense spending, and other areas.

The OMB figures exclude all costs in Iraq and Afghanistan after September 30, 2003, fail to reflect the full costs of the Administration's own "Future Year Defense Plan," omit the costs of extending relief from the mushrooming Alternative Minimum Tax after 2005, omit the cost of extending a major, popular business tax break that is likely to be extended in some form, and assume significant reductions in domestic appropriations in inflation-adjusted terms that are unlikely to be achieved. A more realistic projection shows the deficit rising from $401 billion in 2003 to approximately $460 billion in 2008, and then climbing further to approximately $650 billion in 2013.

In addition, as Stan Collender, the managing director of the federal budget consulting group at Fleischman-Hilliard, has pointed out, the Administration's budget does not really constitute a plan to *reduce* the deficit but rather a plan to *increase* it.[2] OMB's own estimates show that if Congress enacted no further spending increases or tax cuts (and allowed existing tax cuts to expire on schedule), the deficit would be $164 billion *lower* in 2008 than OMB projects the deficit will be under the Administration's official budget policies. OMB's own figures yield this result because the Administration's policies include substantial costs for additional tax cuts, increased defense spending, and prescription drugs, among other items.

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[1] Richard Kogan, *Deficit Picture Even Grimmer Than New CBO Projections Suggest*, Center on Budget and Policy Priorities, August 26, 2003. Available at http://www.cbpp.org/8-26-03bud.pdf.

[2] Stan Collender, *Budget Battles*, July 29, 2003. Also see *Mid-Session Review*, Office of Management and Budget, July 15, 2003, page 41.

Costs Omitted from the OMB Projections

The path that the government is currently following is not likely to lead to any substantial reduction in deficits. To be sure, deficits will at first shrink modestly as the economy recovers. But they will then resume growing — both in dollar terms and as a share of the economy — for as far as the eye can see.

The OMB figures issued in July 2003 fail to provide an accurate reflection of the budget path that we now are on because they do not include various costs that are likely or nearly certain to occur, such as the following:

- The OMB figures omit all of the costs of war and occupation in Iraq and Afghanistan after September 30, 2003. Issued in July, the OMB figures do not include any of the $87 billion in supplemental appropriations for the war that the President has now requested. One hopes that costs for activities in Iraq and Afghanistan will decrease substantially by 2008, but even the costs that result in 2004 from the new $87 billion request will push up deficits in 2008 (and in years after that), because they will increase the national debt and thereby increase the level of interest payments that must be paid every year on the debt.

- The OMB figures also do not include the full cost of the Pentagon's own official "Future Year Defense Plan." CBO has estimated the cost of funding the Plan and has reported that the Administration's budget figures for future years do not reflect the full cost of the plan, and the Center on Strategic and Budgetary Assessments has converted the CBO funding estimates to estimates of year-by-year expenditures.[3] Funding the Future Year Defense Plan — essentially the Administration's own defense plan — will add substantially to the OMB figures in all years.

- The OMB figures also omit costs associated with providing relief from the individual Alternative Minimum Tax, even though Administration officials have publicly stated that it is their intention to propose such relief after the election. Under current law, relief from the AMT expires at the end of 2004. All knowledgeable observers expect such relief to be continued; without it, the AMT will explode into the middle class. Recent CBO estimates show that one likely path of AMT relief — indexing the parameters of the AMT so the real burden of the AMT does not rise with inflation — would cost $46 billion in 2008 alone.[4]

- The OMB figures omit, as well, the cost of extending the business depreciation tax cut that was enacted in 2002 and substantially expanded in 2003, but is

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[3] CBO, "The Long-Term Implications of Current Defense Plans: Summary Update for Fiscal Year 2004," July 2003, and Steven M. Kosiak, "Cost Growth in Defense Plans, Occupation of Iraq and War on Terrorism Could Add Nearly $1.1 Trillion to Projected Deficits," Center for Strategic and Budgetary Assessments, August 26, 2003.

[4] See CBO, "The Budget and Economic Outlook, Update," August 26, 2003. For an explanation of the cost issues surrounding AMT relief, see Appendix C in Kogan, op. cit.

scheduled to expire at the end of 2004. It is not inevitable that this tax break will be extended, but it represents current policy, is very popular with business, and was initially enacted on a bi-partisan basis. Its scheduled expiration in an election year makes it a likely candidate for extension. CBO data show that the extension of this tax break would be very costly.

- Finally, the OMB figures assume that funding levels for domestic appropriations — a category that includes homeland security, education, transportation, biomedical research, law enforcement, veterans medical care, and other popular items — will decline in inflation-adjusted terms over the next five years. The history of the last quarter century demonstrates that even during times of substantial deficits, these programs as a whole have tended at least to keep pace with both rising prices and growth in the U.S. population. If the past is a guide, these programs will not shrink in inflation-adjusted terms, contradicting OMB's assumptions.

If these factors are taken into account, we can achieve a more realistic view of the current budget path. As explained in our analysis of August 26, the current budget path leads to deficits above $500 billion in 2004, falling to about $435 billion by 2007 as the economy recovers, and then commencing an inexorable upward path, rising to about $460 billion in 2008 and as much as $650 billion by 2013. Relative to the current deficit of $401 billion for 2003, the deficit rises by 2008 rather than falls.

Moreover, these figures reflect the costs only of continuing current policies or proposals (such as a prescription drug benefit) whose costs can be estimated with some degree of certainty. If the nation suffers major contingencies — another recession, a major natural disaster, another terrorist attack, or another round of military engagements — the deficits likely will be even higher than projected here.

In short, the Administration's contention that the deficit will be cut in half in the next five years is essentially an accounting fiction, derived in substantial part by omitting very likely or inevitable costs, including costs for proposals the Administration itself intends to submit in the years ahead.