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CBO SEES ESSENTIALLY NO IMPROVEMENT IN OUTLOOK FOR THE FUTURE

By James R. Horney

In contrast to the Administration's optimistic spin on the good revenue news for this year, the *Budget and Economic Outlook: An Update* released today by CBO indicates that there has been little change in the outlook for the economy or the budget in coming years (nor has the economy grown faster this year than was expected last January). Instead, the new CBO report indicates that:

- The unanticipated increase in revenues this year is largely the result of temporary factors such as an increase in corporate tax receipts, and revenues in future years are expected to trend back quickly close to the levels projected last March;

- Real economic growth has been slightly slower than CBO forecast earlier this year, and CBO's outlook for the economy over the next 10 years has become slightly less optimistic — CBO now projects that real gross domestic product will be lower this year and every year for the next 10 years than it had earlier projected (nominal GDP is slightly higher because of higher-than-anticipated inflation this year and next); and,

- There has been essentially no improvement in the bleak deficit outlook for the next 10 years, even excluding the cost of legislation enacted since March. When you take into account the President's proposed extension of expiring tax cuts, continuation of current Alternative Minimum Tax relief, and a conservative estimate of future funding for the wars in Iraq and Afghanistan, projected deficits never dip below $330 billion over the next 10 years and total $4.0 trillion over the 2006-2015 period.

The information in the CBO report refutes the claim that the President's tax cuts have led to exceptional economic growth that will bring deficits under control if only Congress continues to support the President's policies.

In fact, this recovery is significantly worse than average, and the deficit for this year would be much smaller if the President's tax cuts had not been enacted. A recent Center report found that by six of seven key measures — the only exception is the growth of corporate profits — this recovery is below the average for the post-World War II era. Furthermore, the cost of the tax cuts enacted in 2001 and 2003 is equal to about 2 percent of GDP in 2005, nearly as much as this year's deficit of 2.7 percent of GDP.

The CBO report shows instead that returning the nation to a sustainable fiscal path will require changes in the policies that have been adopted in recent years.