



OMB Watch :: Tax and Budget Staff Notes :: September 3, 2003

## Half of 2004 Deficit Deterioration Due to Revenue-Reduction Legislation

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The Congressional Budget Office (CBO) is currently estimating a baseline \$401 billion deficit for 2003 and a \$480 billion deficit for 2004. In March, just six months ago, the CBO's baseline indicated a much smaller \$246 billion deficit for 2003 and a \$200 billion deficit for 2004.

For 2004, this represents a \$279 billion deterioration in the budget outlook (see Table 1). A detailed breakdown of the CBO data shows that 48% of the budget deterioration that occurred between March and August was due to legislative changes affecting revenue (see Table 2). At just over 16 percent of gross domestic product, revenue is now at its lowest level in 40 years.<sup>1</sup>

In addition, only 14% of the deterioration for 2004 was due to changes in non-military expenditure legislation (see Table 3). Defense spending was responsible for 19%, and the remainder was due to technical changes. Economic changes accounted for none of the deterioration.

As the decade progresses, the baseline projection shows that technical revisions and outlays become progressively more important factors; however, the baseline does not include extending provisions of the 2001 and 2003 tax legislation that are set to expire in future years. Tables 4 and 5 show the estimates once these and other likely legislative changes are included.<sup>2</sup>

When these changes are included, over the next ten years, revenue reduction legislation accounts for 37% of the increase in the budget deficit. In addition, 30% of the deterioration is due to changes in non-defense expenditure legislation, and 22% is due to changes in defense spending. Economic changes accounted for none of the deterioration (and actually helped by a small amount). The remainder was due to technical changes.

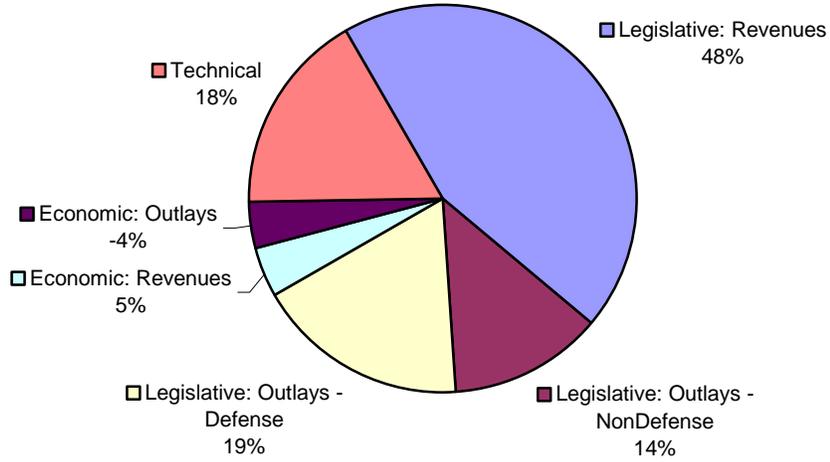
Figure 1 shows the breakdown for the 2004 baseline; and Figure 2 shows the 2004-2013 periods assuming the tax provisions have been extended, and other likely legislation is enacted.

<sup>1</sup> See Interpreting the Return to Budget Deficits, OMB Watch, 2003. <http://www.ombwatch.org/budget/pdf/deficits-071703.pdf>

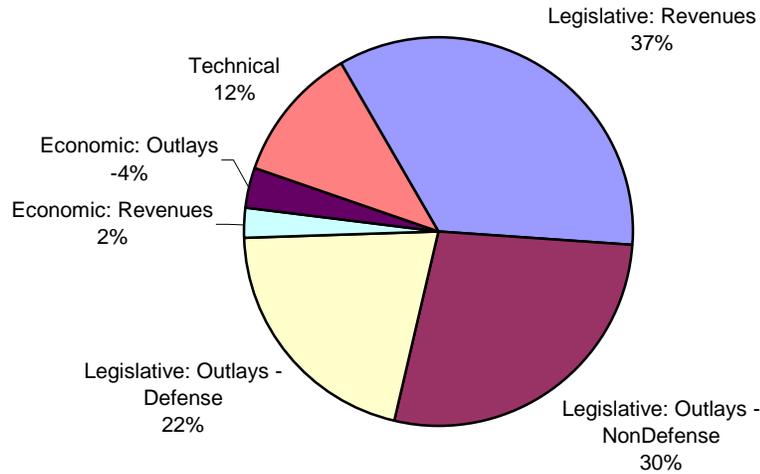
<sup>2</sup> The changes include extending the tax provisions, reforming the alternative minimum tax (AMT), enacting a prescription drug benefit, and allowing discretionary spending to increase at the rate of total output.



**Figure 1. Factors Contributing to 2004 Budget Deterioration:  
March 2003-August 2003 (CBO baselines)**



**Figure 2. Factors Contributing to 2004-2013 Budget Deterioration:  
March 2003-August 2003 (CBO baselines)  
*Including expiring tax provisions and other likely legislation***



**Tax and Budget Staff Notes: September 3, 2003**

**Table 1.<sup>3</sup>** Changes in CBO's Baseline Projections of the Deficit or Surplus Since March 2003 (\$ billions)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2004- 2008	2004- 2013
Total Deficit (-) or Surplus as Projected in March 2003	-246	-200	-123	-57	-9	27	61	96	231	405	459	-362	891
<b>Legislative Changes</b>													
Revenues	-53	-135	-77	-20	-13	-17	-11	-4	4	2	2	-263	-270
Outlays	<u>46</u>	<u>92</u>	<u>101</u>	<u>105</u>	<u>117</u>	<u>129</u>	<u>140</u>	<u>150</u>	<u>162</u>	<u>172</u>	<u>184</u>	<u>544</u>	<u>1,352</u>
Subtotal	-99	-227	-178	-126	-130	-146	-151	-155	-158	-169	-183	-808	-1,622
<b>Economic Changes</b>													
Revenues	-16	-13	-12	-12	-15	-17	-19	-23	-20	-12	-8	-70	-151
Outlays	*	<u>-12</u>	<u>-31</u>	<u>-34</u>	<u>-25</u>	<u>-16</u>	<u>-16</u>	<u>-17</u>	<u>-20</u>	<u>-24</u>	<u>-28</u>	<u>-118</u>	<u>-223</u>
Subtotal	-16	-1	18	21	10	*	-3	-6	*	11	21	48	72
<b>Technical Changes</b>													
Revenues	-53	-51	-51	-51	-55	-50	-45	-41	-39	-40	-34	-258	-457
Outlays	<u>-13</u>	<u>1</u>	<u>6</u>	<u>12</u>	<u>19</u>	<u>27</u>	<u>33</u>	<u>39</u>	<u>44</u>	<u>47</u>	<u>51</u>	<u>66</u>	<u>280</u>
Subtotal	-40	-51	-58	-64	-74	-77	-78	-80	-82	-87	-86	-324	-737
Total Impact on the Deficit or Surplus	-155	-280	-218	-168	-194	-223	-232	-240	-240	-245	-248	-1,083	-2,287
Total Deficit (-) or Surplus as Projected in August 2003	-401	-480	-341	-225	-203	-197	-170	-145	-9	161	211	-1,445	-1,397

<sup>3</sup> Data derived from the Congressional Budget Office, The Budget and Economic Outlook: An Update, August 2003.

**Tax and Budget Staff Notes: September 3, 2003**

**Table 2.** Changes in CBO's Baseline Projections of the Deficit or Surplus Since March 2003 (% of total change)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2004-2008	2004-2013
Total Deficit (-) or Surplus as Projected in March 2003	-246	-200	-123	-57	-9	27	61	96	231	405	459	-362	891
<b>Legislative Changes</b>													
Revenues	34%	48%	35%	12%	7%	8%	5%	2%	-2%	-1%	-1%	24%	12%
Outlays	<u>-30%</u>	<u>-33%</u>	<u>-46%</u>	<u>-63%</u>	<u>-60%</u>	<u>-58%</u>	<u>-60%</u>	<u>-63%</u>	<u>-68%</u>	<u>-70%</u>	<u>-74%</u>	<u>-50%</u>	<u>-59%</u>
Subtotal	64%	81%	82%	75%	67%	65%	65%	65%	66%	69%	74%	75%	71%
<b>Economic Changes</b>													
Revenues	10%	5%	6%	7%	8%	8%	8%	10%	8%	5%	3%	6%	7%
Outlays	<u>0%</u>	<u>4%</u>	<u>14%</u>	<u>20%</u>	<u>13%</u>	<u>7%</u>	<u>7%</u>	<u>7%</u>	<u>8%</u>	<u>10%</u>	<u>11%</u>	<u>11%</u>	<u>10%</u>
Subtotal	10%	0%	-8%	-13%	-5%	0%	1%	3%	0%	-4%	-8%	-4%	-3%
<b>Technical Changes</b>													
Revenues	34%	18%	23%	30%	28%	22%	19%	17%	16%	16%	14%	24%	20%
Outlays	<u>8%</u>	<u>0%</u>	<u>-3%</u>	<u>-7%</u>	<u>-10%</u>	<u>-12%</u>	<u>-14%</u>	<u>-16%</u>	<u>-18%</u>	<u>-19%</u>	<u>-21%</u>	<u>-6%</u>	<u>-12%</u>
Subtotal	26%	18%	27%	38%	38%	35%	34%	33%	34%	36%	35%	30%	32%
Total Impact on the Deficit or Surplus	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Total Deficit (-) or Surplus as Projected in August 2003	-401	-480	-341	-225	-203	-197	-170	-145	-9	161	211	-1,445	-1,397

**Table 3.** Changes in CBO's Baseline Projections of the Deficit or Surplus Since March 2003 (% of total change)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2004-2008	2004-2013
Legislative: Revenues	34%	48%	35%	12%	7%	8%	5%	2%	-2%	-1%	-1%	24%	12%
Legislative: Outlays - NonDefense	12%	14%	18%	24%	26%	27%	30%	33%	37%	40%	43%	21%	29%
Legislative: Outlays - Defense	17%	19%	29%	39%	34%	30%	30%	30%	31%	31%	31%	29%	30%
Economic: Revenues	10%	5%	6%	7%	8%	8%	8%	10%	8%	5%	3%	6%	7%
Economic: Outlays	0%	-4%	-14%	-20%	-13%	-7%	-7%	-7%	-8%	-10%	-11%	-11%	-10%
Technical	<u>26%</u>	<u>18%</u>	<u>27%</u>	<u>38%</u>	<u>38%</u>	<u>34%</u>	<u>34%</u>	<u>33%</u>	<u>34%</u>	<u>36%</u>	<u>35%</u>	<u>30%</u>	<u>32%</u>
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

**Tax and Budget Staff Notes: September 3, 2003**

<b>Table 4.</b> Changes in CBO's Baseline Projections of the Deficit or Surplus Since March 2003 (\$ billions) <i>Includes extension of expiring tax provisions, and other legislative reforms</i>													
	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2004-2008</b>	<b>2004-2013</b>
Total Deficit (-) or Surplus as Projected in March 2003	-246	-200	-123	-57	-9	27	61	96	231	405	459	-362	891
<b>Legislative Changes</b>													
Revenues (Baseline)	-53	-135	-77	-20	-13	-17	-11	-4	4	2	2	-263	-270
Revenues (Extend tax cuts)	0	3	-59	-113	-116	-109	-110	-108	-242	-349	-361	-393	-1,564
Revenues (AMT)	<u>0</u>	<u>0</u>	<u>-8</u>	<u>-24</u>	<u>-34</u>	<u>-46</u>	<u>-60</u>	<u>-74</u>	<u>-64</u>	<u>-40</u>	<u>-49</u>	<u>-112</u>	<u>-400</u>
Revenues	-53	-132	-144	-157	-163	-172	-181	-186	-302	-387	-408	-768	-2,234
Outlays (Baseline)	46	92	101	105	117	129	140	150	162	172	184	544	1,352
Outlays (Prescription drug)	0	7	10	33	38	43	46	50	53	56	64	131	400
Outlays (D. spending at GDP rate)	<u>0</u>	<u>12</u>	<u>35</u>	<u>62</u>	<u>91</u>	<u>121</u>	<u>151</u>	<u>182</u>	<u>213</u>	<u>245</u>	<u>279</u>	<u>322</u>	<u>1,392</u>
Outlays	<u>46</u>	<u>111</u>	<u>146</u>	<u>200</u>	<u>246</u>	<u>293</u>	<u>337</u>	<u>382</u>	<u>428</u>	<u>473</u>	<u>527</u>	<u>997</u>	<u>3,144</u>
Subtotal	-99	-243	-290	-357	-409	-465	-518	-568	-730	-860	-935	-1,765	-5,378
<b>Economic Changes</b>													
Revenues	-16	-13	-12	-12	-15	-17	-19	-23	-20	-12	-8	-70	-151
Outlays	*	<u>-12</u>	<u>-31</u>	<u>-34</u>	<u>-25</u>	<u>-16</u>	<u>-16</u>	<u>-17</u>	<u>-20</u>	<u>-24</u>	<u>-28</u>	<u>-118</u>	<u>-223</u>
Subtotal	-16	-1	18	21	10	*	-3	-6	*	11	21	48	72
<b>Technical Changes</b>													
Revenues	-53	-51	-51	-51	-55	-50	-45	-41	-39	-40	-34	-258	-457
Outlays	<u>-13</u>	<u>1</u>	<u>6</u>	<u>12</u>	<u>19</u>	<u>27</u>	<u>33</u>	<u>39</u>	<u>44</u>	<u>47</u>	<u>51</u>	<u>66</u>	<u>280</u>
Subtotal	-40	-51	-58	-64	-74	-77	-78	-80	-82	-87	-86	-324	-737
Total Impact on the Deficit or Surplus	-155	-295	-330	-400	-473	-542	-599	-654	-812	-936	-1,000	-2,041	-6,043
Total Deficit (-) or Surplus as Projected in August 2003	-401	-495	-453	-457	-482	-515	-538	-558	-581	-531	-541	-2,403	-5,152

**Tax and Budget Staff Notes: September 3, 2003**

**Table 5.** Changes in CBO's Baseline Projections of the Deficit or Surplus Since March 2003 (% of total change)  
*Includes extension of expiring tax provisions, and other legislative reforms*

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2004-2008	2004-2013
Total Deficit (-) or Surplus as Projected in March 2003	-246	-200	-123	-57	-9	27	61	96	231	405	459	-362	891
<b>Legislative Changes</b>													
Revenues (Baseline)	34%	46%	23%	5%	3%	3%	2%	1%	0%	0%	0%	13%	4%
Revenues (Extend tax cuts)	0%	-1%	18%	28%	25%	20%	18%	17%	30%	37%	36%	19%	26%
Revenues (AMT)	0%	0%	2%	6%	7%	8%	10%	11%	8%	4%	5%	5%	7%
Revenues	34%	45%	44%	39%	34%	32%	30%	28%	37%	41%	41%	38%	37%
Outlays (Baseline)	-30%	-31%	-31%	-26%	-25%	-24%	-23%	-23%	-20%	-18%	-18%	-27%	-22%
Outlays (Prescription drug)	0%	-2%	-3%	-8%	-8%	-8%	-8%	-8%	-7%	-6%	-6%	-6%	-7%
Outlays (D. spending at GDP rate)	0%	-4%	-11%	-16%	-19%	-22%	-25%	-28%	-26%	-26%	-28%	-16%	-23%
Outlays	-30%	-38%	-44%	-50%	-52%	-54%	-56%	-58%	-53%	-51%	-53%	-49%	-52%
Subtotal	64%	82%	88%	89%	86%	86%	86%	87%	90%	92%	94%	86%	89%
<b>Economic Changes</b>													
Revenues	10%	4%	4%	3%	3%	3%	3%	4%	2%	1%	1%	3%	2%
Outlays	0%	4%	9%	9%	5%	3%	3%	3%	2%	3%	3%	6%	4%
Subtotal	10%	0%	-5%	-5%	-2%	0%	1%	1%	0%	-1%	-2%	-2%	-1%
<b>Technical Changes</b>													
Revenues	34%	17%	15%	13%	12%	9%	8%	6%	5%	4%	3%	13%	8%
Outlays	8%	0%	-2%	-3%	-4%	-5%	-6%	-6%	-5%	-5%	-5%	-3%	-5%
Subtotal	26%	17%	18%	16%	16%	14%	13%	12%	10%	9%	9%	16%	12%
Total Impact on the Deficit or Surplus	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Total Deficit (-) or Surplus as Projected in August 2003	-401	-495	-453	-457	-482	-515	-538	-558	-581	-531	-541	-2,403	-5,152

**Table 6.** Changes in CBO's Baseline Projections of the Deficit or Surplus Since March 2003 (% of total change)  
*Includes extension of expiring tax provisions, and other legislative reforms*

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2004-2008	2004-2013
Legislative: Revenues	34%	45%	44%	39%	34%	32%	30%	28%	37%	41%	41%	38%	37%
Legislative: Outlays – NonDefense	12%	17%	20%	26%	29%	31%	32%	34%	31%	30%	31%	26%	30%
Legislative: Outlays – Defense <sup>4</sup>	17%	20%	24%	24%	23%	23%	24%	24%	22%	21%	21%	23%	22%
Economic: Revenues	10%	4%	4%	3%	3%	3%	3%	4%	2%	1%	1%	3%	2%
Economic: Outlays	0%	-4%	-9%	-9%	-5%	-3%	-3%	-3%	-2%	-3%	-3%	-6%	-4%
<u>Technical</u>	<u>26%</u>	<u>17%</u>	<u>18%</u>	<u>16%</u>	<u>16%</u>	<u>14%</u>	<u>13%</u>	<u>12%</u>	<u>10%</u>	<u>9%</u>	<u>9%</u>	<u>16%</u>	<u>12%</u>
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

<sup>4</sup> We assume that defense spending is 48% of discretionary spending (the average projected rate for the next 5 years in the 2004 budget) and that this ratio remains constant over the 10-year period.

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