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The Budget for Fiscal Year 2004

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Summary

The President's fiscal year (FY) 2004 budget includes a deficit of $307 billion (an estimated 2.7% of gross domestic product, GDP). Under the President's proposals and estimates, the deficit shrinks through FY2008, the last year of the Administration's estimates, when it will reach $190 billion (1.4% of GDP). The proposals call for speeding up and making permanent many of the tax cuts enacted over the last two years, along with tax changes for economic stimulus, tax incentives, and expiring tax provisions. The tax proposals would reduce taxes an estimated $493 billion between FY2004 and FY2008 and by $1,461 billion between FY2004 and FY2013. The President would increase spending in some areas (health) and reduce it in others (natural resources and environment). Overall, the proposals reduce outlays — when measured against the baseline estimates — by $40 billion in FY2004 and by $529 billion over the five years. Even with these changes from baseline levels, both total receipts and total outlays would be larger in FY2004 than they are estimated to be in FY2003, and larger in FY2008 than in FY2004.

The Congressional Budget Office (CBO) released the first of its annual budget reports in late January. The baseline estimates from CBO run through FY2013. CBO's baseline estimates are similar in construction to the current services baseline produced by the Office of Management and Budget (OMB) for the President. CBO's January baseline had a $145 billion deficit in FY2004 (down from $199 billion in FY2003), that becomes a small surplus of $65 billion in FY2008. Because the CBO baseline estimates are constrained by current policy, they incorporate the scheduled expiration of the 2001 tax cuts at the end of calendar year 2010. This produces a rapid increase in receipts between FY2011 and FY2013, producing substantial surpluses in these years. Under CBO baseline estimates — which CBO points out contain policy assumptions that may not hold — the surplus would reach $508 billion in FY2013.

In March, CBO released its report analyzing the President's policies. CBO's estimates of the President's budget, a recasting of the policies using CBO assumptions and budget estimating methods, raise the expected deficit for FY2004 to $338 billion from the OMB estimated $307 billion. The report also included an update to CBO's January baseline that pushed the deficit for FY2004 to $200 billion from $145 billion. The revisions delay the return-to-a-surplus from FY2007 to FY2008 and reduce the cumulative FY2004-FY2013 surplus from $1,336 billion (January) to $891 billion (March).

Both the House and Senate Budget Committees reported their respective budget resolutions for FY2004 in mid-March. The House adopted the resolution (H.Con.Res. 95) on March 21. As passed, the resolution included reconciliation. instructions to implement the President's tax-cut economic stimulus proposal. The Senate passed its budget resolution (S.Con.Res. 23) on March 26. The Senate's resolution contained approximately half the tax cut in the House resolution, along with a host of other differences. A conference to resolve the differences met the week of April 7. This report will be updated as events warrant.

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Background and Analysis

Presidents generally submit their budget proposals for the upcoming fiscal year (FY) early in each calendar year. For FY2004, the Bush Administration released its budget document (*The Fiscal Year 2004 Budget of the U.S. Government)* on February 3, 2003. The multiple volumes contained general and specific descriptions of the Administration's policy proposals and expectations for the budget for FY2004 and for the years through FY2008, with information on the revenue changes through FY2013 and a section on long-term fiscal issues facing the nation. The full set of budget documents (*Budget*, *Appendix*, *Analytical Perspectives*, *Historical Tables*, among several others) contain extensive and detailed budget information, including estimates of the budget without the proposed policy changes (current service baseline estimates), historical budget data, detailed outlay and receipt data, selected analysis of specific budget related topics, and the Administration's economic forecast. In addition to its presentation of the Administration's proposals, the budget documents are an annual basic reference source for federal budget information.

The Administration's annual budget submission is followed by congressional action on the budget. This usually includes the annual budget resolution, appropriations, and, possibly, a reconciliation bill or bills. During the months of deliberation on budget legislation, the Administration often revises its original proposals because of interactions with Congress and changing circumstances in the economy and the world.

Budget Totals

Table 1 contains budget estimates and proposals for FY2003 and FY2004 from the Congressional Budget Office (CBO), the Administration (the Office of Management and Budget, OMB), the revisions produced by OMB and CBO throughout the year, and, as they become available, from congressional budget resolutions. Differences in totals occur because of differing underlying economic, technical, and budget-estimating assumptions and techniques as well as differences in policy assumptions. Most *policy* generated dollar differences between the Administration and congressional proposals or assumptions for an upcoming fiscal year are often relatively small compared to the budget as a whole. These small differences may grow, sometimes substantially, producing widely divergent budget paths over time. Budget estimates should be expected to change over time from those originally proposed by the President or Congress.

The terrorist attacks on the United States on September 11, 2001, the 2001 recession and the continuing economic uncertainty, changes from expected or proposed policies, and changes in the technical components of the underlying budget-economic relationships, all contributed to the large deterioration in the budget outlook over the last two years.

Table 1. Budget Estimates for FY2003 and FY2004
(in billions of dollars)

	Receipts	Outlays	Deficit(-)/ Surplus
Actual for FY2000	*$2,025*	*$1,789*	*$236*
Actual for FY2001	*1,991*	*1,864*	*127*
Actual for FY2002	*1,853*	*2,011*	*-158*
FY2003 Estimates in 2003			
CBO B&E Outlook, 1/31/03	1,922	2,121	-199
OMB, Budget, 2/3/03	1,836	2,140	-304
OMB, Budget, Current Services, 2/3/03	1,867	2,131	-264
CBO Revised Baseline, 3/7/03	1,891	2,137	-246
CBO Estimates of the President's Policies, 3/7/03	1,856	2,143	-287
House FY2004 Budget Resolution, 3/21/03	1,855	2,143	-288
Senate FY2004 Budget Resolution, 3/26/03	1,865	2,148	-282
FY2004 Estimates			
CBO B&E Outlook, Baseline, 1/31/03	2,054	2,199	-145
OMB, Budget, 2/3/03	1,922	2,229	-307
OMB, Budget, Current Services, 2/3/03	2,031	2,189	-158
CBO Revised Baseline, 3/7/03	2,024	2,224	-200
CBO Estimates of the President's Policies, 3/7/03	1,907	2,245	-338
House FY2004 Budget Resolution, 3/21/03	1,908	2,232	-324
Senate FY2004 Budget Resolution, 3/26/03	1,958	2,246	-287

B&E Outlook = The *Budget and Economic Outlook*, CBO.

Budget Proposals and Estimates

CBO's first budget report for FY2004, the *Budget and Economic Outlook* (January 2003), contained baseline estimates and projections for FY2003 through FY2013.[1] CBO's report showed the budget in deficit through FY2006, with a $145 billion deficit in FY2004 and a $16 billion deficit in FY2006. The baseline projections show small surpluses beginning in FY2007 and growing rapidly in FY2011 through FY2013 as revenues rapidly grow with the scheduled expiration of the 2001 tax reductions from the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA; P.L.107-16, June 2001).

President Bush's FY2004 budget calls for additional tax cuts and both increased and decreased spending (as measured against baseline estimates) depending on the activity. The policy changes would increase the FY2004 deficit from OMB's

[1] Baseline estimates provide a foundation from which to measure proposed policy changes. They extrapolate current policies into the future based on expectations of future economic conditions, other factors that affect the budget, and rules set by Congress that CBO must follow in creating baseline estimates. They are not meant to predict future budget outcomes.

baseline of $158 billion to $307 billion. OMB's current service baseline estimates move into a small ($5 billion) surplus in FY2006 while the President's proposals produce a deficit of $201 billion in that year and would keep the budget in deficit at least through FY2008, the last year of the Administration's estimates.[2]

The Administration's budget did not include any cost estimates for the (then) possible war with Iraq, additions to homeland security funding, or for non-war defense related spending. On March 24, 2003, the President asked Congress for a $75 billion supplemental appropriation for FY2003, which is likely to have some outlay effect in FY2004.

The Administration argues that the tax cuts are needed to boost the lagging economy and that the acceleration of economic growth resulting from the tax cuts will lead to the recovery of much of the lost revenue over future years. The President's Council of Economic Advisors, in its annual report stated,

> Although the economy grows in response to tax reductions (because of higher consumption in the short run and improved incentives in the long run), it is unlikely to grow so much that lost tax revenue is completely recovered by the higher level of economic activity.[3]

Both OMB's and CBO's FY2004 budget documents were produced prior to the completion of final work on the FY2003 appropriations. This forced both agencies to estimate what (discretionary) spending levels Congress would approve and the President agree to for FY2003, leaving the FY2003 to FY2004 spending comparisons in these documents less reliable than usual.

CBO's March report, *An Analysis of the President's Budgetary Proposals for Fiscal Year 2004* revised the CBO baseline and estimated the Administration's FY2004 budget proposals using CBO's assumptions and budget estimating techniques. CBO increased its baseline deficits by $47 billion in FY2003 and by $55 billion in FY2004. CBO attributed $22 billion of the $55 billion increase in the deficit in FY2004 to legislative changes since January (almost all from the Consolidated Appropriations Resolution, 2003 (CAR2003; P.L.108-7) adopted in late February, with the remaining $33 billion attributed to technical changes. Over the 10-year period covered in the CBO report, CBO writes,

> For the 2004-2013 period, CBO has reduced its projection of the cumulative surplus by $446 billion [— dropping it from $1,336 billion to $891 billion —], nearly three-quarters of which derives from enactment of the omnibus appropriation act in February.[4]

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[2] Long-run projections of budget policy existing in FY2003 that are found in the budget (p. 41) indicate that, without substantial policy changes, the budget remains in deficit through much of this century.

[3] Council of Economic Advisers, *Economic Report of the Presiden*t. Feb. 2003. pp. 57-58

[4] Congressional Budget Office, *An Analysis of the President's Budgetary Proposals for FY2004*, March 2003, p. 3.

The deterioration in the budget outlook since the January estimates also delays, by one year, the expected date when CBO's baseline deficit would move into surplus, from FY2007 to FY2008.

CBO's estimates of the President's policies were similar to the President's budget, with little cumulative difference in the amounts generated. CBO estimated a cumulative deficit of $1.2 trillion under the President's policies while the Administration estimated $1.1 trillion.[5] CBO's estimates of the Administration's budget show the President's policies increasing the deficits or eliminating surpluses compared to the revised CBO baseline in each of the 10 years covered. CBO estimated that about two-thirds of the increases in the deficits in its estimates of the President's proposal, excluding higher net interest, result from lower revenues (including the effect of the tax cuts in the President's budget).

The House and Senate Budget Committees both cleared (on party-line votes) 10-year budget resolutions (H.Con.Res. 95; S.Con.Res. 23) in mid-March, 2003. Both resolutions mostly follow the lead of the Administration, with some exceptions. The House passed its resolution on March 21; the Senate passed its resolution on March 26. The House resolution included, in its reconciliation instructions, the President's request for a $726 billion economic stimulus tax cut, but included an approximately 1% cut in a broad selection of entitlement programs. The Senate passed a resolution containing reconciliation for a $350 billion economic stimulus tax cut, but no mandated cuts in entitlement spending. The resolution moved to a conference committee, which has the difficult job of finding an agreement acceptable to majorities in the House and Senate for Congress to be able to complete action on the FY2004 budget resolution.

Uncertainty in Budget Projections

All budget estimates and projections are inherently uncertain. Their dependence on assumptions that are themselves subject to substantial variation over relatively short time periods makes budget estimates and projections susceptible to fairly rapid and dramatic changes. The last couple of years have demonstrated this volatility. The original proposals and estimates for FY2002, made in early 2001, changed drastically over the 20 to 21 months of congressional and presidential action on the budget. (The budget estimates for five to 10 years in the future that are included in the OMB and CBO budget documents are subject to even greater variability.) The early 2001 estimates for FY2002 estimated a *surplus* of $231 billion to $313 billion. The year ended on September 30, 2002 with a *deficit* of $158 billion. The September 2001 terrorist attacks on the United States, the legislation adopted in response, the bursting of the stock market bubble, the weak economy, and a shift in critical underlying budget relationships, all contributed to a large change in the year's budget outcome from the originally proposed or estimated amounts.

Information in chapter 5 (The Uncertainties of Budget Projections) of CBO's budget report, *The Budget and Economic Outlook: Fiscal Years 2004-2013* (January 2003), indicates how significantly the budget outcome can be altered by changes in

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[5] Ibid., p. 1.

economic and related technical factors that underpin the budget estimates. The chapter contains optimistic and pessimistic alternative scenarios for its baseline projection, meaning no changes from current policies. The optimistic scenario assumes that the favorable economic and budget conditions of the late 1990s and 2000 recur. The pessimistic scenario assumes that the economy and the budget revert to the unfavorable conditions that prevailed in the 1970s and most of the 1980s.

The numbers in Table 2 are calculated from data in the January 2003 CBO budget report. The results reflect the wide range of possible budget outcomes with the same policies but different underlying assumptions about the economy and the relationship of the budget to the economy. The spread results from varying reasonable assumptions about future economic conditions and technical components that underlie the budget estimates.

The President's budget includes, in the section, "Charting a Course for the Federal Budget," the statement that "... five-year projections are fraught with uncertainty. The ... error in projecting the surplus or deficit since 1982 ... has been a $90 billion average absolute forecasting error for the first year alone. A 90-percent confidence range for 2008 would stretch all the way from a $281 billion surplus to a $661 billion deficit, a range of nearly $1 trillion."[6] The divergence expands as one moves further into the future.

Table 2. CBO's Alternative Scenarios, Cumulative Surpluses/Deficits(-); FY2004-2008 and FY2004-2013

(in billions of dollars; January 31, 2003)

	FY2004-FY2008	FY2004-FY2013
CBO Optimistic Scenario Cumulative Surplus	$566	$4,490
CBO Baseline 1/31/03	-143	1,336
CBO Pessimistic Scenario Cumulative Deficit	-855	-1,856

Source: CBO, *The Budget and Economic Outlook: Fiscal Years 2004-2013*, Jan. 2003, p.106; CRS calculations.

Budget projections are very dependent on the underlying assumptions about the direction of the economy and future government policy and how these interact. Any deviation from the underlying assumptions used in the budget estimates, such as faster or slower economic growth, higher or lower inflation, differences from the existing or proposed spending and tax policies, or changes in the technical components of the budget models can, and usually do, have substantial effects on moving the budget outcomes away from the earlier budget estimates and projections.

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[6] Office of Management and Budget. *Budget of the U.S. Government for FY2004*, Feb. 3, 2003, p. 28.

Budget Action

CBO and the Administration released their first budget reports for the next fiscal year, FY2004, in late January and early February 2003. CBO's report provides baseline estimates for fiscal years 2003 through 2013. OMB's documents provide estimates for FY2004 through FY2008 with a few instances of estimates of cumulative amounts for fiscal years 2004 through FY2013 (these are limited to revenues and provide almost no data for the individual fiscal years after FY2008).

The Joint Committee on Taxation put out its estimates of the President's revenue provisions on March 4, 2003. In mid-March, CBO made available its report, *An Analysis of the President's Budgetary Proposals for FY2004*, which used the tax estimates of the Joint Committee on Taxation in its analysis.

The House and Senate Budget Committees adopted their own, differing, versions of the FY2004 budget resolution (H.Con.Res. 95; S.Con.Res. 23) in mid-March. The House, after the Republican leadership had to modify the committee-passed resolution to assure enough support for passage, passed (215-212) its version on March 21. The Senate spent more than a week considering its resolution. After adopting and rejecting numerous amendments, the Senate adopted the resolution on March 26.[7] One of the amendments that was adopted limited the size of the economic stimulus tax-cut to $350 billion (from the committee adopted level of $698 billion). The resolution moved to a conference committee that hoped to complete its work by April 10 or 11, 2003.

Outlays

The Administration's FY2004 budget proposed $2,229 billion in outlays for FY2004, rising to $2,711 billion in FY2008, the last year forecast in the President's budget. The current services baseline in the President's budget (estimates of what future outlays would be if policies remained unchanged over the forecast period) showed outlays of $2,189 billion in FY2004 growing to $2,541 billion in FY2008.

The Administration's proposals would raise outlays $89 billion above the Administration's proposed FY2003 level and $40 billion above its FY2004 current services baseline outlay estimate. The dollar difference between the current services baseline outlay estimate for FY2004 and the outlay amount in the President's FY2004 proposal provides the cost of the Administration's proposed policy changes in FY2004. The change from FY2003 to FY2004 (the $89 billion increase) combines policy changes from one year to the next with relatively automatic growth in large parts of the budget. These automatic increases include cost-of-living adjustments, growth in populations eligible for program benefits, and inflation driven increases. The President's budget does not include estimated costs of any potential conflict with Iraq for either FY2003 or FY2004.

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[7] The Senate substituted the text of its resolution, S.Con.Res. 23, for the text of the House-passed resolution, H.Con.Res. 95.

Total outlays, in the President's budget, were projected to grow at an average annual rate of 5.0% between FY2004 and FY2008. When the components of spending are examined, the budget functions show the health budget function increasing at an annual average rate of 7.9%, the Medicare function increasing at an annual average rate of 7.8%, and net interest increasing at an annual average rate of 9.6% over these years.[8, 9] These three functions account for over 53% of the total outlay increase during this period. None of the other fifteen budget functions has a compound rate of growth as large as that of total outlays.[10] The relatively low growth in some budget functions (agriculture 0.8%, education, training, employment, and social services 1.2%, general government 1.2%, and natural resources and environment 1.5%), growth that is lower than the expected rate of inflation, will reduce these functions' spending in real terms, as well as shares of total spending.

Table 3. Outlays for FY2003-2008 and FY2013

(in billions of dollars)

	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2013
CBO Adjusted Baseline, 1/31/03	*$2,011* [a]	$2,121	$2,199	$2,298	$2,3878	$2,4795	$2,583	$3,167
President's F04 Budget, 2/3/03		2,140	2,229	2,343	2,464	2,576	2,711	—
President's FY04 Current Services, 2/3/03		2,131	2,189	2,276	2,348	2,440	2,541	—
CBO Revised Baseline, 3/03		2,137	2,224	2,328	2,417	2,513	2,621	3,215
CBO Est. of the President's Policies,3/03		2,143	2,245	2,370	2,491	2,606	2,739	3,452
House FY2004 Budget Resolution, 3/21/03		2,143	2,232	2,337	2,450	2,556	2,675	3,335
Senate FY2004 Budget Resolution,3/26/03		2,148	2,246	2,372	2,491	2,607	2,734	3,338

a. Actual outlays for FY2002.

The CBO baseline, like the Administration's current services baseline estimates, assumes no changes from current policies, had FY2004 outlays of $2,298 billion, FY2008 outlays of $2,583 billion, and, because CBO's estimates extend through FY2013, FY2013 outlays of $3,167 billion.[11]

The revisions in CBO's March report raised FY2004 outlays by $25 billion, to $2,224 billion (mostly because of the inclusion of the effects of adopting the Consolidated Appropriations Resolution, 2003 (P.L. 108-7)) in February. Each year's outlays in the CBO revisions are larger than they were in the February baseline. CBO's baseline outlays grow by an annual average rate of 4.2% between

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[8] Budget functions group, "budget data according to the major purpose served" rather than by agency or program. OMB, *Budget of the U.S. Government for FY2004, Analytical Perspectives*, p. 463.

[9] The Energy budget function has an even higher rate of increase, growing by an annual average rate of 18.3%, but since it only makes up 0.04% of total outlays in FY2004 and 0.07% of outlays in 2008, it therefore has little effect on the overall change in outlays.

[10] The two budget functions, "allowances", and "undistributed offsetting receipts", were excluded from the total number of functions.

[11] Essentially followed the same rule used by the Administration's to produce its current services baseline estimates. CBO and OMB used different budget models and a number of different underlying assumptions

FY2004 and FY2008 (and by the same rate for the FY2004-FY2013 period). Total discretionary spending, including defense and homeland security, grows by approximately 2.5% a year over both the 5- and 10-year period. Mandatory spending, including Social Security and Medicare, would grow at average annual rates of 4.7% (FY2004-FY2008) and 5.4% (FY2004-FY2013). Because CBO's baseline shows the budget with a surplus starting in FY2008, net interest grows quickly in the first five years and declines in the second five years. Over the 10 years, net interest grows at an annual average of 1.5% (it grows at an average annual rate of 7.8% over the five years, FY2004-FY2008). If the deficits do not disappear, as they would not under the Administration's proposals, the net interest growth would not begin falling late in the period. It would tend to grow as long as the budget is in deficit.

CBO's March reestimates of the President's proposals are larger than the President's outlays by $16 billion (to $2,245 billion) in FY2004. For FY2008, CBO's reestimates push total outlays to $2,739 billion (the Administration's number was $2,711 billion). By FY2013, the Administration's outlay proposal reaches $3,279 billion under the CBO reestimates. Subsequent years show outlays $20 billion to $30 billion higher in the CBO reestimates than in the President's budget.

The House- and Senate-passed budget resolutions contain different levels of spending for FY2004 and subsequent years and the differences in components of that spending. The House resolution has $2,232 billion in outlays for FY2004, while the Senate amount is $2,246 billion. By FY2013, the House resolution shows outlays of $3,289 billion and the Senate resolution shows outlays of $3,338 billion. The House included instructions to cut 1% from most mandatory spending, stating that there should be that much in "waste, fraud, and abuse" in the programs affected. The Senate resolution has very constrained growth in non-defense, non-homeland security discretionary spending in the second five years of the period.

Receipts

The Administration's FY2004 budget included proposals to speed up and make permanent many of the tax changes enacted over the last two years. The Administration divided its revenue proposals into an economic growth package ($390 billion over FY2004-FY2008); tax incentives ($72 billion over FY2004-FY2008); tax simplification (which raises receipts by $13 billion over FY2004-2008); extending expiring tax provisions ($40 billion over FY2004-FY2008); and miscellaneous changes (which raise receipts by $2 billion over FY2004-FY2008). The total proposal would reduce revenues from current services baseline levels by $493 billion between FY2004 and FY2008 and by $1,461 billion between FY2004 and FY2013.[12] The proposed changes slow the growth in receipts but do not stop

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[12] These estimate are from the Treasury's *General Explanations of the Administration's Fiscal Year 2004 Revenue Proposals*. The President's budget shows a $441 billion revenue reduction (from baseline estimates) for the FY2004-FY2008 period and a $1,307 billion reduction for the FY2004-FY2013 period. The Treasury's estimates were produced after the release of the President's budget and reflect adjustments to these estimates. See also the (continued...)

them. They grow from $1,922 billion in FY2004 to $2,521 billion in FY2008. The Administration claims that the economic growth tax-cut proposals will speed economic growth by enough to recover some or all of the forgone revenue (a claim countered by CBO's March report that included dynamic macro-economic estimates, estimates that include the effects of the tax cuts on the economy in the budget estimates. None of the three budget models CBO used to calculate the tax-cut's effect on future revenues (or outlays) showed more than a minimal feed-back effect).

Table 4. Receipts for FY2002-2008 and FY2013

(in billions of dollars)

	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2013
CBO Adjusted Baseline, 1/31/03	*$1,853* [a]	$1,922	$2,054	$2,225	$2,370	$2,505	$2,648	$3,674
President's F04 Budget, 2/3/03		1,836	1,922	2,135	2,263	2,398	2,521	—
President's FY04 Current Services 2/3/03		1,867	2,031	2,235	2,352	2,469	2,593	—
CBO Revised Baseline, 3/7/03		1,891	2,024	2,205	2,360	2,504	2,647	3,674
CBO Est. of the President's Policies,3/7/03		1,856	1,907	2,100	2,273	2,433	2,573	3,350
House FY2004 Budget Resolution, 3/21/03		1,855	1,908	2,107	2,282	2,444	2,587	3,372
Senate FY2004 Budget Resolution, 3/26/03		1,865	1,959	2,154	2,321	2,479	2,620	3,497

a. Actual receipts for FY2002.
NA = Not available

CBO's baseline estimates, assuming no policy change and using a somewhat different set of underlying assumptions than the Administration, estimates that FY2004 revenues will total $2,054 billion. The CBO estimates also assume that the automatic expiration of the tax cuts of EGTRRA will occur at the end of 2010. The result is a jump in revenues in the fiscal years after FY2010. CBO estimates that extending all the EGTRRA tax provisions that would otherwise expire before FY2013, will reduce cumulative revenues over the FY2004-2013 period by $785 billion (from cumulative baseline revenues of $27,923 billion)[13]. The effect of eliminating the expiring provisions of EGTRRA are most dramatic after FY2010. In FY2010, the reduction from baseline revenue estimates is $32 billion; in FY2011 it jumps to $156 billion and in FY2013, to $260 billion.

CBO's revised estimates and estimates of the Administration's budget in March lowered CBO's baseline revenue estimates between FY2004 and FY2006, after which they equaled the January estimates. The CBO estimates of the President's proposals fall below the President's proposed revenue levels over those years. From FY2007 through FY2008, CBO's estimates of the President's proposed revenues exceed the President's proposed level.

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[12] (...continued)
CRS Report RS21420, *President Bush's 2003 Tax Cut Proposal: A Brief Overview*, and the CRS Issue Brief IB10110, *Major Tax Issues in the 108th Congress* for more information on the proposals.

[13] This estimate does not include the larger interest payments resulting from the series of deficits occurring over this period that increases public debt.

The House and Senate budget resolutions produced different outcomes for the amount provided in reconciliation for the President's proposed tax cut. The House included the whole amount (estimated at $726 billion over 10 years) while the Senate reduced the amount in the reconciliation instructions to no more than $350 billion. The remainder of the President's tax proposal (mostly accelerating and making permanent the 2001 tax cut, EGTRRA 2001) was included in the budget resolutions but not in the reconciliation instructions. The conference on the budget resolution is attempting to find a solution to these tax cut differences. In the House resolution, revenues rise from $1,908 billion in FY2004 to $2,587 billion in FY2008 and to $3,372 billion in FY2013. The Senate resolution shows revenues rising from $1,959 billion in FY2004 to $2,607 billion in FY2008 and to $3,497 billion in FY2013. Within the smaller tax cut, the Senate's revenue targets are somewhat larger than the ones from the House.

Surpluses And Deficits

Surpluses and deficits are the residuals left after Congress and the President set policies for spending and receipts. Surpluses reduce federal debt held by the public which leads to lower net interest payments; deficits increase government debt, increasing the government's net interest payments. Reducing the deficit and eventually reaching a balanced budget or generating and keeping a surplus (the government had its first surplus in 30 years in FY1998) was a major focus of the budget debate in the late 1980s and throughout the 1990s. The President's FY2004 budget has a deficit of $307 billion in FY2004 (CBO's reestimates of the President's proposals put it at $338 billion) and, if his proposed policies are adopted, remains in deficit throughout the five years (FY2004-FY2008) covered by the budget. The deficit falls slowly through FY2008 when it reaches $190 billion. The Administration's current services baseline, the estimate without policy change, has a deficit of $158 billion in FY2004, becoming a surplus of $51 billion in FY2008.

Table 5. Surpluses/Deficits(-) for FY2004-FY2008 and FY2013

(in billions of dollars)

	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2013
CBO Adjusted Baseline, 1/31/03	*-$158* [a]	-$199	-$145	-$73	-$16	$26	$65	$508
President's F04 Budget, 2/3/03		-304	-307	-208	-201	-178	-190	—
President's FY04 Current Services 2/3/03		-264	-158	-40	5	29	51	—
CBO Revised Baseline, 3/7/03		-246	-200	-123	-57	-9	27	459
CBO Est. of the President's Policies,3/7/03		-287	-338	-270	-218	-173	-166	-102
House FY2004 Budget Resolution, 3/21/03		-288	-324	-230	-168	-111	-87	37
Senate FY2004 Budget Resolution, 3/26/03		-282	-287	-218	-169	-128	-114	159

a. Actual deficit for FY2002.

CBO's January baseline estimates (no policy changes) had the budget returning to surplus in FY2007 and then growing through FY2013. The March revisions increased the near-term deficits and slowed, by one year, the movement to surplus.

The growth in the surplus, especially after FY2010, is boosted dramatically by the scheduled expiration of the 2001 tax cut.

The budget resolution from both the House and Senate Budget Committee moved the budget into surplus in FY2008 and the Senate Budget Committee's budget resolution moved it there in FY2013. Both the House- and Senate-passed budget resolutions, modified from the ones adopted by the committees, show the budget moving back into surplus in FY2013.

Over a longer period, one running far into the century, the Administration indicates that it expects, under existing policies and assumptions, large and continually growing deficits. The retirement of the baby boom generation, beginning in large numbers in the next decade, will rapidly drive up spending on Social Security, Medicare, and other programs for the elderly, increasing the deficit (or reducing the surplus, if there is one) and putting a severe strain on both the budget and the economy.

The Budget and the Economy

The budget and the economy affect each other. The relationship is an unequal one, with small economic changes having a more significant effect on the budget than large budget policy changes have on the economy. The worse-than-expected economic conditions over the last two years played a substantial role, directly or indirectly, in the deterioration of the budget outlook over those years.

The positive budget outlook produced in early 2001 had been buoyed by the favorable economic conditions that were then expected. These would have continued the overall improvement in the budget situation since the early 1990s. Much of the improvement had come from strong and sustained economic growth. When those favorable economic conditions faltered, so did a portion of the positive budget outcomes of the previous few years. What good economic conditions give, bad economic conditions can take away. The unexpectedly lengthy economic sluggishness, the start of a recession in March 2001, the current continuing uncertainty over the economic outlook, the lengthy fall in the stock market, the policy responses to the September 2001 terrorist attacks, along with negative changes in the technical components of the budget estimates, raised outlays, reduced receipts, and eliminated the previously expected surpluses.

The FY2004 presidential budget documents and CBO's budget report include discussions of the expected economic outlook and the budget's sensitivity to changes in selected economic variables. Both reports include a table showing the budget's sensitivity to changes in selected economic variables (this year, it is found in chapter 2 of the *Analytical Perspectives* volume of the President's budget and in chapter 5 of CBO's report). The effects of the variables are generally symmetrical. A higher rate of real economic growth (than assumed in the budget proposal) has approximately the same effect on the budget as same-sized lower rate of economic growth has, but in the opposite direction. If a 1% lower rate of economic growth reduces the surplus (or increases the deficit) by $30 billion in FY2004 (from the

OMB table; Table 2-6, p. 32, *The Budget of the United States Government, Fiscal Year 2004, Analytical Perspectives*), a 1% higher than expected rate of economic growth would reduce the deficit (or increase the surplus) by approximately $30 billion. Changes in other variables generally have a smaller effect on the budgetary balance than changes in real GDP. Sustained changes in the underlying economic variables tend to produce larger changes in the budget numbers than the effect of one or two year change.

Legislation

H.Con.Res. 95

The Concurrent Resolution on the Budget for Fiscal Year 2004. Adopted by the House Budget Committee (H.Rept. 108-37) on March 17, 2002, on a party-line vote after rejecting numerous amendments. It follows many of the proposals of the Administration. After some adjustments by the House leadership to assure passage, it was adopted by the House (215-212) on March 21.

S.Con.Res. 23

The Concurrent Resolution on the Budget for Fiscal Year 2004. Adopted by the Senate Budget Committee (no report but a committee print, S.Prt. 10-19) on March 14, 2002, on a party-line vote. As passed, the resolution included reconciliation instructions for approximately half of the President's economic stimulus tax cut proposal. The language of S.Con.Res. 23 was substituted for the contents of the House-passed resolution, H.Con.Res. 95.

For Additional Reading

U.S. Congressional Budget Office. *The Budget and Economic Outlook: Fiscal Years 2004-2013*. Washington, U.S. Govt. Print. Off., January 31, 2003.

—— *Budget Options.* Washington, U.S. Govt. Print. Off., March 6, 2003.

U.S. Council of Economic Advisors. *The Economic Report of the President*. Washington, U.S. Govt. Print. Off., February 2003.

U.S. Office of Management and Budget. *The Budget of the United States Government for Fiscal Year 2004.* Washington, U.S. Govt. Print. Off., February 3, 2003.

CRS Products

CRS Electronic Briefing Book, *Taxation*, [http://www.congress.gov/brbk/html/ebtxr1.shtml]

CRS Report RL31414. *Baseline Budget Projections: A Discussion of Issues*, by Marc Labonte.

CRS Report RL30297. *Congressional Budget Resolutions: Selected Statistics and Information Guide*, by Bill Heniff Jr.

CRS Report 98-511. *Consideration of the Budget Resolution*, by Bill Heniff Jr.

CRS Report RL31235. *The Economics of the Federal Budget Deficit*, by Brian W. Cashell.

CRS Report 95-543. *The Financial Outlook for Social Security and Medicare*, by David Koitz and Geoffrey Kollman.

CRS Report RS21136. *Government Spending or Tax Reduction: Which Might Add More Stimulus to the Economy?*, by Marc Labonte.

CRS Report RL30839. *Income Tax Cuts, the Business Cycle, and Economic Growth: A Macroeconomic Analysis*, by Marc Labonte and Gail Makinen.

CRS Report RS21287. *Is Another Double Dip Recession Possible?*, by Marc Labonte and Gail Makinen.

CRS Issue Brief IB10110. *Major Tax Issues in the 108th Congress. Possible U.S. Military Intervention in Iraq: Some Economic Consequences*, by Marc Labonte.

CRS Report 98-720. *Manual on the Federal Budget Process*, by Robert Keith and Allen Schick.

CRS Report RL31585. *Possible U.S. Military Intervention in Iraq: Some Economic Consequences*, by Marc Labonte.

CRS Report RS21420. *President Bush's 2003 Tax Cut Proposal: A Brief Overview*, by David Brumbaugh.

CRS Report RL31498. *Social Security Reform: Economic Issues*, by Jane Gravelle and Marc Labonte.

CRS Report RL30708. *Social Security, Saving, and the Economy*, by Brian W. Cashell.

CRS Report RS21126. *Tax Cuts and Economic Stimulus: How Effective Are the Alternatives?*, by Marc Labonte and Gail Makinen.

CRS Report RL30839 *Tax Cuts, the Business Cycle, and Economic Growth: A Macroeconomic Analysis*, by Marc Labonte and Gail Makinen.

CRS Report RL31134. *Using Business Tax Cuts to Stimulate the Economy*, by Jane Gravelle.

CRS Report RL30973. *2001 Tax Cut: Description, Analysis, and Background*, by David L. Brumbaugh, Jane G. Gravelle, Steven Maguire, Louis Alan Talley, and Bob Lyke