Order Code RL32146

The Budget for Fiscal Year 2003

November 10, 2003

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Summary

On February 4, 2002, President Bush released his original fiscal year (FY) 2003 budget proposals, which included a deficit of $80 billion. The President's budget included tax cuts and spending increases to stimulate the economy, rapid increases in defense and homeland security spending, and little growth in other areas of discretionary spending.

Policy, economic, and technical factors all contributed to higher spending and lower receipts, raising the deficit substantially from what was originally proposed. The actual deficit, released by the Treasury in mid-October 2003, was $374 billion.

The Bush Administration's early 2002 proposed economic stimulus proposal was superseded by the stimulus legislation adopted by Congress on March 7, 2002 (The Job Creation and Worker Assistance Act of 2002; H.R. 3090, P.L. 107-147), which was estimated to increase the deficit (from baseline levels) by $43 billion in FY2003.

The House cleared its FY2003 budget resolution (H.Con.Res. 353) on March 20, 2002; the Senate never considered or passed the Senate Budget Committee's budget resolution (S.Con.Res. 100). The resolutions contained deficits ranging from $46 billion (House) to $92 billion (Senate Budget Committee).

The Administration's FY2004 budget submission (February 2003), revised the FY2003 deficit estimate to $304 billion, including proposed changes (with a baseline deficit of $264 billion). The Congressional Budget Office (CBO) January 2003 budget report estimated a $199 billion baseline deficit for FY2003.

Following the adoption of eight continuing resolutions on appropriations to ensure program funding, Congress completed work on FY2003 appropriations with the adoption of the Consolidated Appropriations Resolution for FY2003 (H.J.Res. 2) on February 13, 2003, four-plus months into the new fiscal year. The legislation funded the 11 remaining regular appropriations (out of 13) for the remainder of the fiscal year. The President signed the resolution on February 20 (P.L. 108-7).

In late spring 2003, Congress adopted tax cut legislation as outlined in the reconciliation instructions in the FY2004 budget resolution (H.Con.Res. 95). The legislation (P.L. 108-27; May 28, 2003) was estimated to increase the deficit by $61 billion in FY2003 and by $350 billion through 2013. In April, Congress provided $79 billion in supplemental appropriations, which increased FY2003 outlays by an estimated $42 billion. The legislation (P.L. 108-11; April 16, 2003) provided funding for defense, homeland security, and financial relief to the states. A second supplemental for $984 million, following an Administration request, cleared Congress on July 31 and was signed by the President on August 8 (P.L. 108-69). A third supplemental ($938 million) was included as Title III in the Legislative Branch Appropriations Act that became law (P.L.108-83) on September 30, 2003. This report is intended as a record of the FY2003 budget and will not be updated.

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The Budget for Fiscal Year 2003

Presidents generally submit their budget proposals for the upcoming fiscal year early in each calendar year. The Bush Administration presented its FY2003 budget documents on February 4, 2002. The budget documents contained extensive and detailed budget related 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. These detailed budget documents are an annual basic reference source for federal budget information in addition to their use as a transmitter of the Administration's policy proposals.

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 related legislation, the Administration often modifies its proposals, not only because of interactions with Congress, but also because of changing circumstances in the economy and the world.

Budget Totals

The annual budget cycle provides the President and Congress with the opportunity to set policy for the upcoming fiscal year and to determine, in part, policy in subsequent years. The decisions made for this year can and often do have repercussions for years to come. The 2001 tax cut (the Economic Growth and Tax Relief Reconciliation Act of 2001 — EGTRRA; P.L. 107-16; June 7, 2001) will change federal revenues in each year through 2010, when most of its provisions are scheduled to expire (unless they are made permanent, as has been proposed). Although they are provided each year in appropriations bills, the level of discretionary funding in the current year influences future levels of discretionary spending. Much of the budget, up to 75%, is fixed each year through mandatory spending (Social Security, Medicare, interest on the debt, etc.) and ongoing obligations of the government, such as multi-year contracts.

Table 1 contains budget estimates and proposals for FY2003 from the Congressional Budget Office (CBO), the Administration (OMB), and, as they became available, budget proposals and estimates from Congress. Differences in totals occur because of differing underlying economic, technical, and budget-estimating assumptions and techniques as well as differences in policy proposals. Most *policy* differences between the Administration and various congressional proposals for the upcoming fiscal year (if there are any) are often relatively small in dollars compared to the budget as a whole. These often small changes, reflecting differing policy choices, may have large implications for the shape and content of the budget over extended time periods. As the budget works its way through Congress, budget totals will change from the amounts originally proposed.

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

	Receipts	Outlays	Deficit(-)/ Surplus
Actual for FY2001	*$1,991*	*$1,864*	*$127*
Actual for FY2002	*1,853*	*2,011*	*-158*
Estimates for FY2003			
CBO Budget Outlook for FY2003 1/31/02	2,070	2,085	-14
President's Budget for FY2003 2/4/02	2,048	2,128	-80
President's Budget for FY2003 *baseline* 2/4/02	2,121	2,070	51
CBO revised baseline for FY2003[a] 3/6/02	2,086	2,080	6
CBO estimate of President's FY2003 budget 3/6/02	2,013	2,134	-121
House budget resolution for FY2003 3/20/02	2,077	2,122	-46
Senate Budget Committee for FY2003 3/22/02	2,046	2,139	-92
OMB MSR FY2003 7/15/02	2,029	2,138	-109
OMB MSR baseline FY2003 7/15/02	2,035	2,097	-62
CBO Update 8/27/02	1,962	2,107	-145
CBO Budget Outlook 1/31/03	1,922	2,121	-199
President's Budget for FY2004 2/3/03	1,836	2,140	-304
President's Budget for FY2004, Baseline 2/3/03	1,867	2,131	-264
CBO baseline revisions 3/03	1,891	2,137	-246
CBO estimate of President's (FY2004) budget 3/03	1,856	2,143	-287
House budget resolution 3/21/03	1,855	2,143	-288
Senate budget resolution 3/26/03	1,865	2,148	-282
Conference budget resolution for FY2004 4/11/03	1,835	2,182	-347
MSR 7/15/03	1,756	2,212	-455
MSR, Baseline 7/15/03	1,756	2,210	-455
CBO, Baseline 8/26/03	1,770	2,170	-401
Actual for FY2003	**1,782**	**2,157**	**-374**

MSR — Mid-session review
a. These numbers exclude the effects of the economic stimulus law (P.L. 107-147) enacted on March 9, 2001.

Budget Proposals and Estimates

Budget estimates and projections depend on underlying assumptions about the economy, technical components and relationships within the budget estimating models, and assumptions about proposed and assumed current and future government policy. For much of FY2003 budget cycle, the economic and, to some extent, policy assumptions that underlay the budget estimates may have been more unsettled than usual. The delayed resolution of discretionary funding for FY2003 well into the fiscal year, the uncertain condition of the economy, and the war with Iraq contributed to the higher level of budget uncertainty.

CBO's initial budget report for FY2003, the *Budget and Economic Outlook: Fiscal Years 2003-2012* (January 2002), contained baseline estimates and projections for FY2002 through FY2012.[1] CBO estimated that the FY2003 baseline budget would have revenues of $2,070 billion, outlays of $2,085 billion, and a deficit of $14 billion. Over the 10-year forecast period (FY2003-FY2012) CBO's projections produced a cumulative surplus of $2,263 billion. Of that amount, $1,078 billion would occur in the last two years of the projection period when the 2001 tax cuts would fully expire as required by current law.[2] The five-year (FY2003-FY2007) cumulative surplus, reflecting the deficits and relatively small surpluses expected over the period, was $437 billion.

President Bush's FY2003 budget proposed receipts of $2,048 billion, outlays of $2,128 billion, and a deficit of $80 billion. The Administration's proposals produced a 10-year total cumulative surplus of $1.0 trillion. Its five-year cumulative surplus was $157 billion. (The President's budget provided most data for the five-year period, FY2003 through FY2007; the budget provided very little data for either the individual years beyond FY2007 or cumulatively for the 10-year period, FY2003 through FY2012.)

The Administration's current services baseline estimates (the Administration's estimate of what the budget numbers would be without its policy changes) had FY2003 receipts of $2,121 billion, outlays of $2,080 billion, and a surplus of $41 billion.[3] The differences between these baseline numbers and the proposed amounts measure the dollar effect on the budget of the Administration's proposals. The proposals would increase outlays by $58 billion, reduce receipts by $73 billion, and move the budget from a $41 billion current services baseline surplus to an $80 billion deficit in FY2003. Over the FY2003 through FY2007 period, the baseline had a cumulative surplus of $668 billion, implying that the Administration's proposals would reduce the cumulative surplus by $511 billion over the five years (to $157 billion).

CBO's estimate of the Administration's proposals (*An Analysis of the President's Budgetary Proposals for Fiscal Year 2003*, March 2002), using CBO's economic and technical assumptions, raised the estimated deficit for the President's policies for FY2003 (from the Administration's proposed $80 billion) to $121

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[1] Baseline estimates provide a benchmark against which policy changes can be estimated. They estimate the future path of current law and policies. They are constructed under specific guidelines. They are not meant to predict future budget outcomes.

[2] CBO estimated that extending the expiring provisions immediately would reduce cumulative revenues over the 10-year period by $735 billion. This implies that extending the tax cut would reduce the cumulative surplus over the 10 years by at least that much and probably more when higher interest costs are included.

[3] The Administration also produced a variant of the standard baseline. The alternative assumed, reasonably, that the increased (mostly) emergency spending in FY2002 flowing from the September 11, 2001 terrorist attacks was a one-time event and would not be repeated. Making this assumption increases the baseline surplus to $51 billion in FY2003. The Administration measured its policy against this altered baseline. This report uses the standard baseline.

billion. CBO's reestimates reduced revenues by $35 billion and increased outlays by $6 billion compared to the Administration's proposals.

This CBO report also included CBO's updated baseline estimates that differed little from the January estimates. The updated baseline had a surplus of $6 billion for FY2003. Higher (by $15 billion) expected revenues and slightly smaller (by $5 billion) expected outlays generated most of the change.[4] The expected improvement in short-term economic conditions produced most of the changes in the budget outlook.[5] Over the 10-year (FY2003-FY2012) forecast period, the changes increased the cumulative surplus from $2,263 billion to $2,380 billion, a 5% increase over the January 2002 cumulative surplus estimate.

The House-passed FY2003 budget resolution (H.Con.Res. 353; March 20, 2002) followed, in general, the policy lead of the President's budget. Using the same underlying budget assumptions as the Administration, the resolution had revenues of $2,077 billion, outlays of $2,123 billion, and a deficit of $46 billion. Like the President's budget, the resolution contained estimates and projections for five years, through FY2007. The resolution showed the government returning to a small surplus in FY2004. Over the five-year period, the resolution expected a cumulative surplus of $231 billion.

The Senate Budget Committee reported its version of the FY2003 budget resolution (S.Con.Res. 100; S.Rept. 107-141) on March 22. Using CBO's underlying assumptions (rather than the Administration's), the Senate Budget Committee and House passed resolutions provided similar amounts of funding in FY2003 for defense and homeland security, but differed in other areas. Total revenues were $2,046 billion, total outlays were $2,139 billion, and the resolution had a deficit of $92 billion. (For FY2003, most of the differences between the House and the Senate Budget Committees' totals were from differences in the underlying assumptions used rather than significant policy differences.) The Senate never considered or adopted a budget resolution for FY2003.

The Mid-Session Review (MSR, August 2002) from the Administration, forecast a fairly rapid recovery for both the economy and federal revenues. Under the assumptions and policy in the MSR, the deficit would decline from $165 billion in FY2002 to $109 billion in FY2003 and return to surplus in FY2005. (Under Administration baseline assumptions, the budget would return to surplus in FY2004.) CBO's August 2002 *Update* had access to newer and revised budget and economic data than did OMB. CBO's baseline estimates had a FY2003 deficit of $145 billion. It expected the budget to return to surplus in FY2006, assuming current policies remain unchanged.

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[4] CBO estimated that incorporating the effects of the economic stimulus package signed into law (P.L. 107-147) on March 9, 2002, (and not included in CBO's revised baseline) would produce a $40 billion deficit in FY2003.

[5] The $20 billion improvement in the budget balance represents only 1% of total receipts or outlays for the year. Relatively small changes in the underlying factors supporting the budget estimates can easily change receipts or outlays by larger amounts than this without any change in policy.

The early 2003 budget reports from OMB and CBO for FY2004, containing revised FY2003 estimates, reflected the continuing economic weakness, along with the effect of changed policies or policy proposals, raised the deficit estimates for FY2003 and subsequent years substantially above the levels estimated in the 2002 budget reports. In January 2003, CBO estimated a baseline deficit of $199 billion (revised upward to $246 billion in March 2003) for FY2003. The President's FY2004 budget (which did not include any expected costs of a possible war in Iraq) contained a deficit of $304 billion. CBO's report analyzing the President's policy proposals (March 2003) estimated that the Administration's policy proposals would produce a deficit of $287 billion for FY2003. The cumulative deficits, under this CBO estimate of the President's budget, for FY2003-FY2007 was $1.3 trillion; the deficit for the cumulative period, FY2003-2012 was $2.1 trillion. The CBO estimates of the President's policies left the budget in deficit through FY2013.

The Administration's Mid-Session Review (for FY2004; July 15, 2003) included revised FY2003 budget estimates. The deficit estimate was raised sharply to $455 billion. The report attributed the deterioration in the budget for FY2003 to worse-than-expected economic conditions, the May 2003 tax cut, the Iraq war, and other, higher than planned spending. The CBO August 2003 budget report had an FY2003 estimated baseline deficit of $401 billion. CBO attributed the budgetary change from its March 2003 estimates to policy changes and technical changes. CBO attributed very little of the budgetary change to the small changes in the economic forecast between March and August 2003. Measured from the March 2003 estimates, revenues fell by $122 billion and outlays increased by $33 billion in the CBO estimate.

Part of the annual budget debate's intensity results from the awareness that the decisions made each year affect, in some cases substantially, the funding levels or policy choices available to Congress in future years.

Uncertainty in Budget Projections

All budget estimates and projections are inherently uncertain. Their dependence on assumptions that are themselves subject to substantial uncertainty and variation makes budget estimates and projections susceptible to fairly rapid and dramatic changes, as is obvious from the data in table 1. Nonetheless, budget estimates can help differentiate the budgetary effects of alternative proposals and the approximate magnitudes of various policies even if the estimates do not match the actual outcomes.

The uncertainty of budget estimates was apparent over the FY2002 budget cycle, beginning in January 2001. The estimates for fiscal year, 2002, produced early in 2001, projected baseline surpluses of between $283 billion (OMB) and $313 billion (CBO). The Administration's FY2002 proposals (February 2001), included a combination of tax cuts and spending increases that produced a surplus of an estimated $231 billion. By the time the summer 2002 budget estimates were released (the OMB *Mid-Session Review* and the CBO *Update*), the baseline *deficits* ranged from $150 billion to $157 billion in FY2002. The actual deficit for that year was $158 billion. The large baseline surpluses expected early in 2001 evaporated in a weak economy, the June 2001 tax cut, the spending increases in response to the terrorist attacks of September 2001, and substantial changes in the technical components and relationships underlying the budget estimates.

The unavoidable inaccuracy of budget projections is also obvious over longer periods of time. As CBO stated in its January 2002 budget report,

> Uncertainty compounds as the projection horizon lengthens. Even small annual differences in the many key factors that influence the budget projections — factors such as inflation, increases in productivity, economic growth, the distribution of income, and growth rates from Medicare and Medicaid spending — can add to substantial differences in the budget outcome 10 years from now.[6]

Budget projections are dependent on underlying assumptions about the direction of the economy, future government policy, and the technical assumptions of the budget models, and how these interact. Any deviation from expected underlying assumptions, such as faster or slower economic growth, higher or lower inflation, changes in assumed spending and tax policy or alterations in the fundamental underlying relationships between the budget and economic variables (the underlying technical assumptions) can have substantial effects on the budget projections.

Budget Action

Congress passed an economic stimulus bill in early March 2002. The legislation, the Job Creation and Worker Assistance Act of 2002 (P.L. 107-147; March 9, 2002) increased FY2003's expected deficit by an estimated $43 billion (plus another $3 billion in higher interest costs). The legislation extended unemployment benefits, reduced selected business taxes, extended selected expiring tax provisions, and made miscellaneous technical corrections to the tax code.

The House Budget Committee approved its version of the annual concurrent resolution on the budget for FY2003 (H.Con.Res. 353) on March 13, 2002. The resolution used a slightly modified version of OMB's economic and technical assumptions rather than CBO's, to produce its budget numbers.

The resolution contained a $46 billion deficit for FY2003 that closely matched the estimated cost of the economic stimulus bill adopted days earlier. It included almost $28 billion in unspecified tax cuts over five years (with upper limits for the size of the cuts for each year), a $46 billion year-over-year increase in budget authority for defense, close to a doubling of funding for homeland security from FY2002 to FY2003, and very small increases (overall) for remaining discretionary spending. The resolution was adopted in committee on a party-line vote. The House adopted the resolution on March 20.

The Senate Budget Committee adopted its version of the budget resolution (S.Con.Res. 100), using CBO's underlying assumptions, on March 22. The Committee's resolution differed substantially in policy choices, in areas other than

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[6] CBO, *The Budget and Economic Outlook: Fiscal Years 2003-2012*, Jan. 2002, pp. 5-6.

defense and homeland security, from the one adopted by the House. Although many of the differences were relatively small in FY2003, they became more pronounced over the years covered by the two resolutions. (The Senate Budget Committee's resolution provided estimates through FY2012.) The Senate never considered the Committee's resolution.

To avoid delaying its consideration of appropriations, the House adopted a deeming resolution (H.Res. 428) on May 22, 2002 (see CRS Report RL31443, *The "Deeming Resolution": A Budget Enforcement Tool*, by Robert Keith). This set the spending levels for FY2003 that the Appropriations Committee were to follow. The Senate did not adopt a budget resolution for the year (or a deeming resolution as in the House). In spite of the lack of guidance from a completed budget resolution, the House adopted five and the Senate passed three of the 13 regular appropriations bills for FY2003 as the new fiscal year approached, but none of the regular appropriations bills had cleared Congress before the start of the new fiscal year.

Congress passed, to avoid a funding crisis, a continuing resolution (CR) on appropriations (H.J.Res. 111; September 26, 2002) that became law (P.L. 107-229) on September 30. The CR provided funding, mostly at FY2002 spending levels, for federal activities not otherwise funded, through October 4, 2002. A second CR (H.J.Res. 112), extending funding through October 11, cleared Congress on October 3, and was signed by the President (P.L. 107-235) on October 4. Congress adopted a third CR (P.L. 107-240; H.J.Res. 122) on October 10, providing funding through October 18. Funding was extended through November 22, 2002, by the fourth CR (H.J.Res. 123) that Congress cleared for the President on October 16. The bill was signed into law (P.L. 107-244) on October 18, 2002. Congress adopted a fifth CR, (H.J.Res. 124), providing funding, through January 11, 2003. (Congress had adopted two — Defense and Military Construction — of the 13 regular appropriations in mid-October 2002.) The President signed the bill on November 23, 2002 (P.L. 107-294). A sixth CR (P.L.108-2; H.J.Res. 1) became law on January 10, 2003, continuing funding at FY2002 levels through January 31, 2003. Congress adopted a seventh continuing resolution in late January (P.L. 108-4; H.J.Res. 13), extending funding through February 7, 2003. Congress cleared the eighth and final CR (H.J.Res. 18) on February 5, 2003, becoming law (P.L.108-5). It provided funding through February 20.

A measure (H.J.Res. 2; the Consolidated Appropriations Resolution, 2003) to provide funding (a net $395 billion) for the remaining 11 regular appropriations for the rest of FY2003 was introduced on January 7, 2003. It cleared the House on January 8; an amended version passed the Senate on January 23. A conference report was agreed to by both chambers on February 13, 2003; it was signed into law (P.L. 108-7) on February 20, ending the extended appropriations deliberations.

In early March 2003, the President requested supplemental appropriations of $75 billion to pay for military activity associated with the war in Iraq and for homeland security. Both the House (H.R. 1559; March 3) and Senate (S. 762; March 7) passed differing versions of the legislation, containing approximately $80 billion in additional funding. Congress adopted a conference report (H.Rept. 108-76) on April 12, 2003; the President signed the legislation on April 16 (P.L. 108-11). The appropriation was estimated to raise the FY2003 deficit by approximately $42 billion.

During the same period, Congress took up the FY2004 budget resolution, which included changes for FY2003. Congress approved a conference report (containing differently sized tax cut reconciliation instructions for the House and Senate) on April 11. The resolution included adjusted FY2003 receipts of $1,835 billion, outlays of $2,182 billion, and a deficit of $347 billion.

The reconciliation instructions resulted in H.R. 2 (the Jobs and Growth Tax Relief Reconciliation Act of 2003), which was estimated to reduce revenues through FY2013, although many of the changes were designed to expire over the next several years. (Many analysts do not believe that Congress will let the tax reductions disappear.) After a difficult conference on the legislation — there were substantial differences in the Senate and House bills — the conference report (H.Rept. 108-126) was agreed to on May 23, 2003, and signed by the President on May 28, 2003 (P. L. 108-27). The legislation was expected to increase the FY2003 deficit by $61 billion.

In early July 2003, President Bush requested a second supplemental for FY2003 of $1.9 billion for the government's disaster relief and response activities. The funding was needed to replenish the Disaster Relief Fund (DRF) and for other related purposes. On July 11, the Senate amended the House passed (July 9) Legislative Branch appropriations (H.R. 2657), adding a Title III containing somewhat more than the requested disaster relief funding. The late July warnings of the imminent depletion of the DRF by mid-August while Congress was in recess, resulted in the House (on July 25) and the Senate (on July 31) passing a $984 million emergency supplemental (H.R. 2859). The President signed it into law (P.L. 108-69) on August 8.

The Legislative Branch appropriations (H.R. 2657) kept a modified Title III, now worth $938 million in funding for disaster relief. A conference agreement on the legislation was reported on September 18. Title III spread the $938 million appropriation among a number of departments and agencies.[7] The House and Senate passed the conference report on September 24. It became P.L. 108-83 with the President's signature on September 30. (Although the Title III appropriation is for FY2003, all of the actual outlays will occur in FY2004 or subsequent years.)

Outlays

The President's original budget for FY2003 (February 2002) proposed total outlays of $2,138 billion for FY2003, $76 billion over the Administration's revised FY2002 level.[8] CBO's March 2002 estimates of the President's proposals showed a

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[7] See CRS report RL31999, *Disaster Relief and Response: FY2003 Supplemental Appropriations* by Keith Bea, for detailed information on this bill.

[8] The Administration proposed a $32 billion increase in FY2002 outlays above baseline levels, most of which was for its proposed "bipartisan economic security plan." The (continued...)

year-to-year increase in outlays of $101 billion. Of that amount, CBO estimated that $22 billion came from proposed policy changes with the rest coming from inflation adjustments and demand growth. Outlays in the Administration's baseline estimates increased by $50 billion from FY2002 to FY2003.

Over the five years covered in detail in the President's FY2003 budget (FY2003-FY2007), total outlays would rise from $2,052 billion in FY2002 to $2,128 billion in FY2003 to $2,468 billion in FY2007. The average annual rate of growth over the FY2003 through FY2007 period was 3.8% a year, almost the exact same rate of growth as over the previous five-year period (FY1997-FY2002). The Administration proposed cumulative outlays of $11,431 billion for FY2003 through FY2007. (Over 10 years, FY2003-FY2012, a period that was shown in a few tables in the President's budget, cumulative outlays are $25,478 billion.)

Table 2. Outlays for FY2001-FY2007

(in billions of dollars)

	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007
CBO Outlook 1/31/02	***$1,864*** [a]	$2,003	$2,085	$2,152	$2,238	$2,319	$2,402
President's budget 2/4/02		2,052	2,128	2,189	2,277	2,369	2,468
OMB baseline 2/4/02		2,020	2,080	2,142	2,218	2,289	2,366
CBO revised baseline[b] 3/6/02		2,001	2,080	2,148	2,231	2,312	2,394
CBO estimate of Pres.'s budget 3/6/02		2,033	2,134	2,201	2,291	2,394	2,493
House budget resolution 3/13/02		2,033	2,123	2,192	2,289	2,383	2,479
SBC budget resolution 3/22/02		—	2,139	2,207	2,313	2,403	2,496
OMB MSR 7/15/02		2,032	2,138	2,217	2,298	2,390	2,483
OMB MSR baseline 7/15/02		2,018	2,097	2,163	2,232	2,301	2,376
CBO Update 8/27/02		2,017	2,107	2,195	2,283	2,366	2,461
CBO budget outlook 1/31/03		***2,011*** [a]	2,121	2,199	2,298	2,387	2,479
President's FY2004 budget 2/3/03		—	2,140	2,229	2,343	2,464	2,576
President's FY2004 baseline 2/3/03		—	2,121	2,189	2,276	2,348	2,440
CBO baseline revisions 3/03		—	2,137	2,224	2,328	2,417	2,513
CBO est. of President's budget 3/03		—	2,143	2,245	2,370	2,491	2,606
House budget resolution 3/21/03		—	2,143	2,232	2,337	2,450	2,556
Senate budget resolution 3/26/03		—	2,148	2,246	2,372	2,531	2,656
Conf. report on the budget. res. 4/11/03		—	2,182	2,268	2,375	2,494	2,607
OMB MSR 7/15/03		—	2,212	2,272	2,338	2,215	2,360
OMB MSR, baseline 7/15/03		—	2,210	2,252	2,304	2,377	2,481
CBO Update, baseline 8/26/03		—	2,170	2,305	2,404	2,501	2,624
Actual outlays for FY2003		**—**	**2,157**				

SBC = Senate Budget Committee
a. Actual outlays for FY2001 and FY2002.
b. These numbers exclude the effects of the economic stimulus law (P.L. 107-147) enacted on March 9, 2001.

[8] (...continued)
FY2002 estimate also did not include any outlays that might flow from the adoption of the Administration's $27 billion (in budget authority) supplemental spending request sent to Congress on March 21, 2002.

The Administration's original outlay proposals were $58 billion above the FY2003 baseline estimate. The $58 billion is the policy cost of the President's proposals for the year. The proposals included an increase in defense spending ($21 billion), farm support legislation ($7 billion) and the "bipartisan economic security plan" ($8 billion). The remaining proposed policy changes were scattered throughout federal spending.

CBO's estimates of the Administration's policies (March 2002) raised outlays $6 billion above the Administration's outlay totals. CBO's five-year cumulative estimate of the President's proposals raised outlays by $81 billion, of which $44 billion resulted from higher net interest payments.[9] Over the longer 10-year period, CBO's estimates increased cumulative outlays over the President's proposals by slightly more than 1%, or $296 billion. Most of the annual differences between the OMB and CBO estimates of the President's outlay proposals were relatively small compared to total outlays in each year.

The outlays proposed in the House passed budget resolution (H.Con.Res. 353; March 13, 2002) were similar to the ones contained in the President's budget. The House Budget Committee, in producing the resolution, used the Administration's underlying assumptions and followed many of the policy proposals, ensuring a close similarity between the two proposals. The Committee report (H.Rept. 107-376) compares the budget resolution to the President's proposals (see pages 74-75 in the report). Outlays in the budget resolution were $5 billion smaller than the President's proposed outlays for FY2003, but larger in each subsequent year. Over the five years covered by the two proposals, cumulative outlays in the House budget resolution were $35 billion larger than the President's proposed cumulative outlays.

The Senate Budget Committee's budget resolution (S.Con.Res. 100) used CBO's underlying assumptions. The difference in underlying assumptions in the two resolutions would produce different outlays even if they contained the same policy assumptions (which they did not). The Senate Budget Committee's budget resolution generally followed the policies of the House and Administration for defense and homeland security for FY2003 and FY2004, and in general, the spending levels for mandatory programs. Spending for non-defense, non-homeland security discretionary spending in the Senate Budget Committee budget resolution was generally larger and had a different distribution than the allocations found in the House budget resolution or in the President's budget. Many of the differences were relatively small in FY2003 but grew over time. The Senate did not consider the Committee's resolution resulting in no congressionally adopted budget resolution for FY2003.

The House passed and the Senate Budget Committee reported budget resolutions, as well as the President's budget, would all provide a large boost in defense outlays from FY2002 to FY2003 of approximately 9%, using each proposal's

[9] CBO's larger deficits and smaller surpluses in its estimates of the President's budget policies slow the reduction in federal debt held by the public compared to the amount in the Administration's budget. The larger debt held by the public in the CBO estimate raises the amount of net interest that the government must pay.

own numbers. Over the FY2003 and FY2007 period (the last year shown in the House and presidential budget proposals) the President's budget and the House budget resolution show defense outlays growing by almost 4% annually. The Senate Budget Committee passed budget resolution had defense outlays growing annually by 2% during these years.

Non-defense discretionary spending also got a larger boost between FY2002 and FY2003 than in subsequent years in the three proposals. The President's budget raised these outlays by 4.5%, the House budget resolution by 5.0%, and the Senate Budget Committee budget resolution by 8.2% between FY2002 and FY2003. The average rate of growth for non-defense discretionary spending in subsequent years in all three proposals was less than 2%, a rate that would not maintain spending for these programs against inflation or population growth. (By comparison, the CBO March 2002 baseline estimates of non-defense discretionary spending grew by 2.7% annually in subsequent years, a rate designed to adjust spending for inflation but not population growth.)

The Administration's August 2002 MSR raised estimated total outlays by $10 billion over the original proposal in February 2002. Two-thirds of the increase resulted from adopted or newly proposed policy changes and the remaining third was attributed to economic and technical estimating changes. Over the five-year period (FY2003-FY2007), cumulative outlays were 0.8% higher than in the February 2002 budget proposals. Compared to the original February proposals, discretionary spending shrank (by 1.2%) while mandatory spending increased (by 1.6%) and net interest increased (by 3.4%) over the five years.

CBO's *Update* (August 27, 2002) revised baseline outlay estimates for FY2003 (and subsequent years). CBO's estimated FY2003 outlays had risen by $28 billion since its March 2002 estimates (a 1.3% increase). Legislative changes increased estimated outlays by $40 billion, technical changes raised them by $11 billion, and changes in the expected economic outlook *reduced* them by $23 billion. The changes raised FY2003 estimated outlays from $2,080 billion in March 2002 to $2,107 billion in August 2002.

The revised outlook for FY2003 contained in the OMB and CBO 2003 FY2004 budget documents and reports released early in 2003, raised estimated outlays by $20 billion to $40 billion above those contained in the August 2002 budget estimates. Continued economic weakness and the resulting higher spending produced much of the expected increase.

The adoption of the Consolidated Appropriations Resolution, 2003 (P.L. 108-7; February 20, 2003) completed the action on the appropriations for FY2003, providing funding for the 11 regular appropriation bills that had not yet been adopted. In March, the President requested a $75 billion supplemental appropriation to provide additional funding for defense and homeland security. Congress passed a $79 billion supplemental (H.R. 1559) on April 12, which the President signed (P.L. 108-11) on April 16, 2003. It added an estimated $42 billion to outlays in FY2003.

The congressional budget resolution for FY2004 (H.Con.Res. 95; April 10, 2003) included reconciliation instructions that led to the adoption of the Jobs and

Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) on April 23. The President signed it on April 28 (P.L. 108-27). The law raised outlays by an estimated $11 billion in FY2003 through refundable tax credits and fiscal aid to States.

The summer 2003 budget reports from OMB and CBO pushed estimated outlays higher. OMB expected outlays to be $71 billion larger than they were in the January 2003 estimates, rising to $2,212 billion, a 3.3% increase. OMB attributed most of the increase to the adoption of the Emergency Wartime Supplemental Act and final FY2003 appropriations earlier in the year. OMB also stated that, "If this year follows the pattern of recent years, outlays for 2003 are likely to be lower than this estimate when final accounting is available...."[10] Final outlays were $55 below this OMB estimate. CBO's August baseline estimate rose to $2,170 billion from $2,137 billion in March, a 1.5% increase. Final outlays were $13 billion below this CBO estimate.

On October 20, 2003, the Treasury released final budget numbers for FY2003, with total outlays of $2,157 billion for the year. The Treasury indicated that slower than expected spending in August and September produced most of the change from OMB's July estimate (The final numbers for the year are subject to revision.)

Receipts

The President's FY2003 budget proposed $73 billion in tax cuts for FY2003 (and a $65 billion tax cut in what remained of FY2002). Receipts would increase by $102 billion from FY2002 to FY2003. Without the proposals, receipts would have increased by $110 billion between the two years. CBO's March 2002 estimates of the President's proposals put the year-to-year receipt increase at $71 billion. The Administration's budget proposed $2,048 billion in receipts for FY2003; CBO estimated that the President's proposals under CBO's budget assumptions would produce receipts of $2,013 billion in FY2003.

The President's budget also proposed making much of the tax cut adopted in 2001 permanent, along with extending a number of tax provisions scheduled to expire during the next five to 10 years. Under law current at the time of the proposals, most provisions of the 2001 tax cut would expire before or by the end of calendar year 2010. Making the tax cuts permanent would have little effect in FY2003, but would reduce receipts substantially (from baseline estimates) after FY2010.

The Administration estimated that extending the 2001 tax reductions would reduce revenues by $7 billion between FY2003 and FY2007 and by $343 billion between FY2003 and FY2012. CBO and the Joint Committee on Taxation estimated that extending the provisions expiring in 2010 would reduce revenue by $9 billion between FY2003 and FY2007 and by $374 billion between FY2003 and FY2012

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[10] OMB. *Mid-Session Review*, July 2003, p. 17.

(most of the revenue reduction, $356 billion, occurs in the last two years).[11] The Administration also proposed extending the research and experimentation (R&E) tax credit, which would reduce revenues by an estimated $14 billion to $15 billion over the FY2003 to FY2007 period and by $51 billion to $54 billion over the FY2003 to FY2012 period. CBO and the Joint Committee on Taxation estimated that extending all the other expiring tax provisions through FY2012 (including the R&E tax credit) would reduce revenues (from baseline levels) by an estimated $78 billion between FY2003 and FY2007 and by $205 billion between FY2003 and FY2012.[12]

Table 3. Receipts for FY2001-FY2007

(in billions of dollars)

	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007
CBO Outlook 1/31/02	***$1,991*** [a]	$1,983	$2,070	$2,206	$2,342	$2,447	$2,568
President's budget for FY2003 2/4/02		1,946	2,048	2,175	2,338	2,455	2,571
OMB baseline 2/4/02		2,011	2,121	2,234	2,366	2,461	2,581
CBO revised baseline [b] 3/6/02		2,006	2,086	2,209	2,342	2,448	2,569
CBO est. of Pres.'s budget 3/6/02		1,942	2,013	2,150	2,314	2,442	2,560
House budget resolution 3/13/02		1,968	2,077	2,200	2,356	2,472	2,593
SBC budget resolution 3/22/02		—	2,046	2,180	2,338	2,464	2,586
OMB MSR 7/15/02		1,867	2,029	2,169	2,351	2,451	2,567
OMB MSR baseline 7/15/02		1,863	2,035	2,180	2,369	2,475	2,595
CBO Update 8/27/02		1,860	1,962	2,083	2,244	2,381	2,513
CBO budget outlook 1/31/03		***1,853*** [a]	1,922	2,054	2,225	2,370	2,505
President's FY2004 budget 2/3/03		—	1,836	1,922	2,135	2,263	2,398
President's FY2004 baseline 2/3/03		—	1,867	2,031	2,235	2,352	2,469
CBO baseline revisions 3/03		—	1,891	2,024	2,205	2,360	2,504
CBO est. of President's budget 3/03		—	1,856	1,907	2,100	2,273	2,433
House budget resolution 3/21/03		—	1,855	1,908	2,107	2,282	2,444
Senate budget resolution 3/26/03		—	1,865	1,959	2,154	2,321	2,479
Conference rept. on the budg. res.		—	1,835	1,883	2,082	2,277	2,441
OMB MSR 7/15/03		—	1,756	1,797	2,033	2,215	2,360
OMB MSR, baseline 7/15/03		—	1,756	1,794	2,063	2,267	2,403
CBO Update, baseline 8/26/03		—	1,170	1,825	2,064	2,276	2,564
Actual receipts for FY2003		**—**	**1,782**				

SBC = Senate Budget Committee.

a. Actual receipts for FY2001 and FY2002.

b. These numbers exclude the effects of the economic stimulus law (P.L. 107-147) enacted on March 9, 2001

The House-passed FY2003 budget resolution showed a $110 billion increase in receipts between FY2002 and FY2003, with both years showing higher revenues than the President's budget. The House resolution reflected the revenue effects of the Job Creation and Worker Assistance Act of 2002 (P.L. 107-147; March 9, 2002), that

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[11] Making permanent the provisions of the 2001 tax cut expiring before 2010 produce estimated revenue reductions of $36 billion between FY2002 and FY2007 and $194 billion between FY2003 and FY2012.

[12] The reduced revenues in these various estimates would increase deficits or reduce surpluses, raising the federal debt held by the public. The higher debt increases the government's net interest payments over the period.

became law after the presentation of the President's FY2003 budget. The job creation act reduced receipts by an estimated $43 billion in FY2002 and by an estimated $39 billion in FY2003 (Joint Committee on Taxation). The resolution accommodated $28 billion in unspecified additional tax reductions through FY2007. It also accepted the Administration's proposals to remove EGTRRA's sunset provisions, although this would have had relatively little effect on receipts because of the resolution's unspecified offsets to the reductions in the years covered.

The Senate Budget Committee's reported budget resolution showed receipts increasing by $83 billion between FY2002 to FY2003. Like the House resolution, the Senate Budget Committee resolution reflected the revenue effects of the adoption of the job creation act. The Senate Budget Committee resolution assumed no changes to the existing sunset provisions of EGTRRA. The resolution further assumed that any proposed revenue reductions be offset to avoid a net reduction in receipts.

The Administration's July 2002 Mid-Session Review (MSR) revenue estimates showed a deterioration in the revenue outlook, produced by changes in policy and economic and technical assumptions since the early 2002 estimates. Receipts dropped below the earlier estimates in each year except for FY2005. For FY2003, the Administration estimated that changes in the underlying economic and technical assumptions reduced receipts by $50 billion below the February 2002 estimates. Enacted legislation and changed proposals raised receipts by $31 billion compared to February proposals (the Administration's proposed economic stimulus proposal contained larger tax cuts than did the legislation that became law, resulting in higher estimated revenues in the July 2002 estimates). The Administration estimated in the MSR that cumulative five-year (FY2003-FY2007) receipts would fall $21 billion below the February 2002 estimates.

CBO's August 2002 *Update* had newer budget and revised economic data than was available to OMB when it produced the MSR. CBO's baseline revenue estimate for FY2003 was $124 billion lower than Its March baseline revenue estimate (dropping from $2,086 billion to $1,962 billion). Over the five-year period, FY2003 through FY2007, cumulative revenues fell by $470 billion between the March and August CBO baseline revenue estimates. CBO attributed about half of the FY2003 revenue decline to change in the technical assumptions behind the estimates. One-third of the change in revenues was attributed to legislative changes (since March 2002), with the remaining portion of the revenue change attributed to differences in the economic assumptions used in the March and August reports. Over the five-year period, CBO estimated that the technical differences produced 65% of the change, differences in economic assumptions generated 25% of the change, and the remainder came from legislative changes.

The early 2003 budget reports and proposals (for FY2004) showed a further deterioration in revenue collections. CBO's January 2003 budget report estimated FY2003 revenues at $1,922 billion, $41 billion smaller than in August 2002, mostly from technical changes. The President's budget for FY2004 included revised FY2003 receipts of $1,836 billion, down from $2,029 billion in July 2002, including $31 billion in newly proposed tax cuts for FY2003. In March 2003, CBO reduced its revenue estimate by another $30 billion because of technical and economic changes.

The late-May 2003 adoption of the JGTRRA included an additional $49 billion in receipt reductions for FY2003.

The mid-July 2003 OMB MSR (two months before the fiscal year ended) reduced estimated receipts for FY2003 by $80 billion from the February 2003 budget, to $1,797 billion. This is $251 billion lower than the amount for FY2003 receipts contained in the President's FY2003 budget (February 2002) and is below the actual receipts in both FY2001 and FY2002. CBO's August 2003 *Update* had baseline receipts of $1,770 billion, $122 billion below its March 2003 baseline estimates. Legislative actions and technical changes produced most of the change.

Actual receipts, as reported by the Treasury in late October 2003, were $1,782 billion. Total receipts (in current dollars) for FY2003 were smaller than total receipts in any year since FY1998. The receipts for FY2003 are 3% below receipts in FY2002 ($1,853 billion), 10% below receipts in FY2001 ($1,991 billion), and 12% below receipts in FY2000 ($2,025 billion). As a share of GDP (16.5% in FY2003), receipts were the smallest percentage of GDP that they have been since 1950, with two exceptions in FY1959 and FY1951 (both 16.1% of GDP).

Surpluses Or Deficits

Surpluses or deficits are the residuals left after Congress and the President determine the general level of spending and receipts. 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, but returned to deficit in FY2002) had been a major focus of the budget debate for over a decade. The budget outlook-changing events of 2001 (the terrorist attacks, the weakened economy, and policy changes), as reflected in the FY2003 budget forecasts in 2002, ended the earlier expectations of substantial and growing surpluses throughout the decade.

Table 4. Deficits(-)/Surpluses for FY2001-FY2007

(in billions of dollars)

	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007
CBO outlook 1/31/02	***$127*** [a]	-$21	-$14	$54	$103	$128	$166
President's budget for FY2003 2/4/02		-106	-80	-14	61	86	104
OMB baseline 2/4/02		-9	41	92	148	172	215
CBO revised baseline [b] 3/6/02		5	6	61	111	135	175
CBO estimate of Pres.'s budget 3/6/02		-90	-121	-51	24	48	68
House budget resolution 3/13/02		-66	-46	8	67	89	113
SBC budget resolution 3/22/02		—	-92	-27	26	60	90
OMB MSR 7/15/02		-165	-109	-48	53	60	80
OMB MSR baseline 7/15/02		-150	-62	17	137	174	219
CBO Update 8/27/02		-157	-145	-111	-39	15	52
CBO budget outlook 1/31/03		***— 158*** [a]	-199	-145	-73	-16	26
President's FY2004 budget 2/3/03		—	-304	-307	-208	-201	-178
President's FY2004 baseline 2/3/03		—	-264	-158	-40	5	29
CBO baseline revisions 3/03		—	-246	-200	-123	-57	-9
CBO est. of President's budget 3/03		—	-287	-338	-270	-218	-173
House budget resolution 3/21/03		—	-288	-324	-230	-168	-111
Senate budget resolution 3/26/03		—	-282	-287	-218	-169	-128
Conference report on the budg. res.		—	-347	-385	-294	-217	-166
OMB MSR 7/15/03		—	-455	-475	-304	-238	-213
OMB MSR, baseline 7/15/03		—	-455	-458	-241	-110	-78
CBO Update, baseline 8/26/03		—	-401	-480	-341	-225	-203
Actual deficit for FY2003		**—**	**-374**				

SBC = Senate Budget Committee.
MSR — Mid-Session Review
a. Actual surplus for FY2001 and actual deficit for FY2002.
b. These numbers exclude the effects of the economic stimulus law (P.L. 107-147) enacted on March 9, 2001.

The original baseline projections from both OMB and CBO in early 2002 (for FY2003 through FY2007 or FY2012) showed a baseline deficit of $14 billion (CBO) or a baseline surplus of $41 billion (OMB) in FY2003. The President's proposals turned his $41 billion baseline surplus into an $80 billion deficit and small, but growing, surpluses in the years through FY2007 or FY2012. CBO in March 2002 estimated that the President's proposals would produce a $121 billion deficit in FY2003. The MSR (July 2002) raised the Administration's estimate of the deficit to $109 billion in FY2003 (with a baseline deficit of $62 billion for the year). CBO's *Update* (August 2002) estimated that the FY2003 baseline deficit would be $145 billion.

The continued economic sluggishness through most of 2002, along with policy and technical changes, increased the expected deficit for FY2003 in both CBO's January 2003 budget report for FY2004 and the Administration's February 2003 budget proposals for FY2004. The CBO report raised the FY2003 baseline deficit to $199 billion. The Administration's FY2004 policy proposals boosted the expected FY2003 deficit to $304 billion. CBO released revised baseline budget estimates in its March 2003 report analyzing the President's FY2004 proposals. The baseline deficit grew to $246 billion – two-thirds of the increase was attributed to the expectation of a continuing fall in revenues, and approximately one-third was attributed to the adoption of the Consolidated Appropriations Resolution for 2003 (P.L. 108-7). CBO's estimate of the President's policies produced a deficit of $287 billion for FY2003. The adoption of the tax cut (P.L. 108-27; May 28, 2003) also increased the expected deficit for FY2003. By June 2003, CBO's monthly budget report indicated that based on budget data so far for the fiscal year, the deficit for FY2003 could reach $400 billion.

The Administration's July 2003 release of the MSR confirmed the growth in the deficit, raising it to $455 billion in FY2003 (which ended on September 30, 2003). (Some analysts speculated that the Administration may have provided a larger-than-realistic estimate of the deficit to produce a perception that the budget situation was improving when the actual deficit came in below the July estimate.) CBO's August 2003 budget report raised its estimated baseline deficit for FY2003 to $401 billion. Two-thirds of the increase came from legislative changes between the March and August 2003 estimates. CBO attributed 20% of the increase to technical changes, and the remaining change was attributed to changed economic conditions. The year ended with a deficit of $374 billion, below both OMB's and CBO's summer 2003 estimates. Higher than expected receipts and slower than expected (and delayed) spending generated most of the improvement in the deficit.

The Budget and the Economy

The budget and the economy affect each other. The relationship is an unequal one, with the economy influencing the budget with every economic twinge while even substantial policy changes may disappear in the overall economy with little notice or consequence.

Until increasingly negative budget estimates appeared from OMB and CBO in August 2001, previous 10-year budget forecasts in 2001 had been buoyed by the expectation of a continuation of favorable economic conditions into future years. This earlier economic outlook supported the expectations of a continuation of the overall improvement in the budget situation since the early 1990s. Much of that budget improvement came from strong and sustained economic growth along with the congressional and presidential efforts to balance the budget. When those favorable economic conditions faltered in 2001, so did a major underpinning of the good budget fortunes of the previous several 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 (along with the budgetary and economic responses to the September 2001 terrorist attacks), and changes in underlying technical relationships replaced the expected large and growing surpluses in the FY2003 budget (February 2002) with three years of relatively small deficits before the budget returned to surplus. Since then, the weak economic outlook had continued to worsen for the near-term budget balance.

Table 5. CBO's Alternative Scenarios, Cumulative Surpluses/Deficits(-); FY2004-FY2008, FY2009-FY2013 and FY2004-FY2013
(in billions of dollars)

	FY2004-FY2008	FY2009-FY2013	FY2004-FY2013
CBO Optimistic Scenario Total Surplus 1/31/03	$566	-$143	$4,490
CBO Baseline 1/31/03	-143	1,479	1,336
CBO Pessimistic Scenario Total Surplus 1/31/03	-855	-1,001	-1,856

Source: CBO, The Budget and Economic Outlook: FY2004-2013, Jan. 31, 2003. CRS calculations.

CBO's budget report, *The Budget and Economic Outlook: Fiscal Years 2004-2013* (January 2003) in its chapter on *The Uncertainties of Budget Projections*, indicated how significantly the budget outlook can be altered by changing the underlying economic assumptions. The chapter contains optimistic and pessimistic alternative scenarios, for the budget (see Table 5). The optimistic scenario assumes that the positive underlying economic conditions and other factors of the later 1990s (1996-2000) continue into the future. The pessimistic scenario assumes that the favorable conditions of those years were an aberration and that the economy and other underlying factors revert to the conditions that prevailed from 1974 through 1995.

The result of CBO's exercise was a wide range of possible budget outcomes over the next 10 years. Under the optimistic scenario, the surpluses would accumulate over the 10-year period (FY2004-FY2013) to almost $4.5 trillion. Under the pessimistic scenario, a string of deficits appear, accumulating to almost $1.9 trillion over the same 10 years.

In addition to the alternative scenarios, CBO provides estimates of the effects on the budget of changes in selected economic assumptions underlying the budget estimates and projections (see appendix C in the *Budget and Economic Outlook: Fiscal Years 2004-2013*, January 2003). OMB provides similar measures in the President's budget (see chapter 1 in the Analytical Perspectives volume of the *Budget of the United States Government for FY2003*). CBO estimated (January 2003) that a sustained reduction of 0.1% in the real rate of GDP growth beginning in early 2003, would increase the deficit in FY2003 by $1 billion and in FY2004 by $4 billion. OMB's February 2003 FY2004 budget report estimated that a 1% slower real GDP growth beginning in January 2003 would increase the FY2003 deficit by $9.3 billion and the FY2004 deficit by $30 billion. Estimates are provided in both reports for the effects on the budget of other selected economic variables — inflation, unemployment, and interest rates. Larger changes in the underlying economic variables generally produce larger changes in the budget numbers.

For Additional Reading

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