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August 16, 2004

Policy Brief...Office of Management and Budget's *Mid-Session Review*

On July 30, the Office of Management and Budget (OMB) released its *Mid-Session Review* of the budget. OMB projects the following deficits under current budget policies:

In Billions of Dollars

	2004	2005	2006	2007	2008	2009
Current Baseline	-444	-322	-282	-278	-273	-259
Extension of Expiring Tax Relief	0	-11	-30	-30	-30	-48
Excluding One-Time Emergencies	0	39	74	84	88	91
Debt Service Costs & Technical Changes	0	2	4	6	11	14
Unified Deficit	-444	-292	-234	-217	-204	-202
Off-Budget Surplus	155	181	198	217	237	252
On-Budget Deficit	-599	-473	-432	-434	-441	-454

Note: The Off-Budget Surplus consists of excess Social Security receipts.

The President has proposed several additions to the current baseline (beyond extending expiring tax relief and assuming that emergency spending occurs only once) which impact the deficit, including:

In Billions of Dollars

	2004	2005	2006	2007	2008	2009
Defense and Homeland Security	0	-30	-26	-32	-43	-57
Incentives for Charitable Giving	0	-3	-2	-2	-2	-2
Health Care Tax Incentives	0	*	-4	-4	-5	-6
Tax-Free Savings Initiatives	0	-4	-8	-5	-2	*
Other Proposals	-1	-2	13	27	28	38
Total	-1	-39	-27	-16	-24	-27

*\$500 million or less.

If the President's proposals are enacted, the following deficits would result:

In Billions of Dollars

	2004	2005	2006	2007	2008	2009
Unified Deficit	-445	-331	-261	-233	-228	-229
Off-Budget Surplus	155	181	198	217	237	252
On-Budget Deficit	-600	-512	-459	-450	-465	-481

Note: The Off-Budget Surplus consists of excess Social Security receipts.

BRIEF DISCUSSION:

The deficit outlook improved dramatically since the President submitted his budget -- \$76 billion lower in FY04 and \$32 billion lower in FY05. The improved outlook is due to higher receipts of \$82 billion in FY04 and \$63 billion in FY05 that offset higher reestimates in other areas (\$6 billion in FY04 and \$8 billion in FY05). Specifically, individual and corporate income tax receipts are up by \$64 billion and \$39 billion in FY04 and FY05, respectively.

In addition to higher receipts, spending is also higher than anticipated, \$32 billion in new spending over five years (of which \$25 billion consists of emergency spending for operations in Iraq and Afghanistan) that was unaccounted for in the President's budget and \$128 billion in reestimates of current-law programs. Some press accounts have drawn attention to the fact that projections for Medicare increased by \$67 billion over five years. It is important to note that the majority of this spending does **NOT** reflect a revised estimate of the newly enacted prescription drug benefit but rather technical changes and new assumptions regarding the cost of providing health care (i.e., new data on the average beneficiary's health status and income, higher medical inflation, etc.). According to OMB, only \$19 billion can be directly or indirectly traced to the new drug benefit.

DEFICIT IN PERSPECTIVE:

The current unified deficit is the largest in nominal dollar terms in U.S. history, but at 3.8% of GDP, it is well below historic levels as a share of the economy. Since World War II, the deficit has been larger as a share of the economy nine times with a high of 6% of GDP in 1983. In addition, OMB notes that by FY09 the deficit will be only 1.5% of GDP.
