



JOINT ECONOMIC COMMITTEE

ROBERT F. BENNETT, CHAIRMAN

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2003 DEFICIT LOWER THAN PROJECTED

Last week, the Congressional Budget Office (CBO) estimated that the federal budget deficit in fiscal 2003 was \$374 billion, lower than projected a few months ago.

- In its August budget update, CBO had projected that the deficit would reach \$401 billion in fiscal 2003. The updated deficit estimate is \$27 billion lower.
- The Office of Management and Budget (OMB) had projected an even larger deficit – \$455 billion – in its Mid-Session Review in July. CBO's updated estimate is \$81 billion lower.

Next week, the Treasury Department will release final budget results for fiscal 2003. The deficit is expected to be around \$380 billion, consistent with the latest CBO figures.

Revenues Were Higher Than CBO Projected, Spending Was Lower

CBO updated its budget estimates to reflect actual tax revenues and spending levels as reported in preliminary Treasury data. Higher-than-expected revenues and lower-than-expected spending on some programs accounted for the \$27 billion change in CBO's deficit projection over the last few months.

- Revenues were \$13 billion higher than CBO projected. Corporate income tax receipts alone exceeded expectations by \$7 billion. This increase reflects the strengthening of corporate profits, which have been driven by the strengthening economy.
- Spending was \$14 billion less than CBO projected. This change resulted from lower-than-anticipated spending by the Departments of Defense and Education, and for Medicaid, unemployment benefits, welfare, and net interest payments.

Putting the 2003 Deficit into Context

At \$374 billion, the 2003 deficit is the largest ever in nominal terms. However, it falls far short of record levels relative to the size of the economy. The 2003 deficit was about 3.5% of gross domestic product (GDP); in the late 1980s and early 1990s, in contrast, deficits reached 5% to 6% of GDP.

The fiscal 2003 deficit reflects the weak tax revenues associated with the slow economy and a fast pace of spending increases. Tax receipts fell by \$70 billion from fiscal 2002 to fiscal 2003, their third consecutive yearly decline. Much of this decline has been due to the weak economy, rather than recent tax relief. Spending increased by \$146 billion in fiscal 2003, due, in part, to military action in Iraq and Afghanistan and other necessary security spending. Excluding net interest payments (which fell as interest rate declined), spending increased by almost 9% from 2002 to 2003.

Sources: Congressional Budget Office, *Monthly Budget Review*, October 9, 2003
(<ftp://ftp.cbo.gov/46xx/doc4621/10-2003-MBR.pdf>)

Joint Economic Committee, *Understanding Today's Deficits*, September 3, 2003
(<http://jec.senate.gov/studies/TodaysDeficitsCBO.pdf>)

Committee Publications

JEC reports issued this week:

- “Recent Economic Developments: Most Recent Data Confirm Strengthening Economy,” October 15, 2003. Reviews economic indicators released in the past month and prospects for future economic growth.
- “2003 Deficit Lower Than Projected,” October 15, 2003. Explains the new budget deficit estimate from the Congressional Budget Office for the fiscal year that ended on September 30th.
- “A Portrait of the Personal Income Tax Burden in 2001,” October 14, 2003. Discusses how federal tax revenues are dependent on a small group of high income earners and other issues about new tax distribution data from the IRS.
- “A Tale of Two Employment Surveys,” October 14, 2003. Update of previous report that explains how two employment surveys from the same monthly report paint a surprisingly different picture – one survey shows job losses, while the other shows job gains.

Other recent JEC reports include:

- “Constant Change: A History of Federal Taxes”
- “The Tax Reform Act of 1986: A Primer”
- “Understanding Today’s Deficits”
- “10 Facts about Today’s Economy”
- “Prescription Drugs Are Only One Reason Why Medicare Needs Reform”

Recent JEC hearings and events include:

- “Reshaping the Future of America’s Health,” October 1, 2003.
- “The Employment Situation,” September 9, 2003.
- “Technology, Innovation, and the Costs of Health Care,” July 9, 2003.
- “Transforming Iraq’s Economy,” June 11, 2003.

Copies of the above publications can be found on-line at the committee’s website at jec.senate.gov. Publications issued by the vice-chair and ranking member can be accessed via the same website.