



PRESS RELEASE

COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

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FOR IMMEDIATE RELEASE

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Positive Deficit News Should Not Mask Real Fiscal Challenges

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WASHINGTON, DC -- Today the Committee for a Responsible Federal Budget warned that the lower-than-anticipated budget deficit for fiscal year 2005 should not be taken as a sign that the country is on a fiscally sustainable course.

The Office of Management and Budget will issue its mid-session review of the budget today. The report will lower OMB's deficit projection significantly as a result of higher-than-anticipated revenue growth.

While higher revenues are indeed good news, the recent revenue surge only begins to restore the decline in revenues over the last several years. Total revenues last year were \$145 billion lower in nominal terms than they were in 2000. Even if the trend of unexpectedly high revenues continues throughout this year, total revenues will almost certainly fall below the 2000 revenue levels adjusted for inflation.

"While a lower than expected deficit this year is good news, we still face tremendous fiscal challenges" said Maya MacGuineas, the President of the Committee for a Responsible Federal Budget.

"We have no plan for how to eliminate the deficit and the Baby Boomers' retirement, which will only make our fiscal situation deteriorate more quickly, is just around the corner."

MacGuineas noted that the increase in revenues is at least partially the result of temporary factors and unique circumstances that are unlikely to continue into the future. "Policymakers should not repeat the mistakes of 2001 by allowing improvements in the short-term budget outlook to serve as an excuse to further relax, already overly lax, fiscal discipline."

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Some advocates of tax cuts have begun to argue that the increase in revenue collections is a validation of supply side economics. Under supply side theory, revenues should be higher than projected under so-called “static scoring” when the tax cuts were enacted. However, even with the recent surge in revenues, total revenues this year will be much lower than the projections made in 2001 adjusted to reflect the costs of the 2001 and 2003 tax cuts.

Comparison of Projected Revenues with Actual Results

	2000	2001	2002	2003	2004	2005
CBO Jan 2001 revenue projections	2,025	2,135	2,236	2,343	2,453	2,570
CBO Jan 2001 projections adjusted to reflect enacted tax cuts	2,025	2,065	2,161	2,164	2,185	2,386
Actual 2000 revenues inflation-adjusted	2,025	2,081	2,115	2,163	2,222	2,275*
Actual revenues	2,025	1,991	1,853	1,782	1,880	???

* Based on OMB January estimate for inflation for 2005.

The Committee for a Responsible Federal Budget is a bipartisan organization committed to educating policy makers and the public about issues related to fiscal policy. The Co-Chairs of the Committee are Bill Frenzel and Leon Panetta. The Committee is located at the New America Foundation. For more information, go to www.CRFB.org.