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The Budget for Fiscal Year 2003

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CONTENTS

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SUMMARY

President Bush released his original fiscal year (FY) 2003 budget proposals on February 4, 2002. The proposals included a deficit of $80 billion. The President's proposals 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. The Congressional Budget Office (CBO) released its FY2003 annual budget report at the end of January 2002.

Since then, higher than planned spending and lower than expected receipts have raised the deficit estimates substantially. The Administration's *Mid-Session Review* (July 2003) raised the estimated deficit to $455 billion for FY2003.

The Bush Administration's early 2002 economic stimulus proposal was superseded by stimulus legislation adopted by Congress on March 7, 2002 (The Job Creation and Worker Assistance Act of 2002; H.R. 3090, P.L. 107-147), that would increase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

Also in early March 2002, CBO released reestimates of the President's policy proposals using CBO's economic and technical assumptions. The CBO estimates of the Administration's policy proposals produced a deficit of $121 billion for FY2003.

The House cleared its FY2003 budget resolution (H.Con.Res. 353) on March 20, 2002; the Senate did not pass 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 (February 2003) submission, raised the FY2003 deficit to $304 billion. The CBO January 2003 budget report estimated a $199 billion deficit for FY2003.

On February 13, 2003, four-plus months into the new fiscal year, Congress completed work on FY2003 appropriations with the adoption of the Consolidated Appropriations Resolution for FY2003 (CAR2003; H.J.Res. 2). The legislation funded the 11 remaining regular appropriations (out of 13; two were adopted in October 2002, Defense and Military Construction) for the remainder of the fiscal year. The President signed the resolution on February 20 (P.L. 108-7). This action followed the adoption of eight continuing resolutions on appropriations that funded those activities not covered by regular appropriations.

Most recently, 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) would increase the deficit by an estimated $350 billion through 2013 and by $61 billion in FY2003. Somewhat earlier in the spring, 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. On July 7, 2003, the President proposed a second, less than $2 billion, FY2003 supplemental.

A weak economy, technical, and policy changes have produced most of the increase in the deficit now expected for FY2003.

MOST RECENT DEVELOPMENTS

The Administration's *Mid-Session Review* for FY2004 (July 2003) raised the estimated deficit to $455 billion for FY2003, up from the proposed $80 billion deficit in the President's original FY2003 budget from February 2002. The Administration ascribed much of the change to deterioration in the economic outlook, the continuing fight against terror, the Iraq war, and various pieces of legislation.

Congress adopted and the President signed the Jobs and Growth Tax Relief Reconciliation Act of 2003 (P.L. 108-27; May 28, 2003). The legislation cuts taxes by $320 billion and produces $29 billion in refundable tax credits (outlays) through FY2013. Many of its changes are scheduled to expire (revert to previous law) within several years. The adopted changes will increase the FY2003 deficit by an estimated $61 billion.

The President proposed (March 24, 2003) a $75 billion supplemental appropriations for FY2003 to fund military activities in Iraq and for homeland security. The House (H.R. 1559) and Senate (S. 762) adopted modified supplemental appropriations on March 3 and March 7 respectively. A conference report (H.Rept. 108-76; H.R. 1559) cleared Congress on April 12. As adopted and signed (P.L. 108-11; April 16), the bill provided $78.5 billion in budget authority, with outlays increasing by an estimated $42 billion in FY2003. The President proposed a second supplemental appropriations, of less than $2 billion, on July 7, 2003.

BACKGROUND AND ANALYSIS

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 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 changed as has been proposed). Although they are provided each year in appropriations bills, changes in the level of discretionary funding this year influence future levels of discretionary spending.

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*
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 Budget for **FY2003** 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
CBO baseline revisions 3/03	1,891	2,137	-246
CBO estimate of Presidents (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	1,756	2,210	-455

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

Table 1 contains budget estimates and proposals for FY2003 from the 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 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.

Budget Proposals and Estimates

Budget proposals and estimates 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, both the expected underlying economic conditions and the policy directions have appeared somewhat less settled than usual. The delayed resolution of discretionary funding for FY2003, the uncertain condition of the economy, and the war with Iraq contributed to the 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 without any changes from existing policy, the FY2003 budget would have $2,070 billion in revenues, $2,085 billion in outlays, with a (rounded) deficit of $14 billion. Over the 10-year forecast period (FY2003-FY2012) CBO's projections produce a cumulative surplus of $2,263 billion. Of that amount, $1,078 billion is generated in the last two years of the projection period when the 2001 tax cuts would fully expire as required by current law.[2] The 5-year (FY2003-FY2007) cumulative surplus, reflecting the deficits and relatively small surpluses expected over the period, is $437 billion.

President Bush's FY2003 budget proposed receipts of $2,048 billion, outlays of $2,128 billion, with a resulting deficit of $80 billion. The Administration's proposals produced a 10-year total cumulative surplus of $1.0 trillion. Its 5-year cumulative surplus was $157 billion. (The President's budget provided most data for the 5-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 policy changes) showed FY2003 receipts of $2,121 billion, outlays of $2,080 billion, with a resulting surplus of $41 billion.[3] The differences between these baseline numbers and the proposed amounts measure the dollar effect on the budget, in FY2003, 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. Over the FY2003 through FY2007 period, the time period covered by the Administration's baseline estimates, they show a cumulative surplus of $668 billion, meaning that the Administration's proposals reduce the cumulative baseline surplus by $511 billion over the 5 years.

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[1] Baseline estimates provide a foundation from which to measure proposed policy changes. They extrapolate current policies into the future based on expectations of the future economic conditions and other, now mostly small, factors that affect the budget formulated under fairly explicit rules. 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. The implication is that extending the tax cut would reduce the cumulative surplus over the 10-years would be reduced by at least that much and probably more if 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.

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 FY2003 (from the Administration's proposed $80 billion) to $121 billion. CBO's reestimates reduced revenues by $35 billion and increased outlays by $6 billion from the Administration's numbers, producing the $41 billion difference in the deficit estimate.

This CBO report also included updated baseline estimates that made relatively small changes in the estimates for FY2003. The updated numbers showed a surplus of $6 billion for FY2003, instead of the $14 billion deficit estimated in January. Higher expected revenues ($15 billion) and slightly smaller expected outlays ($5 billion) generated most of the change.[4] The then better short-term economic conditions produced most of the improvement 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, with a deficit of $46 billion. The resolution, like the President's budget, contained estimates and projections for 5 years, through FY2007. The resolution expected the government to return to a small surplus in FY2004. Over the 5-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 resolution provided similar amounts of funding in FY2003 for defense and homeland security as the House-passed resolution 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 Senate Budget Committees' totals were from differences in the underlying assumptions used rather than policy differences).

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 FY2002 to FY2003 (from $165 billion to $109 billion) and return to surplus in FY2005. Under baseline assumptions, the budget would return to surplus in FY2004. CBO's August *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, somewhat smaller than its FY2002 deficit estimate of $157 billion. It expected the budget to return to surplus in FY2006, assuming no change from current policies.

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[4] CBO estimates 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.

In the budget reports from OMB and CBO in 2003 (for FY2004), the ongoing economic weakness, along with proposals to change policies, raised the deficit estimates for FY2003 and subsequent years, 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 (not including 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 estimate, 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 showed the budget remaining in deficit through FY2013.

The Administration's Mid-Session Review (for FY2004), released on 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.

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 policy proposals 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. Like the President's FY2003 budget, the resolution had 5 years of projections rather than the 10 years that had been used in the last few years.

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 5 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 between FY2002 and 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) on March 22. The Committee's resolution differed substantially in policy choices, in areas other than 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

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

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.

To avoid a funding crisis, Congress passed 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 9. 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.

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) and Senate (S. 762) passed differing versions of the legislation, containing approximately $80 billion in additional funding, on March 3, 2003 and March 7, respectively. Congress adopted the conference report (H.Rept. 108-76) on April 12, 2003; the President signed the legislation on April 16 (P.L. 108-11). The additional spending is estimated to raise the FY2003 deficit by approximately $42 billion.

During the same period, Congress took up the FY2004 budget resolution, which included adjustments to the FY2003 budget. Congress approved a conference report (containing differently sized tax cut reconciliation instructions for the House and Senate) on April 11. The resolution included FY2003 receipts of $1,8357 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 would reduce revenues through FY2013, although many of the changes are 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 agree to on May 23, 2003, and signed by the President on May 28, 2003 (P. L. 108-27). This legislation is expected to increase the FY2003 deficit by $61 billion.

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.[7] The year-to-year change was composed of proposed policy changes (approximately $26 billion in the President's proposal) and relatively automatic growth in outlays in mandatory and a few other programs resulting from inflation adjustments and demand growth. CBO's March 2002 estimates of the President's budget showed a 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 adjustment and demand growth. Outlays in the Administration's baseline estimates (the estimates excluding the effects of his proposed policy changes) increased by $50 billion from FY2002 to FY2003.

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
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
Conference report on the budg. 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

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.

[7] 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 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.

Over the 5 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 in outlays over the FY2003 through FY2007 period was 3.8% a year, almost the exact same rate of growth as over the previous 5-year period (FY1997-FY2002). Over the future 5 years, the Administration proposed cumulative outlays of $11,431 billion. (Over 10 years, FY2003-FY2012, shown in a few tables, the Administration proposes cumulative outlays of $25,478 billion.)

The Administration's original outlay proposals were $58 billion above the FY2003 baseline estimate. The $58 billion measures 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 proposed policies (March 2002) showed outlays $6 billion above the Administration's proposed outlays. CBO's 5-year cumulative estimate of the President's policy proposals differs by $81 billion, of which $44 billion results from higher net interest payments.[8] 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). Total outlays in the budget resolution (H.Con.Res. 353) are $5 billion smaller than the President's proposed total outlays for FY2003, but larger in each subsequent year. Over the 5 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, in contrast to the House's use of OMB assumptions. This difference by itself would generate different numbers in the two budget resolutions 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

[8] 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 level 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.

in FY2003 but grew over time. The Senate did not considered 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 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 by 2%annually 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 showed these outlays growing 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 will not maintain spending for these programs against inflation or population growth. (By comparison, the CBO March 2002 baseline estimates of non-defense discretionary spending show them growing 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 outlay 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 5-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 5 years.

CBO's *Update* (August 27, 2002) also contained changed outlay estimates for FY2003 (and subsequent years) compared to its earlier estimates. CBO's estimated FY2003 outlays had risen by $28 billion since its March 2002 estimates. Legislative changes increased estimated outlays by $40 billion, technical changes raised estimated outlays by $11 billion, while changes in the expected economic outlook *reduced* estimated outlays by $23 billion. The changes raised estimated FY2003 outlays from $2,080 billion in March 2002 to $2,107 billion in August 2002.

The revised outlook for FY2003 contained in the early 2003 FY2004 budget documents and reports from OMB and CBO 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 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 to the FY2003 outlay total.

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 $11 billion in FY2003 through refundable tax credits and fiscal aid to States.

Receipts

The President's FY2003 budget (February 2002) 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 economic and technical assumptions would produce receipts of $2,013 billion in FY2003.

Table 3. Receipts for FY2001-2007

(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 Estimate 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
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. 4/11/03		—	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

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 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 current law, most provisions of last year's tax cut would expire at the end of calendar year 2010. Making the tax cuts permanent would have little effect in FY2003, but would reduce receipts substantially after FY2010 from baseline estimates.

The Administration estimated that extending the EGTRRA proposals 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 (most of the revenue reduction, $356 billion, occurs in the last two years).[9] 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 expiring 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.[10]

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 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, although with relatively little effect because of the assumed offsets in the years covered by the resolution, the Administration's proposals to remove EGTRRA's sunset provisions.

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

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[9] 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.

[10] 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.

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 data 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 CBO's March baseline revenue estimate (dropping from $2,086 billion to $1,962 billion). Over the 5-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 CBO 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 5-year period, CBO estimated that the technical changes produced 65% of the change, differences in economic assumptions generated 25% of the change, and the remainder came from legislative changes.

The calendar year 2003 budget reports (for FY2004) indicated that the continued sluggish economy had produced 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. The President's budget for FY2004 contained FY2003 receipts of $1,836 billion, including proposed tax cuts, $31 billion in lost revenue in FY2003. In March 2003, CBO had reduced its revenue estimate by another $30 billion, a reduction that did not result from any legislative changes between January and March 2003. The late-May 2003 adoption of the JGTRRA included $49 billion in further receipt reductions for FY2003.

The mid-July 2003 OMB MSR 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).

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 original baseline projections from both OMB and CBO (in early 2002 for FY2003 through FY2007 or FY2012) showed modest deficits in the early years and small, but growing, surpluses in the years through FY2007 or FY2012.

The budget outlook-changing events of 2001 (the terrorist attacks, the weakened economy, and policy changes), as reflected in budget forecasts in 2002, ended the 2001 budget forecasts of substantial and growing surpluses throughout the forecast period. The early 2002 budget estimates and forecasts expected a small ($14 billion – CBO) baseline deficit or a small ($41 billion – OMB) surplus in FY2003. The President's proposals turned the baseline surplus into an $80 billion deficit. CBO later (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 increased the size of the deficit in both CBO's January 2003 budget report (for FY2004) and the Administration's FY2004 budget proposals (February 2003). The CBO report put the FY2003 baseline deficit at $199 billion. The Administration's FY2004 policy proposals boosted the expected FY2003 deficit to $304 billion. CBO released revised budget estimates in its March 2003 report analyzing the President's FY2004 proposals. CBO's baseline deficit grew to $246 billion: two-thirds because of a continuing fall in expected revenues and approximately one-third resulting from 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 deficit expected for FY2003. In June 2003, CBO's monthly budget report stated 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, estimating that it will reach $455 billion in FY2003 (which ends on September 30, 2003).

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
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. 4/11/03		—	-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

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 President's original FY2003 proposals and the House passed budget resolution for FY2003 would have used the (then) forecast surpluses to increase spending and cut taxes. The small surpluses remaining in future years in these proposals were used to reduce the debt held by the public. The budget resolution passed by the Senate Budget Committee would have used the surplus for some spending increases and the rest for reducing the debt held by

the public. None of the proposals reserved the entire Social Security surplus for debt reduction (a goal striven for in the previous year's budget proposals).

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, 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 raised outlays, reduced receipts, and substantially changed the magnitude and expectations for the budget from what was forecast – three years of relatively small deficits followed by rapidly growing surpluses – when the FY2003 budget was introduced (February 2002).

Table 5. CBO's Alternative Scenarios, Cumulative Surpluses/Deficits(-); FY2004-2008, 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 is a wide range of possible budget outcomes over the next 10 years. Under the optimistic scenario, the surpluses 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 estimates that a 1% slower real GDP growth beginning in January 2003 will 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 would produce larger changes in the budget numbers.

CONGRESSIONAL HEARINGS, REPORTS, AND DOCUMENTS

U.S. Congress. House. Committee on the Budget. *Concurrent Resolution on the Budget – FY2003.* Report to accompany H.Con.Res. 353. 107th Congress, 2nd session. H.Rept. 107-376. Washington: GPO, 2002.

U.S. Congress. Senate. Committee on the Budget. *Concurrent Resolution on the Budget FY2003.* Report to accompany S.Con.Res. 100. 107th Congress, 2nd session. S.Rept. 107-141. Washington: GPO, 2002.