

**THE COMMITTEE ON THE BUDGET**

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**The Budget and Economic Outlook: An Update**  
**REVENUE AGAIN OUTPERFORMS ESTIMATES**  
**BUT DEMOCRATS' HIGHER SPENDING PLANS THREATEN BALANCE BY 2012**

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The Federal budget deficit shrank another \$19 billion in the past 5 months, and now is projected to fall to \$158 billion this year, according to figures released today by the Congressional Budget Office [CBO] in its annual summer update of *The Budget and Economic Outlook*. CBO's report credits faster-than-expected revenue growth for the decline in the deficit, which is \$90 billion less than 2006. Projections of future-year deficits, however, are uncertain because CBO's figures do not reflect substantial domestic spending increases already passed in the House. In addition, the future deficit figures assume automatic tax increases exceeding \$150 billion a year, starting in 2011, due to the expiration of the 2001 and 2003 tax relief laws. With those factors noted, here are some key points in the report:

- **Revenue Growth Drives Deficit Reduction.** As noted, Federal tax revenue remains the principal – and almost exclusive – contributor to the improving deficit figures. After growing by 14.5 percent in 2005 and 11.8 percent last year, receipts this year are expected to grow by about 7.1 percent, reaching a total of about \$2.6 trillion. The projected current-year revenue level – achieved with the continuation of the 2001 and 2003 tax relief policies – is \$35 billion more than CBO estimated in March.
- **Spending Threatens Outlook.** CBO's projection of a further deficit decline in 2008 – even including continued funding for operations in Iraq and Afghanistan – is jeopardized by the higher-spending policies already passed by the House. For example, the House-passed annual appropriations bills call for \$48 billion more in non-emergency spending than CBO's "baseline" estimates, which assume inflation-rate increases.
- **Economic Forecast in Question.** Also in doubt, to some degree, are CBO's economic estimates, which are the foundation of the spending and revenue projections. CBO's figures do not, however, account for the economic impact of potential tax increases, such as the tobacco-tax hike recently passed by the House; nor do they reflect any impact from recent fluctuations in financial markets.

**CBO's Budget Update**  
 (dollars in billions)

	2007	2008	2009	2010	2011	2012
Revenue	2,577	2,771	2,855	2,950	3,225	3,477
Outlays	2,735	2,925	3,071	3,205	3,359	3,415
Surplus/Deficit(-)	-158	-155	-215	-255	-134	62
Surplus/Deficit as a Percentage of GDP	-1.2	-1.1	-1.4	-1.6	-0.8	0.4
Memorandum: March Deficit Estimate	-177	-113	-134	-157	-35	155

Source: Congressional Budget Office