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FACT SHEET

MID-SESSION REVIEW

**CURRENT-YEAR DEFICIT DECLINES AGAIN**  
**BUT DEMOCRATS' HIGHER SPENDING PLANS THREATEN BALANCE BY 2012**

11 July 2007

SUMMARY

The administration's budget deficit estimate for fiscal year 2007 has declined another \$39 billion, according to figures released today by the Office of Management and Budget. The government also remains on track to balance the budget by 2012 without raising taxes, the figures show; but the prospects for achieving balance this way would be jeopardized by spending levels exceeding the President's.

The numbers are presented in the administration's *Mid-Session Review*, an annual update of the President's budget. It contains revised estimates of the deficit, receipts, outlays, and budget authority for fiscal years 2007-12, based on the latest available budget and economic figures. Unlike estimates by the Congressional Budget Office [CBO], the administration projections assume the President's budget policies will be carried forward. This means, for example, that current tax laws – including the 2001 and 2003 tax relief provisions – continue in 2011 and beyond, without tax increases. CBO will present its own update of the budget later this summer.

The figures also assume the President's projected spending levels, a point significant for the balanced budget path. The administration estimates a budget surplus of \$33 billion in 2012. But the Democratic budget for fiscal year 2008 proposes \$21 billion more in annually appropriated (discretionary) spending than the President, and promises \$190 billion worth of entitlement increases without identifying how these would be offset.

The administration's figures include projected costs for operations in Iraq and Afghanistan in fiscal years 2007, 2008, and 2009.

	2007	2008	2009	2010	2011	2012
Revenue	2,574	2,659	2,803	2,954	3,095	3,300
Outlays	2,779	2,918	3,016	3,078	3,184	3,267
Surplus/Deficit(-)	-205	-258	-213	-123	-89	33
Surplus/Deficit as a Percentage of GDP	-1.5	-1.8	-1.4	-0.8	-.05	0.2
Memorandum:						
February Surplus/Deficit Estimate	-244	-239	-187	-94	-54	61

Source: Office of Management and Budget

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## KEY POINTS

Here are the key points from the *Mid-Session Review*.

- **Deficit.** The deficit for the current year – fiscal year 2007 – is estimated at \$205 billion, a \$39-billion decline from the administration’s projection in February. But the deficit is projected to swell to \$258 billion next year, reflecting a 5-percent increase in outlays mainly due to the Global War on Terrorism. From there, the deficit will decline steadily, and become a \$33-billion surplus in 2012, the administration’s estimates show.

As a share of the economy (percentage of gross domestic product [GDP]), deficits remain below 2 percent throughout the 5-year period.

- **Revenue.** Revenue continues to drive the deficit reduction. Receipts are \$34 billion higher than the administration projected in February. They are estimated to reach nearly \$2.6 trillion this year – about \$167 billion more than 2006 – and to rise at about 5.5 percent per year through 2012, with no tax increases. As a percentage of GDP, revenue is expected to rise from 18.4 percent in 2006 to 18.8 percent this year – higher than the 18.2-percent average of the past four decades. It ranges from 18.4 percent to 18.5 percent during 2008-11, and then bumps up to 18.7 percent in 2012.

Most of the increase in revenue in 2007 – \$29.9 billion – is due to higher-than-expected corporate income tax revenue; and much of the rest results from lower-than-expected refunds of the Federal telephone tax. Corporate tax receipts account for \$103 billion in higher revenue (compared with the February estimate) over the 2008-12 period, but this is partly offset by \$60 billion less in projected individual income tax receipts.

The administration’s revenue figures assume the permanent extension of current tax laws, including provisions of the 2001 and 2003 tax relief laws that are scheduled to expire after 31 December 2010. The figures also assume a one-year “patch” for the alternative minimum tax [AMT], shielding additional taxpayers from the AMT in 2007. But because the AMT provision has not been enacted (Congress is expected to pass it in September), part of the impact on Federal receipts shifts from 2007 to 2008 – lowering revenue in 2008.

- **Spending.** As noted, the figures assume the President’s recommended spending levels throughout the period, including estimates for operations in Iraq and Afghanistan through 2009. The figures show outlays growing at an average annual rate of approximately 3.3 percent, rising from about \$2.8 trillion in the current year to roughly \$3.3 trillion in 2012.

- *Discretionary.* Annually appropriated spending is estimated at \$1.1 trillion for the current year, and is projected to increase by \$43 billion in fiscal year 2008. For 2007, these figures include \$559 billion for defense spending, and \$513 billion for non-defense. In 2008, the administration shows \$597 billion in defense and \$518 billion in non-defense. Over the 5-year period, total discretionary spending is projected to decline at an average annual rate of about 0.6 percent. This is mainly because the President does not budget for operations in Iraq and Afghanistan beyond 2009.

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As noted above, the Democratic majority has proposed increasing discretionary spending next year by \$21 billion above the President.

- *Entitlements.* Overall entitlement spending increases at an average annual rate of about 5.6 percent through 2012, according to the administration's figures. The sharpest increases are in Medicaid and Social Security. Medicaid increases at about 6.8 percent per year, even assuming significant reform proposals contained in the President's budget. Social Security grows at about 6.4 percent. Medicare spending is projected to increase at roughly 5.7 percent per year during the same period.

The *Mid-Session Review* reflects about \$92 billion in net mandatory savings over 5 years resulting from the combination of spending increases and reforms in the President's budget. (This does not count the President's Social Security proposal, for which the spending is off budget.) In contrast, the Democrats' budget resolution calls for \$750 million in entitlement savings over 5 years.

- *Net Interest.* Interest costs to the government are estimated at \$235 billion this year and \$256 billion in 2008. Net interest grows at an average annual rate of 4.2 percent over the 5-year period.