



By: Daniel Lacalle

What is actually behind the Mamdani and Newsom deficit elimination magic?



Governor Gavin Newsom and New York City Mayor Zohran Mamdani have been selling this week the same comforting story: the era of painful deficits is over, thanks to “disciplined” progressive budgeting.

Both are using a familiar toolkit of optimistic revenue assumptions, one-off fixes, and rebranding of old tricks to claim victory over structural imbalances that are very much alive.

Newsom’s May Revision for 2026–27 declares, “No deficit this year. No deficit next year” and “\$0 structural deficit through July 2028.”

On paper, the revised plan lays out roughly a \$350 billion spending plan for 2026–27 and says revenues are \$16.5 billion higher than projected in January, driven mostly by the stock market and the artificial intelligence boom. Fascinating.

The same financial and tech sectors they demonise as evil capitalists and tech bros. The administration also says it is cutting General Fund spending by \$1.8 billion while maintaining nearly \$30 billion in reserves and depositing \$9.7 billion into a Surplus Holding Account to avoid overcommitting revenues.

That language creates the impression of a durable repair. But the same budget documents also acknowledge a “long-term operating imbalance” beyond the near-term window and say the deficit in 2028–29 is only “cut by more than half,” which is not the same thing as permanently eliminating a structural mismatch between recurring spending and recurring revenue.

Forecasting inflation

The first trick is forecasting inflation. In January, Newsom’s budget projected a \$2.9 billion deficit for 2026–27. By May, without major structural reforms to taxation or spending design, the administration had found \$16.5 billion in extra revenue compared with the January estimate, enough to erase not only the near-term gap but also to claim the structural deficit is gone through mid-2028.

These extraordinary revenues come from profiting from higher inflation, the very thing they complain about.

The second trick is dependence on a highly volatile tax base. California continues to rely heavily on high-income taxpayers and capital gains, which makes revenue extraordinarily sensitive to equity markets and the fortunes of a narrow group of top earners.

The sectors that the Democrats criticise the most are the ones driving tax revenues higher

A one-year surge linked to the AI and stock-market boom is therefore not proof of structural balance; it is evidence of how quickly the picture can improve when asset prices jump.

It also shows that the sectors that the Democrats criticise the most are the ones driving tax revenues higher.

The third trick is redefining the term “structural deficit” so that it disappears within a selected political window. If the budget only balances because unusually strong capital-gains receipts, reserve cushions, and holding accounts support the books through July 2028, while large operating imbalances reappear afterward, then the problem has been postponed rather than solved.

The fourth trick is the use of budget manoeuvres that have already been criticised in prior cycles. Analysts and commentators have described California’s approach as relying on internal borrowing, payment deferrals, assumed efficiency savings, and other one-time actions that make a budget look balanced on paper while leaving the underlying mismatch unresolved.

In 2025, lawmakers were already bracing for a deficit of at least \$10 billion, with official numbers described by some as illusory because of the uncertainty built into the projections.

No major sacrifice needed?

Zohran Mamdani's **budget pitch** in New York rests on a strikingly similar idea: that large deficits can be closed without major sacrifice because progressive management can unlock hidden revenues in the books.

Supporters present the plan as proof that government does not need to choose between fiscal balance and expansive spending policies.

The details suggest the opposite. Reporting on the budget indicates that the administration claims to close a roughly \$12 billion two-year gap without raising property taxes or imposing broad pain on working families.

However, the same reporting says the numbers depend on highly optimistic projections for personal income tax receipts tied to Wall Street bonuses, assumptions that leave little cushion if markets cool.

It is a classic short-term patch that shifts long-term obligations into the future to make the current year look manageable

Mamdani's magic deficit reduction comes mostly from \$8 billion of higher funding from the State of NY and \$1.8 billion of deferred payments and delaying financial commitments.

Mamdani also plans to use roughly \$1 billion that is usually set aside for unexpected costs, draw down another \$1 billion from the city's rainy-day fund, and tap hundreds of millions from a trust meant to cover retiree health benefits.

That is not structural reform. It is a classic short-term patch that shifts long-term obligations into the future to make the current year look manageable.

More than \$1 billion in claimed savings rests on vague promises such as "improving the efficiency of public services," "improving financial management," and better estimating

expenses.

Those phrases are politically attractive but fiscally thin, because they are not the same as identified line-item reductions or durable institutional changes.

Arithmetic is not defeated, only delayed

California and New York City differ in tax structure, legal framework, and economic base, but the political method is nearly identical.

First, both rely on optimistic revenue assumptions at the favourable edge of the forecast range: AI-driven capital gains in California and strong Wall Street-linked income tax growth in New York.



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Second, both lean on cushions such as reserves, special accounts, or future-oriented funds to support present spending without admitting that these are one-off resources.

Third, both governments claim broad ideological victories from narrow accounting windows by delaying financial commitments and using more internal and state borrowing.

Newsom says the structural deficit is zero through July 2028, even as out-year imbalances remain in official documents.

Mamdani's allies say his budget proves austerity is unnecessary, even though independent analysts describe the plan as a one-year fix built on aggressive assumptions and vague efficiencies.

The result is the same in both cases: arithmetic is not defeated, only delayed. When politicians say they have "eliminated" a structural deficit while depending on market booms, reserve drawdowns, and timing tricks, what they usually mean is that the financial hole has only been moved beyond the next election cycle.