



BRIEF ANALYSIS CBO SUMMER UPDATE FY 2005-14

PREPARED BY: DEMOCRATIC STAFF, SENATE BUDGET COMMITTEE

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CBO Projections Show Large and Long-Term Deficits Under Bush Policies

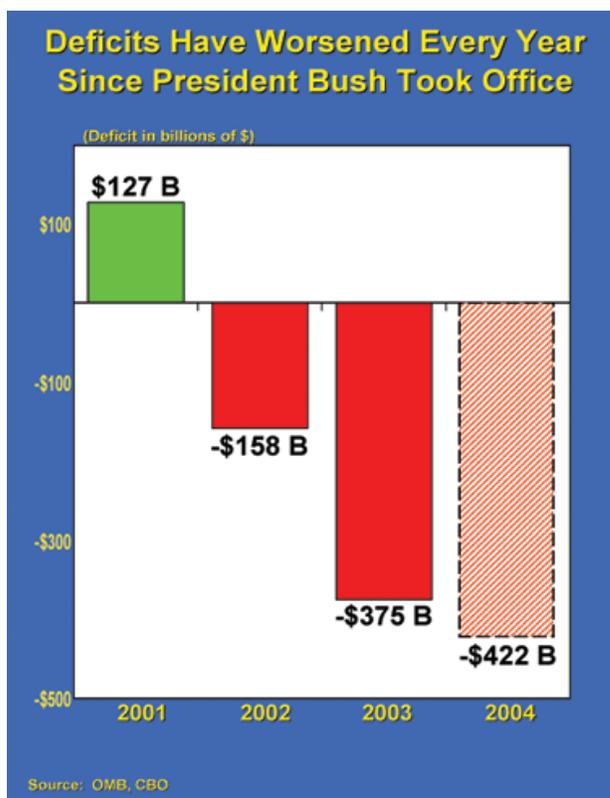
New projections released by the Congressional Budget Office confirm that the nation will face large and long-term deficits if we continue under the President's fiscal policies. According to CBO's new report, *The Budget and Economic Outlook: An Update*, this year's deficit will be at a record-high level of \$422 billion, \$46 billion higher than last year's previous record. Excluding Social Security, as is required by the Budget Enforcement Act of 1990, the operating deficit is projected to be a record \$571 billion this year. And over the long-term, CBO's projections make clear that deficits will remain very large for the next 10 years if President Bush's proposed budget policies are adopted.

CBO Baseline Understates Deficit Outlook

CBO's baseline projections follow rules set out in the Balanced Budget and Emergency Deficit Control Act and assume that current laws will not be changed. This means the baseline projections assume that the tax cuts enacted since 2001 will expire as scheduled, that the alternative minimum tax (AMT) will not be reformed (allowing nearly 40 million taxpayers to be hit by the AMT by 2014 if the tax cuts are extended), and that there will be no increase in the real amount of basic defense funding. Under these clearly unrealistic assumptions, the deficit would decline gradually from this year's record-high level. But these numbers understate the true size of the deficits and do not reflect the effects of making President Bush's tax cuts permanent and providing for the defense buildup he has proposed.

Under More Realistic Assumptions, Bush Policies Create Sea of Red Ink

Anticipating that most observers believe that the assumptions CBO is required to use for its baseline projections are not realistic, CBO included in its report a table (Table 1-6) showing the budgetary effects of alternatives to the policies reflected in CBO's baseline. By factoring in some of these alternative policy assumptions, we can calculate a more realistic deficit outlook scenario.



Notably, CBO's baseline projection assumes that all \$115 billion in supplemental appropriations provided in 2004 will be provided again in each year through 2014 (with adjustments for inflation). To create a starting point for a more realistic set of budget projections, this analysis assumes that these supplemental amounts will not be repeated in future years.

From that more realistic starting point, if we then assume that the tax cuts are made permanent, that the AMT is reformed, that basic defense funding is increased as the President proposed in his budget, and that \$315 billion is expended

over the next 10 years to support the ongoing war in Iraq and elsewhere, CBO's figures show that total budget deficits will exceed \$320 billion a year "as far as the eye can see." When Social Security is excluded from the calculation, the operating deficit under this scenario will be over \$500 billion in every year for the next 10 years and will approach \$800 billion a year by 2014.

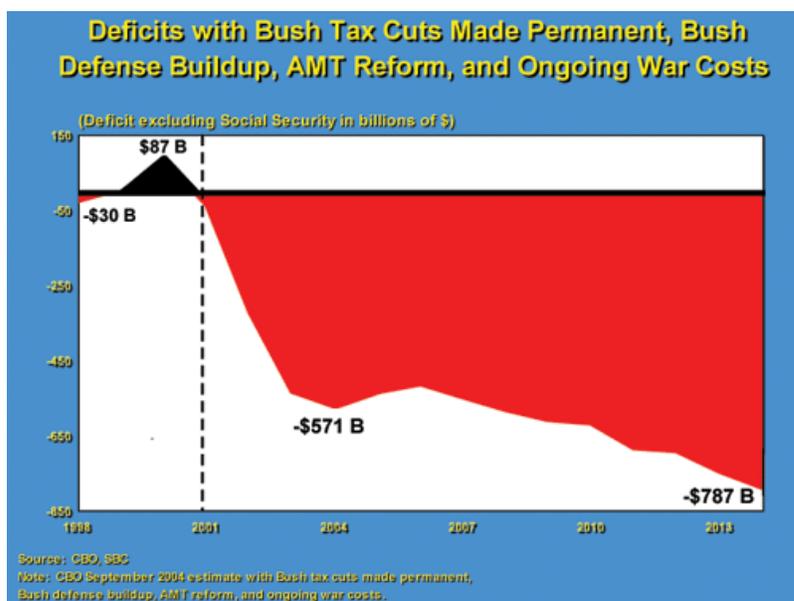


Table 1: CBO Baseline Deficits with Permanent Tax Cuts, AMT Reform, Defense Increases, and War Costs

\$ billions	2004	2005	2006	2007	2008	2009	2005-09	2005-14
Sept. baseline total deficits	-422	-348	-298	-308	-318	-312	-1,584	-2,294
<u>Possible policy changes</u>								
Remove permanent extension of supplemental	0	+38	+92	+112	+119	+123	+484	+1,142
President's defense buildup	0	-3	-9	-15	-22	-33	-81	-318
Ongoing war costs 1/	0	-19	-42	-50	-45	-37	-193	-315
Extend President's tax cuts	0	-19	-39	-45	-48	-58	-210	-1,437
AMT reform 2/	0	-9	-24	-30	-37	-45	-114	-500
Interest	0	-(*)	-1	-2	-4	-6	-14	-189
Adjusted deficits	-422	-361	-320	-338	-355	-368	-1,742	-3,911
<i>Without Social Security</i>	<i>-571</i>	<i>-532</i>	<i>-511</i>	<i>-546</i>	<i>-580</i>	<i>-607</i>	<i>-2,775</i>	<i>-6,292</i>
Gross federal debt	7,393	8,023	8,657	9,321	10,018	10,745		

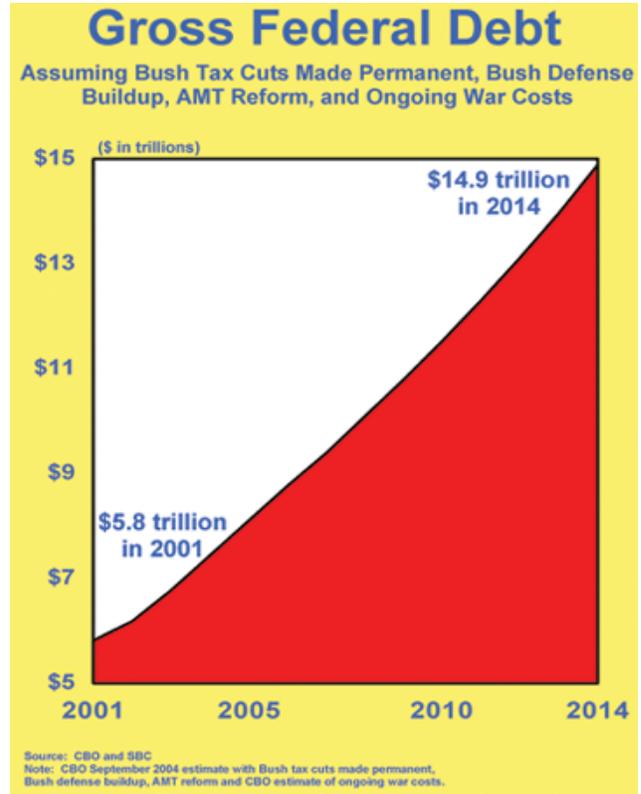
1/ CBO's estimate of amounts needed to maintain activities related to Iraq and Afghanistan in 2005 with a slowdown in spending in subsequent years.

2/ CBO's estimate of the additional costs of AMT reform if it is enacted jointly with the extension of expiring tax provisions.

Debt is Soaring At The Worst Possible Time

The large deficits we are experiencing under the President's policies are simultaneously exploding our nation's debt. When the President took office in January 2001, gross federal debt was \$5.8 trillion. Now, under the policies described above, CBO estimates show that gross federal debt will total over \$14.9 trillion in 2014.

These deficits and exploding debt will occur at the worst possible time – exactly as large numbers of baby boomers begin retiring and become eligible for Social Security and Medicare, greatly increasing demands on the budget. By piling up deficits and debt in advance of this demographic wave, the President's policies are threatening the fundamental economic security of the nation.



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