

## Fact Sheet on CBO Budget and Economic Update

*CBO Confirms \$6 Trillion Budget Deterioration Since President Bush Took Office*  
August 27, 2002

New budget projections released August 27 by the non-partisan Congressional Budget Office (CBO) confirm the dramatic deterioration in the budget outlook since President Bush took office in January 2001. Eleven days after President Bush's inauguration, CBO projected that the budget would have a surplus of \$5.6 trillion over the next 10 years (fiscal years 2002 through 2011). CBO's new projections show that the surplus for that period will total only \$336 billion, if there are no further changes in policies. When the cost of the President's policy proposals are taken into account, such as additional tax cuts and increases in defense spending, the \$5.6 trillion surplus is turned into a \$386 billion *deficit*. When Social Security funds are not counted, the 10-year deficit totals \$2.7 trillion.

Table 1: Surplus and Deficit Projections: January 2001 and August 2002

(\$ billions)	2002	2003	2002-11
CBO baseline, January 2001 . . . . .	313	359	5,610
CBO baseline, August 2002 . . . . .	-157	-145	336
President's budget (CBO assumptions) . . . . .	-157	-159	-386
President's budget w/o Social Security trust funds . . .	-315	-329	-2,734

### What Happened to the Surplus?

***CBO Projected a \$5.6 Trillion Baseline Ten-Year Surplus Just Last Year.*** In January 2001, CBO projected that the total federal budget surpluses would be \$5.6 trillion in fiscal years 2002 through 2011, assuming no changes in policies in effect at that time.

***Almost All of That Baseline Surplus Has Been Wiped Out.*** CBO now projects that the surplus will total only \$336 billion over that same 10-year period if there are no changes in policies now in effect.<sup>1</sup> These projections assume that the President's proposals to make last year's tax cuts permanent, to enact new tax cuts, and to increase defense and homeland security spending are not adopted. They also assume that no Medicare prescription drug benefit – not even the inadequate

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<sup>1</sup>CBO's baseline projections for 2003 through 2012 total \$1.0 trillion. That 10-year total includes a large surplus in 2012 because the baseline assumes the sunset of last year's Bush tax cut and cannot be compared with the January 2001 projections, which did not extend beyond fiscal year 2011.

one proposed by the President – is enacted.

***CBO Confirms that the Tax Cut is the Primary Cause for Deterioration of the Budget.*** These new estimates confirm – despite continuing efforts by the White House to mislead the public about this – that the President’s tax cut enacted last year is the single biggest cause of the deterioration in the budget.

Based on CBO’s numbers, the Bush tax cuts (including associated increases in interest costs) account for 34 percent in the decline of the baseline budget projections since January 2001. Other legislation accounts for 22 percent of the changes, and of this total, about half is primarily related to increased spending for defense and homeland security accounts. The slowdown in the economy accounts for 15 percent of the decline and the remaining 29 percent reduction in projected surpluses is attributable to so-called technical reestimates (such as reductions in tax receipts not directly related to changes in CBO’s economic forecast).

Table 2: Changes in CBO Total Surplus/Deficit Projections  
January 2001 - August 2002

(\$ billions)	2002	2003	2002-11	%
CBO January 2001 Surplus . . . . .	313	359	5,610	---
Tax cuts . . . . .	-86	-143	-1,768	34%
Other legislation . . . . .	64	96	1,185	22%
Economic changes . . . . .	120	114	792	15%
Technical changes . . . . .	200	152	1,529	29%
CBO August 2002 surplus/deficit . . . . .	-157	-145	336	---

**President’s Budget Consumes All Remaining Surplus**

***Huge Deficits Occur Under Bush Policies; Not Caused by ‘Democratic Spending.’*** When the administration’s estimates of the cost of the President’s proposed policy changes<sup>2</sup> are taken into account, there is a \$386 billion *deficit* in 2002 through 2011 under CBO’s economic and technical assumptions.

Notwithstanding the President’s claim that the only threat to the budget comes from spending proposed by Democrats, CBO’s estimates show that \$6 trillion in budget surpluses will have disappeared *under the policies proposed by the President.*

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<sup>2</sup> These policies are specified in the Office of Management and Budget’s July 2002 *Mid-Session Review of the Budget* and do not include the proposed new tax cuts that the President endorsed earlier this month.

***Bush Administration Projections of the Surplus Are Simply Not Credible.*** CBO's projections confirm that the administration is using overly optimistic assumptions about the economic and budget outlook in order to make the President's policies seem more acceptable. The administration claims that the economy and the stock market will rebound quickly and the deficit will start shrinking in 2003 and disappear by 2005 if the President's policies are adopted. Based on CBO's economic and technical assumptions, the deficit will grow in 2003 and the budget will not be balanced until 2009 under the President's policies. And instead of the \$444 billion surplus in 2002 through 2011 the administration estimates, the President's policies would produce a \$386 billion *deficit* under CBO's assumptions.

Table 3: Reestimate of President's Budget (SBC estimate)

(\$ billions)	2002	2003	2002-06	2002-11
CBO August Baseline .....	-157	-145	-437	336
President's discretionary request .....	0	5	17	93
President's mandatory spending .....	0	3	49	217
President's tax proposals .....	-1	-6	-60	-303
Debt service .....	0	0	10	108
President's budget with CBO assumptions .....	-157	-159	-574	-386
President's budget with OMB assumptions .....	-150	-62	2,531	1,717

### **Government Debt and Interest Costs Mount Under Bush Policies**

***Debt And Interest Costs Crowd Out Other Priorities.*** In January of 2001, CBO estimated that net federal debt held by the public minus accumulated assets would be close to zero in 2008. At that time, CBO also projected that the statutory ceiling on all federal debt would not be reached until 2009. Now, CBO estimates that debt held by the public will be \$3.8 trillion in 2008, and the debt ceiling was raised to \$6.4 trillion in July of this year. It will need to be revised again in 2003. This increased borrowing is projected to cost taxpayers an extra \$1.3 trillion between 2002 and 2011. These higher interest payments will drain resources from other priorities, including Social Security reform, a Medicare prescription drug benefit, and investing in education.

### **Conclusion**

Under the President's policies, \$6 trillion of projected surpluses have disappeared and we are facing deficits for years to come. The President's tax cut bill adopted last year is the single biggest cause of the deterioration in the budget outlook, but the President's only response is to try to deflect responsibility by attacking Democrats for \$5.1 billion in additional spending for defense and

homeland security (which, in fact, enjoyed strong bipartisan support in Congress) and propose billions in additional tax cuts that would go primarily to the wealthiest. It is time for the President to accept responsibility for what has happened to the budget on his watch and to recognize that more of the same old policies is not the way to correct the course the country is on.

Table 4: Changes in Debt and Interest Costs

(\$ billions)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<u>Net Debt</u>										
January 2001 . .	2,848	2,509	2,131	1,714	1,223	662	36	-669	1,460	2,346
August 2002 . .	3,504	3,676	3,805	3,862	3,865	3,829	3,757	3,639	3,476	3,167
Change . . . .	656	1,167	1,674	2,148	2,642	3,167	3,721	4,308	4,936	5,513
<u>Net Interest</u>										
January 2001 . .	179	163	142	116	90	60	27	-10	-51	-95
August 2002 . . .	170	164	191	208	213	212	209	204	195	183
Change . . . .	-9	1	49	92	123	152	182	214	246	278

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