BRIEF ANALYSIS
CBO AUGUST UPDATE FY 2004-13

PREPARED BY: DEMOCRATIC STAFF, SENATE BUDGET COMMITTEE

August 26, 2003

CBO Estimates Show Massive Structural Deficits Under Bush Policies

New projections released by the Congressional Budget Office have confirmed that President Bush was wrong when he told the American people that his tax cuts could be enacted without a return to the massive deficits of the 1980s and early 1990s. In March 2001, at Western Michigan University, President Bush said:

> *"Tax relief is central to my plan to encourage economic growth, and we can proceed with tax relief without fear of budget deficits, even if the economy softens."*

In January 2002, in his State of the Union Speech, when it had become clear that we would have deficits, President Bush said:

> *"[O]ur budget will run a deficit that will be small and short-term..."*

CBO's new report, *The Budget and Economic Outlook: An Update*, confirms the reality that deficits under the President's policies are massive and long term. CBO projects that, without any change in current policies, the total deficit for fiscal year 2003 will be $401 billion and the deficit for 2004 will rise to $480 billion. These deficits will far exceed the previous record-high deficit of $290 billion recorded in 1992, when the current President's father was in office. But these numbers understate the true size of the deficits, because they assume Social Security funds will be used to pay for the President's tax cuts and other spending. Excluding Social Security, as is required by the Budget Enforcement Act of 1990, the deficit is projected to equal $557 billion this year and $644 billion next year. Even adjusted for the size of the economy, these deficits rank among the worst since World War II. In fact, at 5.7 percent of gross domestic product (GDP), the deficit excluding Social Security projected for 2004 is exceeded only by the deficit in 1983, which was equal to 6 percent of GDP.

But the long-term fiscal outlook laid out by CBO is even more troubling. At first glance, it may appear that CBO estimates we will grow out of the deficits over time. CBO's baseline projections do show deficits that begin declining after 2004 and turn into surpluses in 2012 and 2013. But, as CBO's report points out, the baseline projections – following the rules set out in the Balanced Budget and Emergency Deficit Control Act – assume that the tax cuts enacted since 2001 will expire as scheduled in current law, that the number of people affected by the alternative minimum tax (AMT) will grow to more than 30 million by the end of the decade, and that there will be no changes in laws governing entitlement programs (for instance, there will be no new Medicare prescription drug benefit).

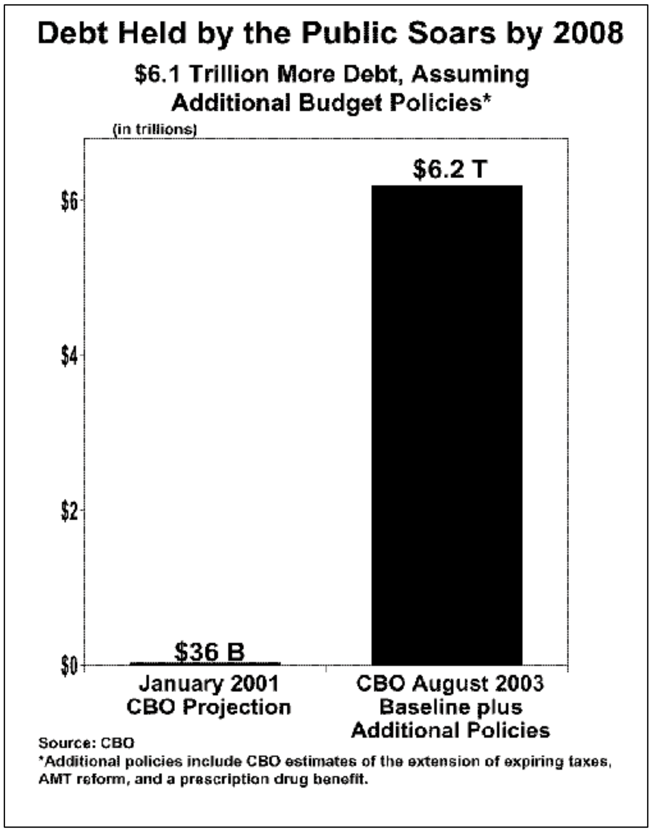
Anticipating that most observers believe that the assumptions CBO is required to use for its baseline projections are not realistic, CBO included in its report a table (Table 1-6, on page 12 of the report) showing the budgetary effects of policy alternatives not included in CBO's baseline. Simply adding the cost of three of those policies – extending expiring tax provisions, reforming the AMT, and providing the Medicare prescription drug benefit included in the Republican Congressional budget resolution for 2004 – to CBO's baseline projections makes it clear that the administration's budget policies have created a sea of red ink. Assuming that the tax cuts are made permanent and a Medicare prescription drug benefit is enacted and that the AMT is not allowed to take back a rapidly increasing amount of the tax cuts, CBO would estimate that we would have total budget deficits exceeding $400 billion a year "as far as the eye can see." When Social Security is excluded from the calculation, the deficit will be at least $600 billion in every year for the next 10 years and will approach $800 billion a year by 2013.

Table 1: CBO Baseline Deficits with Permanent Tax Cuts, AMT reform, and a Drug Benefit

$ billions	2003	2004	2005	2006	2007	2008	2004-08	2004-13
August baseline total deficits	-401	-480	-341	-225	-203	-197	-1,445	-1,397
Without Social Security	*-557*	*-644*	*-519*	*-422*	*-419*	*-431*	*-2,435*	*-3,803*
Possible policy changes								
Extend tax cuts	0	3	-59	-113	-116	-109	-393	-1,564
AMT reform	0	0	-8	-24	-34	-46	-112	-400
AMT interactions 1/ .	0	0	-3	-6	-6	-4	-19	-184
Drug benefit 2/	0	-7	-10	-33	-38	-43	-131	-400
Interest	0	0	-2	-8	-18	-31	-58	-489
Revised deficits	-401	-484	-422	-409	-415	-429	-2,158	-4,434
Without Social Security	*-557*	*-648*	*-600*	*-606*	*-630*	*-663*	*-3,147*	*-6,840*
Debt held by the public. . .	3,986	4,447	4,875	5,295	5,722	6,163	---	---

1/ CBO's estimate of the additional costs of AMT reform if it is enacted jointly with the extension of expiring tax provisions.
2/ Assumes 2004 congressional budget resolution levels for a Medicare prescription drug bill.

By any measure, these deficits are huge. The administration and Congressional Republicans have argued that current deficits are "manageable" and, when measured as a percent of GDP, are not as large as deficits experienced in the 1980s. In fact, with the policies assumed here, deficits excluding Social Security are projected to average 4.8 percent of GDP over the next 10 years. In the 1980s, deficits excluding Social Security averaged 4.2 percent of GDP, and virtually all policymakers and budget experts insisted that it was crucial to dramatically



reduce those deficits. Enactment of the Balanced Budget and Emergency Deficit Control Act of 1985 was indicative of the level of concern over deficits that were smaller relative to the size of the economy than those facing us now.

When the President took office in January 2001, CBO projected that the debt held by the public would be virtually eliminated by 2008. Now, under the policies described above, CBO estimates show that the debt held by the public will total nearly $6.2 trillion in 2008 and grow to nearly $8.5 trillion in 2013. The total debt – which includes debt owed to Social Security and other trust funds, as well as debt held by the public – will grow to nearly $15 trillion by 2013.

These huge deficits and exploding debt will occur at the exact time that large numbers of baby boomers begin retiring and become eligible for Social Security and Medicare, greatly increasing demands on the budget. The deficits we are looking at over the next 10 years pose a grave threat to the federal government's ability to provide the Social Security and Medicare benefits that we have promised our citizens and undermine the long-term economic security of the nation.

* * *

Senate Budget Committee Democratic Staff, Dirksen 624
Contact: Stu Nagurka (202) 224-7436 or Steve Posner (202) 224-7925