



BRIEF ANALYSIS CBO AUGUST UPDATE FY 2006-2015

PREPARED BY: DEMOCRATIC STAFF, SENATE BUDGET COMMITTEE
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CBO Report Shows Long-Term Budget Outlook Has Not Improved

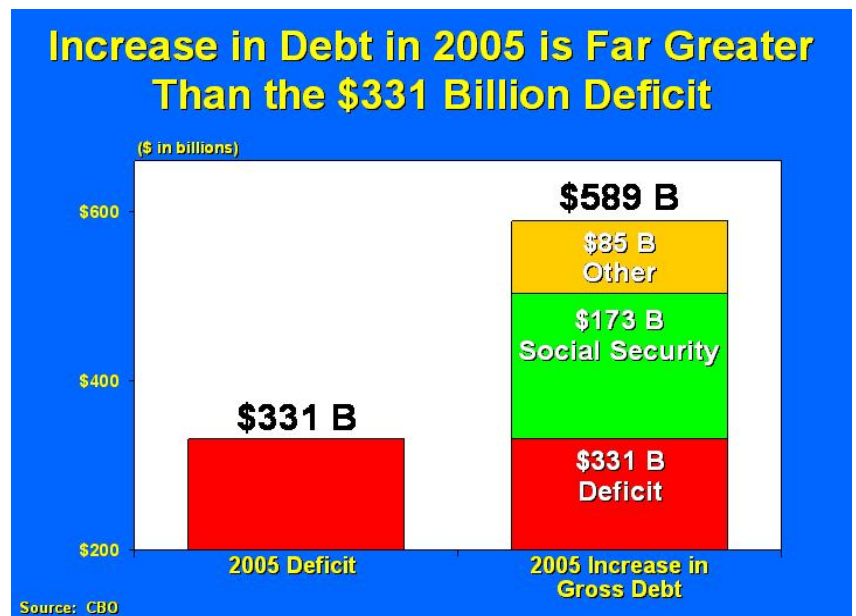
“Although the deficit for 2005 is lower than previously expected, the fiscal outlook for the coming decade remains about the same as what CBO described in March.”

- CBO Budget and Economic Outlook Update
August 2005

CBO’s August 2005 Budget and Economic Outlook Update confirms that the overall deficit outlook has not changed significantly since March. We face serious long-term budget shortfalls that, if left uncorrected, threaten the fundamental economic security of the nation. The reality is that our debt continues to increase at the worst possible time, right on the brink of the retirement of the baby boom generation.

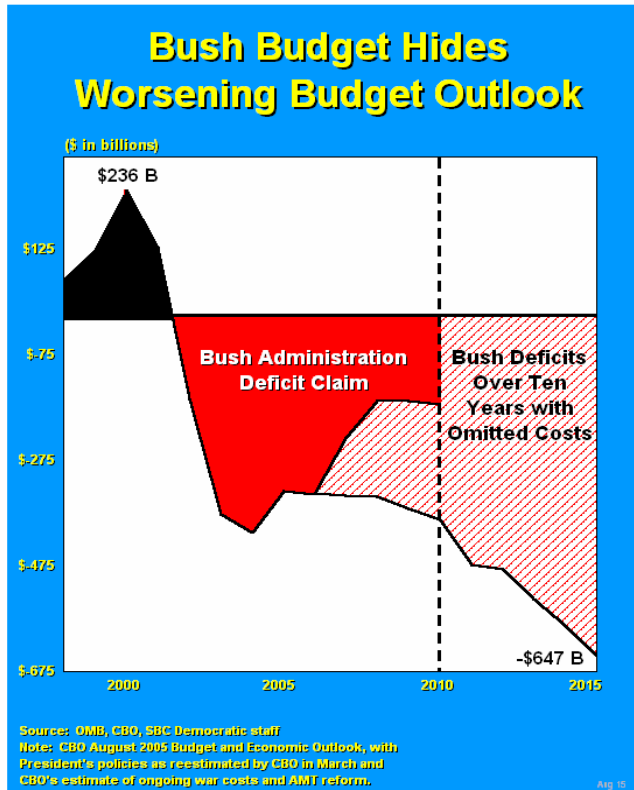
Increase in Debt Far Greater Than Advertised Deficit

CBO now estimates that the 2005 deficit will be \$331 billion, representing the third-highest deficit in the nation’s history. However, this advertised deficit figure understates the true fiscal imbalance this year. When we add in the Social Security and other trust fund dollars also being spent, we see that the debt in 2005 will actually increase by \$589 billion. It is the accumulation of this debt that will be passed on to our children and that will ultimately weaken the nation’s economy.



CBO Figures Show Real Outlook

Adjusting CBO's ten-year figures allows us to see the real budget outlook that is concealed by the administration's five-year budget window. CBO's August baseline projections assume that current laws will not be changed. A more realistic picture can be seen when we add in the cost of the President's policies and omitted items, such as ongoing war costs and the cost of Alternative Minimum Tax (AMT) reform. When these costs are added in, we can see that deficits will reach \$647 billion in 2015 and total more than \$4.5 trillion over the 2006-2015 period.



CBO August Baseline Deficit Adjusted for President's Policies and Omitted Costs

\$ billions	2005	2006	2007	2008	2009	2010	2006-10	2006-15
CBO August Baseline Deficit	-331	-314	-324	-335	-321	-317	-1,612	-2,110
Remove 2005 Supplementals *	0	49	83	101	112	121	466	1,222
President's Policy Proposals								
Revenues **	0	-2	-12	-22	-42	-43	-121	-1,535
Social Security private accts	0	0	0	0	-22	-54	-76	-662
2006 war supplemental	0	-37	-10	-2	-1	0	-50	-50
Other (including debt service)	0	-8	11	19	13	10	45	-159
Omitted Items								
Ongoing war costs	0	-13	-56	-58	-44	-30	-200	-333
AMT reform	0	-12	-32	-39	-48	-57	-187	-642
Debt service	0	0	-3	-8	-14	-19	-44	-240
Total Adjustments	0	-22	-18	-10	-46	-71	-168	-2,399
Adjusted Deficit	-331	-337	-343	-344	-367	-388	-1,779	-4,508

*Includes debt service. **Includes the outlay effects of tax policies.

Bush Administration Policies Building a Wall of Debt

The administration's policies are building a wall of debt. Under the assumptions noted above, gross federal debt will climb from \$7.9 trillion in 2005 to \$11.3 trillion in 2010.

To cover this borrowing, we are growing increasingly indebted to foreign countries – both foreign individuals and foreign central banks. The leading countries holding U.S. debt now include Japan, China, the United Kingdom, and “Caribbean Banking Centers.”

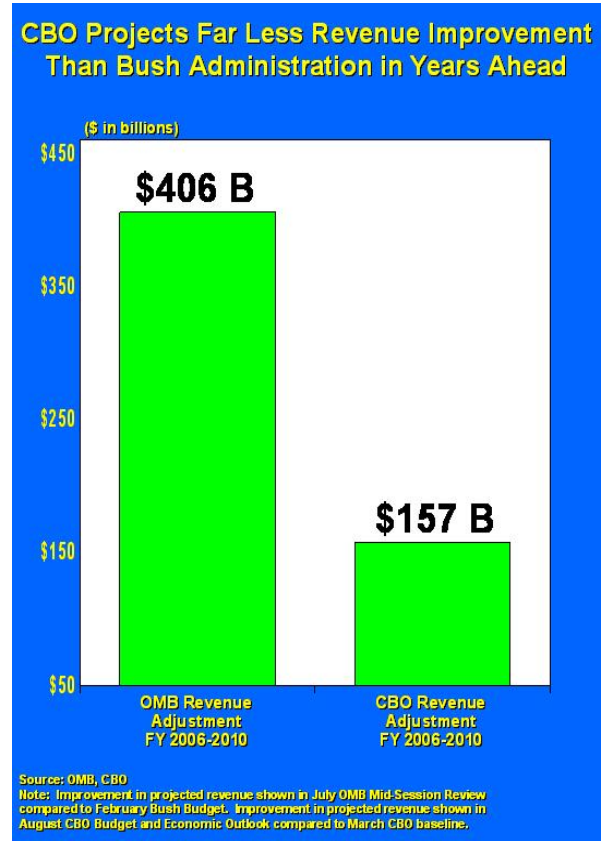
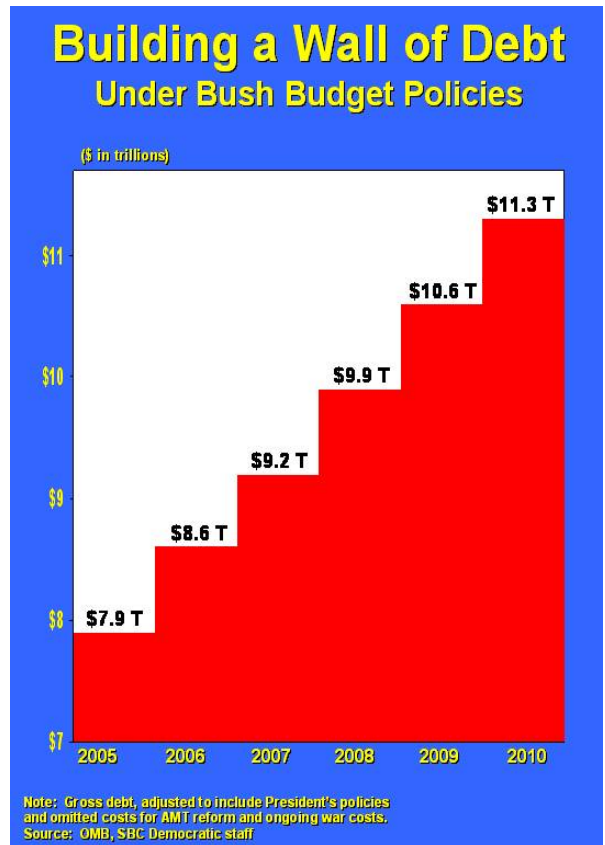
Foreign holdings of U.S. debt have doubled since President Bush took office – rising from \$1.01 trillion in 2001 to \$2 trillion today. We are becoming increasingly reliant on foreigners to buy our debt and finance our deficit spending.

Revenue Increase Expected to be Temporary

It is important to keep in mind that, even with the improved revenue picture this year, revenues as a percent of GDP are still down dramatically. In 2004, revenues as a percent of GDP fell to just 16.3 percent – the lowest level since 1959. This year, revenues as a percent of GDP are projected to equal 17.5 percent.

Like many private-sector economists, CBO points out that much of the recent revenue increase has come from temporary factors, such as the expiration of the business bonus depreciation tax cut and last year's stock market gains. It would be a mistake to rely on this revenue increase carrying forward.

CBO does not expect revenues to continue surging as they did this year. In fact, although CBO's report shows an improvement in revenues in the short-term, it shows far less revenue improvement than what the Bush administration is projecting. The administration's latest deficit projections assume a \$406 billion improvement in revenue (from improved economic and technical factors) over the 2006-2010 period. In contrast, CBO projects a revenue improvement of \$157 billion over that period. It seems that the administration is overstating likely revenue gains over the five-year period.



CBO's report described the temporary nature of the revenue increase as follows:

„, [T]he sources of the current strength in corporate tax receipts will not be known until information from tax returns becomes available in future years, but CBO anticipates that most of that strength will be temporary...

“CBO sees the 2005 increase [in individual tax receipts] as temporary and generally phases it out over the five years in the baseline.”

Our nation needs a serious fiscal wake-up call. The federal government's finances are not in order. Focusing on a short-term improvement simply distracts from the more important bigger picture, which is one of growing and unsustainable debt. We need to level with the American people that our nation is living beyond its means – a situation that will get worse, not better, if we continue on our current course.

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