



# FACT SHEET CBO BUDGET OUTLOOK UPDATE FY 2006-2015

PREPARED BY: DEMOCRATIC STAFF, SENATE BUDGET COMMITTEE

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## **CBO Budget Outlook Update Shows No Improvement in Deficit Picture**

CBO's new economic and budget projections (contained in its report, *The Budget and Economic Outlook: Fiscal Years 2006-2015*) indicate that the budget situation is not improving and that we face continuing large structural deficits under the President's policies.

### **What CBO's Projections Really Show**

**CBO's baseline figures understate the actual deficits we face.** Even CBO acknowledges that its \$368 billion baseline deficit projection for FY 2005 is unrealistically low. That is because CBO's projection is based on appropriations already enacted for 2005, not what is likely to be enacted by the time the year is over. Specifically, CBO's projection does not include the cost of the \$80 billion supplemental for Iraq and Afghanistan that the administration is planning to submit to Congress in the next few weeks (or the cost of any additional funding that may be required later this year). When the nearly \$40 billion in outlays that are likely to flow from that supplemental appropriation in 2005 is added to CBO's projection, it becomes apparent that the deficit for 2005 is likely to approach last year's record deficit (even without any legislation other than the planned supplemental). Clearly, the budget will not show any significant improvement this year and the deficit could hit another all-time high by the time the fiscal year ends.

**CBO's projections show that the longer-term budget outlook is not improving.** Again, it is necessary to adjust CBO's baseline projections to more accurately reflect the true budget situation. CBO's projections of discretionary spending are based on what has already been appropriated for 2005, with appropriations for future years assumed at that 2005 level, adjusted for inflation. Therefore, CBO's projections for 2006 through 2015 do not include any new funding for Iraq and Afghanistan, although it is absolutely clear that a substantial amount of funding will be required. Nor do the CBO projections reflect the President's proposal to increase other defense spending above the real 2005 level. Similarly, CBO is required to assume that the President's tax cuts will expire in 2010 (or, in some instances, sooner) as is scheduled under current law, despite the fact that the President has proposed making them permanent. Also, CBO has to assume that there will be no change in the alternative minimum tax, although that means the number of people affected by that tax will increase from 3 million in 2003 to 40 million 10 years from now. And the CBO baseline projections do not include the costs of the President's Social Security plan.

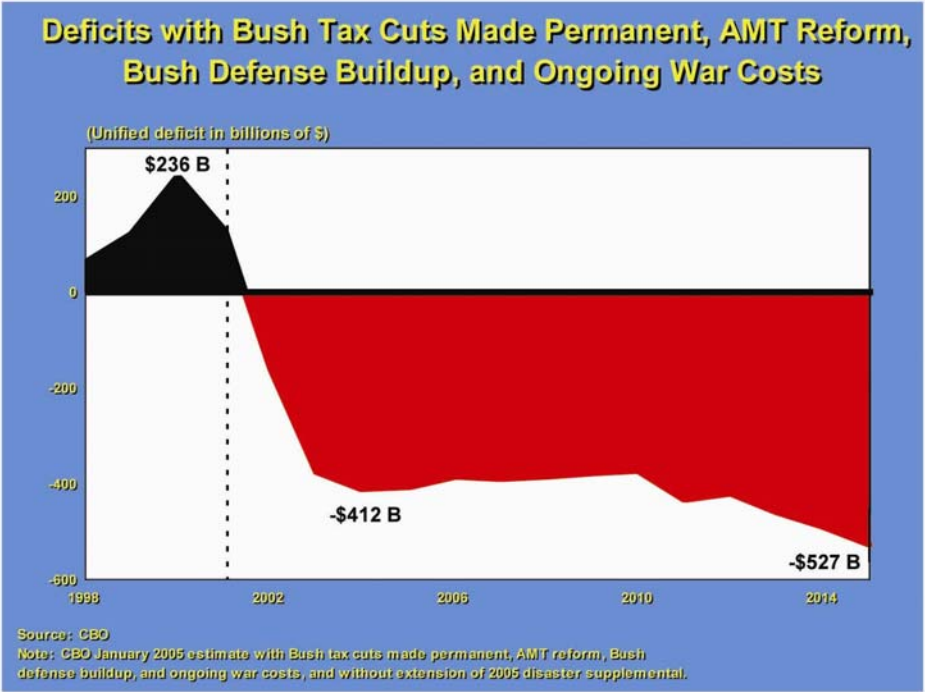
If we assume that the President's tax cuts are made permanent, we face ongoing war costs, the President's proposed increases in defense spending are adopted, the AMT is reformed, and the President's Social Security plan is adopted, we need to add \$5.4 trillion to the projected deficit over the next 10 years.

**CBO's Ten-Year Unified Baseline Estimate  
Understates Deficit Because it Doesn't Count:**

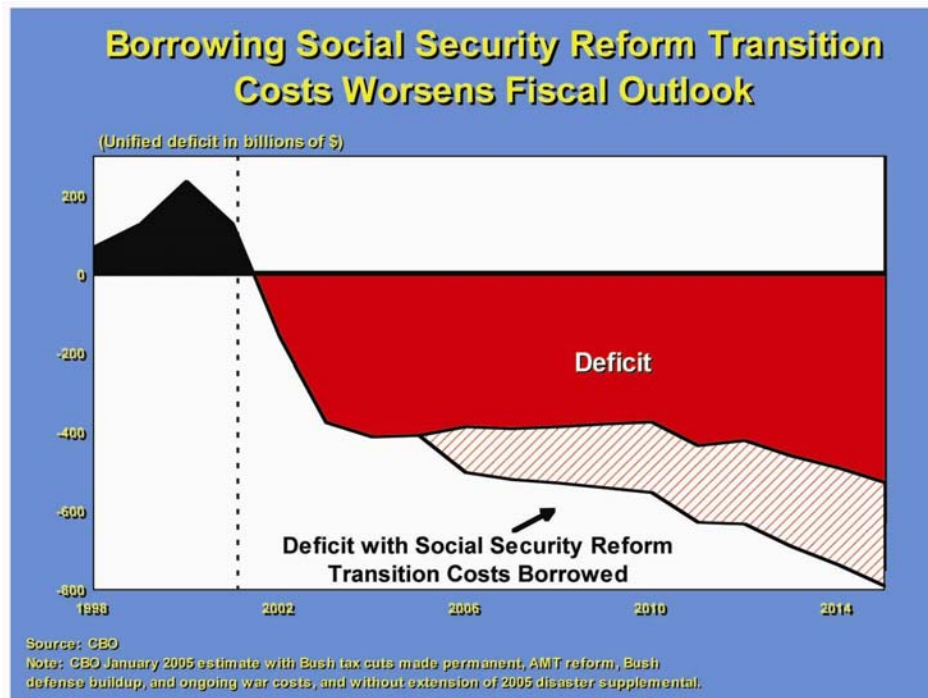
• Social Security Reform Transition Costs	\$1.9 T
• Cost of Making Tax Cuts Permanent	\$1.6 T
• Funding for Ongoing War Costs	\$426 B
• Bush Defense Buildup	\$234 B
• AMT Reform	\$642 B
• Debt Service	<u>\$595 B</u>
<b>Total</b>	<b>\$5.4 T</b>

Note: Social Security Reform Transition Costs figure includes debt service. Debt service total is listed separately for other items.

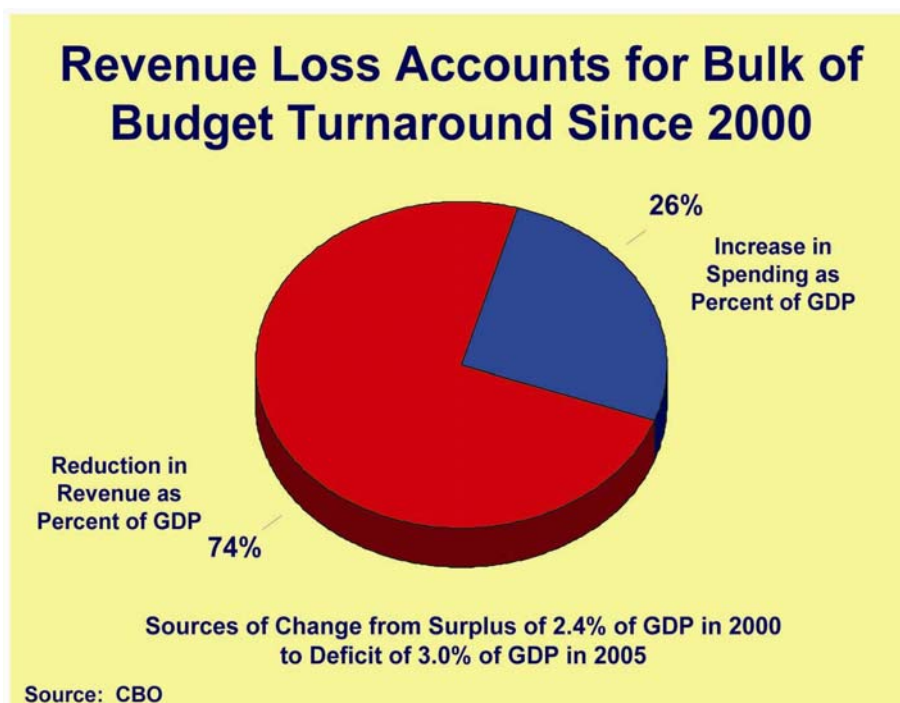
When all of these costs other than the cost of the President's Social Security plan are reflected, CBO's new projections show that unified deficits will never fall below \$374 billion and will total more than \$4.2 trillion for the period 2006 through 2015.



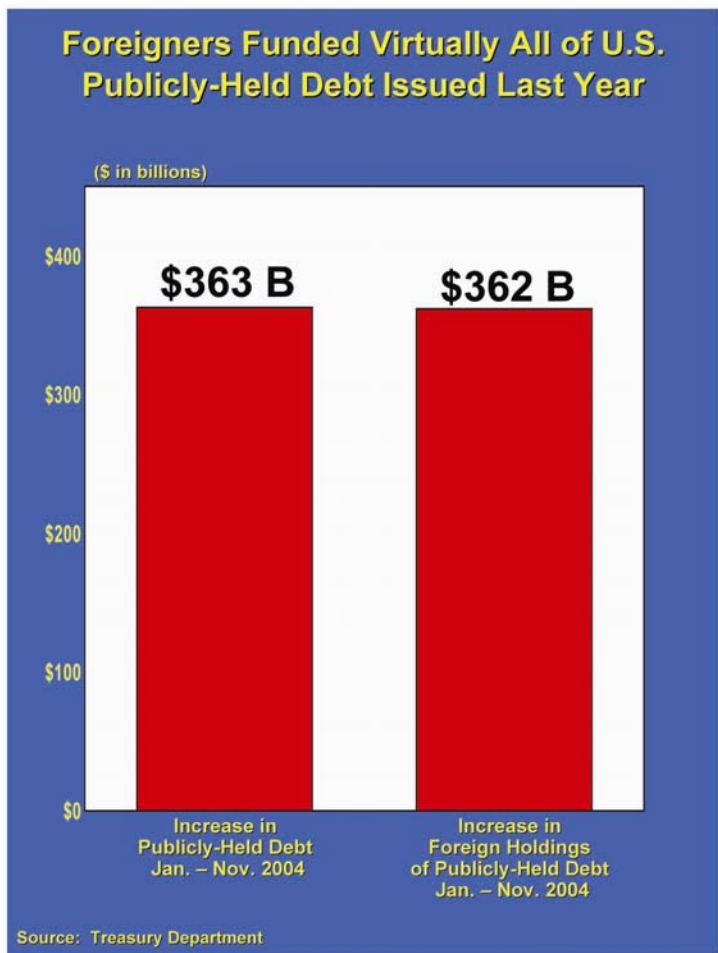
Borrowing all of the costs for Social Security reform transition simply makes the fiscal outlook worse. If the cost of the President's Social Security plan is added, deficits will exceed \$500 billion in every year after 2005 and will total more than \$6.1 trillion for the period 2006 through 2015.



Despite what some have claimed, the bleak deficit situation is not the result of runaway spending. The primary cause for the deficit has been the dramatic drop in revenues we have seen over the last few years – falling from 20.9 percent of GDP in 2000 to 16.8 percent of GDP in 2005. This drop in revenue accounts for 74 percent of the downturn from a surplus equal to 2.4 percent of GDP in 2000 to a deficit equal to 3.0 percent of GDP in 2005.



CBO's projections also show that federal debt is soaring. Under CBO's baseline adjusted to reflect the cost of making the President's tax cuts permanent and the other policies discussed above (including his Social Security plan), publicly-held debt will increase by more than \$6.2 trillion above this year's level. This massive increase in debt that will have to be paid by future generations is all the more troubling because it is likely that a large portion of that debt will be held by foreigners. In fact, in the first 11 months of 2004, the \$363 billion increase in publicly-held debt was almost completely matched by the \$362 billion increase in foreign holdings of publicly-held debt. In other words, foreigners funded virtually all of the U.S. debt issued last year. Under the President's policies, we are becoming dangerously reliant on foreign creditors to support the nation's deficit spending.



## Misleading Interpretation of CBO's Projections

**A direct comparison of CBO's current projections with its projections of last September is seriously misleading.** The apparent long-term improvement in CBO's projections since September is entirely the result of technical factors affecting what is included in the two different sets of baseline projections. When those factors are accounted for, CBO's new projections actually indicate a deterioration in the budget outlook.

CBO acknowledges that fact, stating on the first page of the report that "If the baselines are made comparable..., the outlook has actually become less favorable: the total deficit projected for the 2005-2014 period has grown by more than \$500 billion...."

There are two reasons why CBO's new baseline projections are not directly comparable to the September 2004 projections. First, last September's projections of discretionary spending included the effects of supplemental funding for Iraq and Afghanistan, but the current projections do not. Second, the change in the 10-year budget window from 2005-2014 last September to 2006-2015 now causes an apparent, but false, impression of improvement.

Differing assumptions on funding for Iraq and Afghanistan. When CBO issued last September's projections, no fiscal year 2005 discretionary appropriations had been enacted. Under the baseline rules, CBO projected discretionary appropriations for 2005 through 2014 by assuming the same level enacted in 2004 (adjusted for inflation) would be provided in 2005 and each year thereafter through 2014. Thus the projections for every year reflected the \$115 billion in 2004 supplemental appropriations that had been enacted to fund the war in Iraq and other activities. But now, the regular 2005 appropriations bills have been enacted and the baseline rules call for CBO to project those appropriations (adjusted for inflation) into 2006 through 2015. Since 2005 supplemental appropriations for Iraq and Afghanistan have not yet been enacted (although the administration has announced it will be asking for \$80 billion early next month, with more possibly following later in the year), the current projections do not include any supplemental funding for the war.

Change in budget window. Last September, the 10-year total for deficits covered 2005 through 2014. This year, the 10-year total covers 2006 through 2015. This makes a big difference in the totals without indicating any real improvement in the budget outlook. Under the baseline rules, CBO's baseline projections must assume that the President's tax cuts expire (mostly in 2010, although some provisions expire earlier) and that the alternative minimum tax (AMT) goes from affecting 3 million taxpayers in 2004 to around 40 million 10 years from now. And, as mentioned above, the baseline projections do not include any new appropriations to fund Iraq and Afghanistan. Because of these assumptions, the CBO baseline projections show a unified surplus of \$141 billion in 2015. Taking out the \$348 billion deficit projected last September for 2005 and adding in estimates for 2015 reduces the 10-year deficit projection by \$489 billion. That reduction does not represent any real improvement, since it is simply the result of shifting to a different 10-year period. (Shifting the 10-year period would not reduce the projected deficit if the projections are adjusted to reflect the President's proposal to make his tax cuts permanent and other factors discussed above. In that case, the projected deficit of \$527 billion in 2015 would exceed the \$348 billion deficit projected for 2005 last September.)

On an apples-to-apples basis and with adjustments to more accurately reflect reality, CBO's new projections give no reason to think that the budget outlook is better than anticipated last year or will improve in the coming decade.

<b>CBO January 2005 Baseline Adjusted for GOP Budget Policies</b>											
(\$ billions)	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>10-yr</u>
<b>CBO Jan. Baseline</b> .....	<b>-295</b>	<b>-261</b>	<b>-235</b>	<b>-207</b>	<b>-189</b>	<b>-80</b>	<b>+71</b>	<b>+85</b>	<b>+115</b>	<b>+141</b>	<b>-855</b>
Extend Bush tax cuts and other expiring tax provisions .....	-5	-16	-30	-45	-47	-194	-298	-312	-327	-342	-1,616
Reform the AMT .....	-12	-32	-39	-48	-57	-67	-78	-90	-103	-117	-642
Adjust for 2005 supplemental .....	+3	+5	+8	+9	+10	+11	+11	+12	+13	+13	+96
Bush defense policies .....	+1	-3	-8	-18	-27	-32	-34	-36	-38	-40	-234
Ongoing war costs .....	-76	-77	-65	-45	-30	-25	-26	-27	-27	-28	-426
Debt service .....	-4	-9	-16	-25	-33	-47	-68	-94	-122	-154	-573
<b>CBO Jan. Adjusted Baseline</b> .....	<b>-386</b>	<b>-391</b>	<b>-386</b>	<b>-379</b>	<b>-374</b>	<b>-434</b>	<b>-421</b>	<b>-460</b>	<b>-490</b>	<b>-527</b>	<b>-4,248</b>

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