



# FACT SHEET

## CBO BUDGET OUTLOOK

### FY 2007-2016

PREPARED BY: DEMOCRATIC STAFF, SENATE BUDGET COMMITTEE

January 27, 2006

### **CBO Budget Outlook Shows Deficit and Debt Getting Worse**

CBO's new budget outlook provides further evidence that the Bush administration's fiscal policies are driving us deeper into a chasm of deficit and debt. A realistic examination of CBO's report shows that the outlook is actually getting worse.

**CBO estimate shows a worsening of near-term deficits.** CBO now believes that the budget deficit for 2006 will be \$337 billion, assuming no additional spending or revenue changes are enacted. That will be the third worst deficit in U.S. history and \$19 billion worse than last year. When likely policy changes are added in, such as an Alternative Minimum Tax (AMT) fix for 2006 and an additional Iraq war supplemental, we expect that the deficit in 2006 will reach \$364 billion.

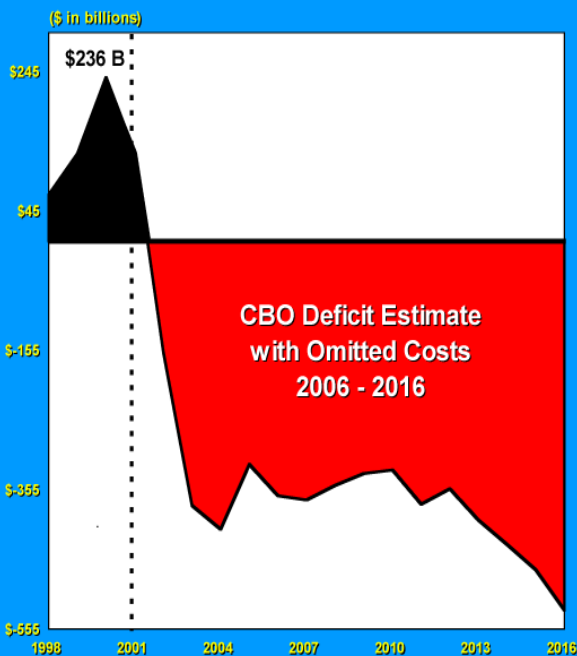
But even that doesn't tell the whole story. The increase in the debt in 2006 will be far greater than the likely \$364 billion deficit. When you add in the Social Security and other trust fund surpluses also being spent, the debt will actually go up by \$637 billion in 2006.

**Realistic examination of CBO report shows deteriorating long-term outlook as well.** It is important to remember that CBO's baseline estimates understate the probable deficit levels, because CBO must assume a continuation of current law and is not allowed to add in the cost of likely policy changes. We can get a more realistic picture of the deficits we face by making the following adjustments to CBO's ten-year baseline for 2007-2016:

- add in the cost of making tax cuts permanent (\$2.0 trillion),
- add in the cost of AMT reform (\$864 billion),
- add in the cost of the President's proposed defense buildup (\$296 billion),
- add in ongoing war costs (\$387 billion),
- remove the multi-year cost of extending the 2006 supplementals (-\$827 billion),
- account for the savings in the spending reconciliation conference report (-\$105 billion), and
- add in the associated cost of debt service (\$481 billion).

These adjustments add \$3.1 trillion to CBO's ten-year baseline estimate (for a total deficit of almost \$4 trillion over the ten years) and demonstrate that deficits will get worse over the next ten years.

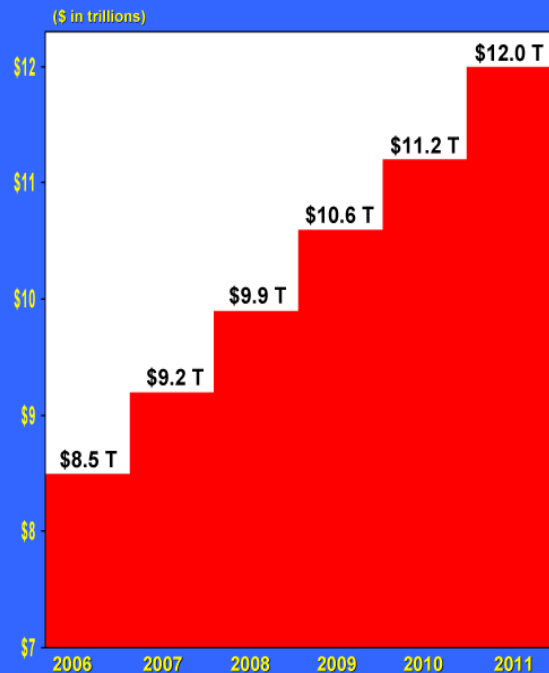
## Long-Term Budget Outlook



Source: CBO and SBC Democratic staff

Note: CBO January 2006 estimate with tax cuts made permanent, AMT reform, ongoing war costs, Bush defense buildup, spending reconciliation conference report, and without extension of 2006 supplementals.

## Building a Wall of Debt Gross Federal Debt Soars



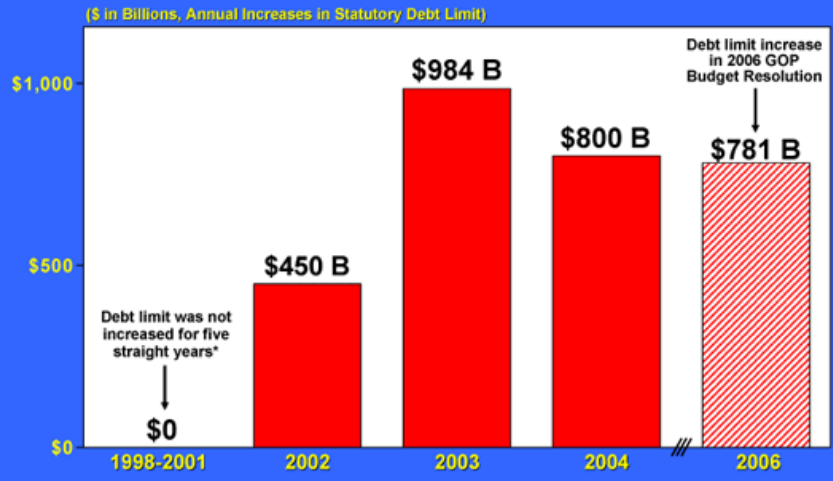
Source: CBO and SBC Democratic staff

Note: CBO January 2006 estimate with tax cuts made permanent, AMT reform, ongoing war costs, Bush defense buildup, spending reconciliation conference report, and without extension of 2008 supplementals.

**Federal debt continues to soar.** Every year that the budget is in deficit, the shortfall must be financed by additional federal debt. Under the assumptions noted above, gross debt is projected to climb to \$12 trillion by 2011 and \$16.1 trillion by 2016. The debt is increasing at more than \$600 billion in every year over the ten year window and increases by nearly \$900 billion in 2016.

The growth in debt over the last few years has led the Bush administration to repeatedly call on Congress to raise the federal debt limit. On December 29, during the Christmas and New Year's break, Treasury Secretary Snow sent Congress the Bush administration's fourth request for an increase in the debt limit. In his letter, Secretary Snow informed Congress that the current \$8.18 trillion debt limit would be reached in mid-February. If the \$781 billion debt limit increase currently being considered is adopted, the debt limit will have been increased by more than \$3 trillion since the Bush administration took office. Sadly, unless we change course dramatically, that will be the real legacy of this administration.

## Debt Limit Increases \$3 Trillion Under President Bush



\*Debt limit was not increased between August 1997 and June 2002.  
Source: OMB and 2006 GOP Budget Resolution

CBO's report provides clear evidence that Bush administration fiscal policies are taking us in the wrong direction – driving us further into deficit and debt. We cannot continue to borrow to provide higher spending and tax cuts. It is time to start paying our bills, instead of passing them on to our children and future generations.

<b>CBO January 2006 Baseline Adjusted for GOP Budget Policies</b>												
(\$ billions)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2007-16
<b>CBO January 2006 Baseline.....</b>	-337	-270	-259	-241	-222	-114	38	40	57	73	67	-832
Extension of tax cuts and other expiring tax provisions.....	-6	-18	-31	-49	-53	-195	-302	-319	-335	-347	-362	-2,012
AMT reform.....	-6	-42	-45	-55	-66	-77	-88	-101	-114	-130	-147	-864
Ongoing war costs.....	-20	-65	-60	-50	-35	-30	-29	-29	-29	-30	-30	-387
Bush defense buildup.....	0	-9	-14	-24	-31	-35	-35	-37	-38	-39	-35	-296
Do not extend 2006 supplementals	0	42	64	77	84	88	90	93	94	96	99	827
Spending reconciliation bill.....	5	-4	4	21	12	12	14	13	11	11	11	105
Debt service on adjustments.....	-1	-4	-8	-12	-17	-25	-40	-59	-81	-105	-131	-481
<b>CBO Jan. with Adjustments.....</b>	<b>-364</b>	<b>-370</b>	<b>-349</b>	<b>-332</b>	<b>-327</b>	<b>-376</b>	<b>-354</b>	<b>-399</b>	<b>-434</b>	<b>-470</b>	<b>-528</b>	<b>-3,939</b>

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