THE REPUBLICAN STUDY COMMITTEE
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CBO: $1.1 Trillion Deficit Projected for FY 2012

Yesterday, CBO released new projections covering 2012 to 2022. This report projects a deficit of **$1.079 trillion** in FY 2012, and deficits of **$4.152 trillion** over the 2012 to 2022 period. Its baseline projections (assuming the 2001 and 2003 tax cuts expire, as well as the AMT patch) show revenue increasing from $2.3 trillion in 2011 to $5.2 trillion in 2022—an increase of **$2.9 trillion** or **125.1%**. Spending is projected to grow from $3.6 trillion to $5.5 trillion, an increase of **$1.9 trillion** or **53.4%**.

Baseline Reform Act on Floor This Week

Later this week, the House will consider H.R. 3578, the Baseline Reform Act of 2011. The bill is authored by **Representative Woodall** (R-GA). The legislation removes the inflation adjustment to discretionary spending from CBO's budget baseline, and requires CBO to use "zero baseline" budgeting for discretionary projections. The legislation also requires CBO to make two other reports to the Budget Committee:

Report on No Tax Increase Revenue Baseline: The legislation requires CBO to provide projections of ten-year revenue estimates assuming extension of the 2001 and 2003 tax cuts, extension of the AMT patch, and extension of the lower death tax and gift tax (per Title III of the Tax Relief, Unemployment, Insurance Reauthorization, and Job Creation Act of 2010).

Annual Reports on Long-Term Budget Outlook: The legislation requires CBO to provide *annual* reports (by July 1 of each year) on the nation's long-term budget outlook ("long-term" being defined as covering at least the next forty years). An example of such a report may be found here.

Representative Gohmert (R-TX) has previously authored similar legislation, H.R. 920, the Zero-Baseline Budget Act of 2011. A similar provision was also included in the RSC's Spending Reduction Act (H.R. 408).

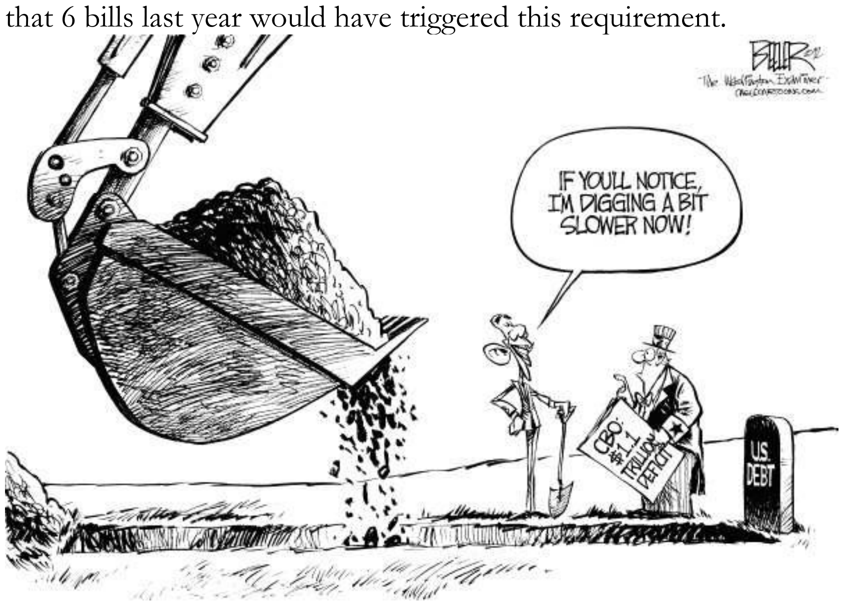
Pro-Growth Budgeting Act on Floor This Week

Later this week, the House will also consider H.R. 3582, the Pro-Growth Budgeting Act of 2011. The bill is authored by **Representative Tom Price** (R-GA). The legislation requires CBO to project the ten-year macroeconomic impact analysis of the budgetary effects of legislation reported out of a committee (except for the Appropriations Committee). This analysis is to include the impact of the legislation on:

- gross domestic product (GDP);
- business investment;
- the capital stock;
- employment; and
- the labor supply.

Fact of the Week: In FY 2012, the federal government will run its **47th deficit in 52 years**. In the 60 years before that (1901-1960), the federal government ran **26 surpluses**.

The analysis is also required to include the impact on revenue of the change in GDP resulting from the legislation. The legislation's requirement would apply to any bill that has a budgetary impact in excess of one-quarter of one percent of GDP in any year of the ten-year budget window ($39 billion in 2012, according to the committee). The committee says that 6 bills last year would have triggered this requirement.



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THE WALL STREET JOURNAL.

$5 Trillion and Change

Wall Street Journal Editorial

The political strategy behind Obamanomics was always simple: Call for "stimulus" to rescue the economy, run up the debt with the biggest spending blitz in 60 years, and then when the deficit explodes call for higher taxes. The Congressional Budget Office annual review released yesterday shows this is all on track.

CBO reports that annual spending over the Obama era has climbed to a projected $3.6 trillion this fiscal year from $2.98 trillion in fiscal 2008, or more than 20%. The government spending burden has averaged 24% of GDP, up from an average of about 20%. This doesn't include the $2 trillion tab for ObamaCare.

All of this has increased the federal debt by about $5 trillion in a mere four years. Thanks to higher revenues, the federal deficit will decline to $1.08 trillion in 2012, or 7% of GDP. But that is still the highest deficit since 1946—except for the previous three years. In other words, the four years of the Obama's Presidency will mark the four highest years in spending and deficits as a share of the economy since Harry Truman sat in the Oval Office.

And don't forget the national debt held by the public—the kind we have to pay back. On President Obama's watch, CBO says public debt will climb this year to 72.5% of the economy from 40.3% in 2008. This isn't as high as Italy or Greece, but it's rising fast toward the 90% level that begins to debilitate an economy.

We pause from this gloom for some good news: Despite the abuse they've taken, House Republicans have made some fiscal progress. CBO estimates that overall federal spending in 2012 will grow by only $3 billion, or less than 1%, which compares with double digit increases during the Obama-Pelosi years. Republicans have also tried to reform entitlements, but Democrats wanted a $1 trillion tax hike ransom for even modest cuts, which was wisely rejected.

The other part of the fiscal story is that revenues have been in the tank for five years. In 2012 revenues will hit $2.52 trillion down from $2.57 trillion in 2007. Revenues are still only 16.3% of GDP, about two percentage points below the norm.

The drought has two main causes. First, the anemic recovery in jobs and investment isn't spinning off enough new output (1.7% growth last year) to boost tax receipts anywhere near their historic level.

Second, a series of non-stimulative tax cuts—tax rebates in 2008 and 2009, and payroll tax holidays in 2011 and this year—have depleted the Treasury with little economic benefit. These tax cuts don't change the incentive at the margin to work or invest, and they thus have little feedback effect in revenues from faster growth.

The most amusing part of the CBO's report is its projection that the deficit will fall to $269 billion by 2015, or a mere 1.5% of GDP, if current law holds. But this is a fiscal fantasy because current law never holds.

CBO predicts, for example, that all the Bush tax cuts will go away next year. The Alternative Minimum Tax will supposedly be allowed to hit 30 million tax filers (up from four million now) with an income as low as $75,000 a year. Under those assumptions total federal revenues rise by $1 trillion over the next three years, $1.5 trillion over five years, and $3.6 trillion over 10 years. You can't get anywhere near that level of revenues without a much bigger tax increase on the rich and the middle class, or an extended boom in the range of 5% to 6% annual growth.

Even the Keynesians who run CBO concede that the 2013 tax hike—on capital gains, dividends, estates and small business—would knock economic growth down to 1% next year and raise unemployment to 9.1% (from 8.5%). That means about 750,000 more jobless Americans. You can't have such a lousy economy and cut the deficit in half.

CBO also indulges in the fantasy that discretionary spending will fall by nearly $2 trillion over the next decade—with almost all the cuts after 2015. About $1.25 trillion of those cuts come from the automatic across-the-board reductions that Congress and Mr. Obama agreed to last year. But wait. More than half of those cuts will come from the military budget and even Defense Secretary Leon Panetta has said these reductions could be "devastating" to national security.

To sum it all up, CBO's facts plainly show that Mr. Obama has the worst fiscal record of any President in modern times. No one else is even close.