FACT SHEET
CBO BUDGET OUTLOOK
FY 2008-2017

PREPARED BY: DEMOCRATIC STAFF, SENATE BUDGET COMMITTEE

January 24, 2007

CBO Budget Outlook Shows Deteriorating
Long-Term Picture Remains Unchanged

The Congressional Budget Office's (CBO) January Budget and Economic Outlook shows that the nation's current budget path continues to be unsustainable over the long-term. While CBO's short-term deficit estimates have fallen, the nation's debt is still expected to explode in the years beyond CBO's ten-year outlook.

Looking just at 2007, CBO's deficit estimate understates the shortfall because it doesn't account for the $100 billion war supplemental President Bush is expected to request next month or the cost of AMT relief. And over the next ten years, once we factor in those and other costs, such as the extension of expiring tax cuts and President Bush's proposed defense buildup, CBO's projections show the continuation of significant deficits. These deficits are occurring at the worst possible time – just as the baby boom generation begins to retire. CBO's report concludes:

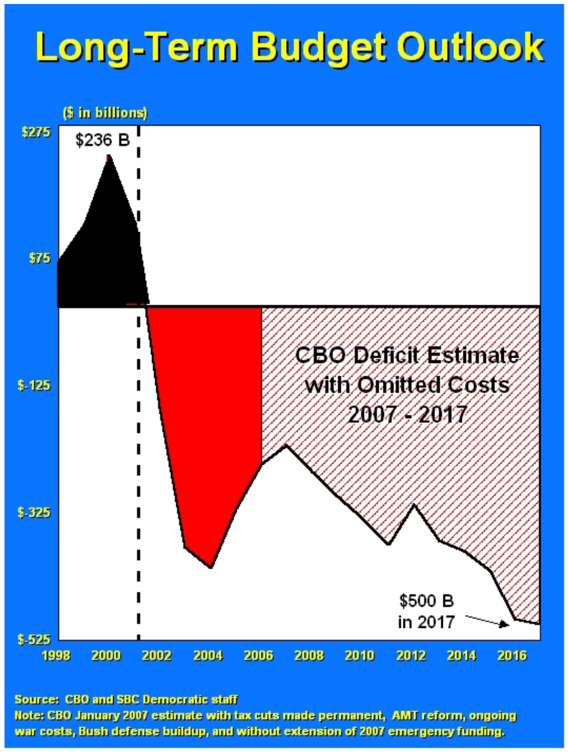
> *"The favorable outlook suggested by those 10-year projections, however, does not indicate a substantial change in the nation's long-term budgetary challenges.... Either a substantial reduction in the growth of spending, a significant increase in tax revenues relative to the size of the economy, or some combination of spending and revenue changes will be necessary to promote the nation's long-term fiscal stability."*

Continuation of current policies leads to large deficits. The official CBO estimates of the budget baseline understate likely deficits over the next decade, because CBO must calculate these estimates under a strict set of guidelines that fail to capture the continuation of current policies. For example, CBO assumes that all expiring tax cuts do in fact expire and that relief from the Alternative Minimum Tax (AMT) is not provided after 2006. Both assumptions are suspect. Similarly, the projections do not include the $100 billion supplemental request for operations in Iraq and Afghanistan expected in February, and they fail to reflect the cost of the President's defense build-up plans. A different picture emerges when we adjust the CBO baseline estimates for 2008-2017 to remove the $920 billion cost of extending the $70 billion in war bridge funding and other emergency funding already provided in 2007 and add in the costs of:

- making the Bush tax cuts and other expiring tax cuts permanent ($2.34 trillion);
- AMT relief ($1.04 trillion);

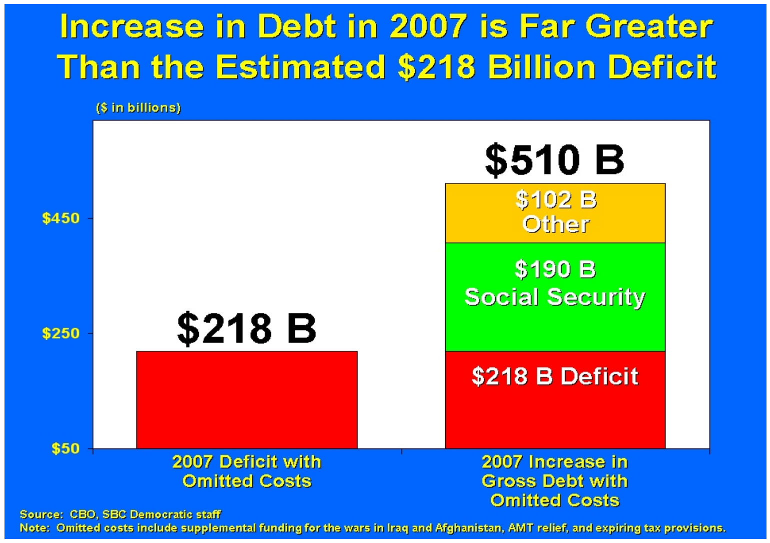
- the President's proposed defense buildup ($249 billion);
- ongoing military operations in Iraq and the war on terrorism ($857 billion); and,
- debt service associated with these policy adjustments ($977 billion).

These adjustments add $4.5 trillion to the ten-year CBO projection, for a total deficit of $3.7 trillion over the decade. Further, even though the annual deficits have declined modestly over the past few years, they begin to rise again in the later part of the decade, reaching $500 billion by 2017.

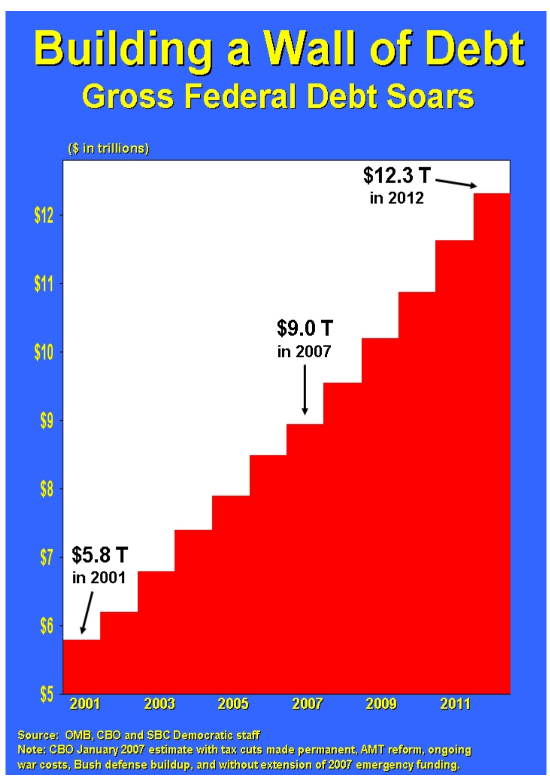


Growth in federal debt far greater than deficits. The deficits we face this decade don't tell the whole story about the nation's finances and our growing debt burden. The debt is mounting far more rapidly than the deficit figures indicate, because they hide the fact that we are borrowing from Social Security, which is temporarily in surplus and the other trust funds.

For example, in 2007, the federal government is expected to borrow $190 billion from Social Security alone and another $102 billion primarily from Medicare and other trust funds. So while the deficit is estimated to increase by $218 billion in 2007 (when adjusted to include the costs of 2007 AMT relief, the President's upcoming supplemental request for Iraq and Afghanistan, and expiring tax provisions), the gross debt is estimated to increase by $510 billion.



Bush policies add to the wall of debt. Since President Bush took office, gross federal debt has climbed from $5.8 trillion at the end of 2001 to an estimated $9.0 trillion at the end of this year. Under the adjusted CBO projections, the country's total debt would soar to $12.3 trillion by 2012. At a time when we should be paying down debt to prepare for the coming retirement of the baby boom generation, the President's policies have instead increased our debt and worsened our long-term outlook.



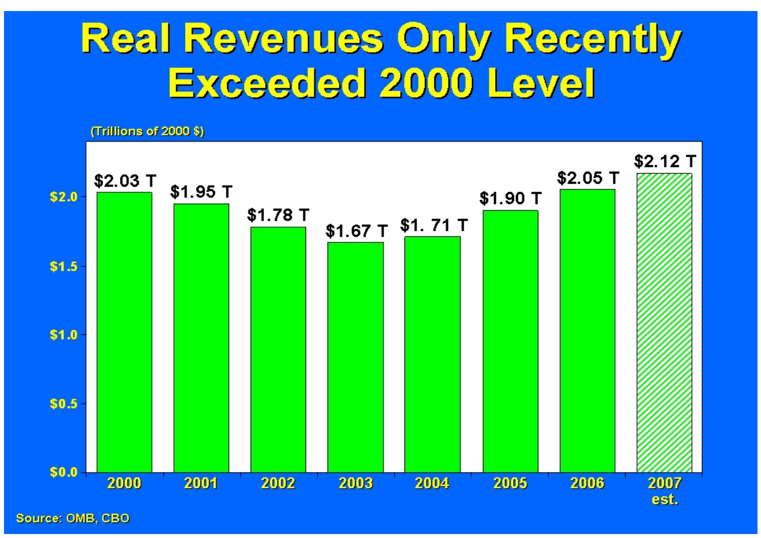
Federal Reserve Chairman Ben Bernanke addressed the potential ramifications of the further explosion of debt in his testimony before the Senate Budget Committee on January 18, 2007. He stated:

> *"Ultimately this expansion of debt would spark a fiscal crisis which could be addressed only by very sharp spending cuts or tax increases or both. … [T]he effects on the U.S. economy would be severe. High rates of government borrowing would drain funds away from private capital formation, and thus slow the growth of real incomes and living standards over time."*

The explosion of debt is also a concern because we are becoming increasingly reliant on foreigners to buy our debt and finance our deficits. We now owe Japan more than $600 billion; China more than $300 billion; the United Kingdom more than $200 billion; and "oil exporters" almost $100 billion. In fact, in 2005, the United States was responsible for 65 percent of world borrowing, far and away more than any other nation. It took 42 Presidents 224 years to run up a trillion dollars of external debt. Incredibly, President Bush more than doubled that amount in just five years.

Tax cuts add to the deficit. Although CBO assumes higher revenue collections over the next few years relative to its projections last August, these adjustments in CBO's calculations have nothing to do with stronger economic growth. In fact, CBO's latest figures for economic growth in 2006 and 2007 are actually weaker than the agency predicted last August.

The revenue improvement must be considered in the context of the complete collapse in revenue that occurred after 2000. It is important to remember that revenue as a share of GDP fell to its lowest level in 45 years in 2004. Real revenues – that is, adjusted for inflation – only returned to their 2000 level last year and are still lagging behind the typical recovery by $127 billion in 2007.



The fact is that the tax cuts enacted since 2001 have added to the deficit and debt. Extending them all without paying for them would continue the reckless build-up of debt and further worsen the long-term outlook. Studies by CBO, the Congressional Research Service, the Joint Committee on Taxation, and the Treasury Department make clear that tax cuts do not pay for themselves. Even Rob Portman, the Director of the administration's Office of Management and Budget, acknowledged last year that: *"As a general matter, most tax cuts do not pay for themselves."*

Conclusion. The improvement the new CBO figures show in the near-term does not erase the damage done by the fiscal policies of the Bush administration over the last six years. We are still carrying the higher debt that has accumulated; we are still borrowing every penny of the Social Security surpluses to pay for other government expenses; and this administration has still offered no plan for how to address the long-term fiscal imbalance – which has dramatically worsened since 2001.

The truth is that our long-term outlook is unchanged and the hard work lies ahead. Putting our fiscal house back in order will require tough choices, a bipartisan effort, and real Presidential leadership. It is time to get the job done.

CBO January 2007 Baseline Deficits With Adjustments

($ billions)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2008-17
CBO January 2007 Baseline......	**-172**	**-98**	**-116**	**-137**	**-12**	**170**	**159**	**185**	**208**	**192**	**249**	**800**
Do not extend 2007 emergencies	0	43	65	78	86	92	98	104	111	118	125	920
CBO Jan. without Extension..........	**-172**	**-55**	**-51**	**-59**	**73**	**262**	**257**	**289**	**319**	**309**	**374**	**1,720**
Extension of tax cuts and other expiring tax provisions............	-3	-13	-20	-35	-188	-296	-326	-341	-356	-372	-389	-2,337
AMT reform...............................	-9	-59	-58	-69	-80	-93	-106	-120	-135	-151	-168	-1,040
Ongoing war costs....................	-33	-113	-128	-116	-110	-90	-70	-60	-58	-56	-57	-857
Bush defense buildup................	0	-13	-23	-26	-25	-26	-26	-27	-27	-27	-27	-249
Debt service on adjustments.....	-1	-7	-17	-29	-46	-69	-97	-127	-159	-194	-233	-977
CBO Jan. with Adjustments......	**-218**	**-260**	**-298**	**-334**	**-376**	**-312**	**-368**	**-386**	**-416**	**-492**	**-500**	**-3,741**
Increase in Gross Debt......	**510**	**582**	**637**	**686**	**739**	**698**	**751**	**780**	**806**	**866**	**873**	**--**

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