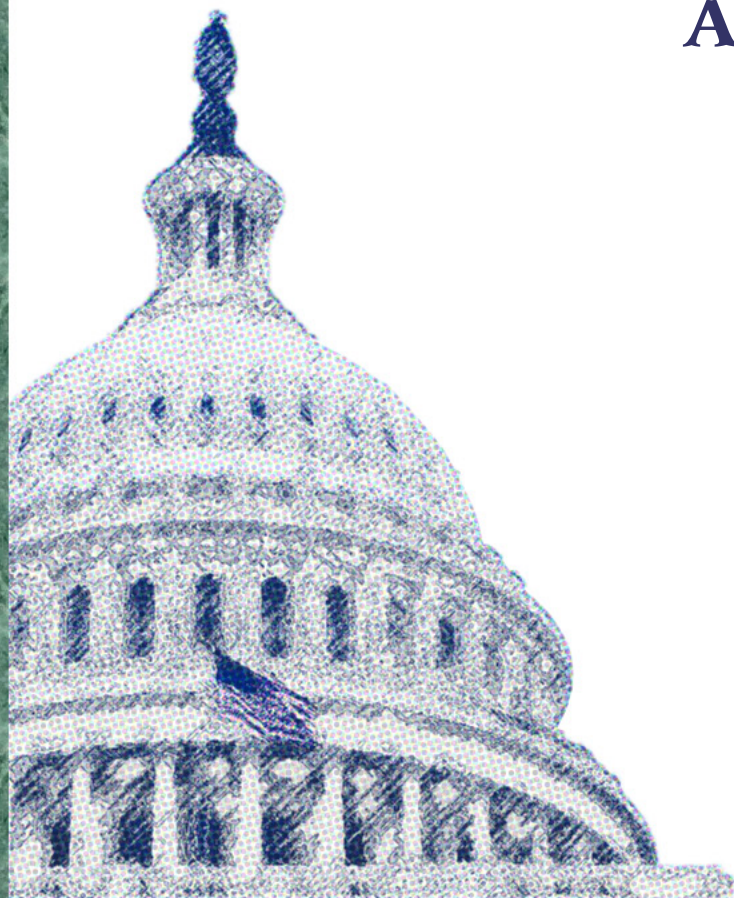




# President Bush's 2009 Budget

## A Brief Overview



Prepared by  
the U. S. Senate  
Budget Committee  
Minority Staff  
Senator Judd Gregg  
Ranking Member  
February 4, 2008

February 4, 2008

Dear Colleague:

The following is a brief summary and analysis of President George W. Bush's fiscal year 2009 budget submission to Congress, as prepared by the Republican staff of the U.S. Senate Committee on the Budget, that I hope will be helpful to you.

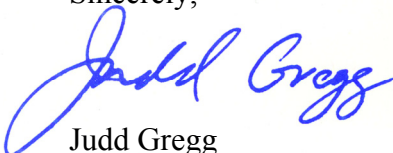
The President's budget reflects balance in 2012 and 2013, while assuming the extension of the pro-growth tax polices enacted in 2001 and 2003. In addition, the President's budget attempts to address the unsustainable growth of entitlement spending. Because of the explosion of health care costs, unfettered growth of government health programs represents the greatest threat to our economy and to the future quality of life for our children and grandchildren. The President is right to continue to try to address them. Although his specific entitlement spending proposals are likely to be pilloried, he is to be credited with consistently attempting to curb the unsustainable growth of entitlement spending.

Since Congress has been unable to address the impending fiscal crisis, Budget Committee Chairman Kent Conrad and I have introduced the *Bipartisan Task Force for Responsible Fiscal Action Act* (S. 2063), which would establish a bipartisan and expedited process to correct the unsustainable fiscal path that we are on. As we have seen, and this budget will surely demonstrate, the political dynamics of Washington make it extremely unlikely that any policy reforms necessary to address the looming fiscal threat will survive without bipartisan backing and a fast-track through the regular legislative process.

While the President's budget rightly extends the pro-growth tax cuts that led us out of the economic turmoil of 2001 and attempts to reduce the growth in entitlement spending, it is disappointing to see that the budget does not accurately reflect the expected costs of the Global War on Terror, and instead budgets only enough for a portion of FY 2009. I am concerned that this proposal will make it too easy for Congress, in the budget that it will write in the next few months, to return to shadow budgeting and ignore costs we already know will occur, thereby understating likely deficits in the next several years.

Any budget, be it the President's or the budget offered by colleagues across the aisle, should be judged based on several factors. A budget should address entitlements; it should project accurate costs of the Global War on Terror; and it should assume the necessary resources to protect our troops. It also should restrain non-defense discretionary spending, maintain pro-growth tax policies that have led to dramatic revenue growth since their enactment, and offer an honest and transparent picture of what the government will spend and how. Now that we have seen the President's budget, I look forward to seeing if the Democratic budget will meet these same principles.

Sincerely,



Judd Gregg  
Ranking Member, U.S. Senate Committee on the Budget



# BUDGET HIGHLIGHTS

U.S. Senate Budget Committee

## DEFICITS AND SURPLUSES

The President's budget balances in 2012 and 2013, reflecting small surpluses of \$48 billion and \$29 billion respectively. For this year, the President's budget assumes a \$410 billion deficit (2.9% of GDP), falling to \$407 billion (2.7% of GDP) in FY 2009.

Compared to the deficit of 1.2% of GDP recorded for FY 2007, the deficits in this year and next largely reflect the falling revenue levels resulting from the recent economic downturn and the budgetary effects of the stimulus package (\$125 billion FY 08 and \$20 billion in FY 2009).

## DISCRETIONARY

- ❖ **Non-Emergency.** For FY 2009 regular (non-emergency) discretionary spending, the President's budget includes \$987.6 billion, nearly a 5% increase over FY 2008 levels.
- ❖ **Defense.** The request includes \$537 billion for defense activities (function 050), more than a 7% increase (figures do not include war funding).
- ❖ **Non-Defense.** The request includes \$450.8 billion, a 2.2 percent increase over 2008. However, excluding international affairs spending and homeland security spending, the request for non-defense, *domestic* discretionary spending represents a 0.2% increase over the 2008 enacted level.
- ❖ **Emergency.** The request includes \$75.8 billion in emergency appropriations for FY 2009. This includes a \$70 billion request for funding war efforts in Iraq and Afghanistan. The remaining \$5.8 billion in the emergency request for FY 2009 is labeled "Gulf Coast/Hurricane Recovery." These amounts would be for the Army Corps of Engineers for levee projects.
- ❖ **Program Elimination.** 151 discretionary program reductions and terminations provide \$18 billion in savings in FY 2009.

## MANDATORY

The President's budget assumes \$1.636 trillion in total mandatory spending for FY 2009. The President's proposals for changes to mandatory programs would produce nearly \$174 billion in savings during FY 2009-2013. This is a net figure, which includes both spending reductions and new spending.

- ❖ **Medicare.** The Administration projects Medicare spending will total \$420 billion in FY 2009, and without changes, would grow to \$553 billion by FY 2013. The budget includes \$178 billion in reductions in Medicare in FY 2009-2013. Under the President's budget, the average annual growth rate over 5 years is expected to be 5%, a reduction of 2.2 percentage points from how Medicare would otherwise grow on average each year over the same time period.

According to OMB, these Medicare savings would reduce the program's \$34 trillion unfunded liability over the next 75 years by nearly one-third.

## REVENUES

The budget assumes the permanent extension of the 2001 and 2003 tax relief, and a one-year patch (for tax year 2008) of the individual AMT.

Under the President's budget, the level of receipts is projected to grow from \$2.568 trillion in FY 2007 to \$3.428 trillion in FY 2013, an increase of 33.5%. As a share of GDP, revenues dip to under 18% of GDP in FY 2008, then rise to 18.8% of GDP by FY 2013.

**Under permanent tax relief, revenues as a share of GDP exceed their historical average in FY 2010 - 2013.**

## What is in the President's Budget?

(\$ in billions)

<b><u>DISCRETIONARY REQUEST</u></b>	<b><u>2008</u></b> <b><u>Estimate</u></b>	<b><u>2009</u></b> <b><u>Request</u></b>	<b><u>% Change</u></b>
Regular appropriations <sup>a</sup>	941	988	4.9%
Emergency appropriations	212	76	-64.3%
<i>Emergency appropriations GWOT<sup>b</sup></i>	197	70	-64.5%
<i>Emergency appropriations non-GWOT</i>	15	6	-61.6%
<b>Total Appropriations</b>	1,154	1,063	-7.8%

a. In his budget last year, the President requested \$933 billion (as estimated by CBO) for 2008. As CBO estimated at the time of enactment, the appropriation bills passed by Congress essentially provided a net \$933 billion in regular appropriations for 2008. But now OMB is estimating that discretionary appropriations for 2008 are \$941 billion, which probably excludes the effects of savings in certain mandatory programs that were enacted in and scored to the 2008 appropriation bills. But now the effects of those mandatory changes appear to have been moved to the mandatory side in OMB's budget, thereby increasing the apparent net appropriation level for 2008 to \$941 billion.

b. For 2008, \$104 billion in emergency appropriations have been enacted, \$89 billion of which is for the Global War on Terror (GWOT). The President's budget for 2008 and the President's supplemental requests for 2008 have already requested an additional \$108 billion for 2008, but the Congress has not yet acted on those requests.

### **MANDATORY PROPOSALS**

	<b><u>2009-2013</u></b>
Proposed changes in mandatory programs (net) <sup>a</sup>	-174
<i>Medicare (savings)</i>	-178
<i>Medicaid (savings)</i>	-18
<i>Reauthorize SCHIP (cost)</i>	19
<i>Social Security private accounts (cost)</i>	30
<i>Other (incl. outlay effects of tax proposals)</i>	-28

a. In addition to the savings shown above, the Administration estimates that enactment of its discretionary and mandatory proposals will result in indirect net savings of \$3.7 billion over 2009-2013, for a total of \$178 billion. These effects, however, are typically not scoreable to legislation making the changes. For example, enactment of the discretionary levels for certain program integrity initiatives will likely result in savings, but appropriation bills providing these levels of funding do not receive "credit" for mandatory savings resulting from providing additional discretionary resources. In addition, the Administration sometimes describes its mandatory proposals as amounting to \$208 billion over five years by omitting the \$30 billion cost of its social security proposal in 2013.

### **REVENUES**

	<b><u>2008</u></b>	<b><u>2009</u></b>	<b><u>2009-2013</u></b>
Proposed revenue changes (excl. outlay effects)	-141	-117	-863
<i>Stimulus Package Proposal (revenue loss)<sup>a</sup></i>	-125	-20	8
<i>Extend 2001 and 2003 tax relief</i>	0	-2	-635
<i>AMT relief for 2008<sup>b</sup></i>	-12	-61	-47
<i>Health insurance tax incentives</i>	0	-23	-98
<i>Other</i>	-4	-11	-91

a/ The 2008-2013 (six year) cost of the stimulus package is \$117 billion. After 2009 the stimulus package increases revenues relative to the baseline.

b/ The 2008-2013 (six year) cost of patching the AMT for 2008 is \$58 billion.

## President's Budget Summary

(\$ in billions)

	<u>2007</u> <u>Actual</u>	<u>2008</u> <u>Estimate</u>	<u>2009</u> <u>Request</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2009-2013</u> <u>Total</u>
<b>OUTLAYS</b>								
BEA Baseline <sup>a</sup>	2,730	2,900	3,048	3,167	3,319	3,386	3,558	16,479
OMB Baseline Adjustments <sup>b</sup>	0	0	-55	-102	-112	-97	-95	-462
Adjusted OMB Baseline	2,730	2,900	2,993	3,065	3,207	3,289	3,464	16,017
President's Spending Proposals	0	31	114	27	-36	-67	-65	-26
<b>President's Budget - Spending</b>	<b>2,730</b>	<b>2,931</b>	<b>3,107</b>	<b>3,091</b>	<b>3,171</b>	<b>3,222</b>	<b>3,399</b>	<b>15,991</b>
<b>REVENUES</b>								
BEA Baseline a/	2,568	2,662	2,817	2,967	3,269	3,522	3,694	16,269
OMB Baseline Adjustments <sup>c</sup>	0	0	-2	-13	-159	-221	-240	-635
Adjusted OMB Baseline	2,568	2,662	2,815	2,954	3,110	3,301	3,454	15,634
President's Revenue Proposals	0	-140	-115	-23	-34	-31	-26	-228
<b>President's Budget - Revenues</b>	<b>2,568</b>	<b>2,521</b>	<b>2,700</b>	<b>2,931</b>	<b>3,076</b>	<b>3,270</b>	<b>3,428</b>	<b>15,406</b>
<b>President's Budget Deficit ( - ) / Surplus</b>	<b>-162</b>	<b>-410</b>	<b>-407</b>	<b>-160</b>	<b>-95</b>	<b>48</b>	<b>29</b>	
<b>Deficit ( - ) / Surplus as % of GDP</b>	<b>-1.2%</b>	<b>-2.9%</b>	<b>-2.7%</b>	<b>-1.0%</b>	<b>-0.6%</b>	<b>0.3%</b>	<b>0.2%</b>	

a. BEA baseline follows the rules for constructing a baseline set out in the Budget Enforcement Act of 1990. That is the baseline CBO uses.

b. OMB prefers not to begin with the BEA baseline and instead removes the effect of emergency appropriations in 2008 that are, by rule, projected out into the 2009-2013 period in the BEA baseline.

c. OMB prefers not to begin with the BEA baseline and instead assumes that most of the tax relief enacted in 2001 and 2003 (which is scheduled to expire in 2010) is extended in OMB's baseline.

If all the policies and levels of spending that are included in the President's budget were enacted in their entirety, the Office of Management and Budget (OMB) estimates that the deficit this year would amount to 2.9 percent of GDP, falling to 2.7 percent of GDP in 2009. Compared to the deficit of 1.2 percent of GDP recorded for 2007, the deficits in this year and next largely reflect falling revenue levels from the recent economic slowdown and the budgetary effects of the stimulus package the President has endorsed and included in his budget.

On the spending side of the budget, the 2009 request shows that, under the President's policies, federal outlays would essentially remain unchanged over the next five years compared to OMB's baseline. While the President proposes increased spending for some programs and decreased spending for others compared to the baseline, on net, the federal government would end up spending about the same in total as it would under current law.

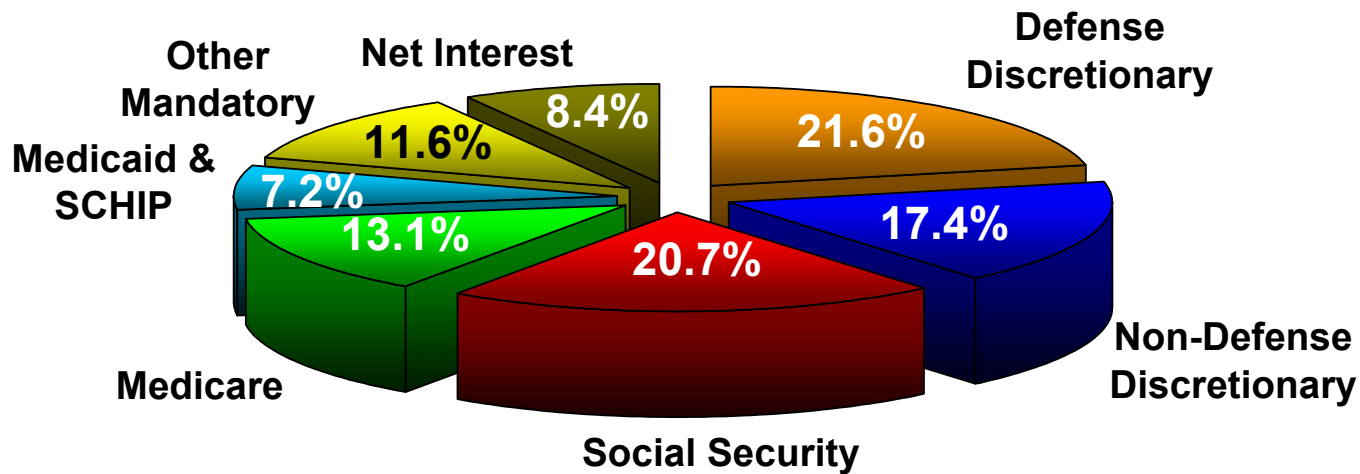
On the revenue side, the President proposes a 1.5 percent reduction in revenue, totaling \$0.2 trillion, over the 2009-2013 period. In addition, the proposals in the stimulus package would suppress revenue collections in 2008 by another \$140 billion, largely by writing checks to individual income tax filers. The President's revenue totals also assume extension of most of the tax relief enacted in 2001 and 2003 (that will expire at the end of 2010), amounting to \$0.6 trillion over 2009-2013. These extensions do not show up as policy changes in the President's budget because the OMB baseline already assumes that Congress will extend them.



# SPENDING SUMMARY

*U.S. Senate Budget Committee*

## President's 2009 Budget: \$3.1 Trillion in Outlays by Budget Category



<b>Mandatory Proposals in the President's Budget</b>		
<b>(Outlays, \$ in billions)</b>		
	<b><u>2009</u></b>	<b><u>2009-2013</u></b>
<b>Program Increases</b>		
Social Security private accounts	0.0	30.3
Reauthorize SCHIP	2.3	19.3
Reauthorize Farm bill	0.1	2.5
<b>Program Decreases</b>		
Medicare	-12.4	-178.2
Medicaid	-1.8	-17.4
PBGC (premium increase)	-0.4	-8.9
Eliminate SSBG	0.0	-6.5
Student aid programs	-2.8	-6.1
ANWR leasing (receipts, federal share)	0.0	-4.0
Veterans affairs	-0.4	-2.3
Spectrum license fee	-0.2	-1.6
<b>Outlay effects of tax proposals</b>	0.0	8.8
<b>Other</b>	<b><u>-1.6</u></b>	<b><u>-10.1</u></b>
<b>Total a/</b>	<b>-17.1</b>	<b>-174.3</b>

a. In addition to the savings shown above, the Administration estimates that enactment of its discretionary and mandatory proposals will result in indirect net savings of \$3.7 billion over 2009-2013, for a total of \$178 billion. These effects, however, are typically not scoreable to legislation making the changes. For example, enactment of the discretionary levels for certain program integrity initiatives will likely result in savings, but appropriation bills providing these levels of funding do not receive "credit" for mandatory savings resulting from providing additional discretionary resources. In addition, the Administration sometimes describes its mandatory proposals as amounting to \$208 billion over five years by omitting the \$30 billion cost of its social security proposal in 2013.

**Medicare.** Baseline Medicare spending will total \$391 billion in 2008. Without legislative changes, Medicare spending will grow to \$553 billion in 2013, an average annual growth rate of 7.2 percent. The President's budget includes reforms to the Medicare program that would reduce spending in the program by \$178 billion over the next five years. This is nearly triple the President's proposal from last year. The majority of these reductions, almost \$113 billion over five years, would target providers (hospitals, skilled nursing facilities, home health providers, hospices, etc.) with payment freezes for three years, followed by lower than inflationary updates (inflation minus 0.65 percent). Under the President's proposals, Medicare spending in 2013 would be \$500 billion, resulting in a lower average growth rate of 5 percent per year (compared to 7.2 percent under baseline).



**Medicaid.** In 2007, Medicaid spending was \$191 billion. The Administration projects that, under current law, Medicaid will grow at an average annual rate of 7.3 percent to \$292 billion by 2013, for total Medicaid spending over five years of \$1.3 trillion. The President's budget includes policies that would save \$17.7 billion in Medicaid over five years. Under the President's budget, the average annual growth rate for Medicaid over the five-year period would drop to 7.0 percent (compared to 7.3 percent under baseline).

**SCHIP.** For the State Children's Health Insurance Program, the Administration's current-law baseline projects \$25 billion over 2009-2013. The President proposes an additional \$19.3 billion in SCHIP spending over the period, an increase of 76 percent. This increase is intended to provide current services to the current population of covered children and to allow for the growth in the population of uninsured children whose families fall under the line of 200 percent of the poverty level.

**Social Security.** The President's Budget projects that Social Security spending will grow from \$645 billion in 2009 to \$814 billion in 2013 -- an annual average increase of 5.9 percent. In addition, the Budget proposes the creation of personal savings accounts, increasing Social Security outlays by \$30 billion in 2013 for a total in that year of \$842 billion (including \$2 billion in other offsets).

## Discretionary Resources in The President's 2009 Budget

(Budget authority, \$ in billions)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2007-2008</u> % change	<u>2008-2009</u> % change
<b>Regular Discretionary</b>	<b>880</b>	<b>941</b>	<b>988</b>	<b>7.0%</b>	<b>4.9%</b>
Defense (050)	452	500	537	10.6%	7.3%
Non-defense	428	441	451	3.2%	2.2%
<i>International Affairs</i>	33	34	40	3.3%	16.1%
<i>Homeland security (non-050/150, gov't-wide)<sup>a</sup></i>	33	36	40	8.1%	9.5%
<i>Domestic discretionary<sup>a</sup></i>	361	371	372	2.7%	0.2%
<i>Bioshield (non-add)<sup>b</sup></i>			2		
<b>Enacted Supplemental and Emergency</b>	<b>192</b>	<b>104</b>			
GWOT	174	89			
Hurricane	8	6			
Veterans	2	4			
Borders and Other	9	5			
<b>Requested Supplemental and Emergency</b>		<b>108</b>	<b>76</b>		
GWOT		108	70		
Hurricane		0	6		
<b>Total Discretionary<sup>c</sup></b>	<b>1,072</b>	<b>1,154</b>	<b>1,063</b>	<b>7.6%</b>	<b>-7.8%</b>

a. Homeland security and domestic discretionary year-over-year comparisons are imperfect because the \$3.7 billion in veterans emergency appropriations and a significant portion of the \$3 billion border security emergency funding (both enacted in 2008) reflect ongoing costs that the President has requested as regular appropriations in 2009, yet the 2008 appropriations for these activities are shown in the "Enacted Supplemental and Emergency" figures. For example, the 2009 request for domestic discretionary spending reflects a 0.9 percent decrease from the 2008 level when the \$3.7 billion in emergency funding for veterans is included in the regular 2008 enacted level.

b. Under current law, \$2.2 billion is available for Bioshield in 2009 that was originally provided as an advance appropriation, but the Administration often excludes it from discretionary totals. CBO will count the \$2.2 billion advance appropriation provided under current law as a 2009 discretionary resource when CBO reestimates the President's Budget.

c. The 2009 total request is 7.8% less than the request for 2008 mainly because the President asked for only \$70 billion for the war in 2009, compared to the \$198 billion he requested for 2008.

For 2009 regular (non-emergency) discretionary spending, the President's budget includes \$987.6 billion. (This excludes a \$2.2 billion advance appropriation already enacted for Bioshield that becomes available in 2009; the Administration has moved Bioshield to its own spending "category" outside discretionary and mandatory spending, but CBO's reestimate of the President's budget will show Bioshield appropriations as they were enacted, as discretionary spending.)

The request includes \$536.8 billion for defense activities (function 050), a 7.3 percent increase over the 2008 enacted level. For the Global War on Terror (GWOT), the President's budget includes a \$70 billion "bridge" fund to support GWOT activities into calendar 2009. For fiscal year 2008, \$89.4 billion has been enacted for GWOT, and the Administration has previously requested an additional \$108.1 billion (in the FY 2008 budget and subsequent budget amendments), but the Congress has yet to act on this additional FY 2008 funding.

For non-defense, the request includes \$450.8 billion, a 2.2 percent increase over 2008. This oversimplified comparison for the broad non-defense category masks more significant changes reflected in the President's budget because the President has asked for large increases in two areas of non-defense.

As in previous years, the President has asked for significant increases in international affairs programs (function 150). For 2008, Congress ultimately funded these programs 3.3 percent more than in 2007. For 2009, the President is requesting a 16.1 percent increase in these programs.

In addition, homeland security spending has received larger increases since 2001 than most other non-defense programs. For 2008, Congress provided an 8.1 percent increase in homeland security spending across all government agencies (except the Department of Defense, which is included in the Defense category). For 2009, the President is asking for a 9.5 percent increase in homeland security funding.

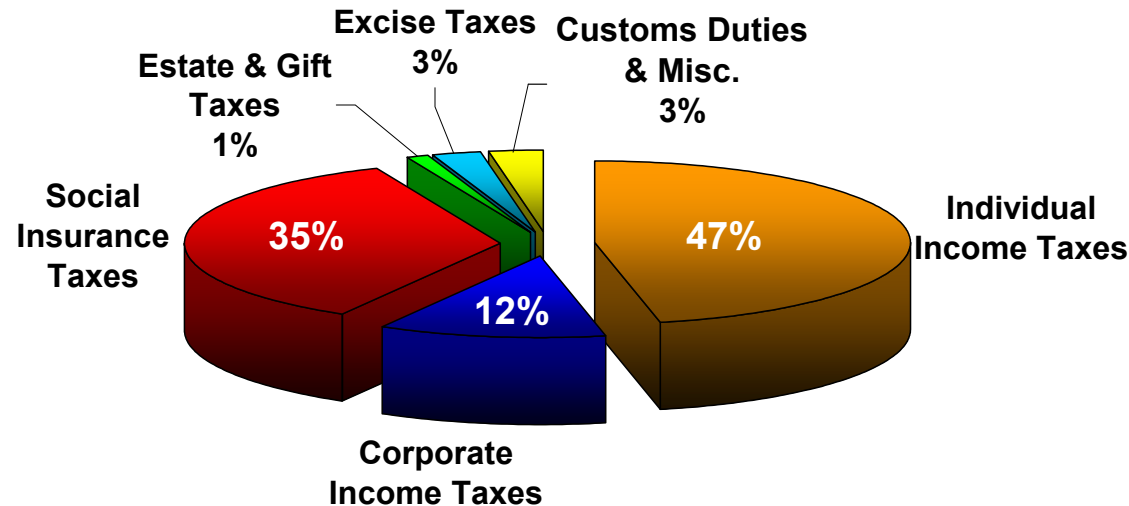
Removing these two large increases from the non-defense category leaves all other non-defense programs. Sometimes called domestic discretionary, appropriations for this set of programs increased collectively by 2.7 percent in 2008, but for 2009, the President has asked for a 0.2 percent increase (this is essentially comparable to the 0.3% increase that the President's budget documents show for the set of programs his budget defines as "non-security").



# REVENUE SUMMARY

U.S. Senate Budget Committee

## President's 2009 Budget: \$2.7 Trillion of Receipts by Source



The 2009 Budget calls for quick enactment of an economic stimulus package that includes broad-based tax relief for individuals and for business investment. The stimulus package would temporarily reduce revenues by \$125 billion in 2008 and \$20 billion in 2009. As in past years, the President proposes to prevent large tax increases in the future (by making permanent tax relief enacted in 2001 and 2003 that would otherwise expire in 2010). Extension of the 2001 and 2003 tax cuts would reduce revenues by \$635 billion (and would increase outlays by \$30.5 billion) over the next five years; the budgetary effects are already reflected in OMB's adjusted baseline.

The President's budget includes a proposal to replace the existing exclusion for employer-based health insurance with a deduction of up to \$15,000 for family coverage or \$7,500 for individual coverage. This proposal would reduce revenues by \$94 billion and increase outlays by \$11.5 billion over five years. In addition, the President's budget recommends other net tax relief (beyond the stimulus package and the health insurance proposal extending the 2001 and 2003 tax relief) totaling \$142 billion over five years.

If, as the budget proposes, the 2001 and 2003 pro-growth tax polices are extended, the level of taxes collected is projected to be 18.8 percent of GDP in 2013, well above the long-term average of about 18.2 percent of GDP.

## President's Tax Proposals in 2009 Budget

(\$ Billions)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	6-yrs <u>2008-13</u>	5-yrs <u>2009-13</u>
<b>Tax relief included in adjusted baseline:</b>								
Permanently extend certain tax relief provisions enacted in 2001 and 2003	-0.4	-2.1	-13.1	-158.8	-221.2	-240.0	-635.5	-635.1
<b>Additional revenue proposals:</b>								
Economic stimulus package	-125.0	-20.0	10.0	8.0	6.0	4.0	-117.0	8.0
Increase expensing for small business	--	-1.1	-1.5	-1.1	-0.9	-0.7	-5.2	-5.2
AMT patch for 2008	-11.7	-60.9	14.2	--	--	--	-58.4	-46.7
Invest in health care <sup>a</sup>	--	-23.4	-29.2	-23.6	-16.4	-5.8	-98.4	-98.4
Modify financing of Airport and Airway trust fund	--	--	-6.8	-7.1	-7.5	-7.9	-29.3	-29.3
Extend R&E tax credit permanently	-3.2	-7.1	-9.1	-10.6	-11.8	-12.8	-54.7	-51.5
Extend other expiring provisions <sup>b</sup>	-0.4	-3.4	-3.0	-1.5	-1.3	-1.2	-10.8	-10.4
Implement free trade agreements	-0.1	-1.7	-2.3	-2.7	-2.4	-2.4	-11.6	-11.5
Improve tax compliance/loophole closers	--	0.4	1.5	2.4	3.1	3.8	11.2	11.2
Other proposals	<u>-0.1</u>	<u>2.0</u>	<u>3.4</u>	<u>2.4</u>	<u>0.3</u>	<u>-2.4</u>	<u>5.5</u>	<u>5.6</u>
<b>Subtotal, tax proposals including baseline adjustment</b>	<b>-140.9</b>	<b>-117.2</b>	<b>-35.9</b>	<b>-192.6</b>	<b>-252.1</b>	<b>-265.5</b>	<b>-1,004.2</b>	<b>-863.3</b>
<b>Subtotal, tax proposals excluding baseline adjustment</b>	<b>-140.5</b>	<b>-115.1</b>	<b>-22.8</b>	<b>-33.8</b>	<b>-30.9</b>	<b>-25.5</b>	<b>-368.7</b>	<b>-228.2</b>
<b>President's Budget Revenues</b>	<b>2521.2</b>	<b>2699.9</b>	<b>2931.3</b>	<b>3076.4</b>	<b>3269.9</b>	<b>3428.2</b>		
% of GDP	17.6	18.0	18.6	18.6	18.8	18.8		

a. Affects both receipts and outlays; only the receipt effect is shown here.

b. Includes charitable giving incentives, deduction for classroom expenses, expensing of brownfields remediation, DC homebuyer tax credit, deferral of gains from sales of electric transmission property, subpart F and new markets tax credit.

Details may not add to totals due to rounding.



# ECONOMIC SUMMARY

U.S. Senate Budget Committee

While most economists do not forecast that the US economy will enter recession this year, they do estimate it will enter a period of below-trend growth in the first half of 2008, with growth recovering in the third and fourth quarters. CBO and the Administration differ from many private sector economists in their forecasts about the trajectory of the economy over the next four quarters largely because they “locked down” their estimates about a month before calendar 2008 began. Since both OMB and CBO completed their work, new information about the economy has been released. The Federal Reserve has lowered its target interest rate by 125 basis points. The unemployment rate has ticked up by two-tenths of a percentage point, and fourth quarter GDP was reported as growing by just 0.6 percent.

Rising credit spreads pose the greatest near-term risk to continued, albeit slow, economic growth. A credit spread is the difference between the risk-free Treasury rate and the rate financial markets would charge for an instrument of similar term. Credit spreads have widened substantially since the start of 2007 and could partially offset the positive impact of the Federal Reserve’s four interest rate cuts since August, totaling 225 basis points. Last year, interest rates on high-grade corporate debt increased slightly from 5.4 percent in January 2007 to 5.5 percent in December 2007. Over the same time period, interest rates on the ten-year Treasury bond declined from 4.8 percent to 4.1 percent, doubling spreads from just 64 basis point at the start of 2007 to 139 basis points now. If markets continue to price in additional risk to private securities, it will offset some of the benefit of lower Fed rates.

Over the long-term, CBO, OMB, and Blue Chip’s projections track each other very closely, differing by one- or two-tenths of a percentage point. All three project that real economic growth will resume and settle at or above 2.6 percent in 2013. Similarly, the unemployment rate will decline slightly, falling from its current rate of 4.9 percent to 4.8 percent in 2011, where it is projected to remain throughout the remainder of the five-year budget window.

CBO, OMB and Blue Chip all project inflation will rapidly decelerate from its current 4.1 percent year-over-year pace to around 2.2 percent, as economic growth resumes and the Federal Reserve later raises interest rates to levels consistent with sustainable growth. However, OMB projects that short-term interest rates will rise less than either CBO or the Blue Chip forecast, implying that real short-term interest rates, the nominal interest rate minus inflation, will remain below 2.0 percent and roughly at its 25-year average. Blue Chip and CBO project real short-term rates will rise to 2.2 percent and 2.5 percent, respectively. All three estimators project that long-term interest rates will rise to 5.2 percent by 2011 and settle at that level through 2013.

## Potential Impact of Proposed Stimulus

The President’s Council of Economic Advisers estimated that the 2001 advance refund checks increased economic growth by 0.8 percent and 0.6 percent in the third and fourth quarters of 2001, respectively, by boosting household consumption. The 2001 advance refund checks totaled \$38 billion or 0.4 percent of GDP. The current proposal under negotiation between the Administration and Congress would issue checks to most individual income tax filers, amounting to a total of \$110 - \$125 billion or about 0.8 percent of GDP. However, it is important to note that the proposed rebate is a one-time event, while the 2001 checks were an advance on a *semi-permanent* change in tax law (currently set to expire at the end of 2010).

In 2001, Congress created a new lower 10 percent tax bracket, effectively reducing income taxes by 5 percent on the first \$8,000 of adjusted gross income for individuals and \$16,000 for joint filers. Although the bill was signed into law in June 2001, the changes applied retroactively to the beginning of 2001. The resulting reduction in tax liability for 2001 was then advanced to taxpayers in the form of a \$300 check for individuals and \$600 for married filers. One could argue that the 2001 tax cut did in fact result in a permanent change in income and as a result, one would expect some increase in economic growth. Since the proposed rebate included in the President's budget is a one-time event and not a down payment on a new change in tax policy, it could have a more muted economic impact.

## Comparison of Economic Projections

	2008	2009	2010	2011	2012	2013
<b>Year over Year % Change:</b>						
<b>Nominal GDP</b>						
Administration	4.6	5.1	5.1	5.0	4.9	4.9
CBO	3.6	4.7	5.4	5.3	4.8	4.5
Blue Chip	4.4	4.8	5.0	5.1	5.0	5.0
<b>Real GDP Growth</b>						
Administration	2.7	3.0	3.0	2.9	2.8	2.8
CBO	1.7	2.8	3.5	3.4	2.9	2.6
Blue Chip	2.2	2.7	2.8	2.9	2.9	2.8
<b>GDP Price Index</b>						
Administration	1.9	2.0	2.0	2.0	2.0	2.0
CBO	1.9	1.8	1.8	1.8	1.9	1.9
Blue Chip	2.1	2.1	2.1	2.1	2.1	2.1
<b>Consumer Price Index</b>						
Administration	2.7	2.1	2.3	2.3	2.3	2.3
CBO	2.9	2.3	2.2	2.2	2.2	2.2
Blue Chip	2.9	2.3	2.3	2.3	2.3	2.3
<b>Annual Rate (%):</b>						
<b>Unemployment</b>						
Administration	4.9	4.9	4.8	4.8	4.8	4.8
CBO	5.1	5.4	5.1	4.8	4.8	4.8
Blue Chip	5.0	5.0	4.8	4.8	4.8	4.8
<b>Three-Month T-Bill</b>						
Administration	3.7	3.8	4.0	4.1	4.1	4.1
CBO	3.2	4.2	4.6	4.7	4.7	4.7
Blue Chip	3.4	3.9	4.5	4.5	4.5	4.5
<b>Ten-Year T-Note</b>						
Administration	4.6	4.9	5.1	5.2	5.3	5.3
CBO	4.2	4.9	5.2	5.2	5.2	5.2
Blue Chip	4.3	4.8	5.2	5.2	5.2	5.2