CBO's Analysis of the President's FY 2013 Budget
March 19, 2012

Last week, the Congressional Budget Office (CBO) released its preliminary analysis of President Obama's FY 2013 budget proposals, estimating the debt and deficits associated with the President's February budget. According to CBO's analysis, debt would temporarily stabilize at 76.3 percent of GDP in the last few years of the decade, compared to OMB's estimate of 76.5 percent.

The President's budget would increase deficits by about $3.5 trillion compared to current law, under which debt would fall to 61 percent of GDP by 2022. Compared to more realistic current policy projections, which put debt about 85 percent of GDP, the President's budget would reduce deficits by about $2.4 trillion.

CBO's analysis shows that lawmakers will need to embrace a bold approach to deficit reduction in order to put the debt on a clear downward path, and shows that while the President's proposals represent real progress toward this goal it still falls short.

From 2013 through 2022, CBO projects that ten-year deficits under the President's budget will total $6.4 trillion, compared to the $6.7 trillion that OMB projects. The difference stems primarily from two sources – different economic and technical assumptions in baseline budget projections going forward and differences in cost and savings estimates of the President's proposed policies.

Though the President's budget puts forward some serious debt reduction proposals – including from higher revenues, health care reforms, and other spending reductions – more savings will be needed to control debt, especially over the long-term.

Budget Projections[1]

Under CBO's estimate of the President's FY 2013 budget, deficits would reach nearly $1.3 trillion (8.1 percent of GDP) in 2012 before falling to a low of $488 billion (2.5 percent of GDP) by 2017 as the economy recovers and some of the budget's revenue increases and spending cuts begin to take effect. Over the remainder of the ten-year period, however, deficits would resume a slow upward climb, rising to $728 billion (3.0 percent of GDP) by 2022. These estimates are generally in line with OMB's estimates, which showed deficits falling to and then stabilizing at about 2.8 percent of GDP later in the decade.

Spending under the President's proposals, according to CBO, would fall from 23.5 percent of GDP in 2012 to 22.0 percent in 2018, but would rise thereafter to 22.8 percent by 2022. These figures are in line with OMB's projections but higher than the historical 30-year average of about 21 percent of GDP.

Fig. 1: Projections for the President's FY 2013 Budget (Percent of GDP)

Fiscal Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013-2022
REVENUE												
2013 Budget (CBO)	15.4%	17.2%	18.7%	19.4%	19.6%	19.6%	19.6%	19.6%	19.7%	19.7%	19.8%	19.4%
2013 Budget (OMB)	15.8%	17.8%	18.7%	19.0%	19.1%	19.2%	19.4%	19.5%	19.7%	19.9%	20.1%	19.2%
Current Law (CBO)	15.8%	18.7%	19.8%	20.4%	20.5%	20.6%	20.7%	20.7%	20.9%	21.0%	21.2%	20.5%
CRFB Realistic	15.8%	17.2%	18.0%	18.4%	18.5%	18.5%	18.5%	18.5%	18.6%	18.7%	18.7%	18.4%
OUTLAYS												
2013 Budget (CBO)	23.5%	23.4%	23.0%	22.4%	22.4%	22.1%	22.0%	22.3%	22.5%	22.6%	22.8%	22.5%
2013 Budget (OMB)	24.3%	23.3%	22.6%	22.3%	22.5%	22.2%	22.0%	22.3%	22.5%	22.7%	22.8%	22.5%
Current Law(CBO)	23.4%	22.5%	22.1%	21.8%	21.9%	21.7%	21.5%	21.8%	21.9%	22.0%	22.4%	22.0%
CRFB Realistic	23.4%	22.9%	2272%	22.4%	22.5%	22.3%	12.3%	22.6%	22.9%	23.1%	23.5%	22.7%
DEFICITS												
2013 Budget (CBO)	8.1%	6.1%	4.2%	3.1%	2.8%	2.5%	2.5%	2.8%	2.8%	2.9%	3.0%	3.2%
2013 Budget (OMB)	8.5%	5.5%	3.9%	3.4%	3.4%	3.0%	2.7%	2.8%	2.8%	2.8%	2.8%	3.3%
Current Law(CBO)	7.6%	3.8%	2.3%	1.5%	1.4%	1.0%	0.8%	1.0%	1.0%	1.0%	1.2%	1.4%
CRFB Realistic	7.6%	5.7%	4.8%	4.0%	4.0%	3.8%	3.7%	4.1%	4.3%	4.4%	4.8%	4.3%
DEFICITS (BILLIONS)												
2013 Budget (CBO)	$1,253	$977	$702	$539	$529	$488	$510	$602	$638	$678	$728	$6,390
2013 Budget (OMB)	$1,327	$901	$668	$610	$649	$612	$575	$626	$658	$681	$704	$6,684
Baseline (CBO)	$1,171	$612	$385	$257	$259	$201	$175	$224	$234	$237	$303	$2,887
CRFB Realistic	$1,183	$903	$788	$704	$746	$741	$772	$886	$968	$1,049	$1,187	$8,746

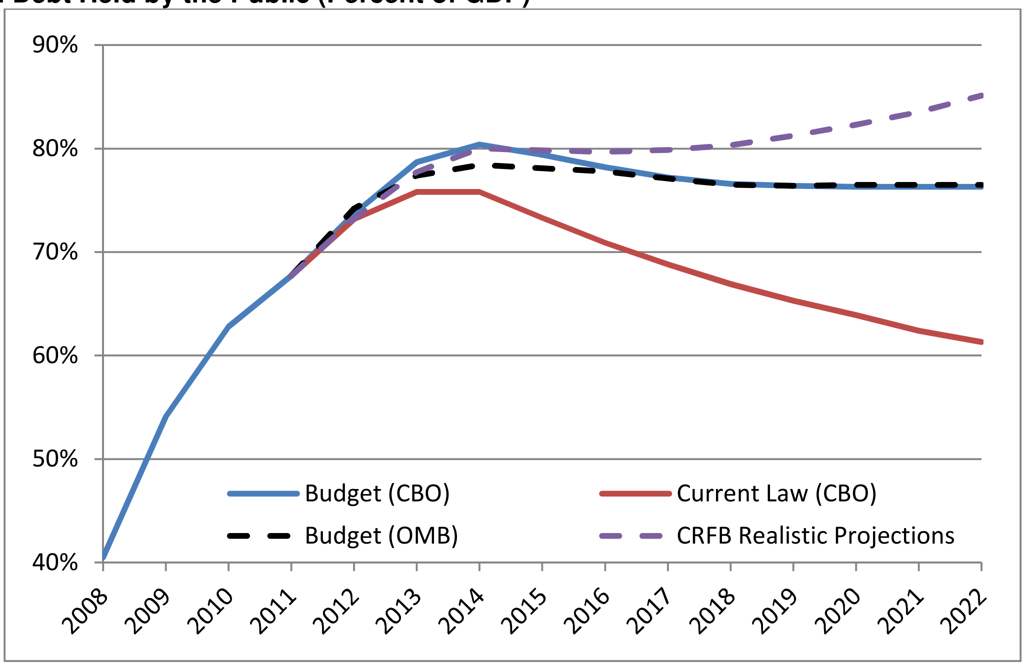
CBO projects revenues under the President's budget to grow significantly from 15.4 percent of GDP this year to 17.2 percent of GDP in 2013 and to 19.8 percent by 2022. A recovering economy, revenues increases from the 2010 health care reform legislation, and new revenues from the President's proposals would all contribute to these rising

[1] Note: This analysis of the President's budget is not directly comparable to CRFB's U.S. Budget Watch report analyzing the Republican presidential candidates. For example, CBO's analysis does not include recent policy proposals from President Obama, such as his business tax reform plan, which future U.S. Budget Watch reports will include.

revenues. CBO projections would put revenues slightly higher than OMB's estimates, and well above the historical 30-year averages of about 18 percent.

Under CBO's estimate of the President's budget, public debt would grow from below 74 percent of GDP in 2012 to above 80 percent in 2014 before stabilizing at about 76 percent of GDP the end of the decade. While this is an improvement over our current path – as laid out in CRFB's Realistic Baseline – debt would remain at elevated levels and would almost certainly continue to grow beyond the ten-year window.[2]

Fig. 2: Debt Held by the Public (Percent of GDP)



Policy Changes

Relative to current law, CBO is projecting that the President's budget would increase deficits by $3.5 trillion from 2013-2022, compared to about $4.0 trillion estimated by OMB (correcting for different treatment of the Budget Control Act). Among the more costly provisions are the extensions of the 2001/2003/2010 tax cuts for those making under $250,000 a year, continued AMT patches, and permanent "doc fixes," which are projected to cost a combined $3.9 trillion over ten years. Other deficit-increasing policies come from additional jobs proposals over the next year or so, higher spending on transportation, and various tax cuts for individuals and businesses.

[2] CRFB Realistic Baseline assumes all of the 2001/2003 tax cuts are extended, the AMT is patched, scheduled cuts to Medicare physician payments are waived, war costs decline, and the $1.2 trillion sequester is repealed. For more details see http://crfb.org/document/analysis-cbos-budget-and-economic-projections-and-crfbs-realistic-baseline.

President Obama also called for a number of deficit-reducing policies in his budget. On the revenue side, some of the larger policies include limiting deductions and exclusions for high earners ($525 billion), allowing the tax cuts to expire for households earning above $250,000 per year ($945 billion), and reforming the international tax system ($170 billion).

Fig. 3: 10-Year Impact of Policy Changes in the President's Budget

	OMB	CBO
Current Law Baseline	**-$2,760 billion**	**-$2,885 billion**
Assume Renewal of Tax Cuts	*-$4,525 billion*	*-$4,565 billion**
Assume "Doc Fixes"	*-$440 billion*	*-$270 billion*
Assume Sequester Repeal	*-$965 billion*	*-$980 billion*
Drawdown War Spending	*$850 billion*	*$810 billion*
Interest Costs	*-$1,140 billion*	*-$880 billion*
Current Policy Baseline	**-$8,980 billion**	**-$8,770 billion**
Jobs Measures	**-$175 billion**	**-$190 billion**
Spending Increases	*$150 billion*	*$155 billion*
Tax Cuts	*$25 billion*	*$35 billion*
Revenue Proposals	**$1,745 billion**	**$1,760 billion**
Allow 2001/2003 Tax Cuts to Expire for Income Above $250,000	*$970 billion*	*$945 billion**
Limit Tax Expenditures for Higher Earners	*$585 billion*	*$525 billion*
Reduce Corporate Tax Preferences	*$310 billion*	*$285 billion*
*Other Revenue Increases**	*$240 billion*	*$200 billion*
Manufacturing and "Insourcing" Incentives	*-$125 billion*	*-$105 billion*
Other Tax Reductions	*-$235 billion*	*-$90 billion*
Spending Proposals	**$325 billion**	**$480 billion**
Require Drug Rebates for Medicare Part D	*$155 billion*	*$135 billion*
Reduce Medicare Provider Payments (Including Interactions)	*$105 billion*	*$90 billion*
Reduce and Reform Medicare Benefit for Beneficiaries	*$30 billion*	*$35 billion*
Reduce Medicaid and Other Health Costs	*$70 billion*	*$70 billion*
Reduce Farm Subsidies	*$30 billion*	*$25 billion*
Increase Transportation Spending	*-$125 billion*	*-$125 billion*
Other Spending Changes	*$60 billion*	*$250 billion*
Net Interest	**$240 billion**	**$290 billion**
TOTAL DEFICITS	**-$6,685 billion^**	**-$6,390 billion**
Deficit Increase Relative to Current Law	**$3,925 billion**	**$3,505 billion**
Deficit Reduction Relative to Current Policy	**$2,295 billion**	**$2,380 billion**

Note: Positives/negatives reflect deficit decreases/increases, respectively. Numbers are rounded, and do not include costs/savings for 2012.
^Other spending cuts exclude $44 billion timing shift in 2022, whereas total deficits include the timing shift to match OMB's deficit projections.
*Based on CBO's estimates from January 2012.

On the spending side, deficit-reduction measures largely stem from reforms to federal health care programs and other mandatory spending programs. Some of the larger policies include increasing drug rebates in Medicare Part D ($135 billion), limiting state gaming of Medicaid ($50 billion), increasing Medicare Part B and D premiums for higher earners ($30 billion), and reducing farm subsidies ($25 billion).

CBO also scores the reduction in war spending (Overseas Contingency Operations, or OCO) as saving $810 billion; however, these savings would not score relative to a current policy baseline since they are based on a drawdown policy that is already in place and exists only because of a baseline scoring convention requiring CBO to assume discretionary spending grows with inflation.

Conclusion

CBO's analysis shows that the President's budget represents an important starting point for reform, but would not be adequate to put the debt on a sustainable path. While the budget would stabilize the debt for a few years this decade, it would be at too high a level and it is likely the debt would begin to rise again outside the budget window.

Although the budget makes some important health reforms which would help to control long-term costs, it does not include the magnitude of reforms necessary to sufficiently address rapid health care cost growth, and the budget puts forward no specific ideas on how to strengthen Social Security or otherwise address the costs of our aging population.

With the expiration of so many temporary policies at the end of the year, policymakers would be wise to pursue a smart deficit reduction plan that replaces the "fiscal cliff" with a comprehensive plan that brings our medium and long-term fiscal situation under control in a thoughtful and sustainable way.