



**CHAIRMEN**

BILL FRENZEL  
JIM NUSSLE  
TIM PENNY  
CHARLIE STENHOLM

**PRESIDENT**

MAYA MACGUINEAS

**DIRECTORS**

BARRY ANDERSON  
ERSKINE BOWLES  
CHARLES BOWSHER  
STEVE COLL  
DAN CRIPPEN  
VIC FAZIO  
WILLIS GRADISON  
WILLIAM GRAY, III  
WILLIAM HOAGLAND  
JIM JONES  
LOU KERR  
JIM KOLBE  
JAMES MCINTYRE, JR.  
DAVID MINGE  
JUNE O'NEILL  
PAUL O'NEILL  
MARNE OBERNAUER, JR.  
RUDOLPH PENNER  
PETER PETERSON  
ROBERT REISCHAUER  
ALICE RIVLIN  
CHARLES ROBB  
MARTIN SABO  
ALAN K. SIMPSON  
JOHN SPRATT  
GENE STEUERLE  
DAVID STOCKMAN  
JOHN TANNER  
LAURA TYSON  
GEORGE VOINOVICH  
PAUL VOLCKER  
CAROL COX WAIT  
DAVID M. WALKER  
JOSEPH WRIGHT, JR.

**SENIOR ADVISORS**

ROBERT STRAUSS

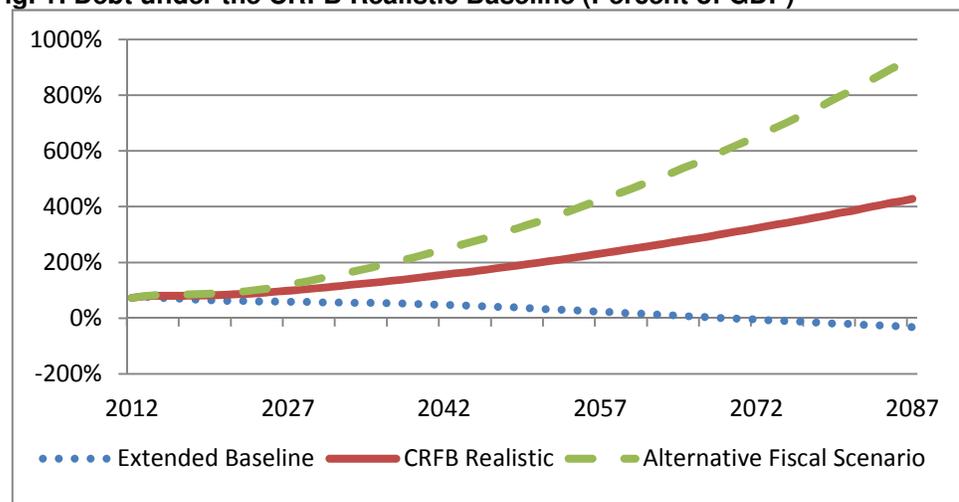
**CRFB's Long-Term Realistic Baseline**  
**June 12, 2012**

In light of the most recent long-term budget projections from the Congressional Budget Office (CBO), the Committee for a Responsible Federal Budget (CRFB) has updated its long-term "Realistic Baseline."<sup>1</sup>

CBO's projections show two vastly different scenarios for how the budget could play out over the next 75 years. Under its Extended Baseline Scenario, the "fiscal cliff" of scheduled changes for the end of the year is allowed to go off, meaning many temporary tax and spending policies expire and the automatic sequester takes effect. This scenario would put debt on a downward path, but is extremely unlikely to happen. Under CBO's more realistic Alternative Fiscal Scenario, debt explodes as a result of lawmakers extending temporary tax and spending policies and turning off the sequester. Under that scenario, debt would rise from 73 percent of GDP in 2012 to 93 percent by 2022, almost 200 percent by 2037, and more than 900 percent of GDP by the end of the 75-year projection, according to our extrapolation of their projections.

While the Alternative Fiscal Scenario is in many ways more realistic than the Extended Baseline, the CRFB Realistic Baseline incorporates what we believe are a more realistic combination of policy assumptions. These assumptions result in a debt path that is somewhere between CBO's two scenarios. Under the CRFB Realistic Baseline, debt rises to 85 percent of GDP by 2022, 134 percent by 2037, and 428 percent by 2087, the end of the 75-year budget window.

**Fig. 1: Debt under the CRFB Realistic Baseline (Percent of GDP)**



## CRFB Realistic Baseline Assumptions

In our Realistic Baseline, we make a set of “current policy” assumptions that we feel are more likely to occur than those underlying current law projections. These include the extension of the 2001/2003 tax cuts, the continued enactment of patches to the Alternative Minimum Tax to prevent it from hitting middle-class taxpayers, the averting of a 27 percent cut in Medicare physician payments (the “doc fix”), the repeal of the automatic sequester, and the drawdown of the war in Afghanistan.

**Fig. 2: Assumptions Made in CBO Scenarios and the CRFB Realistic Baseline**

Budget Area	Extended Baseline	Alternative Fiscal Scenario	CRFB Realistic
<b>Assumptions Through 2022</b>			
<b>Revenue</b>	All temporary tax provisions expire as scheduled	All temporary provisions are extended	2001/2003 tax cuts and AMT patches are extended; tax extenders expire as scheduled
<b>Discretionary</b>	Spending levels are as specified by the Budget Control Act caps, including the sequester	Spending levels are as specified by the Budget Control Act caps, excluding the sequester	Spending levels are as specified by the Budget Control Act caps, excluding the sequester
<b>Health Care</b>	27% cut in physician payments as scheduled; sequester takes effect	Permanent freeze to Medicare physician payments; sequester is repealed	Permanent freeze to Medicare physician payments; sequester is repealed
<b>Other Mandatory</b>	Grows as scheduled; sequester takes effect	Generally grows as scheduled; sequester is repealed	Generally grows as scheduled; sequester is repealed
<b>War Spending</b>	Grows with inflation	Grows with inflation	Spending is drawn down
<b>Assumptions After 2022</b>			
<b>Revenue</b>	Grows as scheduled under current law	Frozen as a share of GDP at 2022 levels	Grows assuming continuation of the current tax code
<b>Discretionary</b>	Frozen as a share of GDP at 2022 levels, including sequester	Increased to historical average as a share of GDP by 2027; frozen thereafter	Frozen as a share of GDP at 2022 levels, excluding sequester
<b>Health Care</b>	ACA cost controls fully effective through 2029	ACA cost controls discontinued after 2022	ACA cost controls partially continued through 2029
<b>Other Mandatory</b>	Generally frozen as a share of GDP at 2022 levels*	Increased to historical average as a share of GDP by 2027; frozen thereafter	Frozen as a share of GDP at 2022 levels

<sup>1</sup> For information and projections for CRFB’s Realistic Baseline through 2022, see <http://crfb.org/crfb-realistic-baseline>.

The assumptions behind the CRFB Realistic Baseline are closer to CBO's Alternative Fiscal Scenario than the Extended Baseline, but they differ in a few ways:

- We allow certain inflation-indexed features of the tax code to naturally push up revenue as a percent of GDP due to incomes rising faster than prices (“real bracket creep”) and the growing reach of the health insurance excise tax. The Alternative Fiscal Scenario freezes revenue at its 2022 level as a percent of GDP over the long-term – accounting for the largest difference in debt over the long-term between the two projections.
- We assume that spending on the war in Afghanistan is drawn down, while the Alternative Fiscal Scenario assumes that it grows with inflation.
- We do not assume that the temporary “tax extenders” are extended, whereas the Alternative Fiscal Scenario does.
- We assume that the cost controls in the Affordable Care Act are partially successful from 2022 through 2029, while the Alternative Fiscal Scenario assumes that they are either not successful or repealed past 2022.
- We assume that non-health and non-retirement spending (“other mandatory”) is held constant as a percent of GDP after 2022, while the Alternative Fiscal Scenario increases that spending after 2022 to its historical average as a share of the economy and holds it constant at that level.

### **Budget Projections under the CRFB Realistic Baseline**

Over the next 25 years, the CRFB Realistic Baseline projections are quite similar to the Alternative Fiscal Scenario, but begin to diverge over the long-term once both sets of projections have already reached unsustainable levels. Although the debt under the CRFB Realistic Baseline does not rise quite as exponentially as it does under the Alternative Fiscal Scenario, both paths would clearly bring disastrous outcomes. Growing deficits and debt would become an enormous burden on the economy, and a fiscal crisis would undoubtedly occur at some point.

Spending is projected to rise rapidly from 23.4 percent of GDP in 2012 to 29.9 percent in 2037, and 50.4 percent by 2087. A major driver of this spending is simply due to growing interest paid on an expanding amount of debt. Interest spending would rise from 1.4 percent in 2012 to 6.5 percent by 2037 and 20.9 percent by 2087. In terms of non-interest spending, health care is the largest driver, rising from 4.8 percent in 2012 to 9.1 percent in 2037 and 14.6 percent in 2087.

Revenues would rise throughout the projection window, but not nearly enough to keep up with spending. Revenues would rise from a recession-induced level of 15.8 percent of GDP in 2012 to 20.1 percent by 2037 and 25.1 percent by 2087. Still, deficits would persist and grow rapidly over the long term. Although deficits would fall from 7.6 percent of GDP in 2012 to a low of 3.7 percent in 2018, they would soon reverse course, rising to 9.8 percent by 2037 and an eye-popping 25.3 percent by 2087.

**Fig. 3: Budget Metrics in the CRFB Realistic Baseline (Percent of GDP)**

	2012	2022	2037	2050	2065	2080
Social Security	5.0%	5.4%	6.2%	6.1%	6.4%	6.6%
Federal Health Care	4.8%	6.7%	9.1%	10.6%	12.3%	14.1%
Other Primary Spending	12.2%	8.1%	8.1%	8.1%	8.1%	8.1%
Interest	1.4%	3.4%	6.5%	9.4%	13.6%	18.4%
<b>Total Spending</b>	<b>23.4%</b>	<b>23.5%</b>	<b>29.9%</b>	<b>34.2%</b>	<b>40.4%</b>	<b>47.2%</b>
<b>Revenues</b>	<b>15.8%</b>	<b>18.8%</b>	<b>20.1%</b>	<b>21.3%</b>	<b>22.7%</b>	<b>24.3%</b>
<b>Deficit</b>	<b>7.7%</b>	<b>4.8%</b>	<b>9.8%</b>	<b>13.0%</b>	<b>17.6%</b>	<b>22.9%</b>
<b>Debt</b>	<b>73%</b>	<b>85%</b>	<b>134%</b>	<b>193%</b>	<b>278%</b>	<b>377%</b>

Even though the CRFB Realistic Baseline projections may not show the same catastrophic levels of debt as in CBO's Alternative Fiscal Scenario, the projected debt levels would clearly harm the strength of the economy and raise the risk of a fiscal crisis and all the ensuing damage. Importantly, debt levels could turn out to be worse than these projections if lawmakers continue to extend expiring tax provisions and stimulus measures without paying for them, increase discretionary spending faster than the initial caps from the Budget Control Act, cancel various savings measures from the health care reform law, or if new emergencies arise.

Ultimately, lawmakers should work to replace the fiscal cliff with a smart debt reduction plan that reduces debt levels down toward those projected in CBO's Extended Baseline Scenario, but with a more gradual path and with more targeted and pro-growth policies.