The Committee for a Responsible Federal Budget

To: Interested Parties

From: Maya MacGuineas, Executive Director, the Committee for a Responsible Federal Budget, at the New America Foundation

Date: January 26, 2004

Re: Newly Released CBO Baseline

Today the Congressional Budget Office released its newest baseline estimates for revenues, expenditures, the deficit and the debt. The report can be accessed at: http://www.cbo.gov/showdoc.cfm?index=4985&sequence=0

CBO Baseline as of January 2004 ($ Billions)

	2003 A	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Revenues	1,782	1,817	2,049	2,256	2,385	2,506	2,644	2,786	3,036	3,272	3,441	3,629
Outlays	2,158	2,294	2,411	2,525	2,652	2,783	2,912	3,047	3,198	3,296	3,457	3,616
Deficit	**-375**	**-477**	**-362**	**-269**	**-267**	**-278**	**-268**	**-261**	**-162**	**-24**	**-16**	**13**
Debt	3,914	4,393	4,771	5,055	5,338	5,630	5,912	6,185	6,356	6,388	6,409	6,399

The projected FY 2004 deficit of $477 billion is $332 billion larger than what was projected in last year's January baseline. The ten-year estimates for the period from 2004 – 2013 have swung by $3.7 trillion from a projected 10-year surplus of $1.2 trillion a year ago to a 10-year deficit of $2.4 trillion today.

Though the general commitment to not spend the Social Security surpluses has been relegated to the dustbins of responsible policy making for the time being, it remains important to consider the deficit numbers *not* counting the dedicated Social Security funds.

CBO Baseline as of January 2004 ($ Billions)

	2003 A	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
On-Budget Deficit	-536	-631	-535	-464	-477	-504	-507	-511	-421	-299	-294	-277
% of GDP	5.0%	5.6%	4.4%	3.6%	3.6%	3.6%	3.4%	3.3%	2.6%	1.2%	1.8%	2.1%

The New America Foundation
1630 Connecticut Ave. N.W. 7th Floor, Washington, DC 20009
(202) 986-6599/ CRFB@Newamerica.net

Key points:

- The bulk of the changes in the CBO estimates since the last update (August 2003) come from legislative changes, primarily the Medicare prescription drug bill. Revenue changes resulted primarily from changing economic assumptions.

Changes from the August 2003 Baseline:	
Legislative	69%
Economic/Technical	31%
Revenues	80%
Spending	20%

- The 10-year deficit from 2005 – 2014 is currently projected to be $1.9 trillion
- Making the tax cuts permanent, as President Bush has requested, would increase the 2005-2014 deficit by $2.2 trillion (including interest).
- Fixing the Alternative Minimum Tax would increase the deficits by another $470 billion.[1]
- And assuming a higher rate of growth in discretionary appropriations could increase the 10-year numbers by from $1.6 trillion to $3.2 trillion.2 Alternatively, removing the $87 billion supplemental from the baseline and assuming discretionary appropriation growth of only inflation would reduce the baseline deficit by $1.1 trillion.
- In the recently released "The Long-Term Budget Outlook," the Congressional Budget Office finds that unless federal taxes reach an unprecedented level, current spending policies will not be sustainable and that the federal debt necessary to fill in the hole would have adverse effects on the entire economy. Furthermore, economic growth alone is highly unlikely to bring the nation's long-term fiscal position into balance.
- The President will release his FY 2005 budget next week. Many of the new policy initiatives he touched upon in the State of the Union would enlarge the projected deficits.

Conclusion:

Given the fiscal realities laid out in this new report, it is vital that legislators focus on putting the federal budget back on a credible path towards balance -- ideally, without relying on the funds intended for Social Security. Reinstating discretionary spending caps and pay-go rules will help. But beyond that, a commitment to reining in spending and holding off on all unpaid-for tax cuts will also be necessary. The politically unappealing reality staring at those on Capital Hill is that it will take a significant slowing of spending growth, or new revenues – or most likely both – to return the budget to balance, on-top of addressing the structural imbalances within the Social Security, Medicare and Medicaid programs. Failing to make these changes puts the security of financial markets, the economy and future generations at risk.

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[1] Ignores interaction with extending the tax cuts, which would increase the deficit by another $170 billion over ten years.

[2] The two assumptions are that discretionary appropriations would grow by the growth rate of nominal GDP, and by 6.9 percent, which is the historical average from 1999 through 2004 excluding the $87 billion supplemental, respectively.