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**CRFB's Long-Term Realistic Baseline
June 30, 2011**

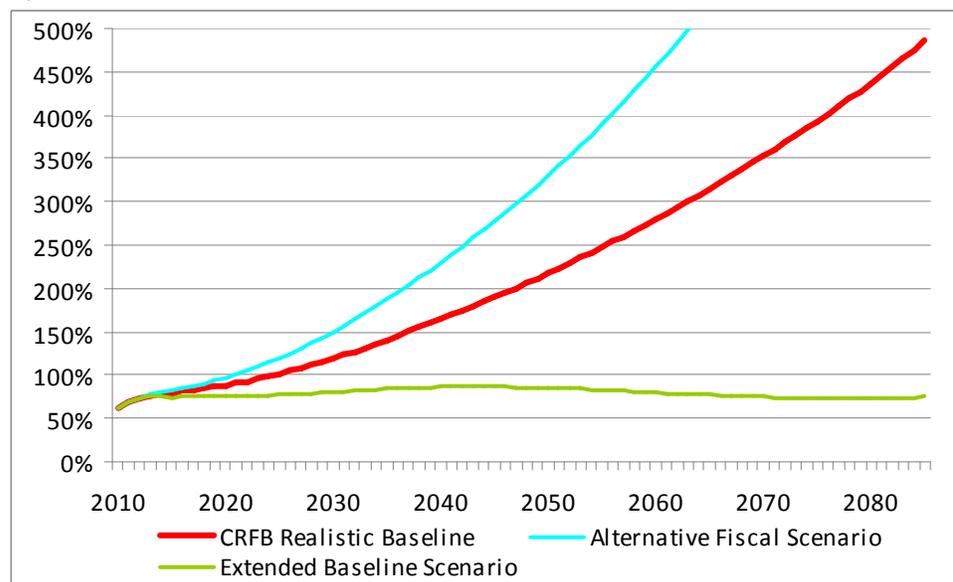
The Committee for a Responsible Federal Budget has updated its "Realistic Baseline" using projections from the Congressional Budget Office's most recent Long-Term Budget Outlook.

Under its Extended Baseline Scenario, CBO bases its projections on current law, which assumes many things that are unlikely to occur, including the expiration of all the 2001/2003/2010 tax cuts and the discontinuation of the regular policy of enacting "AMT patches" and "doc fixes."

Under its Alternative Fiscal Scenario, CBO lays out a more fiscally pessimistic path, where policymakers increase discretionary spending this decade at the rate of GDP growth, revenues stop growing as a share of GDP altogether after 2021, and the cost controls enacted under Health Care reform (PPACA) are ineffective or overridden after 2021.

CRFB's Realistic Baseline uses a set of realistic assumptions that fall between these two scenarios and is consistent with a "current policy" path. Under this baseline, debt would rise from 69 percent of GDP today to 88 percent in 2020, 140 percent in 2035, and 437 percent by 2080.

Fig 1. Debt Under the CRFB Realistic Baseline



CRFB Realistic Baseline Assumptions

There are several reasonable assumptions one could make in projecting the nation's fiscal path, and there is by no means one absolute best approach.

In our baseline, as with CBO's Alternative Fiscal Scenario, we assume that all of the 2001/2003/2010 tax cuts will be renewed, policymakers will continue to avoid the 30 percent (and rising) cut in Medicare physician payments by enacting doc fixes, and that the Alternative Minimum Tax will continue to be patched to avoid hitting middle-income taxpayers. We also follow the assumption in the Alternative Fiscal Scenario regarding the wars in Iraq and Afghanistan, assuming that the number of troops will decline to about 45,000 by 2015.

Fig 2. Assumptions under Various Scenarios

Budget Area	Extended Baseline Scenario	Alternative Fiscal Scenario	CRFB Realistic Baseline
Short-Term Assumptions (through 2021)			
Revenue	2001/2003/2010 tax cuts, AMT patches, and "tax extenders" expire as scheduled	2001/2003/2010 tax cuts, AMT patches, and "tax extenders" permanently extended	2001/2003/2010 tax cuts and AMT patches permanently extended
Discretionary	All spending (including wars) grows with inflation	Regular spending grows with GDP, troop drawdown in Iraq/Afghanistan	Regular spending grows with inflation, troop drawdown in Iraq/Afghanistan
Health Care	30% cut in physician payments as scheduled	Permanent freeze to Medicare physician payments ("doc fix")	Permanent Freeze to Medicare Physician Payments ("doc fix")
Social Security	Grows with scheduled benefits	Grows with scheduled benefits	Grows with scheduled benefits
Other Mandatory	Grows with current law	Generally grows with current law*	Generally grows with current law*
Long-Term Assumptions (after 2021)			
Revenue	Grows with current law	Fixed as share of GDP	Grows to account for real bracket creep
Discretionary	Fixed as share of GDP	Fixed as share of GDP	Fixed as share of GDP
Health Care	PPACA cost controls fully effective	PPACA cost controls ineffective or not continued	PPACA cost controls partially effective/continued
Social Security	Grows with scheduled benefits	Grows with scheduled benefits	Grows with scheduled benefits
Other Mandatory	Generally grows with GDP*	Generally grows with GDP*	Grows with GDP

*Adjustments are made to account for refundable tax credits

However, our baseline does differ with the Alternative Fiscal Scenario in a number of important ways. Among them:

- We assume regular discretionary spending grows with inflation rather than GDP over the next decade, in light of the current austere political environment.
- We do not assume the continuation of deficit financed “tax extenders.”
- We do not hold revenue constant as a share of GDP after 2021, but rather assume “real bracket creep” and other factors allow for continued revenue growth.
- We assume the cost-controls from health reform are still partially successful between 2021 and 2029.

The issue of health care merits additional discussion. Included in the health reform law (PPACA) are two major provisions that, if implemented, would substantially slow the growth path of Medicare: permanent reductions – called “productivity adjustments” – in the annual indexes used to update provider payments, and an Independent Payment Advisory Board (IPAB) required to recommend fast-track spending cuts should per-beneficiary costs grow faster than GDP plus one percent. The law also includes a provision which would substantially slow the growth rate of its exchange subsidies toward the end of the decade. These measures may prove politically or even economically unsustainable, so CBO assumes they will not continue after 2021 in its Alternative Fiscal Scenario. We can see the argument both ways, and therefore split the difference between Alternative Fiscal Scenario’s projections of health costs and those in the Extended Baseline scenario, where the cost controls continue to operate in full.

CRFB Long-Term Realistic Baseline

Under CRFB’s Realistic Baseline, deficits and debts are on an unsustainable path. Though it does not look as dire as the Alternative Fiscal Scenario, it none-the-less is severe enough that immediate action should be taken to begin to correct our fiscal path.

Under our Realistic Baseline, federal spending would grow from 24.1 percent of GDP in 2011 to 30.2 percent by 2035, and 51.5 percent by 2080. This is driven primarily by health spending, which will rise dramatically from 5.1 percent of GDP now to 6.2 percent in 2020, 8.9 percent in 2035, and 15.7 percent by 2080. In addition, Social Security spending is expected to climb from 4.8 percent today to 6.1 percent by 2035. It levels off at 6 percent before inching up to 6.4 percent of GDP by the end of the outlook.

Most importantly, though, is the disconnect between spending and revenue. Though revenue will continue to grow to well above the historical average of just over 18 percent of GDP – from 14.8 percent of GDP today and 18.5 percent in 2020 up to 20 percent by 2035 and 24.5 percent by 2080 – it will fail to keep up with spending. As a result, deficits widen, debt grows, and the resulting interest payments advance the cycle. Today,

interest payments total 1.4 percent of GDP, rising to 3.8 percent by 2020. Under our Realistic Baseline, they will continue to grow to 6.8 percent of GDP by 2035 and a whopping 21.1 percent by 2080.

Fig 3. Spending, Revenue, Deficits, and Debt under CRFB Realistic Baseline (percent of GDP)

	2011	2020	2035	2050	2065	2080
Spending	24.1%	23.8%	30.2%	36.0%	43.2%	51.5%
<i>Social Security</i>	4.8%	5.2%	6.1%	5.9%	6.1%	6.3%
<i>Federal Health Spending</i>	5.1%	6.2%	8.9%	11.2%	13.4%	15.7%
<i>Other Primary Spending</i>	12.8%	8.6%	8.4%	8.4%	8.4%	8.4%
<i>Net Interest</i>	1.4%	3.8%	6.8%	10.5%	15.2%	21.1%
Revenue	14.8%	18.5%	20.0%	21.5%	23.0%	24.5%
Deficit	9.3%	5.3%	10.2%	14.5%	20.2%	27.0%
Debt	69%	88%	140%	217%	315%	437%

Deficits would rise from 5.3 percent of GDP in 2020 to 10.2 percent in 2035 and 27 percent by 2080. Debt, meanwhile, would increase from 69 percent of GDP today to 88 percent of GDP in 2020, 140 percent in 2035, and 437 percent in 2080. Obviously, the long-term debt levels are unprecedented, and our economy would certainly not be able to sustain them. However, they highlight the magnitude of the problem we face and underscore the need for a comprehensive fiscal plan.