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\$1.2 Trillion: Deficit to Reach Previously Unimaginable Level

WASHINGTON - The Congressional Budget Office (CBO) released its new baseline projections today, showing a deficit of \$1.2 trillion in 2009, and \$700 billion in 2010.

“These numbers are absolutely staggering. We knew the deficit numbers were going to be big,” said Maya MacGuineas, President of the Committee for a Responsible Federal Budget (CRFB). “But \$1.2 *trillion*? Policymakers simply must put together a plan to assure the nation’s creditors, as well as taxpayers, that there is a plan to repay this tremendous amount of borrowing once the economy has stabilized.”

Assuming current law, the CBO forecasts that in FY 2009, revenues will total \$2.3 trillion or 16.5% of GDP, expenditures will be \$3.5 trillion or 24.9% of GDP, the deficit will be \$1.2 trillion (up from \$455 billion in 2008) or 9.4% of GDP, and the on-budget deficit will be \$1.3 trillion. These numbers include over \$400 billion in spending on the Troubled Assets Relief Program (TARP) and taking on Fannie Mae and Freddie Mac’s portfolios, but do not include the anticipated stimulus package which could cost up to \$1 trillion over two years.

The CBO warns that the aging population and continuing increases in health care costs will continue to impose a strain on the budget in the future. A substantial reduction in the growth of spending, or an increase in tax revenues, or some combination thereof will be required to reduce ever-increasing budget deficits.

President-elect Obama, recognizing both the short and long-term problems, has said the country is going to have to bring significant reform not just to our recovery and reinvestment plan, but to the overall budget process.

“The incoming president is saying all the right things,” said MacGuineas. “Any fiscally responsible plan to help the economy recover must focus not just on stimulus spending, but on implementing a longer-term budgetary reform plan as well. Policymakers cannot just come up with a plan to spend a trillion dollars and pat themselves on the back for a job well done—the real work comes in how to deal with all this debt.”