

April 29, 2005

Despite Claims By Its Supporters, Congressional Budget Plan Increases The Deficit

by James Horney

Proponents of the conference report on the Congressional budget resolution recently adopted by the House and Senate have claimed that the resolution reduces the deficit over the next five years. They have used this purported “deficit reduction” to justify the resolution’s \$35 billion in entitlement cuts over five years and \$212 billion reduction in funding for annually appropriated (discretionary) domestic programs over that same. But the claim that the budget resolution reduces the deficit is baseless. In fact, the budget resolution *increases* the deficit by \$168 billion over five years.

It is true that the deficit is expected to shrink over the next five years from the anticipated deficit level of about \$400 billion this year (including the effects of the supplemental funding for the war in Iraq and Afghanistan that Congress is currently considering). But, according to the Congressional Budget Office, the deficit would shrink faster and further if there are no changes in current policies. That is, *the deficit will be higher if the policies of the budget resolution are adopted than it will be if those policies are not adopted.*

The effect of the budget resolution on the deficit can be seen clearly by comparing the deficits that CBO projects under the assumption that current spending and tax policies remain unchanged with the deficits under the budget resolution policies, as shown in a table contained in the conference report on the budget resolution. In March, CBO projected that under current policies (which do not include the not-yet enacted supplemental appropriations for the war in Iraq and Afghanistan), the deficit will be \$365 billion this year, will drop to \$298 billion in 2006, and will then fall to \$201 billion in 2010.¹

INCREASE IN DEFICITS UNDER THE BUDGET RESOLUTION							
(By fiscal year, dollars in billions)							
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	2006 - <u>2010</u>
CBO baseline deficit	365	298	268	246	219	201	1,232
Budget resolution deficit	<u>398</u>	<u>383</u>	<u>313</u>	<u>254</u>	<u>238</u>	<u>211</u>	<u>1,400</u>
Increase in deficit	33	85	45	8	19	10	168

¹ Congressional Budget Office, *An Analysis of the President’s Budgetary Proposals for Fiscal Year 2006*, March 2005.

Under the policies of the budget resolution (and using CBO's economic and technical assumptions), the deficit will be \$398 billion this year (including the effect of the supplemental funding for Iraq and Afghanistan), will shrink to \$383 billion in 2006, and will fall to \$211 billion in 2010. *The budget resolution deficits are higher in every year than the deficits CBO projects will occur under current policies.*

- In 2006, the deficit is projected to be \$365 billion under current policies, but would be \$398 billion — or \$33 billion higher — under the budget resolution.
- Over five years, 2006 through 2010, the deficits will be \$168 billion higher under the budget resolution than CBO projects they would be without any changes in policy. Thus, it is correct to say that the budget resolution increases the deficit by \$168 billion over five years.

Claiming that the budget resolution adopted by the Congress yesterday reduces the deficit is like claiming that throwing gasoline on a fire reduces the size of the fire because the fire used to be bigger and it will eventually get smaller even with the gasoline on it. The standard for judging the effect of the gasoline on the fire and for measuring the effect of the new policies in the budget resolution should be the same: what is the size of the fire with the gasoline compared with the size of the fire if no gasoline is added; and, what is the size of the deficit with the budget resolution policies compared with the size if no new policies are adopted.

In addition, it should be noted that under the budget resolution policies, the deficit is almost certain to start growing again in 2011 and to continue growing for the indefinite future. CBO's 10-year estimate of the President's budget — upon which the Congressional plan is based — shows shrinking deficits through 2010 and growing deficits thereafter.

The table shown here lays out the effects on the deficit that the policies reflected in the budget resolution will have.

- The tax cuts proposed by the budget resolution will increase the deficit by \$106 billion over five years.
- The resolution would cut entitlement spending by \$30 billion over five years and

Effect of the Conference Budget Plan on Projected Deficits	
Cumulative deficit increases (+) or reductions (-) relative to CBO's March baseline projection over the five-year period 2006-2010, in billions of dollars	
CBO baseline deficits	1,232
Effect of budget resolution policies:	
Cost of tax cuts.	+106
Reductions in entitlement benefits.	-30
Expenditure reductions from \$212 billion reduction in funding (i.e., appropriations) for domestic discretionary programs.	-143
Expenditure increases for defense and international discretionary programs.	+199
Increased interest costs resulting from above policies.	+36
Total increase in projected deficits.	+168
Budget resolution deficits	1,400

reduce expenditures (or outlays) for annually appropriated (i.e., discretionary) domestic programs by \$143 billion over five years, compared with CBO's projection of spending if funding for those programs is maintained at the 2005 level, adjusted for inflation.

- Under the budget resolution, expenditures for defense and international discretionary programs would increase by \$199 billion, compared with spending if funding for those programs is maintained at the real 2005 level.
- Altogether, these policy changes would cause interest payments on the national debt to increase by \$36 billion.

Including the interest effects, the policy changes set forth in the budget resolution would increase the deficit by \$168 billion, compared with the deficits that CBO projects would occur without those policy changes.