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CENTER ON BUDGET AND POLICY PRIORITIES

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STATEMENT FROM ROBERT GREENSTEIN, EXECUTIVE DIRECTOR CENTER ON BUDGET AND POLICY PRIORITIES ON THE NEW ADMINISTRATION BUDGET PROJECTIONS

The change for the worse in the nation's fiscal fortunes that is reflected in the new budget estimates is unprecedented in modern American history. Two and a half years ago, the forecast was for a $5.6 trillion surplus over the ten years from 2002 – 2011. Now, the nation is likely to run *deficits* exceeding $3.5 trillion over this same period, resulting in a swing of $9 trillion from where we were at the start of 2001.[1] Interest payments on the debt themselves are likely to cost $2 trillion more over this period than they were projected to cost in the forecasts made two and one-half years ago.

The White House points to the war on terrorism as a key reason for this change. But the cost of the war, while not trivial, is responsible for only a small share of the large deficits we now face. The Administration's tax cuts have played a much larger role. Over 2003 and 2004, the cost of the tax cuts will be nearly three times as great as the *combined* cost of military operations and reconstruction in Iraq and Afghanistan, increased costs for homeland security, and rebuilding after September 11. In subsequent years, the cost of the tax cuts will surpass the costs of the war on terrorism by even larger margins.

Nor are these deficits temporary. They extend as far as the eye can see. Goldman Sachs, the Committee for Economic Development, and other independent analysts forecast deficits exceeding $500 billion a year when the baby boomers start to retire in large numbers, and then exploding as the boomer retirement wave reaches its full dimensions. We ought to be preparing for these demographic changes by running surpluses now in years when the economy has regained its health. That is the path we were on two and one-half years ago. Instead, a combination of bad luck and disastrous fiscal policies — the most reckless in recent memory — have squandered the surpluses and put us squarely on track toward a budget trainwreck in future decades.

At the center of these disastrous polices are the oversized tax cuts. The Administration's new budget figures show that federal revenue collections will fall this year to their lowest level, measured as a share of the economy, since 1959 — a time in our nation's history when the Medicare and Medicaid programs did not yet exist. And in 2004, revenues will drop to their lowest level as a share of the economy since 1950.

[1] The estimate of deficits to tallying more than $3.5 trillion over the period 2002 – 2011 is consistent with an estimate from Peter Peterson (chair of the Concord Coalition), and Goldman Sachs that deficits over the ten years from 2004 – 2013 will total between $4 trillion (Peterson's estimate) and $4.5 trillion (the Goldman Sachs' estimate). These estimates assume extension of expiring tax cuts, enactment of prescription drug legislation, and continuation of relief from the Alternative Minimum Tax scheduled to expire at the end of 2004.

This didn't have to be the case, and it isn't too late to change course and move back toward fiscal discipline and responsibility. A first test for Congress may come in the next 10 days. Before taking its summer recess, Congress may address the omission of low-income working families from the recent tax cut. Congress can do so in a responsible manner that does not add to the deficit, as the Senate has done. Or it can use this legislation as a vehicle for another swollen tax cut that adds over another $80 billion to the burgeoning deficits, as the House has done.

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