CENTER ON BUDGET AND POLICY PRIORITIES

820 First Street, NE, Suite 510, Washington, DC 20002
Tel: 202-408-1080 Fax: 202-408-1056 center@cbpp.org www.cbpp.org

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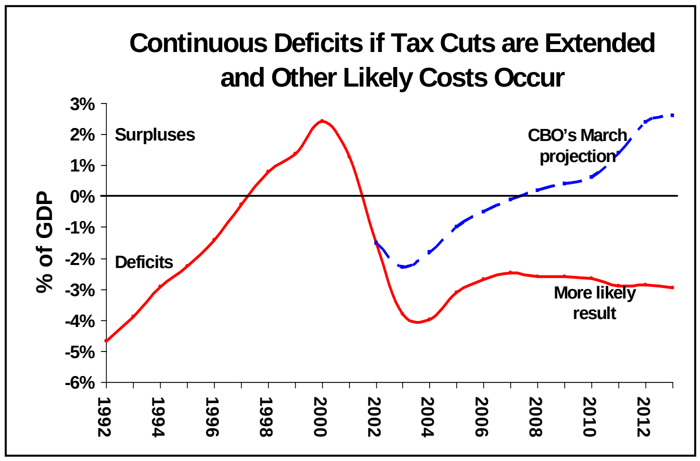
ANNUAL DEFICITS TO EXCEED $300 BILLION THROUGH THE COMING DECADE

The full report can be viewed at http://www.cbpp.org/7-2-03bud.htm

A new Center report, *$300 Billion Deficits, As Far As the Eye Can See*, estimates that under realistic projections, budget deficits will remain at or above $325 billion for each of the next ten years and total $4.1 trillion over that period. This projection is consistent with estimates by Goldman Sachs and by Peter Peterson, chair of the New York Federal Reserve and President of the Concord Coalition. Both of them, as well, project deficits of $4.0 trillion to $4.5 trillion over the next ten years.

The Center analysis, by budget expert Richard Kogan, projects that by 2013, the deficit will reach $530 billion or 3.0 percent of Gross Domestic Product, equivalent to $2,300 for each household in America. In addition, such a policy of amassing ever greater debt over the next decade will cause the cost of annual interest payments on the debt to soar to $425 billion a year by 2013, leaving the government less well prepared to cope with the fiscal pressures the baby boomers' retirement will pose.



- **The budget outlook for the next decade is grimmer than official OMB and CBO projections suggest.** Official OMB and CBO projections omit substantial costs that are likely to occur. For example, CBO's most recent projections, issued in March, do not include approximately $2.5 trillion in likely tax-cut costs over the next ten years. Most of this amount represents the cost of extending the 2001 and 2003 tax cuts. The $2.5 trillion also includes the cost of extending relief from the Alternative Minimum Tax so that the number of filers subject to the AMT does not jump from about two million today to nearly 40 million at the end of the decade; virtually all observers expect AMT relief, now slated to expire at the end of 2004, to be extended.

  The CBO projections also do not include $1.9 trillion in likely federal expenditures over the next ten years. This amount includes the cost of a Medicare prescription drug benefit as well as the costs of widely expected increases in defense and homeland security spending. (See the table on the next page for a listing of omitted or understated costs.)

- **Measured as a share of the economy, the projected deficit in 2013 will be many times the entire current size of most federal agencies.** It will be almost six times the entire annual budget of the Education Department, Veterans Department, or Transportation Department; about nine times the annual budget of the Department of Housing and Urban Development; approximately 13 times the annual budget of the

Department of Homeland Security, more than 14 times the budget of the Department of Justice; some 22 times NASA's budget; and 41 times the budget of the Environmental Protection Agency.

- **Growing interest payments on the national debt will siphon off funds needed to support retirement programs.** When the baby boom generation starts to retire in 2008, the costs of Medicare, Medicaid, and Social Security will grow faster than the economy. The gap between the cost of these programs and the revenue needed to support them will widen substantially over the following two decades. To address this funding gap, the nation will have no choice but to raise revenues substantially, cut sharply into the benefits provided by these or other programs, or both.

  The large deficits now projected over the coming decade will worsen this problem by swelling the national debt and thereby increasing the annual cost of interest payments on the debt. By 2013, the nation will be paying $425 billion each year simply to cover interest costs. These are funds that will not be available to help meet the growing costs of Medicare, Medicaid, and Social Security or to continue financing other priority programs. (In contrast, CBO projected back in January 2001 that the national debt would be completely paid off within a decade, eliminating interest payments entirely.)

The Center's report concludes that the government would be in much better position to deal with the baby boomers' retirement and the budget challenges that lie ahead if Congress and the Administration reversed course and required that both program increases and tax cuts, including the extension of tax cuts slated to expire in the years ahead, be paid for through offsetting spending reductions or revenue increases.

Likely Costs Not Included in the CBO Baseline

Ten-year totals, 2004-2013, dollars in billions; surpluses shown as negative; costs as positive

	Total, 2004-2013		**In 2013**
Projected net surplus, CBO March baseline updated (see Table 1 of report)		**-230**	**-420**
Costs not included in the baseline:	without interest	including interest	including interest
extend tax cut provisions scheduled to expire in the future	1,470	1,730	430
provide relief from the Alternative Minimum Tax	640	760	180
fund military and antiterrorism activities consistent with Administration plans	670	810	160
fund continued occupation of Iraq*	0 - 360	0 - 470	0 - 60
provide Medicare prescription drug benefit	400	490	90
budget for the average historical cost of natural disasters	80	100	10
assume domestic appropriations will stay even in real per-capita terms	190	230	50
Total, omitted costs	**3,630**	**4,350**	**950**
Resulting deficits assuming additional costs		**4,120**	**530**

* Note: In the case of the occupation of Iraq, the future situation is highly uncertain; we show costs ranging from zero to $3 billion per month for ten years. For purposes of calculating a total, we use the mid-point of the range. See discussion in full report. All costs are rounded to the nearest $10 billion, then added.