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TRILLION-DOLLAR DEFICITS GREET NEW ADMINISTRATION CBO Analyzes Current Budget Policies

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The Congressional Budget Office (CBO) has recently issued three scenarios that offer alternative views of the current budgetary situation.¹ Assuming continuation of the budget policies that were in effect in January 2009, CBO's analysis shows that the federal budget deficit would average more than \$1 trillion a year over the next ten years and climb higher in the latter years of the decade. This is the outlook for the deficit before taking into account any policies enacted or proposed since President Obama took office.

Discussions of the budget outlook typically start with the budget "baseline," which projects what would happen if current laws affecting taxes and mandatory spending were to continue without change. In some circumstances, however, current law diverges from what is widely considered to be current budget policy. The first of CBO's three scenarios makes several adjustments to the baseline that make it a more accurate representation of budgetary policy at the time the Obama Administration took office. These adjustments include:

- Extending the 2001 and 2003 tax cuts and other temporary tax provisions and indexing the alternative minimum tax (AMT) for inflation,
- Continuing spending for the wars in Iraq and Afghanistan and for anti-terrorism activities at the amounts provided in 2008,
- Assuming that non-emergency spending for 2009 is at the level specified in the congressional budget resolution (\$1.012 trillion) and increases with inflation thereafter, and
- Increasing fees paid to physicians under Medicare by 1 percent annually. (Current law would require reducing fees by 20 percent in 2010 and more thereafter, but Congress has regularly prevented such reductions from taking effect.)

¹ Congressional Budget Office, Letter to the Honorable Nancy Pelosi and the Honorable John M. Spratt, Jr., February 23, 2009.

TABLE 1

Federal Budget Deficit under Current Policies
(by fiscal year, in billions of dollars)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total 2010- 2019
Projected Deficit under January 2009 Policies	-1,218	-830	-898	-809	-899	-975	-1,045	-1,170	-1,226	-1,280	-1,434	-10,565
Effect of Stimulus Legislation *	-186	-403	-146	-58	-60	-60	-47	-38	-40	-44	-51	-948
Projected Deficit under January 2009 Policies plus Stimulus Legislation	-1,404	-1,233	-1,044	-867	-959	-1,035	-1,092	-1,208	-1,266	-1,324	-1,485	-11,513

* Includes additional debt service; excludes change in alternative minimum tax, which is included in the previous line.

Sources: Congressional Budget Office and CBPP calculations based on CBO projections.

Table 1 shows projections of the federal deficit under these assumptions. The bottom line of the table shows the deficit under CBO's first scenario, which also includes the effect of the recently enacted economic recovery legislation. The table illustrates the following points:

- At the start of 2009, the federal deficit — without any changes in policy — was on a course to total \$10.6 trillion over the 2010-2019 period and to reach \$1.4 trillion a year by 2019.
- The economic recovery legislation adds substantial amounts to the deficit in 2009, 2010, and 2011. By 2019, the legislation increases the deficit by a smaller amount — \$51 billion — all of which is attributable to the interest costs on additional federal borrowing.
- The task of reducing the budget deficit is a daunting one. If budgetary policies are not changed, the federal government will accumulate \$11.5 trillion in deficits over the next ten years, and the annual deficit will approach \$1.5 trillion at the end of the period.

CBO's recent analysis includes two additional scenarios. The second is like the first except that the number of troops in Iraq and Afghanistan is assumed to be reduced to 75,000 in 2013 and thereafter. Under this scenario, the deficit still totals \$10.2 trillion over the next ten years.

The third scenario is like the second, except that it assumes, in addition, that the 2001 and 2003 income tax cuts affecting upper-income taxpayers are allowed to expire on schedule and the estate tax is continued as it is in 2009 instead of being repealed. Even under this third scenario, the deficit is projected to exceed \$1 trillion annually by 2019 and to total \$8.7 trillion over ten years.