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

CBPP STATEMENT

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Contact:
Regan Lachapelle, 202-408-1080, lachapelle@cbpp.org

STATEMENT BY JAMES R. HORNEY, VICE PRESIDENT OF FEDERAL FISCAL POLICY, ON THE CONGRESSIONAL BUDGET OFFICE UPDATE OF ITS BUDGET AND ECONOMIC OUTLOOK

Today's Congressional Budget Office update of the nation's budget and economic outlook reinforces the point that policymakers should not let legitimate concerns about deficits and debt in coming decades prevent them from pursuing policies to boost economic growth and increase jobs in the short run. It also puts the lie to claims that the only way to reduce deficits and debt over the next decade is with big new spending cuts.

CBO points out that current policies — including caps on discretionary spending, required deficit reduction under the Budget Control Act (BCA), and the scheduled expiration of existing tax cuts — will hold back economic growth. Due to these policies and the lingering effects of the recession, financial crisis, and overbuilding in the housing market, CBO expects that economic growth will remain much slower than in a typical recovery and unemployment will fall very slowly, remaining well above 8 percent until 2014.

Proposals to cut deficits by cutting programs deeply in the next few years — beyond the deficit reduction required by the BCA — would weaken the economy further. Instead, we need to boost the economy in the short run by enacting legislation that would, for example, extend unemployment insurance benefits and the temporary cut in payroll taxes beyond their scheduled expiration at the end of this year, provide more assistance to states to temper their need to impose more layoffs and cut more spending to balance their budgets, and create programs that would put people back to work on projects such as renovating and modernizing America's schools. Such temporary policies would help boost growth and employment now without adding significantly to long-term deficits and debt.

Policymakers are right to worry about longer-term deficits and debt (although not to the point of letting the economy stagnate in the short run), but CBO's new projections show that problem in a somewhat different light than usual. Deficit "hawks" argue for bold new changes in policies — some say they should include only budget cuts — to keep deficits and debt from growing rapidly in coming years. But CBO projects that, if current laws simply remain in place, deficits and debt will come under control in this decade. Deficits would fall dramatically — from 8.5 percent of gross domestic product (GDP) this year to about 1 percent of GDP in 2017 through 2021. Debt held by the public would peak at about 73 percent of GDP at the end of 2013, but would then fall to

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61 percent in 2021. To be sure, policymakers would have to make further changes in policy to keep deficits from beginning to grow again in coming decades as the population ages and health care costs increase. Nevertheless, reducing debt below current levels (67.3 percent by the end of this fiscal year, according to CBO) by 2021 would be a huge accomplishment.

This does not mean, however, that policymakers have actually agreed on policies to generate that outcome. CBO's assumption that current laws will remain unchanged means that tax cuts scheduled to expire under current law (chiefly President Bush's 2001 and 2003 tax cuts and relief from the alternative minimum tax that Congress has routinely enacted) will not be extended, that Congress will not continue to prevent big scheduled cuts in Medicare physician reimbursements from taking effect, that discretionary appropriations in 2012 through 2021 will not exceed the limits enacted under the BCA, and that at least $1.2 trillion in additional savings envisioned by the BCA — through legislation reported by the new congressional Joint Select Committee on Deficit Reduction or automatic spending cuts ("sequestration") if the Joint Committee fails to reach its target — will be achieved. (If the other aspects of current law remain in place but the Joint Committee-sequestration savings do not materialize, debt held by the public would fall to just over 66 percent of GDP by 2021).

Many policymakers surely would find this scenario unrealistic. The question, however, is whether it is any more realistic to assume that Congress will enact new laws that would achieve comparable savings through deep cuts in Medicare, Medicaid, Social Security and other programs over the next 10 years — especially because substantial savings in Medicare should come through changes in the health care system (in the private as well as public sectors) that slow the rate of growth of per-person health care costs, not simply by shifting costs onto the elderly. CBO's projections make clear that we face real choices about how to reduce deficits and debt in future years and decades. Allowing most or all of the 2001 and 2003 tax cuts to expire on schedule would substantially reduce the necessary cuts in important programs like Medicare, Medicaid, and Social Security. And, if letting the tax cuts expire suddenly on January 1, 2013 would unduly weaken a still-struggling economy, policymakers could phase in their expiration over a few years to minimize the short-term economic impact while achieving the long-term savings.

The bottom line is this: for the long run, we must carefully consider the best way to reduce deficits and debt. In the short run, we must focus our efforts on how to get the economy growing more rapidly and put millions of Americans back to work as soon as possible.

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