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NO END IN SIGHT TO RISING DEFICITS, EXPERTS WARN
Bipartisan Group of Budget Analysts and Former Senior Officials Call for Fiscal Discipline

Washington, D.C. — A bipartisan group of prominent budget analysis organizations, former senior government officials, and business leaders warned today of a "growing mismatch between what Americans are scheduled to pay to government and what they expect government to deliver in return." The group released a new analysis of the expanding federal budget deficit, projecting $5 trillion in total deficits over the coming decade. The group also released a joint statement calling on Congress and the President to develop "a realistic plan for putting the nation's fiscal house in order."

Issuing the statement were the Committee for Economic Development, an organization of business leaders and educators; the Concord Coalition, a bipartisan organization dedicated to sustainable fiscal policy; and the Center on Budget and Policy Priorities, a policy research organization that focuses on fiscal issues and issues affecting low- and moderate-income families. Joining them in releasing the statement were prominent board members of the three organizations, including Robert Rubin, Warren Rudman, Peter Peterson, Robert Reischauer, and William Lewis.

"Many in Washington now argue that escalating deficits do not really matter, that they are self-correcting, that they are unrelated to interest rates or future economic well-being, and that tax cuts will pay for themselves later by spurring economic growth," the statement noted, adding, "It would be wonderful if this were true. It is not." With just a few years remaining before the baby boomers' retirement, the government is on course to squander its final opportunity to prepare for that event by reducing the national debt.

Coming Decade "the Most Fiscally Irresponsible in Our Nation's History"

The three organizations project that combined deficits over the next decade (2004-2013) will total $5 trillion if the nation stays on its current path regarding tax and spending policies.

These projections start with the official Congressional Budget Office projections regarding revenues, expenditures, deficits, and economic growth over the coming decade, but make adjustments to reflect the continuation of current policies. Specifically, they assume that expiring tax cuts will be extended and relief from the Alternative Minimum Tax continued, that a prescription drug benefit costing $400 billion over ten years will become law, that the Administration's future-year defense plan will be fully funded, and that domestic appropriated programs will keep pace with inflation and population growth.

Unless the federal government changes course, this coming decade will be "the most fiscally irresponsible in our nation's history," the organizations stated. The only other period in which the federal government has run deficits of this size (except during times of global depression or full-scale war) was the 1980s and early 1990s, a time when the retirement of the baby-boom generation was still a generation away. Today, with the first baby boomers due to start collecting Social Security in five years, it is just around the corner.

The annual deficit, rather than being cut in half in five years as is suggested by estimates that do not fully reflect the costs of continuing current policies, will grow over the ten-year period under the projections, reaching $610 billion in 2013.

The magnitude of the projected deficits can be seen in the fact that even with a full economic recovery and a decade of economic growth, balancing the budget by 2013 would entail such radical steps as:

- raising individual and corporate income taxes by 27 percent; or
- eliminating Medicare entirely; or
- cutting Social Security benefits by 60 percent; or
- shutting down three-fourths of the Defense Department; or
- cutting all expenditures other than Social Security, Medicare, defense, homeland security, and interest payments on the debt by 40 percent.

$9 Trillion Deterioration in the Budget Outlook in Just 32 Months

The emergence of massive projected deficits has happened in a startlingly short time. In January 2001, the Congressional Budget Office projected that the government would amass trillions of dollars in surpluses over the decade from 2002 to 2011. The organizations project that the budget outlook for this same 2002-2011 period is now $9 trillion worse than it was in January 2001.

More than a third of this $9 trillion decline can be attributed to tax cuts, with this share rising over time. Nearly one-third is attributable to new expenditures, most of which are for defense and homeland security. Changed assumptions about the economy and the amount of revenue generated for a given level of economic activity account for the remaining third.

Even Worse Problems Later, When Baby Boomers Retire

Even larger deficits are forecast for the decades after 2013 as the retirement of the baby-boom generation causes large increases in the cost of retirement programs such as Social Security and Medicare. If current tax and spending policies are continued, deficits will jump from an already high level of 3.4 percent of the nation's Gross Domestic Product in 2013 to 7.8 percent of GDP in 2023, according to the organizations' projections.

Unless brought under control, deficits will lead to slower economic growth by crowding out productive investment. They also will raise the cost of interest payments on the national debt. Annual interest payments will reach $470 billion in 2013 and much more in later years.

Large Deficits Will Not Disappear on Their Own

So large are the projected deficits, the organizations warned, that the economy cannot possibly "grow out of them," a message supported by reports from institutions such as the General Accounting Office and the Congressional Budget Office. The projected deficits are structural rather than cyclical — in other words, they reflect a fundamental mismatch between revenues and expenditures rather than the temporary (and self-correcting) effects of an economic downturn.

If the tax cuts are extended, federal revenues in the coming decade will be lower, as a share of the economy, than their average level in any of the last three decades. And while federal expenditures are not at historically high levels today as a share of the economy, they will be once the baby-boom generation retires in large numbers. The resulting imbalances will be very large.

Neither party is yet willing to make the difficult choices necessary to correct these imbalances, the organizations said. The Administration fails to acknowledge the relationship between its fiscal choices and the nation's long-term future, while Democratic alternatives tend to ignore the fact that existing commitments for retirement, health, and security exceed the revenues available to pay for them.

"In the end, our children will have to face higher taxes, reduced public services, or both," the organizations warned. "But if we wait until the crisis is upon us, the solutions will be more draconian."

As a first step, the organizations said, Congress and the President should "act immediately to stop digging the hole deeper." They also called on policymakers to develop a long-term plan to restore fiscal discipline, including a return to the "pay-as-you-go" budget rules that proved effective during the 1990s.

Joining in presenting the joint statement were:

- Robert E. Rubin, treasury secretary under President Clinton and now a director and chairman of the Executive Committee of Citigroup, Inc.,
- Warren B. Rudman, former Republican senator from New Hampshire and founding co-chairman of the Concord Coalition,
- Peter G. Peterson, secretary of commerce under President Nixon and current president of the Concord Coalition,
- Robert D. Reischauer, former director of the Congressional Budget Office and current president of the Urban Institute, and
- William W. Lewis, trustee of the Committee for Economic Development and director emeritus of the McKinsey Global Institute.

A transcript of the policy briefing will be posted at the groups' web sites. The joint statement, along with a detailed analysis are currently available at the web sites: www.cbpp.org, www.concordcoalition.org, www.ced.org.