



COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

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A FIRST LOOK AT THE PRESIDENT'S FY 2009 BUDGET

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The White House released the budget for FY 2009 today. The budget assumes revenues of \$2.7 trillion, expenditures of \$3.1 trillion, and a deficit of \$407 billion in 2009. Our initial impressions of the budget are:

Large deficits are back:

- At this time last year, the White House was projecting a deficit of \$239 billion for FY 2008—now it is estimating a deficit of \$410 billion. The decline in the projection is due to a deteriorating economy and the large costs of the likely fiscal stimulus package.
- Similarly, there is a large increase in the FY 2009 deficit due to ongoing stimulus costs, a new tax break for health insurance, patching the Alternative Minimum Tax, and various spending increases.
- Under this year's budget, the debt held by the public is expected to reach \$6.1 trillion in 2012, whereas last year's budget assumed \$5.7 trillion.

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
RECEIPTS						
This Year's Budget	2,568	2,521	2,700	2,931	3,076	3,270
Last Year's Budget	2,540	2,662	2,798	2,955	3,104	3,307
OUTLAYS						
This Year's Budget	2,730	2,931	3,107	3,091	3,171	3,222
Last Year's Budget	2,784	2,902	2,985	3,049	3,157	3,246
DEFICIT						
This Year's Budget	-162	-410	-407	-160	-95	48
Last Year's Budget	-244	-239	-187	-94	-54	61
DEBT HELD BY THE PUBLIC						
This Year's Budget	5,035	5,429	5,856	6,031	6,140	6,110
Last Year's Budget	5,083	5,345	5,554	5,671	5,748	5,711

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A lot of spending cuts, and a lot of tax cuts:

- **\$18 billion** in savings from terminating or substantially reducing 151 domestic discretionary programs.
- Savings of almost **\$200 billion** over five years in Medicare and Medicaid, mainly from freezing payments for hospitals and other healthcare providers. These changes are combined with an automatic provider payment reduction that is triggered when general revenue covers more than 45% of Medicare’s costs, and together save \$10 trillion over 75 years.
- Total mandatory reductions of **\$178 billion** over five years. However, over ten years, mandatory spending *grows* by **\$32 billion**, primarily due to the introduction of personal saving accounts as part of Social Security, which would be phased in late in the budget window—which masks the costs in the short run. The accounts would cost **\$647 billion** in the second five years of the ten year window.
- Tax cuts would also lead to a revenue loss of **\$863 billion** over five years and **\$2.3 trillion** over 10 years. The bulk of these costs are the result of making the 2001 and 2003 tax cuts permanent.

The goal of reaching balance by 2012 is unrealistic due to a number of omissions:

- The budget omits an Alternative Minimum Tax patch for any years beyond 2009. According to CBO, continuing the current policy of indexing the AMT exemption amount would reduce revenues by \$730 billion over the next ten years.
- The budget also omits much of the necessary funding for the wars in Iraq and Afghanistan by assuming supplemental bills will only cost \$70 billion in 2009, compared to the actual cost of \$170 billion last year and the expected cost of \$200 billion this year. The budget assumes no costs for operations in Iraq and Afghanistan in the out years of the budget.
- The budget holds the nominal rate of growth for non-security discretionary spending to less than one percent, which would mean annual reductions in real terms.

The President’s economic assumptions differ from CBO’s:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Real GDP Growth (CBO)	1.7%	2.8%	3.5%	3.4%	2.9%
Real GDP Growth (OMB)	2.7%	3.0%	3.0%	2.9%	2.8%
CPI Growth (CBO)	2.9%	2.3%	2.2%	2.2%	2.2%
CPI Growth (OMB)	2.7%	2.1%	2.3%	2.3%	2.3%
Unemployment Rates (CBO)	5.1%	5.4%	5.1%	4.8%	4.8%
Unemployment Rates (OMB)	4.9%	4.9%	4.8%	4.8%	4.8%

Frankly, this budget is unlikely to have much of an impact on this year's budget process—Congress will set the agenda. Overall, that is probably just as well, given that this budget contains many initiatives that would worsen the already bleak budget situation.

However, it is a shame that the Medicare and Medicaid proposals are unlikely to generate serious discussion, as they should. Spiraling health care costs pose the single greatest threat to the country's fiscal state and this budget contains proposals that would close one-third of the fiscal gap in Medicare. Ideally, these bold proposals would lead to other ideas for how to curb the programs' unsustainable costs and a national discussion of the tradeoffs involved. Unfortunately, when so much of the rest of the budget can easily be dismissed as incomplete and fiscally shortsighted (and of course, it is an election year), this is unlikely to happen.

Finally, the combination of large deficits and the economic slowdown are a reminder of why it is important to run surpluses during periods of economic growth—so that the government has the fiscal flexibility to weather the inevitable economic downturns.