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CRFB Projects a One Trillion Dollar Deficit

WASHINGTON, D.C. – The fiscal year 2009 deficit could reach over one trillion dollars, according to an analysis by the Committee for a Responsible Federal Budget (CRFB). This deficit would be more than twice as large as the 2008 deficit of \$455 billion and would represent a post-war record both in nominal terms and as a share of GDP.

“These numbers are simply astonishing,” said Maya MacGuineas, president of CRFB. “Of course we can’t try to balance the budget right now when the economy is in such turmoil, but when the deficit has that many zeros, you have to ask yourself how we let things get so bad. If a trillion dollar deficit isn’t a wake-up call for the need for fiscal responsibility, I don’t know what is.”

The Committee for a Responsible Federal Budget’s analysis begins with the Congressional Budget Office’s (CBO) baseline estimate of a \$438 billion deficit. It adds \$160 billion for costs for since-passed legislation, including an AMT patch, business and clean energy tax breaks, disaster relief, additional discretionary spending, and emergency loans. We assume \$62 billion in lower revenues and higher costs from slower economic growth and \$150 billion in on-budget bailout costs. We also assume the passage of a \$200 billion stimulus package.

Deficit Projection for Fiscal Year 2009

Budget Component	FY2009
CBO September Baseline	\$438 billion
Enacted Legislation	\$160 billion
<i>AMT Patch</i>	\$79 billion
<i>Tax Breaks</i>	\$30 billion
<i>Disaster Relief</i>	\$23 billion
<i>Additional Discretionary Spending</i>	\$20 billion
<i>Loans to Auto-Manufacturers</i>	\$8 billion
Fiscal Cost of Recession	\$62 billion
Federal Bailouts*	\$150 billion
New Stimulus Legislation	\$200 billion
TOTAL PROJECTED FY2009 DEFICIT	\$1.01 TRILLION

* Estimate includes costs associated with TARP, Fannie Mae, Freddie Mac, and other obligations.

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Leon Panetta, CRFB co-chair and former Chief of Staff to President Clinton, suggested that these deficit numbers will have real implications for the next President. “Senator Obama is being handed an immense challenge which could impact many of his campaign promises,” warned Panetta. “Recall that President Clinton had to drop his plans for middle-class tax cuts in his first year due to fiscal concerns – and he faced deficits of well under \$300 billion.”

The actual FY 2009 deficit could differ significantly from CRFB’s trillion dollar estimate depending on how CBO budgets for the \$700 billion Troubled Asset Relief Program (TARP), which could recoup much of its costs over time. CRFB assumes that the program will be accounted for primarily based on the expected net cost to the government (similar to the Federal Credit Reform Act standards), as the Congressional Budget Office has suggested it would likely do; however, the Treasury Department is considering accounting the first \$250 billion – spent on the purchasing of bank equities – on a cash basis.

The costs of the foundering economy may also differ. CRFB assumes the cyclical effects on revenue and spending in 2009 will be similar to those of past recessions, while CBO (in September) predicted they would not be as severe, and some analysts are predicting they will be considerably worse. Furthermore, the actual price of stimulus legislation is far from certain. House Democrats have been discussing a \$150 billion stimulus package with \$60 to \$100 billion passed immediately, while President-elect Obama has suggested a \$190 billion plan—though those costs could be spread over more than a single year. There is also serious discussion about plans reaching \$300 billion or more. Without comments on whether it is warranted, we believe the momentum is moving in the direction of a larger package.

Total borrowing will be much greater than the estimated one trillion dollars in light of various bailouts which require new capital but are not budgeted for on a cash basis.

“Borrowing this much money may be unavoidable given current economic conditions,” said former Congressman Bill Frenzel, co-chair of CRFB. “The government’s top priority over the next year must be to stabilize the financial markets and the economy. But we can’t just borrow a trillion dollars and call it a day. We must tie any stimulus plan to a credible plan to put the budget on the path to recovery, so that we aren’t laying the foundation for the next economic crisis stemming from excessive government debt.”