



To: Interested Parties
 From: Maya MacGuineas, Executive Director, the Committee for a Responsible Federal Budget, at the New America Foundation
 Date: January 26, 2004
 Re: Newly Released CBO Baseline

Today the Congressional Budget Office released its newest baseline estimates for revenues, expenditures, the deficit and the debt. The report can be accessed at: [where?](#)

CBO Baseline as of January 2004 (\$ Billions)												
	<u>2003 A</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Revenues	1,782	1,817	2,049	2,256	2,385	2,506	2,644	2,786	3,036	3,272	3,441	3,629
Outlays	2,158	2,294	2,411	2,525	2,652	2,783	2,912	3,047	3,198	3,296	3,457	3,616
Deficit	-375	-477	-362	-269	-267	-278	-268	-261	-162	-24	-16	13
Debt	3,914	4,393	4,771	5,055	5,338	5,630	5,912	6,185	6,356	6,388	6,409	6,399

The projected FY 2004 deficit of \$477 billion is \$332 billion larger than was projected one year ago. The ten-year estimates for the period from 2004 – 2013 has increased by \$3.7 trillion from a projected 10-year surplus of \$1.2 trillion to a 10-year deficit of \$2.4 trillion.

Though the general commitment to not spend the Social Security surpluses has been relegated to the dust pins of responsible policy making for the time being, it remains important to consider the deficit's numbers *not* counting the dedicated Social Security funds.

CBO Baseline as of January 2004 (\$ Billions)												
	<u>2003 A</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
On-Budget Deficit	-536	-631	-535	-464	-477	-504	-507	-511	-421	-299	-294	-277
% of GDP	5.0%	5.6%	4.4%	3.6%	3.6%	3.6%	3.4%	3.3%	2.6%	1.2%	1.8%	2.1%

The New America Foundation
 1630 Connecticut Ave. N.W. 7th Floor, Washington, DC 20009
 (202) 986-6599/ CRFB@Newamerica.net

Key points:

The bulk of the changes in the estimates since the last update (August 2003) come from legislative changes, primarily the Medicare prescription drug bill.

Changes since August 2003 Baseline:	
Legislative	69%
Economic/Technical	31%
Revenues	80%
Spending	20%

Making the tax cuts permanent, as President Bush has requested, would increase the 2005-2014 deficit by \$2.2 trillion (including interest).

Fixing the Alternative Minimum Tax would increase the deficits by another \$470 billion.

And assuming a higher rate of growth in discretionary appropriations could increase the 10-year numbers ~~by~~ from \$1.6 trillion to \$3.2 trillion.¹ Alternatively, removing the \$87 billion supplemental from the baseline and assuming discretionary appropriation growth of only inflation would reduce the baseline deficit by \$1.1 trillion.

In its recently released, “The Long-Term Budget Outlook” Report, the Congressional Budget Office finds that unless federal taxes reach an unprecedented level, current spending policies will not be sustainable and that the federal debt necessary to fill in the hole, would have adverse effects on the entire economy. Furthermore, economic growth alone is unlikely to bring the nation's long-term fiscal position into balance.

Conclusion:

The President will release his FY 2005 budget next week and many of the new policy initiatives he laid out in the State of the Union would enlarge the projected deficits. Given the fiscal realities laid out in this new report, it is vital that legislators focus on putting the budget back on a credible path towards balance. (Ideally, without relying on the funds intended for Social Security.) Reinstating discretionary spending caps and pay-go rules will help. But beyond that, a commitment to reining in spending and holding off on all unpaid for tax cuts will also be necessary. The reality that many on Capital Hill are trying to ignore is that in all likelihood, it will take a significant slowing of spending ~~growth~~, or new revenues – or most likely both – to return the budget to structure balance, on-top of addressing the structure imbalances within the Social Security, Medicare and Medicaid programs. Failing to make these changes puts the security of financial markets, the economy and future generations at risk.

¹ Assumptions are that discretionary appropriations would grow by the growth rate of nominal GDP after 2004 and by 6.9 percent, which is the historical average from 1999 through 2004 excluding the \$87 billion supplemental, a year after 2004, respectively.