



U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON THE BUDGET

B-71 Cannon House Office Building, Washington, DC 20515 (202) 226-7200 ★ democrats.budget.house.gov

Chris Van Hollen,
Ranking Democrat

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CBO Forecast Confirms Economy Slowly on the Rebound But Deficits Continue

On January 31, the Congressional Budget Office (CBO) released its annual *Budget and Economic Outlook*, a report showing that our economy is gradually recovering from the worst recession since the Great Depression. However, the facts highlight the need to help American families in the short term as well as tackle the deep budget deficits in the long-term. Both actions are necessary to put our nation on a path to fiscal sustainability.

CBO's estimates reflect recent actions that have improved the ten-year budget outlook, including enactment of the Budget Control Act and 2012 appropriations. However, other future likely actions will make the deficit worse than CBO's projections, which are required to be based on the assumption that current law remains unchanged.

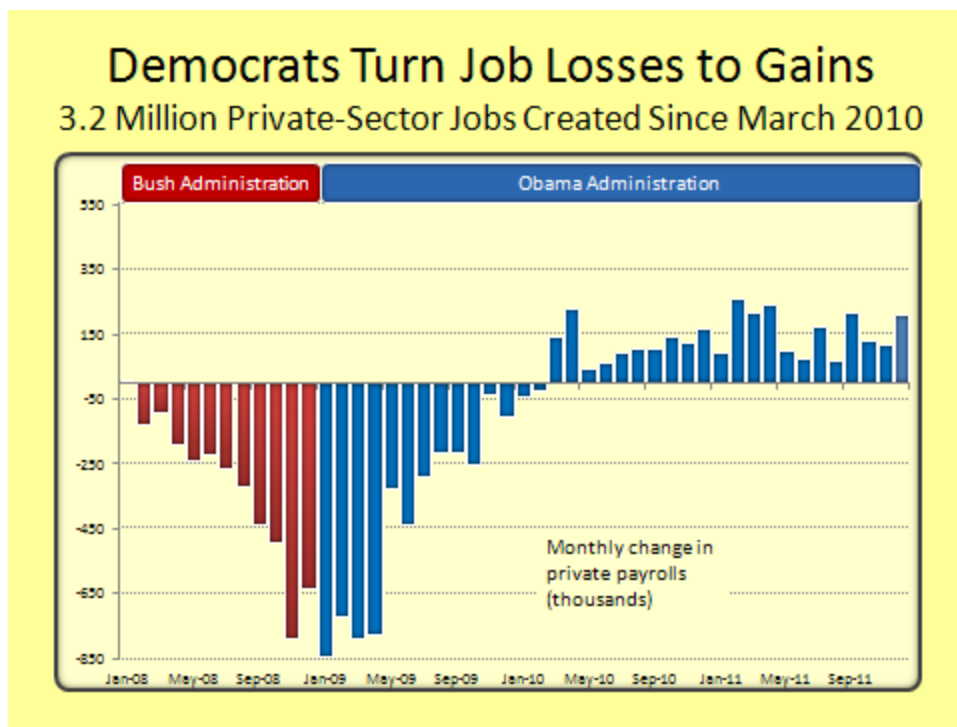
Summary – The 2011 deficit was \$1.3 trillion. CBO projects a deficit of \$1.1 trillion in 2012, which is slightly worse than was forecast in August, and a deficit of \$585 billion in 2013, an improvement that is in part due to the scheduled expiration of the Bush tax cuts. The deficit over five years (2013-2017) totals \$1.7 trillion and over ten years (2013-2022) totals \$3.1 trillion.

CBO Baseline Deficits		
<u>2011</u>	<u>2012</u>	<u>2013</u>
\$1.296 trillion	\$1.079 trillion	\$585 billion

The Economy Continues to Slowly Strengthen – The economy has now grown for ten straight quarters. CBO projects that the economy will continue to modestly rebound, growing at an inflation-adjusted rate of 2.1 percent in 2012 before falling off to 1.2 percent in 2013 based on upcoming changes under current law. These changes include the expiration of the 2001-03 tax cuts and the payroll tax holiday, the beginning of new taxes under health care reform, and the sequester of spending scheduled to begin in 2013 under the Budget Control Act. After 2013, the economy averages real growth of 3.1 percent over the 2014-2022 period. However, at this rate of growth, it will take a number of years for unemployment to return to pre-crisis levels.

The Economy is Creating Jobs Again but Unemployment Remains Too High – The private sector has added jobs every month – adding 3.2 million jobs in total – since March 2010, although jobs are still too hard to find for many Americans. The unemployment rate declined to 8.5 percent in

December 2011 from 9.4 percent at the close of 2010. In November CBO estimated that the Recovery Act lowered the unemployment rate by between 0.2 and 1.4 percentage points in calendar year 2011 relative to what it would have been had Congress not taken action. CBO’s baseline report forecasts that the unemployment rate will remain high in the near-term and not return to pre-recession rates until 2018 or later.



Recent Actions Have Improved the Deficit – CBO estimated that, at the time of enactment, the Budget Control Act saved \$2.1 trillion over ten years. The new CBO baseline reflects both the initial discretionary caps as well as the additional discretionary reductions that will start in January 2013. If discretionary appropriations instead grew with inflation, the deficit would be \$1.6 trillion worse over the ten-year period.

Long-Term Fiscal Challenges – CBO’s baseline is not designed to be a predictor of future deficits because it does not take into account future actions that will change revenue and spending. The baseline deficits appear more manageable because they assume that the 2001-03 tax cuts and other elements of current policy will expire; deficits in 2014 fall to 2.1 percent of gross domestic product (GDP), continue falling to 0.9 percent of GDP in 2018, then rise again.

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
CBO Baseline Deficit											
In Billions	1,079	585	345	269	302	220	196	258	280	279	339
% of GDP	7.0	3.7	2.1	1.5	1.6	1.1	0.9	1.2	1.2	1.2	1.4

More Realistic Budget Forecast is Severe – CBO also provides the budgetary effects of several possible scenarios, often described as continuing current policy rather than current law. In its “Alternative Fiscal Scenario,” CBO assumes that all expiring tax provisions (other than the

Ten-Year Cost of Current Tax Policies in Billions of Dollars	
CBO Baseline Deficit	3,072
Extend Bush Tax Cuts & Index AMT	4,564
Extend Other Tax Policies	839
Related Debt Service	963
SUBTOTAL	6,366
Total Deficits with Tax Policies	9,438

payroll tax reduction) are extended, that the Alternative Minimum Tax (AMT) is indexed for inflation after 2011, that Medicare payment rates for doctors are held constant at current levels, and that sequestration and further reductions of discretionary caps required under the Budget Control Act do not take effect. Under these assumptions, deficits are much worse than under the CBO baseline:

deficits total \$11 trillion over ten years and never fall below 4.9 percent of GDP. The tax policies alone in the alternative fiscal scenario will triple the deficit over ten years.

Incorporating the Budget Control Act – In August, CBO’s baseline showed a plug for savings resulting from Joint Committee action, as it was unclear if the savings would come from revenues, outlays, or sequestration. For the January baseline CBO incorporated the expected outlay reductions from the initial Budget Control Act caps as well as sequestration, showing reductions in defense, non-defense discretionary, and mandatory spending.

Discretionary Spending – The discretionary spending levels in CBO’s baseline are consistent with the caps and sequester amounts specified in the Budget Control Act. Over ten years (2013-2022) the budget authority levels are \$1.5 trillion (11 percent) below CBO’s traditional “uncapped baseline” that assumes discretionary levels grow with inflation. The defense cut is slightly higher in percentage terms than the non-defense cut.

Budget Authority in billions, 2013-2022			
	Defense	Non-Def	Total
Uncapped baseline	7,561	6,010	13,571
Reduction to meet caps	-848	-645	-1,494
Percent cut	11.2	10.7	11.0

For 2013 and beyond, capped discretionary budget authority is set at the post-sequestration levels. In 2013, this level is a reduction of \$128 billion from the uncapped baseline. Note, however, that the Budget Control Act procedure assumes that the 2013 appropriation bills will be enacted at the original cap level and that a sequester enacted later will bring the levels down. The original caps are \$30 billion below the level of CBO’s traditional uncapped baseline level. They represent an increase of \$4 billion relative to the 2012 level as scored at the time of enactment. (See table on the following page.)

REAL CUTS REQUIRED IN 2013 DISCRETIONARY BA LEVELS			
(in billions of dollars)	Defense	Non-Defense	Total
Universe for initial caps:			
Fully inflated level	562.8	514.5	1,077.3
Reduction to meet initial BCA cap	<u>-16.8</u>	<u>-13.5</u>	<u>-30.3</u>
BCA cap	546.0	501.0	1,047.0
Sequestration reduction	<u>-54.6</u>	<u>-42.8</u>	<u>-97.5</u>
Baseline level	491.4	458.2	949.5
Change to fully inflated level	-71.4	-56.4	-127.8
Memorandum:			
War funding	117.3	11.4	128.7
Disaster funding	---	10.6	10.6
Program integrity	---	0.5	0.5