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New CBO Report Shows Bleak Fiscal Forecast

A new report from the Congressional Budget Office paints a bleak picture of the nation's fiscal health. The CBO's biennial *Long-Term Budget Outlook* report, released on December 15, shows that under any realistic forecast of federal spending and tax collection trends, the nation faces budget deficits—and growing federal debt—as far as the eye can see.

The CBO report looks at six different scenarios for long-term trends in federal spending and revenues, which include two different tax scenarios and three different spending scenarios. The scenarios broadly reflect the possible outcomes from the as-yet-unmade choices facing Congress: whether to make the Bush tax cuts permanent, whether to continue higher defense spending on the war on terrorism, and whether to contain recent rapid growth in health care spending.

- Under the **"low tax" scenario**, the Bush tax cuts are made permanent and in the long run, federal taxes remain a constant 18.3 percent of Gross Domestic Product (GDP). Keeping federal taxes at this level through 2050 would require additional tax cuts beyond that already enacted by Congress and the Bush administration.
- Under the **"high tax" scenario**, the Bush tax cuts are allowed to expire after 2010 and federal revenues grow gradually as a share of the economy, reaching 23.7 percent of GDP by 2050. In this scenario, the Alternative Minimum Tax (AMT) would remain unchanged, so that millions more taxpayers would be subject to the AMT than currently pay it.
- On the spending side, the most optimistic **"low spending" scenario** assumes that health care spending is dramatically constrained so that spending does not grow faster than per-capita GDP—a scenario that is completely at odds with current forecasts. This scenario also assumes that other areas of mandatory spending will decline slightly as a share of economy, and that non-defense discretionary spending will remain at its current levels, growing only at the same rate as inflation.
- The **"intermediate spending" scenario** allows for some excess growth in health care spending and assumes that defense spending will remain at its historic level.
- The **"high-spending" scenario** assumes that health care costs will continue to grow as they have in the past, that defense spending increases to reflect Bush Administration proposals and the long-term cost of the war on terrorism, and that all other areas of non-defense discretionary spending remain flat as a share of GDP.

These two tax scenarios and three spending scenarios yield six possible combinations of spending and tax policy. The main finding of the CBO report is that of these six combinations, the only sustainable options are those that are politically infeasible:

- Under the "low tax" scenario, which broadly reflects the policy goals of the Bush administration and the current Congressional leadership, only the low-spending scenario will stabilize federal budget deficits in the long run. Under this low-tax, low-spending scenario, budget deficits persist through 2050, but remain a small share of GDP over this period. But enacting the cuts necessary to achieve the "low-spending" goal would require a stark reversal of current budget policies.
- Extending the Bush tax cuts would lead to enormous budget deficits and growing debt over the long run under either of the more realistic "intermediate" or "high" spending scenarios.
- Even if the Bush tax cuts are allowed to expire and no AMT reforms are enacted (the CBO's "high-tax" scenario), the federal budget would continue to see growing long-term deficits unless spending is curtailed dramatically under the "low spending" scenario.
- This "current law" tax scenario could actually yield a long-run budget surplus under the "low spending" scenario—but neither the tax nor the spending part of this option seem at all likely to be enacted.

"The CBO report makes it clear that the fiscal path charted by the Republican leadership is simply unsustainable in the long run," said CTJ director Robert S. McIntyre. "The fact that the only option for long-term fiscal balance described in the CBO report would require both tax hikes and spending cuts far beyond anything proposed by the current leadership is a testament to the irresponsible path on which our budget has been led for the past five years."

The report firmly rejects the notion that our ongoing budget deficits can be reduced through economic growth due to current and future tax cuts. In a December 15 speech announcing the report's release, CBO Director Douglas Holtz-Eakin asserted that it's "not possible" that tax-cut-induced economic stimulus could "grow your way out of this problem."

"The CBO's new forecasts are hardly surprising, since they show a continuation of the same irresponsible deficit-financing trend we've seen throughout this decade," said McIntyre. "It would be a welcome surprise, however, if our leaders were to take heed of the CBO's dire forecast and enact a responsible deficit-reduction package that puts our nation on a firmer fiscal footing."

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