



Budget Digest - Week of September 12, 2016

Growing Risks to the Budget and the Economy

Deficits on the Rise Again and a Worsening Debt Outlook – Following a brief respite, Federal budget deficits are now rising again, according to the August baseline issued by the Congressional Budget Office [CBO]. The fiscal year 2016 deficit, now projected to be \$590 billion, is \$152 billion larger than last year due to \$178 billion in higher spending, but only \$26 billion in higher revenues. The red ink continues in subsequent years and will likely exceed trillion-dollar annual levels in less than a decade. The gap will occur even as tax revenue grows beyond its historical average, because Federal spending will grow even faster, reaching 23 percent of gross domestic product by 2026. Chronic deficits also will continue to push up the government’s publicly held debt. This debt, which is already more than three-fourths the size of the U.S. economy, is projected to reach 86 percent of gross domestic product [GDP] by 2026 – unprecedented since the end of World War II and twice the long-term average – and 141 percent of GDP by 2046.

The Need for Pro-Growth Policies

CBO now expects the economy to grow by an average of just 2.0 percent over the next 10 years, compared to a forecast of 3.0 percent in January 2012. If the US economy could return to its historical 3.0-percent annual growth rate, instead of 2.0 percent over the next 10-year budget window, deficits could be reduced by as much as \$3.3 trillion over that period, assuming other economic variables remain unchanged.

Next Steps for Congress

The Budget Committee will hold a hearing at 10 a.m. on September 14 to hear the views of outside experts about the troubling outlook for the budget and the economy, and what can be done to improve the Nation’s fiscal health.

