



207 Cannon House Office Building
Washington, DC 20515
Representative Paul D. Ryan, *Chairman*

MAJORITY CAUCUS

THE COMMITTEE ON THE BUDGET

Phone: (202) 226-7270
budget.house.gov
Augustine T. Smythe, *Staff Director*

CONGRESSIONAL BUDGET OFFICE ESTIMATES
DEFICIT PROJECTION NEARS \$1.5 TRILLION FOR FISCAL YEAR 2011

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In the wake of a Democratic Congress’s failure to produce a budget last year, the 112th Congress continues to face deficits approaching \$1.5 trillion this year and exceeding \$1 trillion next year, according to estimates released today by the Congressional Budget Office [CBO]. Beyond the near term, CBO’s projections continue to show an unsustainable path of Federal spending, the debt effects of which are masked by unrealistic revenue projections.

The figures appear in CBO’s *The Budget and Economic Outlook: Fiscal Years 2011-2021*. Key points from the report are the following:

- **Deficits.** Budget deficits are projected to be \$1.48 trillion for fiscal year 2011 (the current year), or 9.8 percent of gross domestic product [GDP]. The deficit is \$186 billion higher than that of 2010, entirely due to a \$252-billion increase in spending: even with the 2-year extension of existing tax rates and other provisions enacted in December, tax revenue *increases* by \$66 billion from 2010 to 2011.

The deficit for 2012 is projected at \$1.1 trillion, or 7 percent of GDP. CBO projects shrinking deficits beyond that point, but these estimates are based on the assumption of huge tax increases starting in 2013 (see below).

Table 1: CBO ‘Current-Law’ Projections of Spending, Revenues, and Deficits, 2011-21

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-21
In Billions of Dollars												
Receipts ^a	2,228	2,555	3,090	3,442	3,651	3,832	4,075	4,275	4,489	4,712	4,963	39,084 ^b
Outlays	3,708	3,655	3,794	3,975	4,202	4,491	4,691	4,885	5,185	5,451	5,726	46,055 ^b
Deficits	-1,480	-1,100	-704	-533	-551	-659	-617	-610	-696	-739	-763	-6,971
Debt Held by the Public	10,430	11,598	12,386	12,996	13,625	14,358	15,064	15,767	16,557	17,392	18,253	n/a
As Percentages of Gross Domestic Product												
Receipts ^a	14.8	16.3	18.8	19.9	20.1	20.0	20.3	20.4	20.5	20.7	20.8	19.9 ^c
Outlays	24.7	23.3	23.1	23.0	23.1	23.5	23.4	23.3	23.7	23.9	24.0	23.5 ^c
Deficits	-9.8	-7.0	-4.3	-3.1	-3.0	-3.4	-3.1	-2.9	-3.2	-3.2	-3.2	-3.6 ^c
Debt Held by the Public	69.4	73.9	75.5	75.3	74.9	75.0	75.2	75.3	75.8	76.2	76.7	n/a

^a Receipts figures reflect CBO’s “current-law” projections, which assume, among other things, that after 2012 current tax rates will rise, the alternative minimum tax will expand to reach millions of additional taxpayers and certain estate and gift tax provisions will expire, resulting in a tax increase of about \$3.8 trillion through 2021.

^b Cumulative 10-year nominal dollar totals.

^c Average 10-year percentage.

Source: Congressional Budget Office: *The Budget and Economic Outlook – Fiscal Years 2011 to 2021*.

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- **Spending.** After failing to adopt a budget resolution, the 111th Congress also failed to pass any of the annual appropriations bills for the current fiscal year. Instead, the previous Congress resorted to a temporary “continuing resolution” [CR], which runs through 4 March 2011, leaving it to the new Congress to provide discretionary funding for the balance of the year. CBO estimates that total spending in 2011 (including interest) will reach \$3.71 trillion, or 24.7 percent of GDP, well above the 40-year average. Because the CR expires 5 months into the fiscal year, it will create a greater challenge for House Republicans to bring non-security spending down to fiscal year 2008 levels.

Although the current CR was largely held to 2010 spending, those levels were already swollen: since fiscal year 2008, base discretionary spending has increased by 17 percent, from \$933 billion to \$1.09 trillion; the larger increases were in non-defense discretionary spending, which rose 24 percent, and the CR essentially remains at this elevated level. Nevertheless, Senate Democrats were prevented in December from passing a bloated, earmark-laden omnibus spending bill that would have spent even more.

- *Discretionary.* For fiscal year 2011, CBO estimates a total of \$1.375 trillion in annually appropriated spending, of which \$712 billion is for defense (including war costs) and \$663 billion for non-defense activities. For 2012, CBO projects discretionary outlays will total \$1.352 trillion – \$710 billion for defense and \$643 billion for non-defense. House Republicans yesterday adopted a resolution (H. Res. 38) instructing the Budget Committee Chairman to file a discretionary spending level (called a “302(a)” allocation) that aims toward returning to pre-stimulus, pre-bailout levels.
 - *Mandatory.* The growth of government entitlement spending is reaching critical rates, and the previous Congress worsened the problem in two ways: first by ignoring it, then by adding to it with two new open-ended health care entitlements. CBO’s figures show mandatory spending, excluding interest, increasing at 10.4 percent this year. For 2013-21, CBO estimates total mandatory spending will grow an average of 5.6 percent per year. During that period, Medicare is projected to grow at 6.8 percent per year, well above the annual growth of nominal GDP for the period. CBO also projects that Social Security will continue indefinitely running cash deficits – meaning annual benefit payments will exceed annual payroll tax receipts. As CBO says: “Excluding interest, surpluses for Social Security become deficits of \$45 billion in 2011 and \$547 billion over the 2012-2021 period.”
 - *The Outyears.* Beyond 2012, total Federal spending approaches 24 percent of GDP – higher than at any time since World War II.
- **Tax Revenue.** In December, the President accepted Republican proposals to retain existing tax rates and policies for all taxpayers, preventing what would have been a huge tax increase. (As noted above, however, tax revenue increases by \$66 billion in 2011, according to CBO’s figures.) But the policy is in place for only 2 years. Because CBO employs a “current law” baseline – which assumes that scheduled changes in tax law, however unrealistic, will take place – the agency’s revenue estimates after 2012 are based on the expectation that, among other things, the full range of tax relief policies enacted in 2001 and 2003 will expire, the alternative minimum tax [AMT] will expand to ensnare

millions more taxpayers, and certain estate and gift tax provisions will expire. It is highly unlikely, however, that all these tax increases, totaling about \$3.8 trillion through 2021, will occur as the current-law estimate projects.

- **The Debt Ceiling.** Due mainly to Congress' recent spending binges, the Federal Government is expected to reach its existing ceiling on the debt – currently \$14.3 trillion – some time in April. Congress will then have to raise the ceiling or risk leaving the government unable to meet its obligations. According to CBO, debt subject to limit will exceed \$15 trillion by the end of this fiscal year. Debt subject to limit includes debt held by Federal trust funds. CBO projects debt held by the public – that is, debt held by non-federal entities – to be \$10.43 trillion, or 69.4 percent of GDP, well above the historical average of 45.4 percent (for fiscal years 1940 through 2010).
- **The Economy.** CBO continues to expect a relatively slow recovery from the recession and financial crisis, highlighted by a relatively high unemployment rate for an extended period of time.

Table 2: CBO Economic Assumptions

	Est.	Forecast		Projected Annual Average	
	2010	2011	2012	2013-16	2017-21
		Fourth Quarter to Fourth Quarter (percentage change)			
Real GDP	2.5	3.1	2.8	3.4	2.4
Consumer Price Index^a	1.2 ^b	1.3	1.3	2.0	2.3
		Calendar Year Average			
Unemployment Rate (percent)	9.6 ^b	9.4	8.4	6.4	5.2
3-Month Treasury Bill Rate	0.1 ^b	0.3	1.1	3.6	4.4
10-Year Treasury Note Rate	3.2 ^b	3.4	3.8	4.7	5.4

^a The consumer price index for urban consumers.

^b Actual value for 2010.

Source: Congressional Budget Office: *The Budget and Economic Outlook – Fiscal Years 2011-2021*.

- *Real GDP Growth.* CBO expects the economy to grow by just over 3.1 percent this year and 2.8 percent in 2012. That is slightly below the *Blue Chip* consensus forecast of 3.2 percent to 3.3 percent growth over that period. Part of the discrepancy is likely due to the fact that CBO completed its economic forecast in early December. Since then, incoming economic data have been more positive, leading most private-sector forecasters to ramp up their expectations for near-term growth.
- *Employment.* The unemployment rate will remain high for an extended period, according to CBO. The jobless rate is expected to remain above 9.0 percent until the early part of next year, and it will take until the latter part of the decade for the economy to return to its pre-recession unemployment rate of about 5.2 percent.

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- *Inflation.* CBO generally predicts inflation will remain contained over the near term, with the consumer price index [CPI] averaging about 1.3 percent over the next few years. Private-sector forecasters expect higher near-term inflation rates than CBO, with the *Blue Chip* consensus for the CPI trending closer to 2.0 percent. Looking farther out, CBO expects that the rate of inflation will remain within the Federal Reserve's preferred range (i.e. between 1.5 percent and 2.0 percent for core personal consumption expenditures) throughout the decade.

 - *Interest Rates.* CBO expects the 10-year Treasury rate to increase from last year's level of about 3.2 percent to 3.4 percent this year and 3.8 percent in 2012. The private sector generally sees higher interest rates than CBO – 3.5 percent in 2011 and 4.2 percent in 2012 – mainly reflecting the *Blue Chip* consensus for higher rates of inflation and slightly more robust GDP growth. (Note that higher-than-expected interest rates would lead to higher-than-expected budget deficits, mainly due to higher debt servicing costs.)