



January 31, 2011

CBO Forecast Confirms Economy on the Rebound But Deficits Continue

Last week the Congressional Budget Office (CBO) released its annual *Budget and Economic Outlook*, a report showing that our economy is starting to recover from the worst recession since the Great Depression, and that we must tackle the deep budget deficit and put our nation on a path to long-term fiscal sustainability.

CBO's January 26th report confirms that Democratic actions taken over the last two years have helped the economy respond to the Great Recession that was in full swing at the end of the Bush Administration. The American Recovery and Reinvestment Act (Recovery Act) created between 1.3 and 3.5 million jobs in the fourth quarter of 2010 and lowered unemployment by between 0.7 and 1.9 percentage points. The Patient Protection and Affordable Care Act will contribute \$230 billion to deficit reduction over the next ten years, and more than \$1 trillion in the following ten years. These new laws and other actions are helping to create jobs, boost the middle class, and put the economy back on track. These short-term goals are precursors to fulfilling our long-term goal of reducing the federal budget deficit.

The Republican prescription for our economy has not worked in the past and will not work now. Their proposed solution – tax cuts for the wealthy matched with deep cuts in domestic spending – is counter-productive while the economy is still struggling, and may push us back into recession. Tax cuts for the wealthy failed to stimulate the economy over the past ten years and only deepened the deficit; continuing these policies just promises more of the same. Federal spending cuts now will not only reduce needed services, they will also hurt the economy, slowing the creation of new jobs and supports for the middle class in the short term.

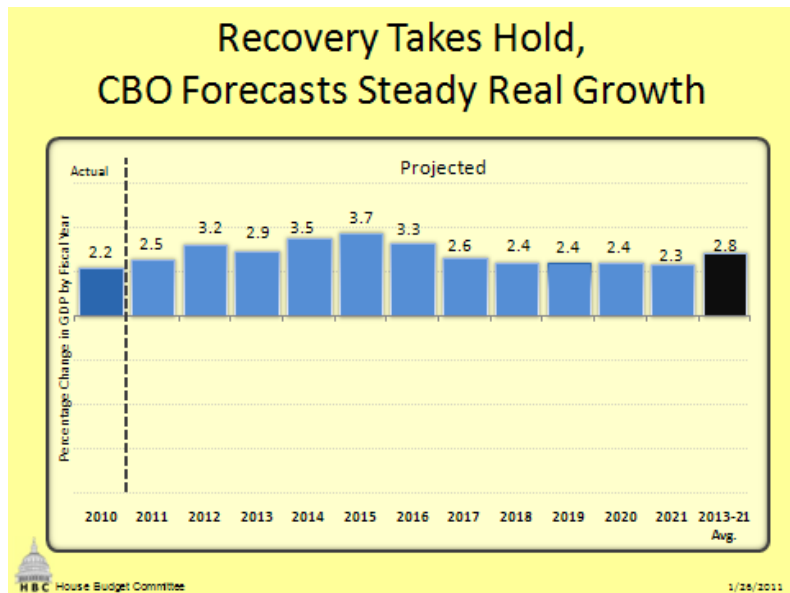
Budget and Economic Challenges

The country is facing distinctly different fiscal challenges in the short term and the long term. CBO projects a deficit of \$1.5 trillion in 2011 and \$1.1 trillion in 2012. These deficits reflect an economy slowly recovering from the deep recession in effect before President Obama even took office, the necessary and unprecedented policy responses to the financial crisis, and the extension of the 2001-03 tax cuts and extended unemployment

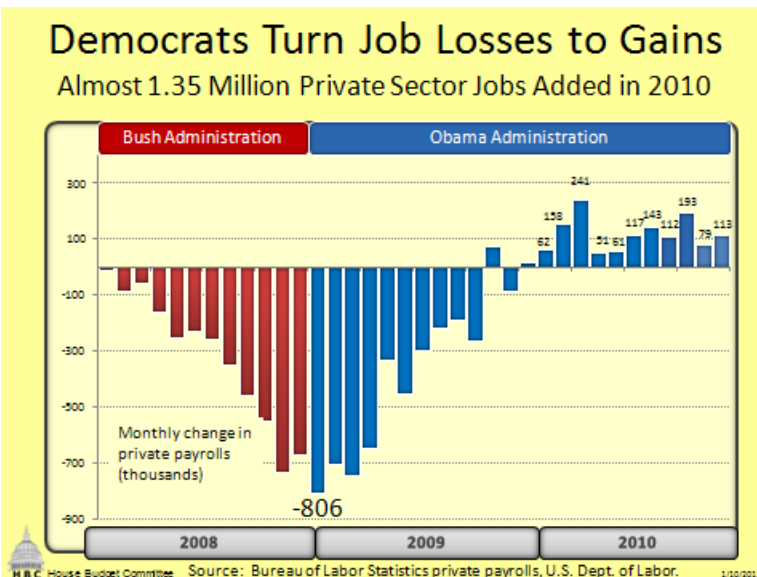
CBO Baseline Deficits	
<u>2011</u>	<u>2012</u>
\$1.48 trillion	\$1.10 trillion

benefits just passed in December. In the long term, once the economy has rebounded fully and more jobs are created, we must take steps to address the budget deficits.

The Economy Continues to Advance – The economy has now grown for six straight quarters. CBO projects that the economy will continue to rebound, growing at an inflation-adjusted rate of 2.5 percent in 2011 and 3.2 percent in 2012, and at an average of 2.8 percent over the 2013-2021 period. However, at this rate of growth, it will take a number of years for unemployment to return to pre-crisis levels. Policies that promote investment in the nation’s infrastructure and its human capital, support the needs of low-to-moderate income families, and expand trade would increase the rate of economic growth and job creation.



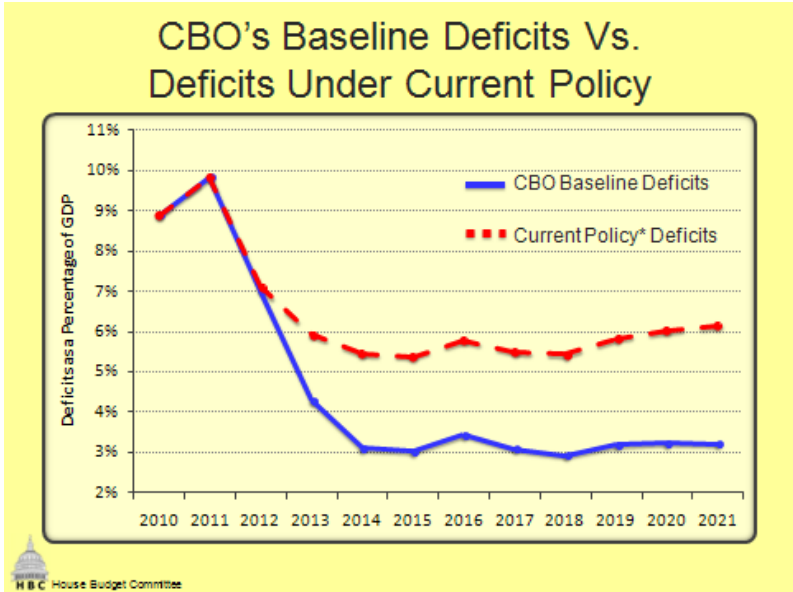
The Economy is Creating Jobs Again but Unemployment Remains Too High – Private sector payrolls added nearly 1.35 million jobs in 2010, although jobs are still too hard to find for many Americans. The unemployment rate declined to 9.4 percent in December 2010 from a peak of 10.1 percent in October 2009, but it is still far too high. CBO estimates that the Recovery Act lowered the unemployment rate by between 0.7 and 1.9 percentage points relative to what it would have been had Congress not taken action. CBO’s report forecasts that the unemployment rate will remain high in the near-term and not return to normal until 2017 or 2018.



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. Deficits appear more manageable when one assumes the 2001-03 tax cuts and other elements of current policy will expire; deficits in 2014 through the end of the projection window fluctuate around 3 percent of gross domestic product (GDP).

More Realistic Budget Forecast is Severe – Using the CBO report, one can construct an alternative scenario estimating the deficit impacts of continuing current policy, rather than current law. For example, this alternative scenario could assume that Congress continues war spending for the time being but reduces it thereafter; maintains current payment rates for physicians treating Medicare patients; and extends the 2001-03 tax cuts and other expiring tax breaks for individuals and businesses. Under this scenario, CBO’s estimates show deficits continuing at near trillion dollar levels for years.



Need for Long-term Comprehensive Deficit Reduction Strategy – Unless the country takes steps to change its revenue and spending paths, we are on an unsustainable fiscal path. Therefore, when the economy has recovered, we must pursue a deficit reduction strategy that shares sacrifices across all areas of the budget. Attempting to reduce the deficit by addressing only one part of the budget is doomed to fail.

Continue Building on Democratic Actions

Creating Jobs – Democrats passed the Recovery Act in 2009 to create jobs and rebuild our economy, providing both tax cuts and spending to create immediate and long-term economic benefits. The Recovery Act provided \$288 billion in tax relief to 98 percent of working families and to small businesses. The tax cuts did double duty, helping families make ends meet while boosting broader economic activity by prompting additional consumer spending. The Recovery Act also helped those in need. By extending unemployment insurance and food assistance, and helping those who lost their jobs keep their health insurance, the Recovery Act served those struggling in the recession. CBO estimates that the Recovery Act was responsible for boosting GDP growth by between 1.1 and 3.5 percentage points in the fourth quarter of 2010, and adding between 1.3 million and 3.5 million jobs.

Deficit Reduction while Increasing Health Care Coverage – Democrats passed the Patient Protection and Affordable Care Act that, unlike the deficit-increasing Medicare prescription drug bill in 2003, takes steps to rein in health spending and increase coverage while reducing the federal budget deficit. CBO has estimated that health care reform will reduce deficits by \$230 billion over the next ten years and by over \$1 trillion in the following ten years – budgetary gains we must protect.

Republican Response is the Wrong Answer – In contrast, Republicans seek to repeal health care reform, which would raise deficits this decade and next. Their solution to the problem of large deficits is to cut non-security appropriations back to 2008 levels, when the economy is still weak, while giving tax cuts to the wealthiest households. However, the economic record of the last ten years shows that tax cuts for the wealthy failed to stimulate the economy and succeeded only in helping to transform surpluses to deficits. Meanwhile, cutting domestic spending on roads and bridges, scientific research, and education will hurt people and cost jobs now, and also undercut future standards of living.