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Beyond the Baseline: 10 Year Deficits Likely to Reach \$5.9 Trillion

John S. Irons

Deficit Projections

The Congressional Budget Office's (CBO) August 2003 Budget and Economic Update shows a baseline projection of a \$401 billion deficit for 2003, and a \$480 billion deficit for 2004. The 10-year baseline projections show a \$1.4 trillion deficit over the next ten years; however, as the report notes, the baseline is not intended to be a good predictor of actual budgetary outcomes. A better predictor of budget deficits under current policy would put the deficit for 2004 at \$496 billion and the 10-year deficit at nearly \$6 trillion.

The lower, baseline figures that are reported by the CBO are due to the fact that, by law, the CBO baseline must estimate future revenues and expenditures under current law. A more realistic prediction of the 10-year deficits would include legislative changes that are likely to occur. The CBO's report does contain estimates of the cost for a few likely changes. The legislative options included in the report are:

1. Extension of expiring tax provisions;
2. Reforming the Alternative Minimum Tax to index 2004 levels to inflation;
3. Medicare changes including a prescription drug benefit at cost levels allocated in the current budget resolution; and
4. Four different assumptions about the growth of discretionary spending
 - o Freeze at 2003 levels,
 - o Increase at the rate of inflation,
 - o Increase at the rate of total output (nominal GDP), and
 - o Increase at historical (1998-2003) rate of 7.7%.

Using the numbers produced by the CBO, we can construct a more realistic prediction of deficits under current policy. Table 1 and Figure 1 show the projections under the CBO baseline as well as under the *OMB Watch's* "current policy" baseline, which assumes that policy options 1-3 from above are in place, and discretionary spending is assumed to grow at the same rate as total output. The inclusion of these provisions gives us a better measure of deficit projections under current policy priorities, as well as a better predictor of actual deficits.

When these provisions and the additional debt service are included, the deficit for 2004 is projected to be \$496 billion. Over the next 10 years, the estimate of the total deficit rises to \$5.9 trillion, and there is no improvement in the budget situation as currently projected under the CBO baseline. In addition, when the Social Security trust fund is removed from the calculations, the 10-year deficit rises to \$8.3 trillion (see

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1742 Connecticut Ave NW
Washington, DC 20009



tel: 202.234.8494
fax: 202.234.8584



email: ombwatch@ombwatch.org
web: <http://www.ombwatch.org>

Table 2.) Figure 2 shows that the budget situation under the likely policy scenario will continue to deteriorate through 2013. With the increase in retirees necessitating increased Social Security and Medicare expenditures, the situation is not projected to improve after 2013, unless policy is changed.

What is a baseline?

Simply put, a baseline projection is a starting point for budget analyses. It gives a reference path for the current situation, against which a new policy proposal can be judged. Future policy proposals can then be measured as a deviation from an established baseline. A baseline is not necessarily the best, or even an accurate, prediction of actual budget outcomes.

The CBO, according to the law, must produce a baseline that is derived from the exact letter of the current law – and is explicitly not allowed to take into account likely or proposed legislation when determining the baseline.

The most recent CBO Budget and Economic Update (August 2003) put it this way,

“Actual budget totals, however, will almost certainly differ from those baseline projections. By statute, CBO’s baseline must estimate the future paths of federal revenues and spending under current laws and policies. The baseline is therefore not intended to be a prediction of future budgetary outcomes; instead, it is meant to serve as a neutral benchmark that lawmakers can use to measure the effects of proposed changes to taxes and spending.

Such changes can significantly affect the budget outlook. ... In addition to policy changes, factors beyond lawmakers’ direct control--such as unexpected economic developments--can affect the budget outlook positively or negatively.”

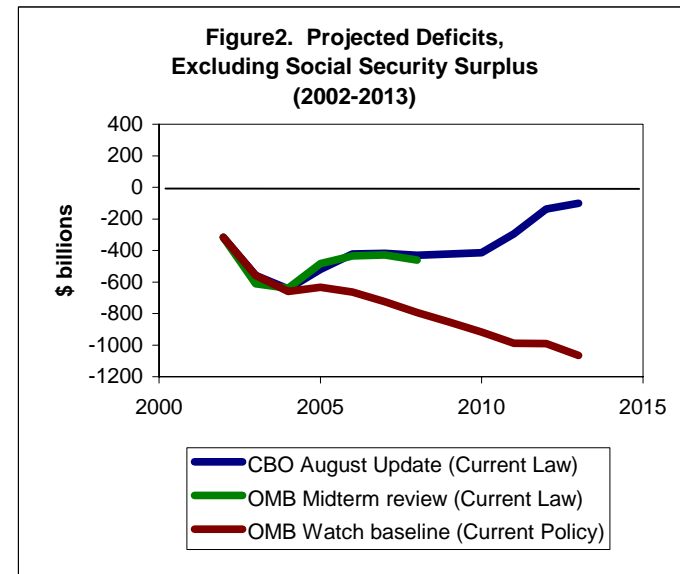
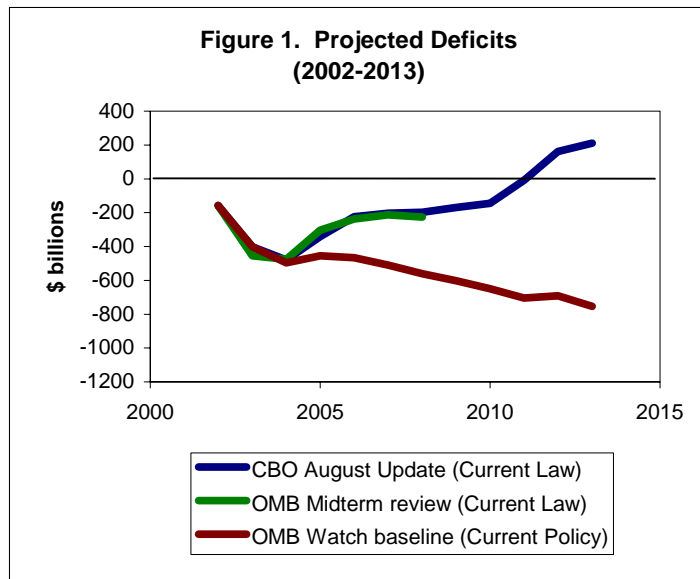
John S. Irons is a Senior Economic Research and Policy Analyst and Staff Economist, OMB Watch. Send comments and questions to jsirons@ombwatch.org.

Table 1. Projected Deficits (-) and Surpluses (+) (\$ billions)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2004-2008	2004-2013
CBO August Update (Current Law)	-158	-401	-480	-341	-225	-203	-197	-170	-145	-9	161	211	-1445	-1397
Adjustments														
Extend Tax Cuts	-	-	3	-60	-118	-128	-128	-136	-141	-287	-412	-447	-429	-1853
Reform AMT	-	-	0	-8	-25	-37	-51	-68	-86	-81	-60	-73	-120	-489
Reform Medicare	-	-	-7	-10	-34	-42	-49	-55	-62	-68	-75	-88	-143	-491
Discretionary growth	-	-	-12	-36	-65	-99	-135	-174	-215	-259	-306	-357	-349	-1659
Total	0	0	-16	-114	-242	-306	-363	-433	-504	-695	-853	-965	-1041	-4492
<i>OMB Watch baseline (Current Policy)</i>	-158	-401	-496	-455	-467	-509	-560	-603	-649	-704	-692	-754	-2486	-5889

Table 2. Projected Deficits (-) and Surpluses (+) (Excluding Social Security Surplus, \$ billions)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2004-2008	2004-2013
Social Security Surplus	159	157	164	179	197	216	234	252	269	285	299	312	990	2406
CBO August Update (Current Law)	-317	-558	-644	-520	-422	-419	-431	-422	-414	-294	-138	-101	-2435	-3803
<i>OMB Watch baseline (Current Policy)</i>	-317	-558	-660	-634	-664	-725	-794	-855	-918	-989	-991	-1066	-3476	-8295
OMB Midterm review (Current Law)	-317	-612	-639	-483	-435	-429	-460						-2446	



Data: Congressional Budget Office and Office of Management and Budget.