



BRIEF ANALYSIS

CBO AUGUST UPDATE

FY 2007-2016

PREPARED BY: DEMOCRATIC STAFF, SENATE BUDGET COMMITTEE
August 18, 2006

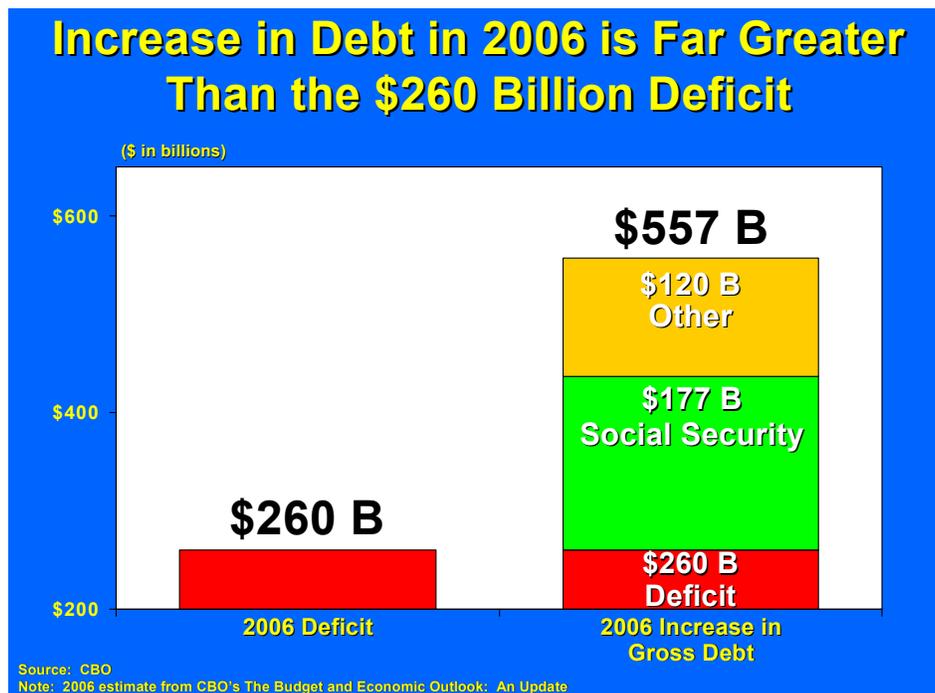
Long-Term Budget Outlook Unchanged

The Congressional Budget Office's (CBO) August 2006 Budget and Economic Outlook Update shows that the long-term outlook remains bleak and the buildup of federal debt continues unabated. CBO's deficit estimate for 2006 in no way means that our nation's fiscal problems are behind us.

Increase in Debt is Far Greater Than Deficit

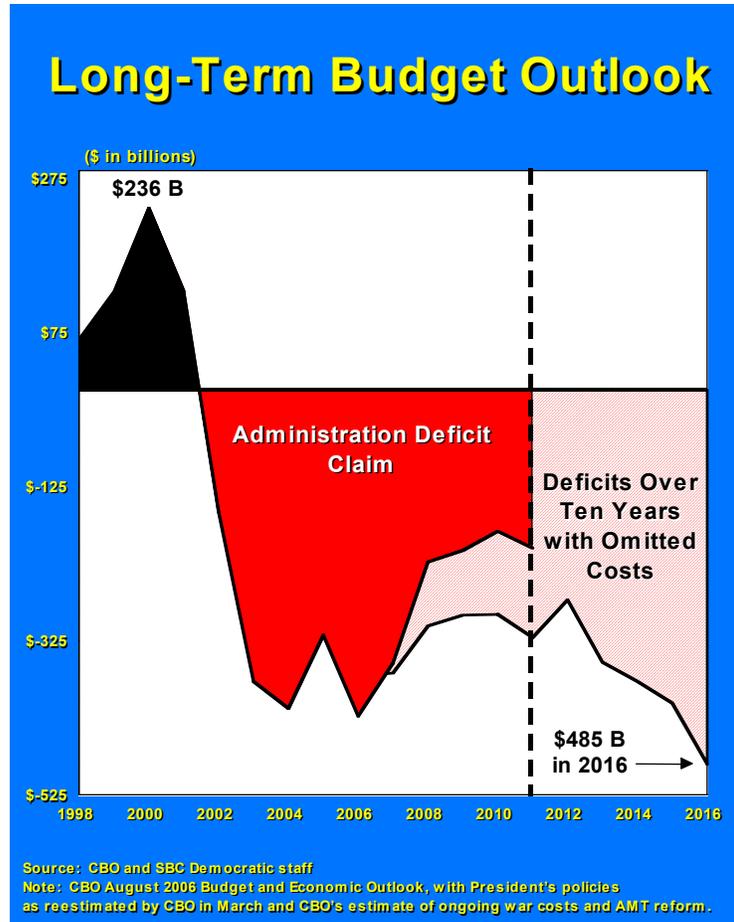
While CBO estimates that the deficit in 2006 will be \$260 billion, its report shows that the debt will actually increase by \$557 billion this year – an amount that exceeds last year's increase of \$551 billion.

The difference between the debt and deficit results because Social Security and Medicare trust funds, which are in temporary surplus, are being used to pay other bills. They are not counted as part of the deficit, but are added to the debt. This year alone, \$177 billion of Social Security funds are being borrowed to cover other costs.



Long-Term Outlook Remains Bleak

By adjusting CBO's ten-year baseline projections, we can get a more realistic picture of the deficit outlook over the decade. When we add in the cost of the President's policies and omitted items, such as ongoing war costs and Alternative Minimum Tax reform, we can see that deficits will reach \$485 billion in 2016 and total almost \$3.4 trillion over the 2007-2016 period.



CBO August Baseline Deficit Adjusted for President's Policies and Omitted Costs								
(\$ in billions)	2006	2007	2008	2009	2010	2011	2007-2011	2007-2016
CBO August Baseline Deficit	-260	-286	-273	-304	-328	-227	-1,418	-1,761
Remove 2006 Supplementals*	0	70	139	179	203	222	814	2,165
President's Policy Proposals								
Tax Changes**	0	-4	-9	-15	-27	-170	-226	-1,764
Social Security Private Accts	0	0	0	-1	-1	-18	-19	-312
2007 and 2008 War Costs	0	-55	-71	-23	-7	-2	-158	-159
Other Policies	0	-6	0	5	10	27	35	248
Debt service	0	-2	-6	-8	-10	-15	-40	-338
Omitted Items								
Ongoing War Costs	0	0	-19	-57	-48	-37	-161	-313
AMT Reform	0	-4	-65	-60	-71	-82	-282	-901
Debt Service	0	-0	-2	-7	-13	-19	-42	-256
Total Adjustments	0	-2	-32	13	36	-94	-80	-1,630
Adjusted Deficit	-260	-288	-306	-292	-291	-321	-1,498	-3,391
Increase in Gross Debt	557	587	628	624	631	650	--	--

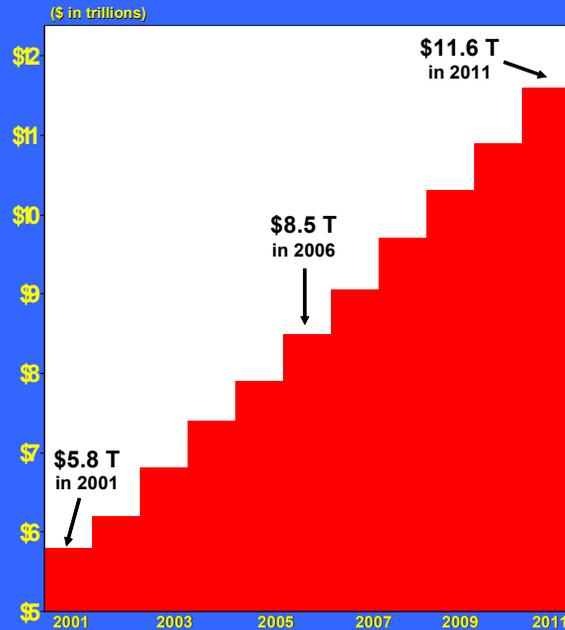
*Includes debt service. **Includes the outlay effects of tax policies.

Wall of Debt Gets Higher

Since President Bush took office, gross federal debt has climbed from \$5.8 trillion at the end of 2001 to an estimated \$8.5 trillion at the end of this year. Under the assumptions noted above, the country's total debt is projected to soar to \$11.6 trillion by 2011 – double the amount at the end of the President's first year in office. That level of debt accumulation is completely unsustainable, particularly as it occurs at the worst possible time, just as the baby boom generation begins to retire.

In addition, to cover this borrowing, we are becoming increasingly reliant on foreigners to buy our debt and finance our deficits. The top foreign holders of U.S. debt include Japan, China, the United Kingdom, and "Oil Exporters." Last year, the United States was responsible for 65 percent of world borrowing, far and away more than any other nation. It took 42 Presidents 224 years to run up a trillion dollars of external debt. Incredibly, this President has more than doubled that amount in just five years.

Building a Wall of Debt Gross Federal Debt Soars



Source: OMB, CBO and SBC Democratic staff
Note: CBO August 2006 Budget and Economic Outlook, with President's policies as reestimated by CBO in March and CBO's estimate of ongoing war costs and AMT reform.

Tax Cuts Not Paying for Themselves

Despite claims that revenues are pouring into the federal treasury due to the President's tax cuts, the fact is that revenues are far below where they would have been if the tax cuts had not been adopted. Real revenues – that is, adjusted for inflation – have experienced virtually no growth since 2000. And revenues in 2006 are still expected to come in almost \$300 billion below the original projections for the year.

In addition, a significant amount of the increase in revenues this year – particularly the surge in corporate income and non-withheld personal income taxes – is expected to be temporary. (Executive bonuses tied to corporate profitability are believed to be a major factor contributing to the increase in non-withheld taxes.) CBO, in fact, states in its report that it expects corporate profits and receipts to return to historical levels over the 2007-2016 period.

The reality is that the Bush administration has squandered our nation's record surplus and driven us deeply into deficit and debt. Its policies of increasing spending while dramatically cutting revenue are endangering our long-term economic security. The fact that some are now celebrating a \$260 billion deficit shows just how far we have fallen since the President took office. We must change course.

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