

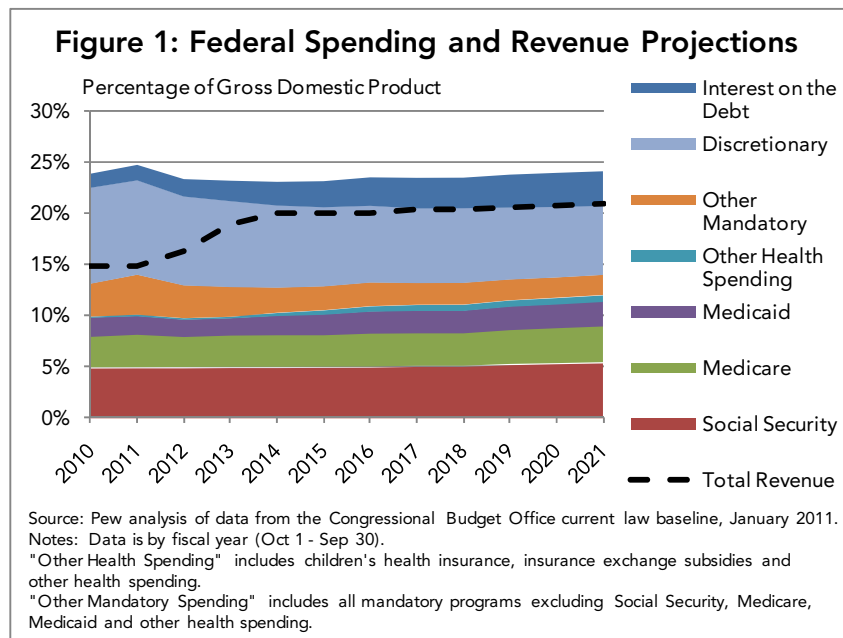
Fiscal Facts: CBO Budget and Economic Outlook, Fiscal Years 2011-2021 February 4, 2011

The Congressional Budget Office (CBO) projects that the federal deficit will total \$1.48 trillion in fiscal year (FY) 2011 (October 1, 2010 to September 30, 2011), which is an increase of over \$400 billion from its August 2010 projection. Under current law, federal debt will rise from 62 percent of Gross Domestic Product (GDP) at the end of FY 2010 to 77 percent of GDP in FY 2021. If certain policies are enacted—including permanent extension of the 2001 and 2003 tax cuts, indexation of the Alternative Minimum Tax (AMT) exemption and adjustment of Medicare physician payment rates—debt would rise to 97 percent of GDP by the end of FY 2021.

These projections are based on CBO’s annual Budget and Economic Outlook for FYs 2011-2021 that was released on January 26, 2011. The CBO report includes projections of federal spending, revenue, deficit and debt, as well as economic forecasts, through FY 2021. CBO makes all of its projections based on current law, which assumes that no additional legislation that would affect spending or revenue will be enacted. The last CBO budget projections were released in August 2010.

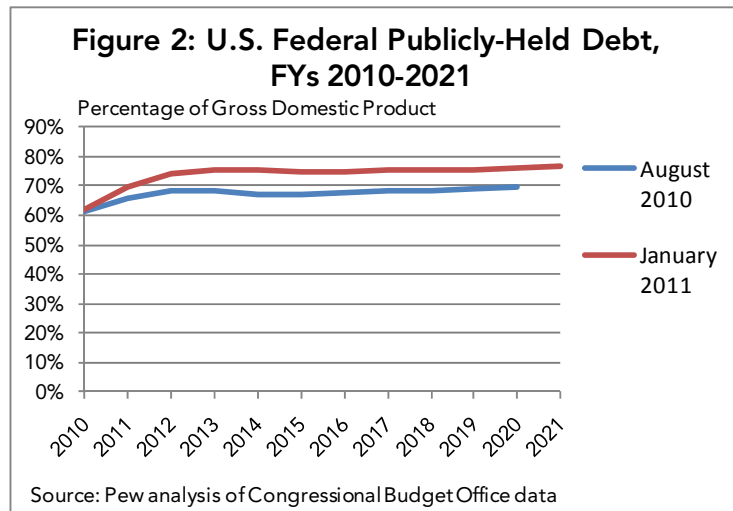
Budget Projections

- CBO projects that the federal deficit—the amount that spending exceeds revenue in any particular year—is expected to reach \$1.48 trillion in FY 2011 (9.8 percent of GDP). This is the highest level on record and the second highest as a percentage of GDP since World War II. The FY 2011 deficit is expected to be \$200 billion higher than the deficit recorded in FY 2010.
- Federal spending is expected to total \$3.7 trillion (24.7 percent of GDP) in FY 2011, the second highest level of spending as a percentage of GDP since World War II. Discretionary spending accounts for about 37 percent of this total, while mandatory spending makes up 57 percent



and interest on the debt accounts for 6 percent. By FY 2021, total spending will shift: discretionary spending will account for 28 percent, mandatory spending will make up 58 percent and interest on the debt will rise to 15 percent of total federal spending (see Figure 1).

- Total revenue—including income taxes, corporate taxes, social insurance taxes and other forms of revenue— will total \$2.2 trillion in FY 2011. At 14.8 percent of GDP, this is the second lowest level of revenue since 1950. As the economy recovers and the 2001 and 2003 tax cuts expire, revenue will rise as a share of GDP over the next 10 years, reaching 20.8 percent of GDP in 2021.
- Over the next four years, spending will gradually fall as a percentage of GDP as the economy recovers. However, starting in FY 2015 spending will begin to rise again as a share of the economy, largely as a result of greater spending on Social Security, Medicare, Medicaid and interest on the debt, and will exceed 24 percent of GDP by FY 2021.
- CBO projects that federal publicly-held debt as a share of GDP will generally increase throughout the decade. Debt will increase as a share of the economy until FY 2013, remain at that level for several years, then continue rising at the end of the decade, reaching 77 percent of GDP by FY 2021 (see Figure 2).
- A number of organizations—including the International Monetary Fund, the European Union and the Peterson-Pew Commission on Budget Reform—have endorsed a debt-to-GDP ratio of 60 percent as a sustainable level for advanced economies. Under CBO's projections, debt will remain above 60 percent for the entire decade.



Sources of Change in Deficit and Debt Projections

CBO revised its estimate of the FY 2011 deficit from \$1.07 trillion to \$1.48 trillion, an increase of over \$400 billion (see Table 1).

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
August 2010 Baseline	1,066	665	525	438	507	585	579	562	634	685	6,246
January 2011 Baseline	1,480	1,100	704	533	551	659	617	610	696	739	7,688
Change	414	434	179	95	44	74	38	48	61	54	1,441

Source: Pew analysis of Congressional Budget Office data.
Notes: Positive numbers indicate an increase in the deficit, while negative numbers indicate a decrease. Numbers may not sum to totals due to rounding.

- The projected cumulative deficit from FY 2011 to 2020 is \$7.7 trillion, an increase of over \$1.4 trillion since the August 2010 projection.
- The increase in the cumulative deficit projection through 2020 is due to several factors (see Table 2), including the following:
 - Enactment of the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act in December 2010, which reduced projected tax revenue, increased spending and is estimated to increase the deficit by \$858 billion through FY 2020 (not including interest on the debt).
 - Revised economic forecasts, including lower corporate profits and GDP growth that are projected to increase the deficit by \$571 billion through FY 2020.

Table 2: Sources of Change in Deficit Projections (\$billions), FYs 2011-2020

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Legislative Changes											
2010 Tax Act ^a	390	407	120	-7	-17	-13	-10	-6	-3	-2	858
Defense Discretionary	-9	-14	-16	-17	-18	-19	-20	-20	-21	-21	-175
Nondefense Discretionary	-6	-6	-16	-18	-20	-21	-21	-22	-23	-23	-176
Other Legislation	74	-9	-10	-10	-32	23	-7	-12	-9	-8	3
Net Interest	3	12	21	27	29	30	32	33	34	34	254
Subtotal, Legislative	452	390	99	-25	-58	0	-26	-27	-22	-20	764
Economic Changes^b	12	29	79	113	88	54	51	52	47	44	571
Technical Changes^c	-50	15	1	7	13	21	13	23	36	30	106
Total Change in Deficit^d	414	434	179	95	44	74	38	48	61	54	1,441

Source: Pew analysis of Congressional Budget Office data, January 2011.

Notes: Numbers may not sum to totals due to rounding.

(a) "2010 Tax Act" refers to the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010.

(b) Positive numbers indicate an increase in the deficit, while negative numbers indicate a decrease.

(c) "Economic" sources reflect changes in revenues and outlays due to revised economic growth projections.

(d) "Technical" changes arise due to new data and updates to CBO's forecasting methodology.

Economic Projections

CBO's economic outlook has worsened slightly since August 2010 (see Table 3).

- The unemployment rate will remain elevated as the economic recovery continues. CBO estimates that the economy will not reach full employment until 2016, when unemployment will fall to 5.3 percent (for more information, see Pew's January 2011 [Addendum: A Year or More: The High Cost of Long-Term Unemployment](#)).
- Projected real GDP growth has slowed through 2014. Based on CBO's forecast, the economy will remain below potential output until the end of 2016.

- Projected inflation as measured by the Consumer Price Index is higher in 2010 and 2011 and lower in each year from 2012 through 2016. Inflation will remain at or below 2 percent through 2015, and will stabilize at 2.3 percent by the end of the decade.

Table 3: Economic Indicators, CYs 2010-2020											
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Real Gross Domestic Product Growth (percent)											
August 2010 Baseline	3.0	2.1	3.4	4.7	4.2	2.7	2.5	2.4	2.3	2.2	2.2
January 2011 Baseline	2.8	2.7	3.1	3.1	3.5	3.8	3.0	2.5	2.4	2.4	2.4
Change	-0.2	0.6	-0.3	-1.6	-0.7	1.1	0.5	0.1	0.1	0.2	0.2
Nominal Gross Domestic Product (\$billions)											
August 2010 Baseline	14,804	15,262	15,974	16,977	17,987	18,848	19,730	20,621	21,519	22,439	23,398
January 2011 Baseline	14,649	15,184	15,858	16,609	17,483	18,441	19,362	20,258	21,162	22,093	23,062
Change	-155	-78	-116	-368	-504	-407	-368	-363	-357	-346	-336
Unemployment Rate (percent)											
August 2010 Baseline	9.5	9.0	8.1	6.6	5.3	5.0	5.0	5.0	5.0	5.0	5.0
January 2011 Baseline	9.6	9.4	8.4	7.6	6.8	5.9	5.3	5.3	5.2	5.2	5.2
Change	0.1	0.4	0.3	1.0	1.5	0.9	0.3	0.3	0.2	0.2	0.2
Consumer Price Index Inflation Rate (percent)											
August 2010 Baseline	1.6	1.0	1.4	1.7	1.9	2.3	2.3	2.3	2.3	2.3	2.3
January 2011 Baseline	1.7	1.6	1.3	1.6	1.8	2.0	2.2	2.4	2.3	2.3	2.3
Change	0.1	0.6	-0.1	-0.1	-0.1	-0.3	-0.1	0.1	0.0	0.0	0.0

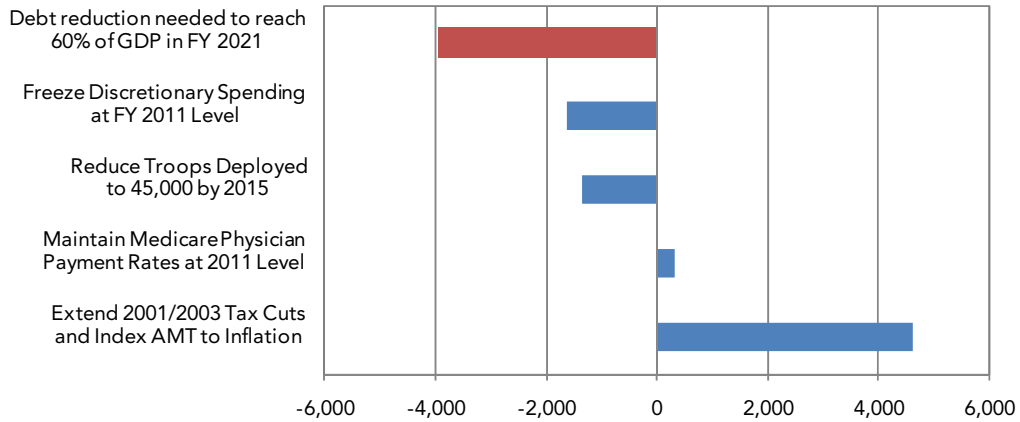
Source: Pew analysis of Congressional Budget Office data.
Note: Data is by calendar year (CY).

Effects of Potential Policy Changes on the Debt

CBO also estimates the impact of several policies that may be enacted over the next several years (see Figure 3).

- Policy changes that would increase the debt include:
 - Extending the 2001 and 2003 tax cuts from 2013 through the end of 2021, which would add \$4.6 trillion to the debt by FY 2021; and
 - Maintaining Medicare physician payment rates at the 2011 level in 2012 and beyond, thus preventing a scheduled 28 percent reduction in payments to physicians, which would add \$300 billion to the debt by FY 2021.
- Policy changes that would reduce the debt include:
 - Reducing troops deployed from 215,000 in 2010 to 45,000 in 2015, which would reduce the debt by FY 2021 by about \$1.4 trillion; and
 - Freezing discretionary spending at the FY 2011 level through 2021, which would reduce the debt by FY 2021 by \$1.6 trillion.

Figure 3: Effects of Potential Policy Changes on Federal Publicly-Held Debt (\$billions), FY 2021



Source: Pew analysis of Congressional Budget Office data, January 2011.

Notes: Estimates include the cost of interest on the debt; positive numbers indicate an increase in the debt.

"Freeze Discretionary Spending" would keep nominal discretionary spending at its FY 2011 level from FY 2012 to FY 2021.

"Reduce Troops Deployed" would gradually reduce troop levels from 215,000 in 2010 to 45,000 in 2015.

"Maintain Medicare Physician Payment Rates" would keep payment rates at their 2011 level in 2012 and beyond, thus preventing a scheduled 28 percent reduction in payments to physicians.

"Extend 2001/2003 Tax Cuts and Index AMT" would permanently extend the tax cuts originally enacted in 2001 and 2003 that are scheduled to expire on December 31, 2012. It would also permanently index the Alternative Minimum Tax (AMT) exemption to inflation, which is not indexed under current law after 2011.

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