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Realistic Budget Baseline Shows $13 Trillion in Debt over the Next Decade

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The new Congressional Budget Office (CBO) 10-year budget baseline provides a sobering picture of a federal government that has committed itself to trillions more in spending than taxpayers can afford. Once the baseline is scrubbed of several unrealistic assumptions that Congress demands CBO use, the more realistic baseline shows that massive spending increases are set to keep the budget deficit to $1.4 trillion in 2010 and drive it to $1.9 trillion by 2020.

A Sea of Red Ink. The CBO baseline contains two important messages. First, Washington is accumulating debt at an unsustainable rate. After the debt slowly grew to $5.8 trillion through 2008, the more realistic baseline shows the federal government adding an astonishing $16.3 trillion in new debt between 2009 and 2020—$130,000 per household over those 12 years.

Budget deficits would average $1.3 trillion annually as the debt climbs to 98 percent of the gross domestic product (GDP) by 2020—and continues growing thereafter. This steep rise in debt would eventually become too large for global capital markets to absorb, potentially triggering a financial crisis, interest rate spike, and gigantic tax increases.

The second message is that surging government spending—not low revenues—is driving these deficits. Historically, spending has averaged 20.7 percent of GDP, and revenues have averaged 18.3 percent of GDP, leading to sustainable average deficit of 2.4 percent.[1] Under the adjusted CBO baseline, 2020 spending would surge to 25.9 percent of GDP, while revenues would reach 17.6 percent (still slightly below the historical average), leaving a deficit of 8.3 percent of GDP.

This means that 88 percent of the additional deficits would come from higher spending, and only 12 percent would come from lower revenues—and that assumes all tax cuts are extended. Clearly, spending is the problem.

Thus, President Obama's spending agenda—which would be unaffordable even in good budget times—is completely unrealistic in this sea of red ink. On top of this baseline, the President would spend trillions of dollars on a new health care plan. This cost would be partially offset by painful tax increases and deep Medicare cuts that, if enacted, would be better spent on meaningful deficit reduction. The President's stimulus did not create 3.5 million jobs as promised, but it did add $1 trillion in new debt.[2] The effect of these policies is to dig the fiscal hole deeper, forcing future lawmakers to choose between even larger tax increases and deeper spending cuts.

Building a Baseline. Congress requires the CBO to include in its 10-year baseline the following unrealistic assumptions: The 2001 and 2003 tax cuts and all other temporary tax cuts will expire, the

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Alternative Minimum Tax (AMT) will not be annually adjusted for inflation, and non-war discretionary spending will grow no faster than inflation through 2020.

Using the "alternative assumptions" section of the CBO report, this paper's projections adjust the CBO's baseline with the following assumptions:

- Congress will follow regular practice extending certain expiring tax cuts, and the AMT will be annually adjusted for inflation;
- The Medicare "doc fix" will be enacted annually;
- Spending on Iraq and Afghanistan will grow at CBO's "fast drawdown" scenario; and
- Other discretionary spending will expand at the rate of the economy.

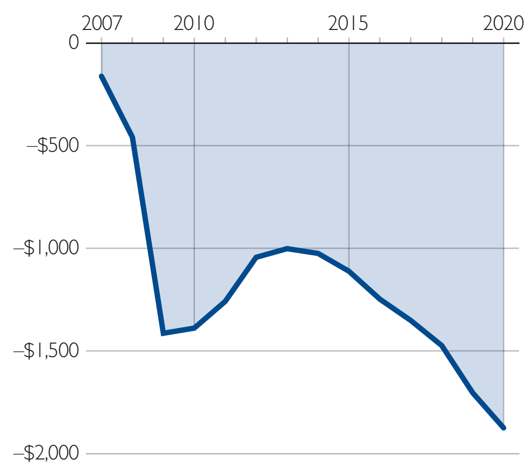
Under this more realistic budget baseline, the budget deficit reaches $1.4 trillion in 2010, drops to $1.0 trillion by 2013, and rises back to 1.9 trillion by 2020.

General Budget and Spending Trends: A Look Back[3]

- Context: Since World War II, federal spending has generally remained between 18 and 22 percent of GDP. During the Bush Administration, spending increased from 18.4 to 20.9 percent of GDP.
- In 2009, spending increased by $535 billion (18 percent), and revenues declined by $419 billion (17 percent). This increased the budget deficit from $459 billion to $1,414 billion.
- The 18 percent spending increase in 2009 was the largest single-year expansion of government since the height of the Korean War in 1952.[4]
- Overall, from 2001 through 2009, federal spending surged 51 percent faster than inflation. Federal spending per household expanded from $21,510 in 2001 to $29,813 in 2009.[5]

A More Realistic Budget Baseline

Figures are in billions of dollars.



Fiscal Year	Budget Deficit
2007	–$162
2008	–$459
2009	–$1,414
2010	–$1,389
2011	–$1,259
2012	–$1,044
2013	–$1,002
2014	–$1,025
2015	–$1,112
2016	–$1,248
2017	–$1,352
2018	–$1,474
2019	–$1,704
2020	–$1,875

Source: Heritage Foundation calculations based on data from the Congressional Budget Office.

Chart 1 • WM 2780 heritage.org

- For longer-term comparisons, it is best to measure spending as a percentage of GDP. In 2009, federal spending reached 24.7 percent of GDP—the highest level in American history outside of World War II. Non-defense spending reached a record 20.1 percent of GDP.

1. These figures represent the 40-year average through 2008.
2. Including net interest costs.
3. Past budget data comes from Office of Management and Budget, "Budget of the United States Government: 2009 Historical Tables," at *http://www.whitehouse.gov/omb/budget/historicals* (January 26, 2010). Future projections were calculated by The Heritage Foundation using Congressional Budget Office, "The Budget and Economic Outlook: Fiscal Years 2010 to 2020," January 2010, at *http://www.cbo.gov/ftpdocs/108xx/doc10871/01-26-Outlook.pdf* (January 26, 2010).
4. Adjusted for inflation.
5. Adjusted for inflation.

- Discretionary spending has increased 25 percent in three years—not even counting the $311 billion in discretionary stimulus spending, and approximately $150 billion in annual spending on the global war against terrorists.
- Over the entire 2009 through 2020 period, the Troubled Asset Relief Program (TARP) is now expected to cost $99 billion, while the Fannie Mae and Freddie Mac bailouts are estimated to cost $173 billion.

General Budget and Spending Trends: Looking Forward

- Between 2010 and 2020, recession-depleted revenues are projected to gradually rebound to 17.6 percent of GDP (slightly below the 18.3 historical average). Spending is projected expand to 25.9 percent of GDP—well above 20.7 historical average. Compared to those averages, 88 percent of all additional deficits by 2020 come from additional spending (5.2 percent of GDP above average), and only 12 percent comes from low revenues (0.7 percent of GDP below average). Table 1 breaks down where the new spending is coming from.
- Much of this spending growth will be driven by entitlements such as Social Security, Medicare, and Medicaid. Over the next decade, the CBO projects that Medicare will expand by 7 percent annually, Medicaid by 5 percent annually (above levels already bloated from the recession), and Social Security by 5 percent annually. These programs face a 75-year shortfall of $43 trillion.

Deficits and Public Debt

- Context: Before 2009, the largest budget deficit recorded since the end of World War II had been 6.0 percent of GDP in 1983. The Bush Administration oversaw budget deficits averaging 3.2 percent of GDP.
- The 2009 budget deficit of 9.9 percent of GDP shattered the postwar record. Furthermore, the budget deficit is projected to remain above 5.8 percent of GDP indefinitely.
- By 2020, the budget forecasts a $1.9 trillion annual budget deficit, a public debt of 98 percent of GDP, and annual net interest spending surpassing $1 trillion.
- Over what would be President Obama's eight years in office, baseline budget deficits are projected to total $9.7 trillion—*nearly triple* the $3.3 trillion in deficits accumulated by President George W. Bush.[6] The public debt—7.5 trillion at the end of 2009—is projected to triple to $22.1 trillion by 2020.

Spending Is Driving the Deficit Upward

Percentage of GDP

	2001	2008	2009	2020
Total Revenues	19.8	17.7	14.8	17.6
Total Spending	18.5	20.9	24.7	25.9
Discretionary Spending	6.5	8.0	8.7	7.7
Defense	*3.0*	*4.3*	*4.6*	*3.8*
Non-Defense	*3.4*	*3.7*	*4.1*	*3.9*
Mandatory Spending	10.0	11.2	14.7	13.5
Social Security	*4.3*	*4.3*	*4.8*	*5.2*
Medicare	*2.4*	*3.2*	*3.5*	*4.8*
Medicaid	*1.3*	*1.4*	*1.8*	*2.0*
Other Mandatory	*2.1*	*2.3*	*4.7*	*1.5*
Net Interest Spending	2.0	1.8	1.3	4.6
Surplus/Deficit	1.3	–3.2	–9.9	–8.3
Debt Held by the Public	33.0	40.8	53.0	98.1

Source: Heritage Foundation calculations based on data from the Congressional Budget Office.

Table 1 • WM 2780 heritage.org

6. For Fiscal Year (FY) 2009, President Bush is assigned in $1.186 trillion in deficit spending (the CBO estimate for FY 2009 when he left office), while the remaining $228 billion in 2009 deficit spending is attributed to President Obama.

- After remaining between 23 and 49 percent of GDP since the end of World War II, the public debt currently stands at 53 percent of GDP and is projected to reach a peacetime-record 98 percent by 2020.
- As the budget deficit increases over the next decade, so will net interest spending, from $187 billion (1.3 percent of GDP) in 2009 to $1,044 billion (4.6 percent of GDP) by 2020. Even that assumes that interest rates remain lower than in the 1990s. An interest rate spike could cost trillions of dollars in additional net interest costs.[7]
- The coming tsunami of Social Security, Medicare, and Medicaid costs are projected to push the federal public debt to more than 300 percent of GDP by 2050 and over 700 percent of GDP by 2080.[8]

Difficult Decisions Needed. Genuine spending reforms are the only way to bring the budget under control. Lawmakers should rescind the remaining funds from TARP and the failed stimulus bill. Next, they should enact tough spending caps to help lawmakers set priorities and make trade-offs. Then, Congress should disclose the massive unfunded obligations of Social Security, Medicare, and Medicaid; put those programs on long-term budgets; and create an entitlement reform commission.[9] Finally, lawmakers should enact the necessary entitlement and programmatic reforms that can keep government within those limits.[10]

These spending reforms may not be easy, but the alternative—record government debt and gigantic tax increases—is even worse.

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7. See Douglas W. Elmendorf, Director, Congressional Budget Office, letter to Representative Paul Ryan (R–WI), June 30, 2009, at *http://www.cbo.gov/ftpdocs/104xx/doc10416/RyanLetterInterestRates.pdf* (January 26, 2010).
8. Congressional Budget Office, "The Long-Term Budget Outlook," June 2009, Figure 1.2, at *http://www.cbo.gov/ftpdocs/102xx/doc10297/toc.html* and supplemental data for Figure 1.2, at *www.cbo.gov/ftpdocs/88xx/doc8877/SupplementalData.xls* (January 26, 2010). This represents the alternative fiscal scenario.
9. See Stuart M. Butler *et al.*, "Taking Back our Fiscal Future" Heritage Foundation *White Paper*, March 31, 2008, at *http://www.heritage.org/Research/Budget/wp0408.cfm.* See also Alison Acosta Fraser, "The SAFE Commission Act (H.R. 3654) and the Long-Term Fiscal Challenge," testimony before the Committee on the Budget, United States House of Representatives, June 25, 2008, at *http://www.heritage.org/Research/Budget/tst062508b.cfm*.
10. For proposals, see Brian M. Riedl, "A Guide to Fixing Social Security, Medicare, and Medicaid," Heritage Foundation *Backgrounder* No. 2114, March 11, 2008, at *http://www.heritage.org/Research/Budget/bg2114.cfm.*

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