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JOHN BARRASSO, M.D.
CHAIRMAN, SENATE REPUBLICAN POLICY COMMITTEE

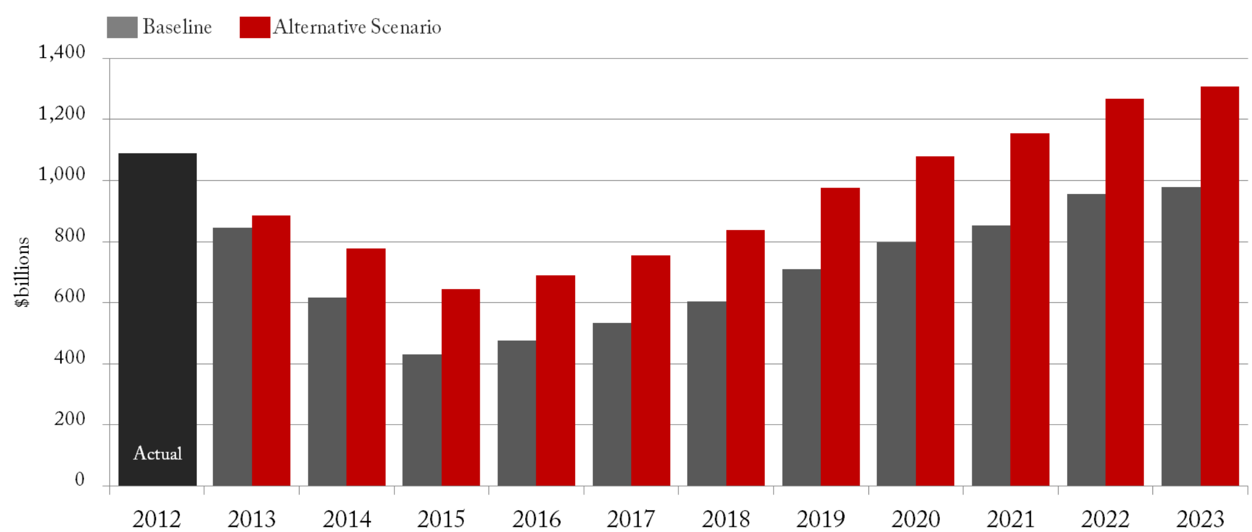
February 6, 2013

Not "More than Halfway" to Fiscal Stability

Yesterday, the Congressional Budget Office released its 2013 Budget and Economic Outlook with a new budget baseline and economic forecasts. The CBO report makes it clear that meaningful entitlement reform is critical to restoring our nation's long-term fiscal health.

The President has said that we are "more than halfway" to the amount of deficit reduction we need. CBO's 10-year projections show this is not the case. Even though discretionary spending cuts and revenue increases have been agreed to in the last two years, deficits only decline until 2015. Then, deficits increase quickly. The deficits in fiscal years 2022 and 2023 will be nearly $1 trillion. The national debt will hit $26.1 trillion in 2023. By the end of his second term, President Obama will have presided over $7 trillion in combined deficits (2009-2016).

No Deficit Reduction Taking Place



Deficits Skyrocket

CBO projects that the deficit for fiscal year 2013 will be $845 billion. While this is below the $1 trillion mark, this would mean that President Obama has overseen the five highest deficits in U.S. history, and the five highest deficits as a percentage of GDP in the past 30 years.

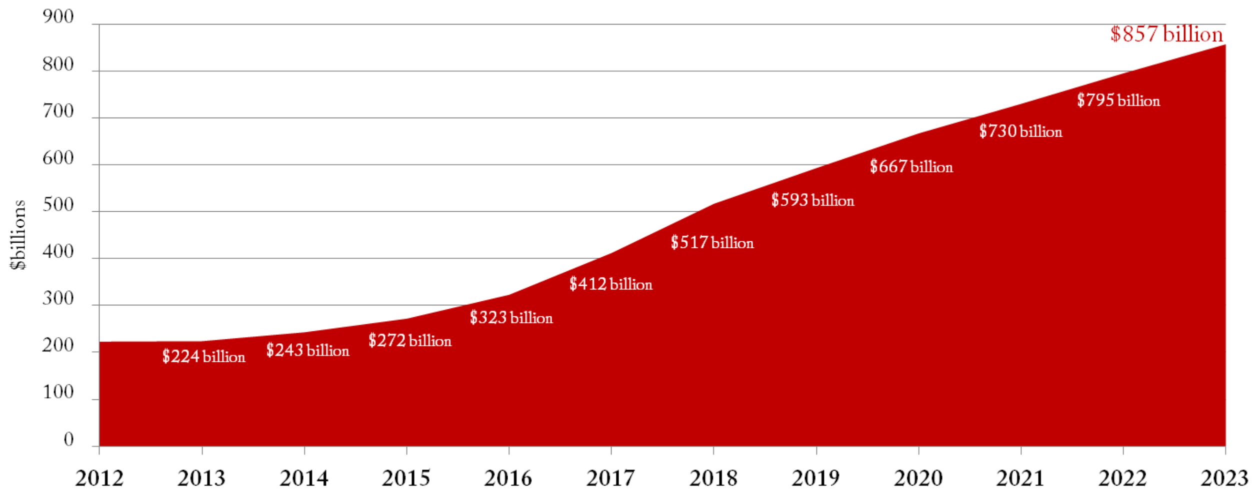
Five highest deficits in U.S. history:

- *Fiscal Year 2009* – $1.4 trillion
- *Fiscal Year 2010* – $1.3 trillion
- *Fiscal Year 2011* – $1.3 trillion
- *Fiscal Year 2012* – $1.1 trillion
- *Fiscal Year 2013* – $845 billion

The "alternative scenario," in which CBO factors in several expiring policies that may continue, projects deficits of $9.5 trillion over 10 years. This includes deficits of $1 trillion or more in the last four years of the 10-year budget window.

In a sign of things to come, CBO estimates that interest rates on 10-year Treasury notes will rise to 4.3 percent in 2016 and to 5.2 percent just two years later. Lawrence Lindsey has pointed out that returning to the historical average interest rates of 5.7 percent would raise interest costs by nearly $5 trillion over 10 years.

Interest Costs in CBO Baseline

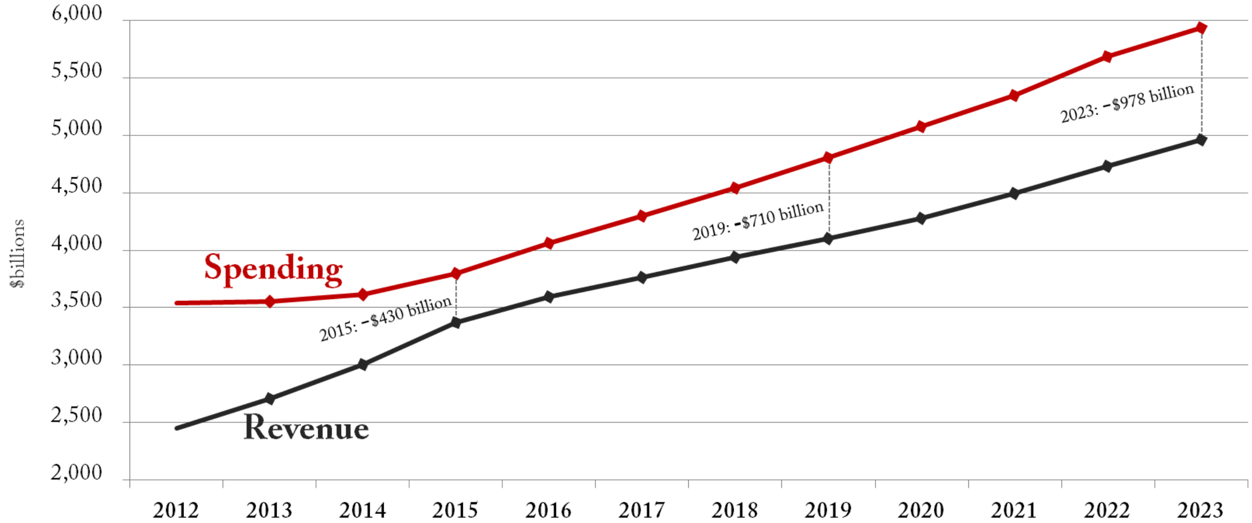


Mandatory Spending

CBO's numbers show that our entitlement programs are driving future spending growth. Below are the increases in baseline spending for federal programs from 2012 to 2023:

- *Discretionary spending:* + 11 percent ($1.285 trillion to $1.424 trillion)
- *Mandatory spending:* + 80 percent ($2.031 trillion to $3.658 trillion)
    - Social Security: + 85 percent ($768 billion to $1.423 trillion)
    - Medicare: + 94 percent ($446 billion to $903 billion)
    - Medicaid: + 128 percent ($265 billion to $572 billion)
    - Interest costs: + 284 percent ($223 billion to $857 billion)
    - Obamacare: No spending currently. Spending will reach $134 billion in 2023; a total of $949 billion over 2014-2023

Skyrocketing Revenue Can't Close Spending Gap



Economic Growth Still Weak

CBO's report confirms that our economy is still performing below its potential. According to CBO, inflation-adjusted GDP will only grow at 1.4 percent for calendar year 2013. However, they based their estimate in part on an assumption that fourth quarter 2012 growth would be an annualized 1.1 percent, when in fact the economy actually contracted at an annualized 0.1 percent. Unemployment does not fare well either – it will stay above seven percent until 2016.

Obama Short-term Sequester Proposal: Tax Hikes for Spending Hikes

All of this data from CBO show how bad our fiscal problem really is. They also make the President's call for a short-term delay in the sequester look trivial. The budget faces trillions of dollars worth of red ink. Rather than leveling with the American people and taking on the difficult task of putting America on more solid fiscal ground, the President punted again. His only answer has been permanent tax hikes to pay for a few more months of delaying the sequester. If the President wants to postpone the sequester, then he needs to propose other spending cuts to offset it. The President already got his tax increases in the fiscal cliff deal. If we are going to postpone spending cuts we already agreed to, we should replace them with other spending cuts.