

# THE CONCORD COALITION



1011 Arlington Blvd • Suite 300 • Arlington, VA 22209  
703-894-6222 / (Fax) 703-894-6231 / [concordcoalition.org](http://concordcoalition.org)

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**CONTACT:** Steve Winn (703) 254-7828  
[swinn@concordcoalition.org](mailto:swinn@concordcoalition.org)

## **CONCORD COALITION SAYS CBO REPORT SHOWS NEED TO RE-EXAMINE FISCAL PRIORITIES**

WASHINGTON -- The Concord Coalition today called new federal budget projections an alarming reminder of the need for Washington to set better priorities and resist the temptation to dig the government into even deeper trouble with more deficit-financed spending and tax cuts.

Based on today's budget update by the Congressional Budget Office (CBO), Concord revised its "plausible baseline" to show that CBO's projected deficits could more than double from \$6.2 trillion to \$15.2 trillion over the next decade. This projection assumes that current tax cuts and AMT patches are extended, that discretionary spending grows at the same rate as the economy, and that cuts to Medicare payments for doctors continue to be postponed.

"Unfortunately, as the election draws nearer, partisan rhetoric is getting as ugly as the numbers. This threatens to undermine the work of the president's bipartisan fiscal commission, which will need to produce recommendations that deviate from strict party orthodoxy if they hope to achieve success," said Concord Coalition Executive Director Robert L. Bixby.

"By any measure, today's CBO report paints an alarming picture. Debt held by the public reaches 69 percent of GDP at the end of 2020, with \$778 billion spent on interest costs that year. Furthermore, those numbers represent a 'best-case scenario' given our current political environment. Under more plausible assumptions, debt held by the public grows to 108 percent by 2020, rivaling the nation's highest level ever, while interest costs in that year would be over one trillion dollars -- larger than either defense spending or total non-defense discretionary spending. The report confirms that we are not going to grow our way out of the unsustainable budget path we're on and that finding solutions will require more than a few minor tweaks. If there is any good news, it is that we have it in our power to change course by setting priorities and making the hard choices. If Congress committed to follow a strict 'pay-as-you-go' regime, the deficit could at least temporarily be brought down to more sustainable levels," Bixby said.

The CBO report's economic analysis shows that over the short term, the weak economy is still the most dominant force in continued large deficits because of lower than normal tax revenues and substantially higher spending.

"The CBO clarifies that although our current deficit-financed fiscal policies might help our weak economy in the short term, they quickly become detrimental to our economy if continued beyond the next two years," said Concord Coalition Chief Economist Diane Lim Rogers. "Extension of even the so-called 'middle-class' portions of the 2001 and 2003 tax cuts is certainly not the most effective form of stimulus we could come up with, but any rationalization of these deficit-financed tax cuts for the short-term economy is wholly separate from the case for their permanent extension."

The August CBO baseline is the first since passage of health care reform and shows that reform has only a minimal effect on the overall budget deficit -- reducing it by \$148 billion over the 10-year budget window.

"Health care reform does little to improve the budget deficit over the next decade. When combined with CBO's long-term projections, the picture doesn't get much better in the second decade, when reform is fully phased in," said Concord Coalition Policy Director, Joshua Gordon. "Yet, even that small deficit reduction requires policymakers to follow through on the politically difficult cost controls embedded in the legislation. More importantly, the projections point out that we must continually revisit reform and build in more cost controls. The aging of the population and rapid growth of health care costs, which are so devastating to the sustainability of Medicare, Medicaid, and the federal budget, will not wait for policymakers to lick their wounds from past health care battles before deciding to tackle the issue again."

CBO's projections also assume that discretionary spending will decline significantly over the next ten years. For example, the CBO baseline assumes that nondefense discretionary outlays will decline from 4.5 percent of GDP in 2010 to 3.2 percent of GDP by 2020.

"Limiting nondefense discretionary spending to 3.2 percent of GDP would require a historic commitment to fiscal responsibility which has rarely occurred during the appropriations process. Congress has not met the 3.2 percent target since 1999, and that was the one time it has occurred since 1962," said Concord Coalition Chief Budget Counsel Cliff Isenberg.

For more on the Concord Coalition plausible baseline, visit:

<http://www.concordcoalition.org/learn/budget/concord-coalition-plausible-baseline>

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The Concord Coalition is a nonpartisan, grassroots organization dedicated to balanced federal budgets and generationally responsible fiscal policy. Former U.S. Senators Warren B. Rudman (R-NH) and Bob Kerrey (D-NE) serve as Concord's co-chairs and former Secretary of Commerce Peter G. Peterson serves as president.