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Soaring CBO deficit forecasts put major Obama initiatives at risk

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A sobering forecast of record federal deficits released by the Congressional Budget Office (CBO) March 20th will test President Obama's famous unflappability and sorely test congressional Democrats' patience in sticking with Obama's spending plans.

The 56-page CBO report, "A Preliminary Analysis of the President's Budget and an Update of CBO's Budget and Economic Outlook," contains the good news that "Although the economy is likely to continue to deteriorate for some time, the enactment of the American Recovery and Reinvestment Act and very aggressive actions by the Federal Reserve and the Treasury are projected to help end the recession in the fall of 2009." CBO forecasts that after dropping 1.5% for 2009, U.S. gross domestic product will grow by a better than previously expected 4.1 percent in both 2010 and 2011.

But even Obama supporters may question whether accelerating the shift from recession to recovery is worth the staggering price tag. Instead of the \$7 trillion in total federal deficits over the 2010-2019 period forecast in the President's budget proposal being considered by Congress, CBO now forecasts a \$9.3 trillion total deficit. Senator Chuck Grassley (R-IA), ranking member of the Senate Finance Committee and a senior member of the Senate Budget Committee, says that figure means "The White House should take a break from the heavy sales job on the budget and explain missing the mark on red ink by \$2.3 trillion."

CBO puts its grim forecast in perspective by explaining:

"For the next two years, CBO anticipates that economic output will average about 7 percent below its potential—the output that would be produced if the economy's resources were fully employed. That shortfall is comparable with the one that occurred during the recession of 1981 and 1982 and will persist for significantly longer—making the current recession the most severe since World War II. In CBO's forecast, the unemployment rate peaks at 9.4 percent in late 2009 and early 2010 and remains above 7.0 percent through the end of 2011. With a large and sustained output gap, inflation is expected to be very low during the next several years."

The CBO's latest forecast is likely to make it far more difficult for the White House to maintain congressional support for its aggressive budget proposals which include major initiatives on health care reforms, energy programs, and climate change. The administration response has been that the economic collapse it inherited from the Bush administration has turned out to be far more severe than expected – and accordingly the need for and costs of federal intervention are greater than anticipated. A sign of how much worse the current situation is than expected comes from CBO's latest forecast for the current 2009 fiscal year deficit: up by \$93 billion to \$1.8 trillion.

The Congressional Budget Office's 56-page preliminary budget report is available at: <http://www.cbo.gov/ftpdocs/100xx/doc10014/03-20-PresidentBudget.pdf>

President Obama's 146-page proposed budget, "A New Era of Responsibility: Renewing America's Promise," is available at: <http://www.gpoaccess.gov/usbudget/fy10/pdf/fy10-newera.pdf>

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