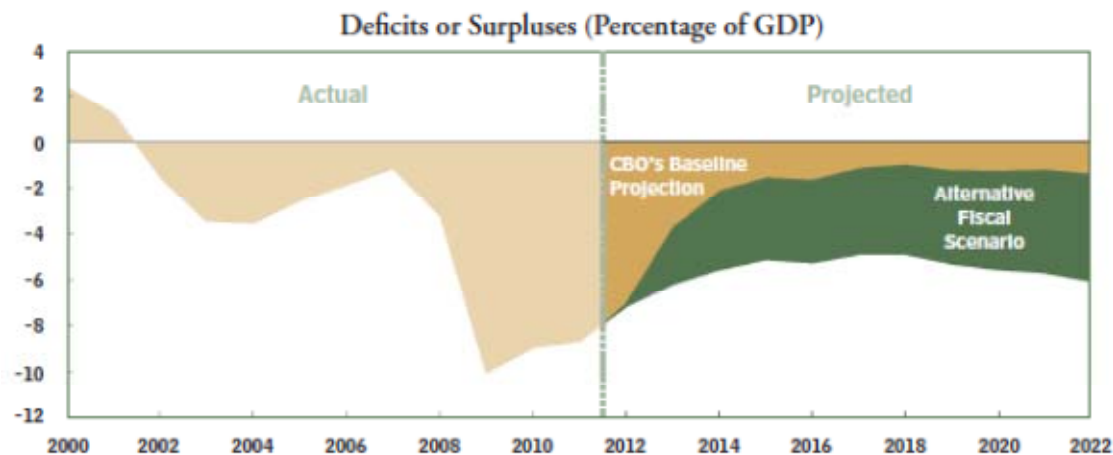


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U.S. Budget Deficit Could Decline

Stephen P. A. Brown

The newly released outlook for the federal budget by the Congressional Budget Office (CBO) shows the federal budget could decline over the next ten years.¹ According to the baseline projection, the federal deficit could be reduced to less than 2 percent of U.S. gross domestic product (GDP) by 2015 (chart). Under such a scenario, the federal debt would be 72.5 percent of GDP in 2012 and then gradually decline to 62.0 percent in 2022.



Source: Congressional Budget Office

The baseline projection may not materialize. To create the baseline, CBO assumes that current laws will remain unchanged, which would mean that the Bush-era income tax cuts will not be extended past 2012, physicians' fees under Medicare will be reduced by 27.0 percent in March 2012 and by additional amounts in subsequent years, and automatic procedures to reduce discretionary and mandatory spending will take effect in fiscal year 2013 and continue through 2021. If policymakers act to maintain the Bush-era tax cuts, prevent cuts in physicians' fees, and eliminate automatic procedures to reduce discretionary and mandatory spending, CBO projects a federal deficit that would average 5.4 percent of GDP from 2013-2022. Under such a scenario, the federal debt would be 72.7 percent of GDP in 2012 and then gradually rise to 94.2 percent in 2022.

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¹ See http://www.cbo.gov/ftpdocs/126xx/doc12699/01-31-2012_Outlook.pdf.