



Outlook Not So Good

Congressional Budget Office Predicts A Persistently Weak Economy And A Recession Next Year If Obama Gets His Wish To Go Over The Fiscal Cliff

OBAMA WILL RACK UP HIS FOURTH STRAIGHT TRILLION DOLLAR DEFICIT AND THE ECONOMY WILL REMAIN HISTORICALLY WEAK

The Congressional Budget Office (CBO) Is Predicting The Fourth Straight Deficit To Exceed \$1 Trillion At \$1.1 Trillion. "Congress' nonpartisan budget analysts are projecting a \$1.1 trillion federal deficit for 2012, the fourth straight year the government's shortfall will exceed \$1 trillion." ("Analysts Project \$1.1T Federal Deficit This Year," [The Associated Press](#), 8/22/12)

- **CBO: "The Federal Budget Deficit For Fiscal Year 2012 ... Will Total \$1.1 Trillion ... Marking The Fourth Year In A Row With A Deficit Of More Than \$1 Trillion."** ("An Update To The Budget And Economic Outlook: Fiscal Years 2012 To 2022," [Congressional Budget Office](#), 8/22/12)

CBO: "The Amount Of Federal Debt Held By The Public Has Skyrocketed In The Past Few Years, Rising From 40 Percent Of GDP At The End Of 2008 To An Estimated 73 Percent By The End Of This Year." ("An Update To The Budget And Economic Outlook: Fiscal Years 2012 To 2022," [Congressional Budget Office](#), 8/22/12)

- **According To The CBO, Federal Debt Held By The Public Will Reach The Highest Levels Since The 1950s.** "Federal debt held by the public will reach 73 percent of GDP by the end of this fiscal year—the highest level since 1950 and about twice the 36 percent of GDP that it measured at the end of 2007, before the financial crisis and recent recession." ("An Update To The Budget And Economic Outlook: Fiscal Years 2012 To 2022," [Congressional Budget Office](#), 8/22/12)
- **"The Budget Office Repeated A Warning It Made Earlier This Year, Saying The Long-Term Fiscal Outlook Is Uncertain."** ("Analysts Project \$1.1T Federal Deficit This Year," [The Associated Press](#), 8/22/12)

"In Addition, CBO Analysts Concluded That The Underlying Economy Is Weaker Than Previously Predicted." (Lori Montgomery, "Significant Recession Imminent If Congress Doesn't Act On Fiscal Cliff: CBO Report," [The Washington Post](#), 8/22/12)

- **GDP Growth From 2012 To 2022 Will Be Below The Average Rate Since 1950.** "Potential GDP is projected to grow at an average annual rate of 2.4 percent between 2018 and 2022 and by an average of 2.2 percent for the entire 2012–2022 period (see Table 2-3). Those rates are substantially below the average rate since 1950 of 3.3 percent, largely because growth in the potential labor force (the labor force adjusted for variations caused by the business cycle) is expected to slow from its average annual rate since 1950 of 1.5 percent to 0.5 percent over the

projection period, mostly because of the steady rise in baby boomers' retirements. CBO also expects the growth of potential capital services (the flow of services available for production from the stock of capital goods) and the growth of potential total factor productivity to be slightly slower over the coming decade than they have been, on average, since 1950." ("An Update To The Budget And Economic Outlook: Fiscal Years 2012 To 2022," [Congressional Budget Office](#), 8/22/12)

CBO: The Share Of Long-Term Unemployed In The Past Two And A Half Years Under Obama's Watch Has Been 40 Percent, Compared To 24 Percent In The 1981-1982 Recession. "Another measure of weakness in the labor market is the historically high share of unemployment accounted for by the long-term unemployed—people who have been seeking work for more than 26 consecutive weeks. That share has topped 40 percent for the past two and a half years (see Figure 2-5). By comparison, that share was about 24 percent following the severe recession of 1981–1982." ("An Update To The Budget And Economic Outlook: Fiscal Years 2012 To 2022," [Congressional Budget Office](#), 8/22/12)

- **CBO Predicts That Long-Term Unemployment Rate Will Be "Little Changed For The Rest Of The Year."** "Still, even after accounting for both factors, the decline in participation since the recession began has been surprisingly large. During the first half of this year, the participation rate has shown no clear trend, and CBO expects that it will be little changed for the rest of the year." ("An Update To The Budget And Economic Outlook: Fiscal Years 2012 To 2022," [Congressional Budget Office](#), 8/22/12)
- **CBS's Scott Pelley: "Never In The Last 60 Years Has The Length Of Joblessness Been As Long As It Has Been Recently."** "Nearly four million people, almost a third of the unemployed, have been out of work more than a year. They've been severed from the workforce." (CBS's "[60 Minutes](#)," 8/12/12)

OBAMACARE FAILS TO BEND THE COST CURVE AS SPENDING ON HEALTH PROGRAMS CONTINUES TO RISE THROUGH 2022

Spending On Mandatory Health Care Programs Will Total \$13.2 Trillion Through 2022, Growing From \$828 Billion In 2012 To \$1.8 Trillion In 2022. ("An Update To The Budget And Economic Outlook: Fiscal Years 2012 To 2022," [Congressional Budget Office](#), 8/22/12)

- **Spending On Medicare Is Expected To Total \$7.7 Trillion Through 2022, Growing From \$550 Billion In 2012 To \$1.1 Trillion In 2022.** ("An Update To The Budget And Economic Outlook: Fiscal Years 2012 To 2022," [Congressional Budget Office](#), 8/22/12)

CBO Projects That The Rising Price Of Goods And Services In The Obama Economy Will Boost Medicare Spending By \$136 Billion From 2013 To 2022. "CBO's current projections of productivity are lower than they were in its previous forecast, and its projected prices for goods and services (including the cost of both labor and non-labor inputs) are now higher. Consequently, CBO now anticipates higher payment rates for Medicare than it forecast in March, a change that raises projected outlays by \$136 billion (or about 2 percent) over the 2013–2022 period. In the Medicaid program, higher projected prices for medical services and the cost of labor are also expected to boost spending, by \$27 billion, between 2013 and 2022." ("An Update To The Budget And Economic Outlook: Fiscal Years 2012 To 2022," [Congressional Budget Office](#), 8/22/12)

- **Medicare Spending Will Grow From 3.7 Percent Of GDP To 4.3 Percent Of GDP In 2022.** "Outlays for Medicare (excluding receipts from premiums and other sources) will total 3.7 percent of GDP in 2013 but will reach 4.3 percent of GDP in 2022, CBO estimates, as enrollment increases." ("An Update To The Budget And Economic Outlook: Fiscal Years 2012 To 2022," [Congressional Budget Office](#), 8/22/12)
- **Mandatory Spending On Social Security, Medicare And Medicaid Will Account For 55**

Percent Of All Spending Through 2022. “The bulk of the government’s mandatory spending comprises outlays for Social Security and health care programs. Outlays for the three largest programs—Social Security, Medicare, and Medicaid—are projected to grow from 10.5 percent of GDP in 2013 to 12.2 percent in 2022, accounting for about 55 percent of all federal spending by the end of that period.” (“An Update To The Budget And Economic Outlook: Fiscal Years 2012 To 2022,” [Congressional Budget Office](#), 8/22/12)

CBO Reports That ObamaCare’s New Taxes Will Cost Americans \$18 Billion In 2013. “Some tax provisions of the Affordable Care Act, including an increase in the tax rates on earnings and investment income for high-income taxpayers, are scheduled to take effect in January 2013. Those provisions will raise revenues in fiscal year 2013 by about \$18 billion.” (“An Update To The Budget And Economic Outlook: Fiscal Years 2012 To 2022,” [Congressional Budget Office](#), 8/22/12)

Federal Spending On ObamaCare’s Exchanges Will Increase By \$164 Billion From 2013 To 2022. “As a result of the recent Supreme Court decision, CBO and the staff of the Joint Committee on Taxation (JCT) have increased their estimates of what the government will spend on subsidies provided through the health insurance exchanges starting in 2014. Largely because fewer individuals will be eligible for Medicaid, CBO and JCT anticipate that more people will be eligible for and will enroll in the exchanges than had previously been projected. Consequently, outlays for premium assistance credits and cost-sharing subsidies will be higher, by \$164 billion, during the 2013–2022 period, accounting for most of the increase in health insurance subsidies and other health care programs. (For the same reason, revenues will be \$46 billion lower over that period.)” (“An Update To The Budget And Economic Outlook: Fiscal Years 2012 To 2022,” [Congressional Budget Office](#), 8/22/12)

- **Spending On Health Insurance Subsidies And Exchanges Will Cost \$795 Billion Through 2022.** (“An Update To The Budget And Economic Outlook: Fiscal Years 2012 To 2022,” [Congressional Budget Office](#), 8/22/12)

THE LATEST UPDATE TO THE CBO’S ECONOMIC AND BUDGET OUTLOOK SAYS GOING OVER THE FISCAL CLIFF WILL LEAD TO A RECESSION IN 2013

“The Non-Partisan Congressional Budget Office On Wednesday Warned The Economy Will Enter A Recession Next Year If The Country Goes Over The So-Called Fiscal Cliff.” (Erik Wasson, “CBO Warns Of Deep Recession If Congress Fails To Stop ‘Fiscal Cliff,’” *The Hill* [“On The Money.”](#) 8/22/12)

- **“In Its Most Dire Warning Yet About The Fiscal Cliff Yet, The CBO Said The Economy Would Contract By 0.5 Percent In Calendar Year 2013 If The Bush-Era Tax Rates Expire And Automatic Spending Cuts Are Implemented.”** (Erik Wasson, “CBO Warns Of Deep Recession If Congress Fails To Stop ‘Fiscal Cliff,’” *The Hill* [“On The Money.”](#) 8/22/12)

The Congressional Budget Office Warns That Going Over The Fiscal Cliff “Will Lead To Economic Conditions In 2013 That Will Probably Be Considered A Recession ...” “With those and other policy changes contained in current law, the deficit will shrink to an estimated \$641 billion in fiscal year 2013 (or 4.0 percent of GDP), almost \$500 billion less than the shortfall in 2012 (see Summary Table 1). Such fiscal tightening will lead to economic conditions in 2013 that will probably be considered a recession, with real GDP declining by 0.5 percent between the fourth quarter of 2012 and the fourth quarter of 2013 and the unemployment rate rising to about 9 percent in the second half of calendar year 2013 (see Summary Table 2).” (“An Update To The Budget And Economic Outlook: Fiscal Years 2012 To 2022,” [Congressional Budget Office](#), 8/22/12)

- **CBO: Private Sector Spending Will Be Constrained Due To Concerns Over Going Off The Fiscal Cliff.** “Those projections reflect CBO’s view that private-sector spending later this year will

be limited by the specter of fiscal tightening and a looming recession in 2013.” (“An Update To The Budget And Economic Outlook: Fiscal Years 2012 To 2022,” [Congressional Budget Office](#), 8/22/12)

CBO: “The Contraction Of The Economy Will Cause Employment To Fall And The Unemployment Rate To Rise To 9.1 Percent In The Fourth Quarter Of 2013.” “The contraction of the economy will cause employment to fall and the unemployment rate to rise to 9.1 percent in the fourth quarter of 2013, CBO projects (see Figure 2-7).” (“An Update To The Budget And Economic Outlook: Fiscal Years 2012 To 2022,” [Congressional Budget Office](#), 8/22/12)

Dems Have Made Clear They Will Go Over The Cliff If They Don't Get Their Tax Hikes

The Washington Post Headline: “Democrats Threaten To Go Over ‘Fiscal Cliff’ If GOP Fails To Raise Taxes.” (Lori Montgomery, “Democrats Threaten To Go Over ‘Fiscal Cliff’ If GOP Fails To Raise Taxes,” [The Washington Post](#), 7/15/12)

President Obama Was “Intrigued By [The] Elegance” Of Allowing All Of The Bush Tax Cuts To Expire In Order To Cut The Deficit. “In November 2009, Orszag would tout an idea that divided the economic team and inspired contempt in the political shop: extending for one or two years George W. Bush’s middle class cuts, which were scheduled to expire in 2011, then letting them lapse unless Congress found a way to offset their costs. During a meeting with Obama in the Oval Office, he casually outlined the proposal. The obvious defect was that it would be likely to break the president’s campaign pledge to oppose tax increases on the middle class. Nevertheless, Obama was intrigued by its elegance as a deficit-cutting maneuver, according to two people in the room. He also liked the idea of forcing Republicans to grapple with the costs of Bush’s policies. Only later did the politicians revolt—the vice president, for one, was apoplectic—and the president lost interest.” (Noam Scheiber, *The Escape Artists*, 2012, p. 154-155)

- **Obama Would Block Extension Of The Reductions, Either As A Final Act In Office After Losing The November 2012 Election Or After Winning A Second Term.** “A White House official argued Sunday that the president had another trump card to play: the scheduled expiration of the George W. Bush tax cuts at the end of 2012. Obama would block extension of the reductions, either as a final act in office after losing the November 2012 election or after winning a second term.” (Peter Wallsten and David Nakamura, “Did Obama Capitulate – Or Is This A Cagey Move?” [The Washington Post](#), 7/31/11)

Democrats Have “Made Clear That They Are Ready” To Go Off The Fiscal Cliff. “Democrats have made clear that they are ready to allow tax rates to rise and automatic cuts to kick in for both defense and domestic programs in order to pressure Republicans into cutting a deal with them.” (Kelsey Snell, “Why Dems Are Talking Tough On The Fiscal Cliff,” [National Journal](#), 7/26/12)

- **MSNBC’S Lawrence O’Donnell: “They Will Go Off The Cliff.”** LAWRENCE O’DONNELL: “They will go off the cliff. Democratic Senators now have been saying to me for months that they actually, the strategy is to go off the cliff, they have to.” (MSNBC’s “Morning Joe,” 8/15/12)

Sen. Patty Murray (D-WA), Indicated That She Is Willing To Go Off The Fiscal Cliff Unless A Final Deal Includes Raising Taxes. “In the latest turn of events, Sen. Patty Murray, a leading Senate Democrat, said Monday that no deal will be cut until Republicans agree to raise taxes on high-income households. ‘If we can’t get a good deal, a balanced deal that calls on the wealthy to pay their fair share, then I will absolutely continue this debate into 2013 rather than lock in a long-term deal this year that throws middle class families under the bus,’ Murray said in prepared remarks at the Brookings Institution.” (Jeanne Sahadi, “Fiscal Cliff Fight Is On, And Economy Suffers,” [CNN](#), 7/16/12)

Former DNC Chairman Gov. Howard Dean Said “I Think We Ought To Go Over The Fiscal Cliff.” HOWARD DEAN: “If you do that, you go through two quarters of recession according to CBO and then we

come out and you eliminate a tremendous portion of the deficit, and you cut defense, which hasn't been done for years and years and years. You restore the Clinton tax rates which we are going to have to do because we have to pay more. No, I think we ought to go over the fiscal cliff. It's not a great alternative but the Congress is incapable of anything else. We ought to do it." (MSNBC's ["Morning Joe,"](#) 8/3/12)