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JEC DEMOCRATIC STAFF REPORT FINDS SIGNIFICANT RISK OF RETURNING TO DEFICITS, RETIRING LESS DEBT OVER TIME, AND HAVING MORE DEBT IN 2011 THAN TODAY

Washington, D.C. – An update of the Congressional Budget Office’s January analysis of the distribution of possible budget outcomes by the Democratic Staff of the Joint Economic Committee shows a growing probability – a one in five chance – that the overall budget could be in deficit in 2006. The report, *A Return to Deficits?*, also finds that there is an increasing likelihood that the large tax cut will worsen the government’s fiscal position, possibly erasing the surplus and increasing the national debt by the end of the decade.

The analysis assumes a continuation of current laws and policies, and notes that action on popular measures – such as the President’s defense request, a new prescription drug benefit, and agriculture programs – would further increase the probability of deficits re-emerging.

Uncertainty in the budget forecasts implies a corresponding uncertainty about our ability to pay down debt. The JEC Democratic Staff analyzed the probability distribution of debt forecasts and found the following:

- The Federal government has about a 50-50 chance of still being a net debtor in 2011.
- There is an almost even chance (better than 45 percent) that the amount of debt that will be paid down by 2011 is less than the maximum that could be paid down.
- There is a 15 to 20 percent – or nearly one in five – chance that the debt held by the public in 2011 will be *greater* than it was at the end of 2001.

Economic stimulus is needed in the short-term, justifying tax rebates now, but the Administration’s long-term fiscal policy puts the U.S. economy on a risky path that undermines fiscal discipline, according to the report. “Given the uncertainty of our surplus projections – indeed, the 15 to 20 percent possibility of a deficit by 2006 – it would be prudent to take a more conservative budget path. Ensuring that we will be able to pay down our debt will put us in a stronger position to meet our future commitments to Social Security and Medicare, as the Administration has promised we will do,” the report states.

The Joint Economic Committee, established under the Employment Act of 1946, was created by Congress to review economic conditions and to analyze the effectiveness of economic policy.

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