

HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

B-71 Cannon HOB ■ Washington, DC 20515 ■ 202-226-7200 ■ www.house.gov/budget_democrats

August 17, 2006

CBO's Summer Budget Update

Key Points

- **Sixth Largest Deficit in History** — The Congressional Budget Office (CBO) estimates that 2006 will close with a \$260 billion deficit, the sixth biggest deficit in history, and that the deficit for next year will be even worse, at \$286 billion. In addition to these deficits, the Bush Administration also has presided over the three largest deficits in history. Excluding the Social Security surplus from the calculations, the 2006 deficit is \$437 billion.
- **Administration Policies Make the Deficit Worse** — The Administration may cite today's numbers as evidence that its policies have improved the budget's bottom line, but in fact they have made the budget situation worse. Today's report is a reminder of the dramatic fiscal reversal that has occurred since a record \$236 billion surplus was recorded in 2000, the last year of the Clinton Administration. In 2001, the Bush Administration predicted a 2006 surplus of \$305 billion under its policies; today's estimate marks a decline of \$565 billion for 2006 alone.
- **Ten-Year Deterioration of \$8.6 Trillion Under This Administration** — The Bush Administration took office in 2001 with a projected surplus of \$5.6 trillion over the ten years of 2002 to 2011. The Administration has replaced that surplus with record deficits and mounting debt. When the cost of Administration policies (such as the full cost of the war and the cost of the Administration's tax agenda) are added to today's projections, the result is a projected deficit of \$3.0 trillion from 2002 to 2011 – a swing of \$8.6 trillion in the wrong direction.
- **Large Long-Term Deficits Are Not Sustainable** — This Administration's fiscal policies have placed us on an unsustainable long-term fiscal path. When the cost of Administration policies and other likely costs are factored into today's forecast, the annual deficit never gets smaller than \$260 billion, and by 2016 the expected deficit deepens to \$485 billion. As bad as these numbers are, they grow dramatically worse when the Social Security surplus is excluded from the calculations, as it should be. Such large deficits waste scarce resources on interest payments and slow long-term economic growth. With the impending Baby Boom retirement, our nation should be saving, not borrowing at the levels envisioned in today's forecast.
- **Large Deficits Create a Growing Burden of Debt** — The Bush Administration's first budget forecast no increases in the debt limit before 2008. Instead, the national debt has skyrocketed, requiring four increases in the debt limit, totaling \$3 trillion, since 2002. Over the next five years, debt service (net interest) is the fastest growing item in the budget. An increasing portion of these interest payments will flow outside the country because the share of our national debt owned by foreign investors continues to increase.

CBO Report Confirms Large Deficits

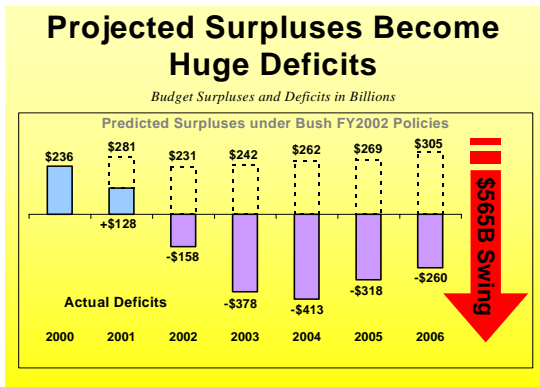
Administration Continues to Rack Up Large Deficits — A 2006 deficit of \$260 billion is an improvement over the 2005 deficit of \$318 billion, but is a dramatic deterioration from the \$236 billion surplus achieved in 2000, the last year of the Clinton Administration. The 2006 deficit is on track to be the sixth largest deficit in history. The three largest deficits in history also occurred under the Bush Administration’s policies.

Bush Administration Posts Record Deficits		
<i>Largest Deficits in History</i>		
<u>Year</u>	<u>Deficit</u>	<u>Rank</u>
2003	-\$378 Billion	2 nd
2004	-\$413 Billion	1 st
2005	-\$318 Billion	3 rd
2006	-\$260 Billion	6 th

Social Security Surplus Masks True Extent of Deficit — The 2006 deficit figure released today includes in its calculation a 2006 estimated Social Security surplus of \$177 billion. When this surplus is excluded from the calculations – as it should be, given that those resources are dedicated to paying Social Security benefits and are legally off-budget – then the remaining deficit for 2006 is \$437 billion.

Deficit Is Ten Percent of the Budget — To give a sense of the size of a \$260 billion deficit, it is equal to one-tenth of all federal spending. A \$260 billion deficit is equal to all current spending for the Departments of Education, Homeland Security, Veterans Affairs, Justice, and the National Science Foundation combined.

Budget Has Deteriorated Sharply Under Administration’s Policies — The Administration’s supporters are likely to claim that a deficit of \$260 billion demonstrates the effectiveness of the Administration’s policies. Clearly, though, the net effect of this Administration’s policies – including its costly tax agenda – has been to worsen, not improve, the budget outlook. When the Bush Administration took office in 2001, it forecast a 2006 surplus under its policies of \$305 billion; today’s estimate thus reflects a \$565 billion deterioration under this Administration for 2006 alone. Even after September 11 and the 2001 recession, the Administration’s February 2002 budget predicted that the 2006 budget would be in surplus – a sharp contrast to the \$260 billion deficit now anticipated.



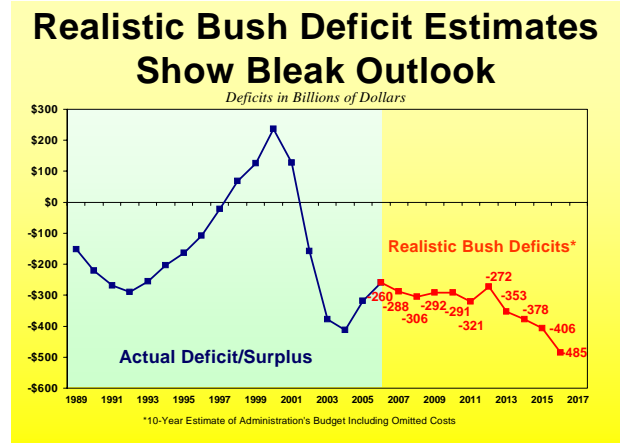
Republicans Have No Plan to Balance the Budget — Although a deficit of \$260 billion represents an improvement from the 2004 record deficit of \$413 billion, one should not conclude that the budget is on a glide path to reach balance. On the contrary, a realistic estimate of where the budget is headed under Administration policies – discussed in the next paragraph – shows large deficits for the foreseeable future.

Including Cost of Administration Policies Produces Large Deficits As Far As the Eye Can See — As required by the Budget Act, CBO’s baseline deficit estimates assume no policy changes to current law. The long-term outlook is even bleaker when CBO’s estimates are adjusted to include the cost of the Administration’s policy proposals (including its tax agenda and Social Security privatization plan), as well as the full cost of the war and the cost of repairing the Alternative Minimum Tax. After making these realistic adjustments to reflect the Administration’s agenda and

other likely costs, annual deficits over the next decade never shrink below this year's \$260 billion deficit, and by 2016 the deficit increases to \$485 billion. Over the ten-year period 2002-2011, the \$5.6 trillion projected surplus inherited by this Administration becomes a deficit of \$3.0 trillion, an \$8.6 trillion deterioration.

Increased Receipts, But Revenues Still Lag Below Projected Levels

— Today's estimates mark an improvement relative to estimates from earlier in the year, primarily because receipts are coming in at higher levels than earlier estimated. Revenues are nevertheless still far below the level projected when President Bush took office. In January 2001, CBO projected that 2006 revenues would amount to \$2.7 trillion. Instead, CBO's estimate today indicates that 2006 revenues will amount to \$2.4 trillion – \$286 billion below the level projected by CBO prior to the President's tax cuts. The Administration's first budget, released in April 2001, estimated that after the President's tax cuts, revenues for 2006 would total \$2.5 trillion – meaning that revenues for 2006 alone are \$126 billion below the Administration's initial estimate.



Surges and Dips in Revenues Are Not Uncommon — Many Republicans will likely cite this year's revenue increase as an example of the tax cuts' effectiveness. In truth, however, the increase in revenues is due to a variety of factors, including inflation, population growth, changes in the size of the economy and the composition of income, and the timing of tax payments. Volatility in revenues – unexpected surges (as have occurred this year and last year) and unexpected dips (as occurred annually from 2001 to 2003) – are common, and underscore the need to evaluate long-term fiscal trends, rather than short-term fluctuations.

2006 Deficit Roughly Equal to the Cost of Administration's Tax Cuts — The budgetary effect in 2006 of all tax cuts enacted since 2001 is about equal to the \$260 billion deficit now expected. The cost of the tax cuts includes the loss of revenue estimated by the Joint Committee on Taxation at the time the legislation was enacted, any associated changes in outlays, and the billions in additional interest costs needed to service the increased debt the tax cuts have produced.

CBO Estimates Do Not Represent Improvement Relative to Last Month's OMB Estimate — While today's CBO estimate of a \$260 billion 2006 deficit is different from OMB's July estimate of a \$296 billion deficit, this difference does not represent an improvement of \$36 billion. Differences between the two estimates reflect accounting differences rather than meaningful changes in receipts or expenditures. Indeed, CBO estimates the same level of revenues for 2006 as did OMB. On the expenditure side, CBO and OMB make slightly different assumptions about when agencies will actually spend certain funding that has already been approved, resulting in an estimating difference of about \$30 billion for 2006. Finally, CBO's estimates do not include the enactment of \$6 billion of Administration policy proposals that OMB's figures do assume.

Democrats Balance the Budget — House Democrats have repeatedly brought to the House floor budgets that return to balance. Democrats also continue to advocate the reinstatement of the tough pay-as-you-go (PAYGO) budget enforcement rules that helped turn record deficits to record surpluses in the 1990s.

Deficits and Debt Burden the Economy and Waste Scarce Resources

Republican Deficits Lead to Mounting Burden of Debt That Future Generations Will Have to Repay — The deficits created under this Administration’s fiscal policies have created a growing burden of debt that will have to be repaid – with interest – by future generations. During this Administration, debt held by the public has increased by more than one-third, rising by \$1.2 trillion from a total of \$3.4 trillion at the end of 2000 to a total of \$4.6 trillion at the end of 2005. The national debt has been growing faster than the economy: as a percentage of Gross Domestic Product, publicly held debt rose from 35.1 percent to 37.4 percent in just five years.

Republicans Increase the Debt Limit Four Times So Far

— When it took office in 2001, this Administration’s first budget projected that under its policies no increase in the legal debt limit would be required until 2008. In fact, this Administration has required four increases in the debt ceiling totaling \$3.0 trillion, and Republican budgets call for additional increases. This year’s House-passed budget resolution, for example, calls for an additional \$653 billion increase in the debt ceiling.

Republicans Raised the Debt Limit by **\$3.0 Trillion**

Debt Limit Increases, in Billions

June 2002	\$450
May 2003	\$984
November 2004	\$800
March 2006	\$781
Total Increases	\$3,015
Further Increase in FY'07 House Budget Resolution	\$653

Rapid Increase in Foreign-Held Debt — The Bush Administration’s deficits have been financed primarily by foreign investors, who now hold nearly 45 percent of our public debt. Indeed, increased foreign-held debt equals three-quarters of the overall increase in the public debt that has occurred during this Administration. The amount of our public debt held by foreign investors has more than doubled during the Bush Administration, from \$1.0 trillion in 2001 to \$2.1 trillion in 2006, and the Bush Administration already has accrued more foreign debt than the previous 42 presidents combined. The rise in foreign-held debt is troubling because it increases our economy’s vulnerability to potential political or economic instability from abroad. Meanwhile, the interest payments on foreign-held debt are sending U.S. tax dollars overseas, thus reducing our standard of living. In 2005 alone, local, state, and federal government interest payments to foreign investors totaled \$114 billion.

Amount of Foreign-Held Debt More Than Doubles Under Bush Administration

Trillions of Dollars



Interest Payments on the Debt Are Wasted

Resources — Just like interest payments on a family’s credit card, every dollar spent on interest on the national debt is a dollar that cannot be used to educate a child, build a road, or keep the nation secure. Because of the growing mountain of debt under the current Administration, the federal government’s interest payment is the fastest growing category of federal spending over the next five years, and has increased by a double-digit percentage for the last two years. Interest payments on the debt are far greater than spending on most other national priority items, such as homeland

What Else Could We Do with the **\$504 Million** in Interest the Country Pays **Every Day** on Publicly Held Debt?

▪ Hire 8,930 new airport screeners



▪ Provide health care to 71,479 more veterans



▪ Give each college freshman \$342 in tuition assistance



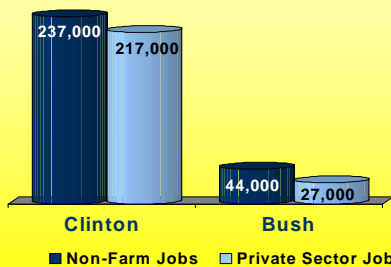
▪ Improve Social Security solvency by half a billion dollars

security, education, and veterans' health care. By 2011, annual interest payments under the Administration's budget will increase to \$302 billion, an increase of 38 percent above the current level.

Growing Debt Is Long-Term Drag on the Economy — Although the Administration has claimed that its deficits are “manageable,” mainstream economists are in agreement that large, persistent deficits represent a burden on the economy. Government borrowing puts upward pressure on interest rates and the cost of capital, crowds out private investment, and undermines long-term economic growth. As former Federal Reserve Chairman Alan Greenspan warned last year, “at some point these deficits would cause the economy to stagnate or worse,” if left unaddressed.

Bush Economic Policies Fall Short

Average Monthly Job Gains Under Clinton and Bush Administrations

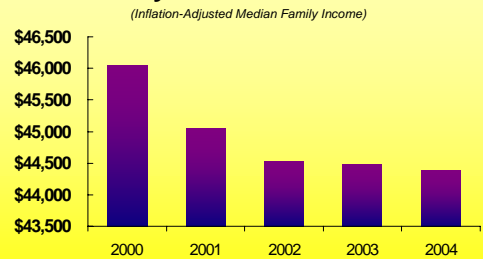


Job Growth Has Been Weak Under President Bush, Despite Claims to the Contrary — The net job gain during this Administration is just 2.9 million jobs, far below the net 22.7 million new jobs created during the eight years of the Clinton Administration. Monthly job growth under this Administration has averaged just 44,000 – the lowest since the Eisenhower Administration, far below the monthly average of 237,000 new jobs achieved by the Clinton Administration, and far below the roughly 150,000 new jobs per month that are needed to keep pace with the normal growth of the labor force.

Household Income Declines Under Bush Administration

— Median annual household income has *decreased* by \$1,700 after accounting for inflation over the course of the Bush Administration. This decrease in inflation-adjusted income has been accompanied by greater debt and less saving for American families – the personal saving rate is at its lowest level since the Great Depression and average family debt increased by one-third over the first three years of this Administration, after accounting for inflation.

Typical Family Income Decreases Every Year Under Bush



Wage Growth for American Workers Difficult to Achieve — CBO now forecasts that wages and salaries earned by American workers will be lower – by \$56 billion in 2006, \$29 billion in 2007, and \$225 billion over the ten-year (2007-2016) budget window – relative to its January forecast. At the same time, CBO increased its estimate of inflation in 2006 and 2007, meaning that the increase in prices will compound the problem of dropping wages, making it more difficult for American families to buy necessary goods and services. In fact, inflation-adjusted hourly wages have dropped by 1.3 percent since August 2003, when the economy stopped losing jobs. Even though the average number of hours worked has increased since then, the increase in hours has not been sufficient to keep inflation-adjusted weekly wages from actually declining slightly over that period. During the entire Bush Administration, inflation-adjusted weekly wages have barely risen, increasing by just 0.8 percent between January 2001 and June 2006.

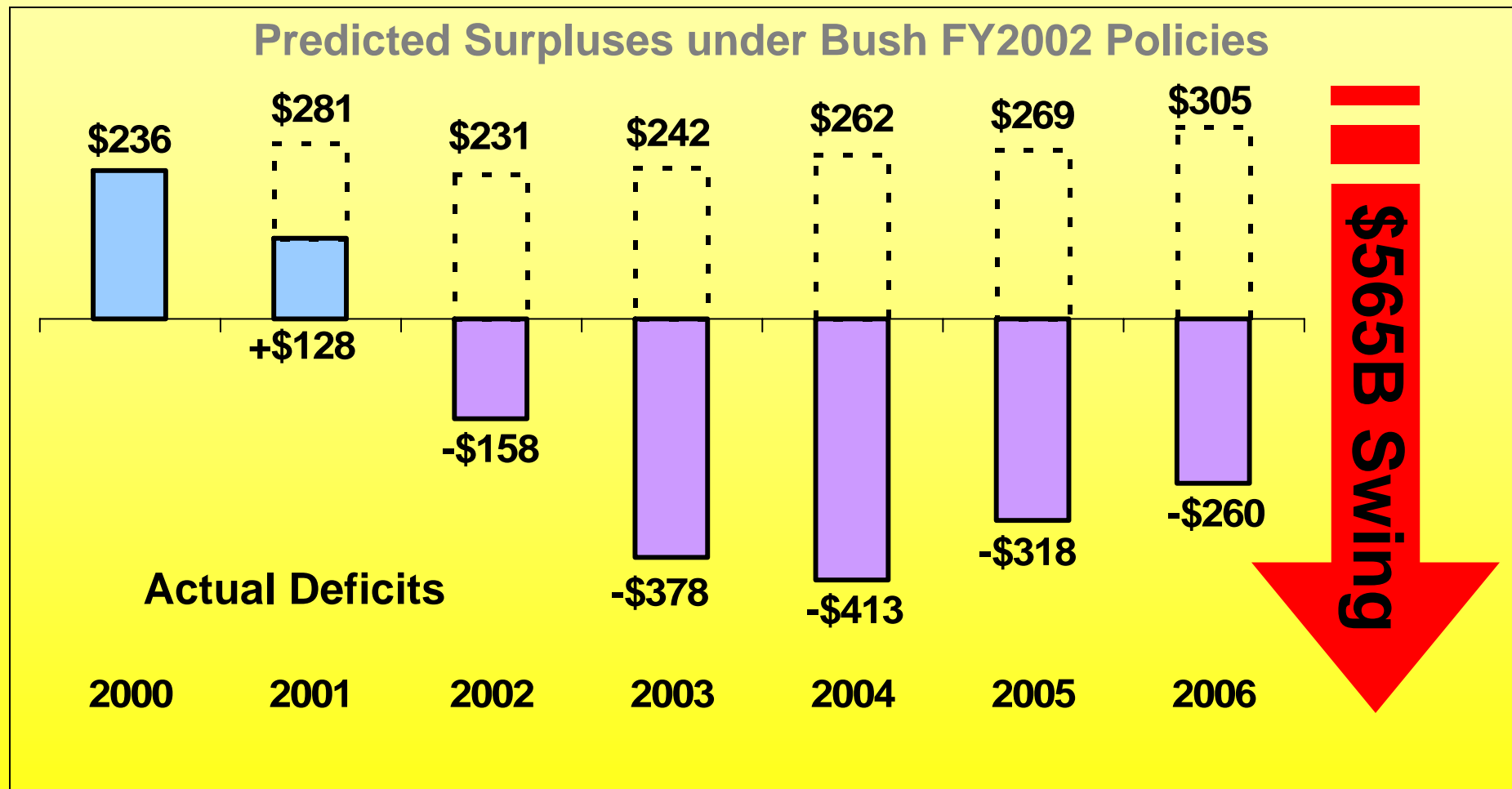
Bush Administration Posts Record Deficits

Largest Deficits in History

<u>Year</u>	<u>Deficit</u>	<u>Rank</u>
2003	-\$378 Billion	2nd
2004	-\$413 Billion	1st
2005	-\$318 Billion	3rd
2006	-\$260 Billion	6th

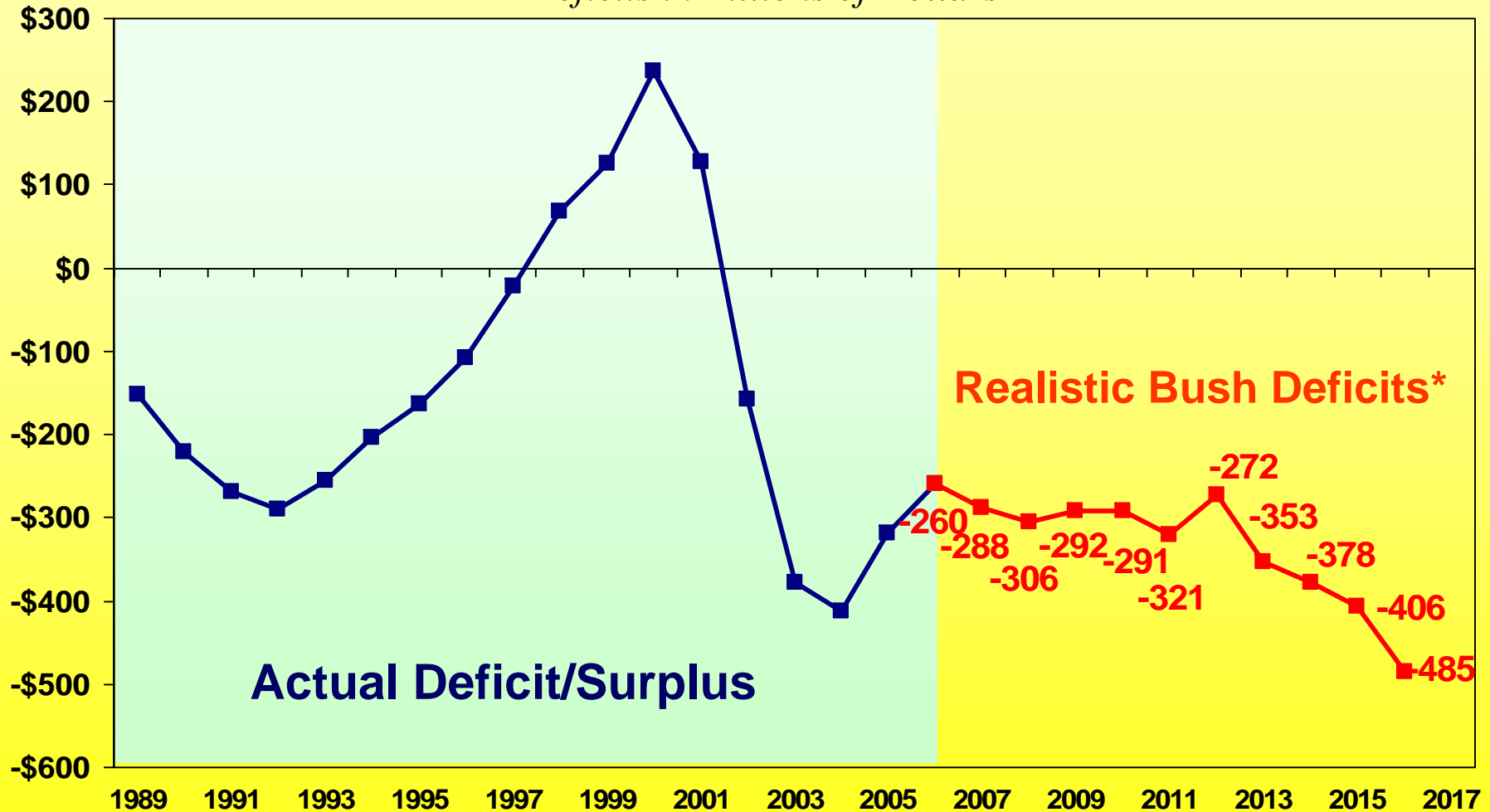
Projected Surpluses Become Huge Deficits

Budget Surpluses and Deficits in Billions



Realistic Bush Deficit Estimates Show Bleak Outlook

Deficits in Billions of Dollars



*10-Year Estimate of Administration's Budget Including Omitted Costs

Republicans Raised the Debt Limit by **\$3.0 Trillion**

Debt Limit Increases, in Billions

June 2002	\$450
May 2003	\$984
November 2004	\$800
March 2006	\$781
Total Increases	\$3,015
Further Increase in FY'07 House Budget Resolution	\$653

Republicans Nearly Double the Debt Limit

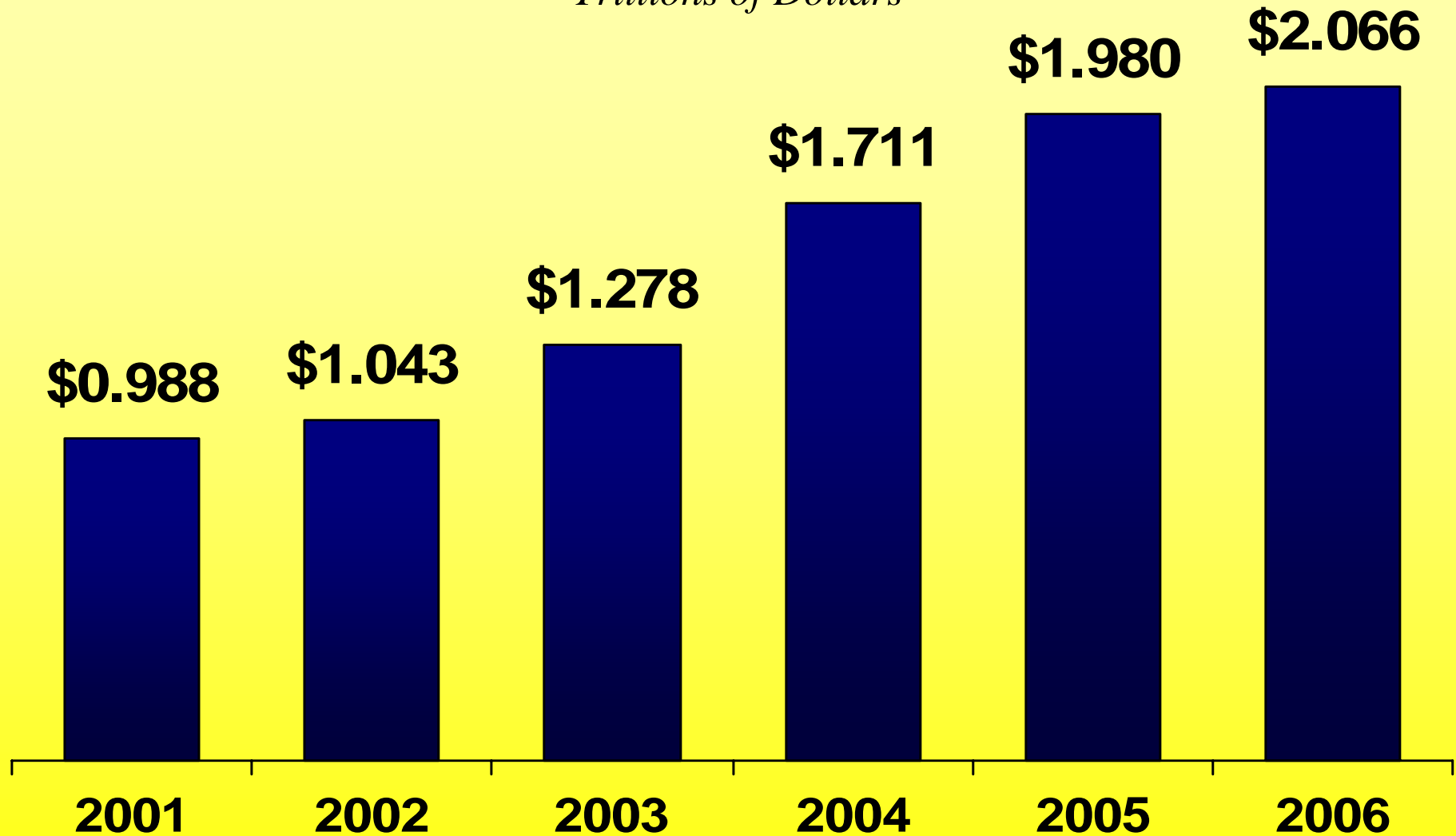
Debt Limit When Bush Took Office	\$5.95 Trillion
----------------------------------	-----------------

Increases	June 2002	\$6.40 Trillion
	May 2003	\$7.38 Trillion
	November 2004	\$8.18 Trillion
	March 2006	\$8.97 Trillion
	FY07 Budget Resolution	\$9.62 Trillion

Debt Limit Under Republicans by 2011	\$11.3 Trillion
--------------------------------------	-----------------

Amount of Foreign-Held Debt More Than Doubles Under Bush Administration

Trillions of Dollars



Annual totals calculated in April of each year

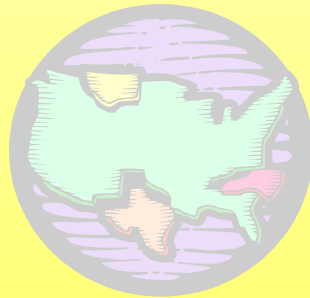
Prepared by the House Budget Committee Democratic Staff

Source: U.S. Treasury International Capital System

7/11/2006

What Else Could We Do with the **\$504 Million** in Interest the Country Pays **Every Day** on Publicly Held Debt?

- Hire 8,930 new airport screeners



- Provide health care to 71,479 more veterans

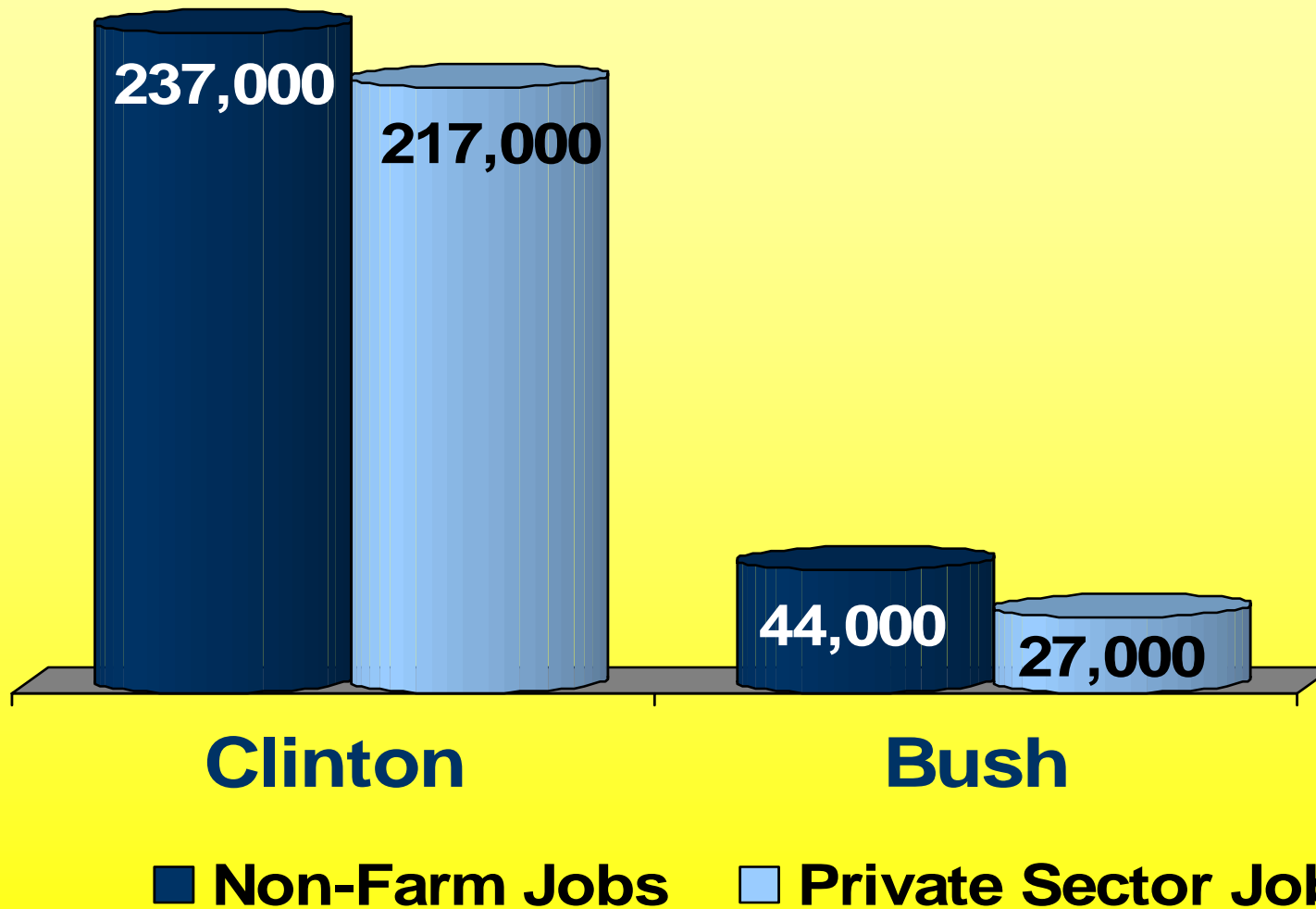


- Give each college freshman \$342 in tuition assistance



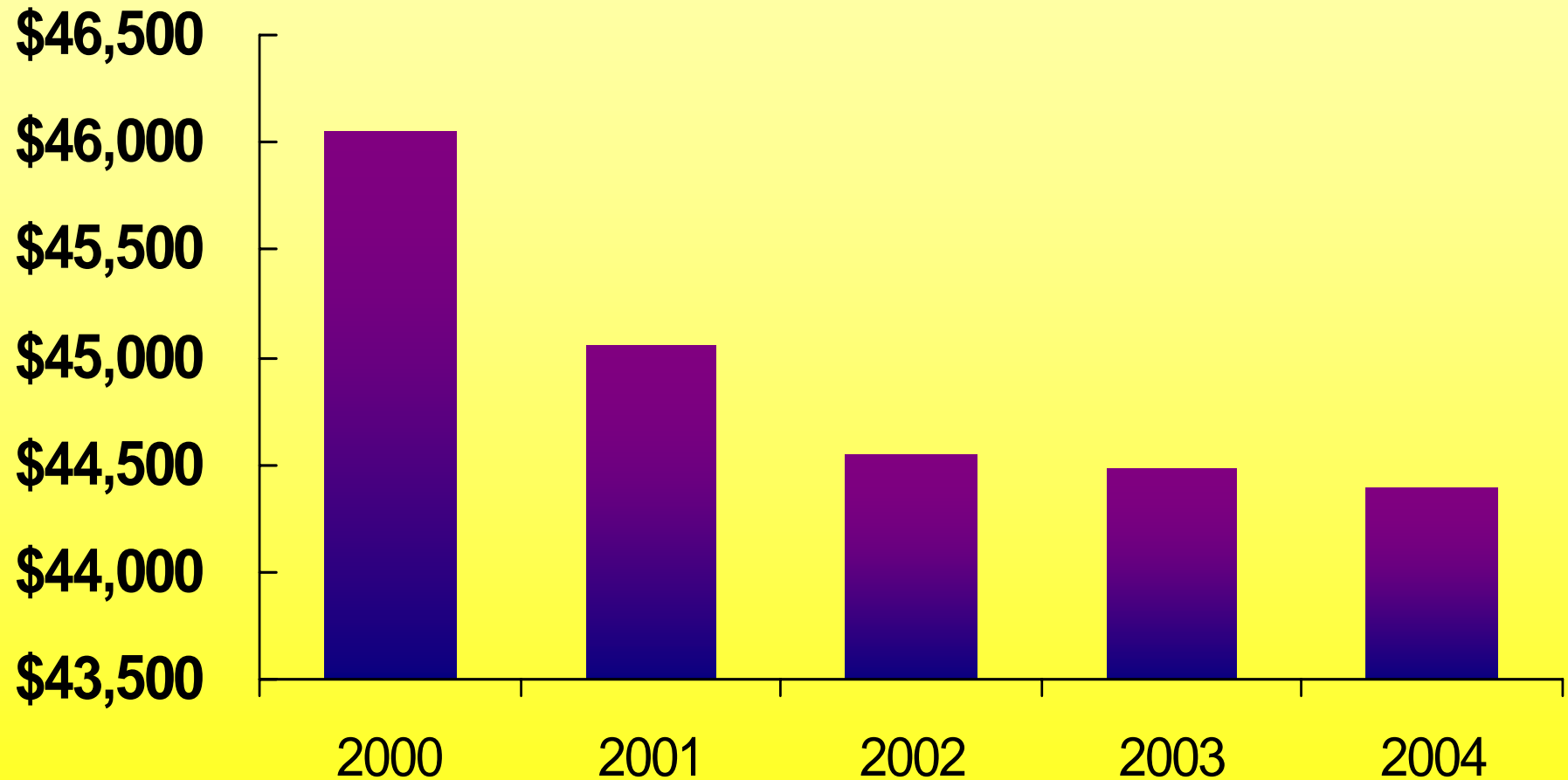
- Improve Social Security solvency by half a billion dollars

Average Monthly Job Gains Under Clinton and Bush Administrations



Typical Family Income Decreases Every Year Under Bush

(Inflation-Adjusted Median Family Income)



CBO Budget and Economic Outlook: August 2006 Update

Billions of Dollars	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total 2007-2016	Total 2007-2011
CBO Baseline Deficits, August 2006	-260	-286	-273	-304	-328	-227	-54	-76	-64	-56	-93	-1761	-1418
Repeating Supplemental	0	-70	-139	-179	-203	-222	-237	-253	-269	-286	-305	-2165	-814
Baseline w/o Repeating Supplemental	-260	-216	-134	-125	-124	-4	183	178	205	230	212	404	-604
The President's Budget													
Tax Policies*		-4	-9	-15	-27	-170	-268	-297	-310	-324	-340	-1764	-226
War Funding **		-55	-71	-23	-7	-2	-1	0	0	0	0	-159	-158
Defense Appropriations Increase		-6	-19	-31	-34	-33	-34	-34	-35	-36	-36	-298	-123
Non-Defense Appropriations Cut		1	11	22	31	43	47	49	51	53	55	362	107
Entitlement Cuts		-1	9	14	13	17	16	20	24	32	40	184	52
Social Security Privatization		0	0	-1	-1	-18	-38	-55	-61	-66	-72	-312	-19
Debt Service	0	-2	-6	-8	-10	-15	-26	-41	-58	-77	-96	-338	-40
Total Changes	0	-67	-85	-42	-35	-178	-303	-358	-388	-417	-450	-2325	-408
Resulting Deficits	-260	-284	-219	-167	-159	-183	-119	-181	-183	-188	-238	-1921	-1012
Omitted Items													
Repair AMT***	0	-4	-65	-60	-71	-82	-95	-108	-123	-139	-155	-901	-282
Ongoing Military Operations***	0	0	-19	-57	-48	-37	-32	-31	-30	-29	-30	-313	-161
Debt Service		0	-2	-7	-13	-19	-26	-33	-42	-51	-62	-256	-42
Total Changes		-5	-86	-125	-132	-138	-153	-172	-194	-219	-247	-1470	-486
Realistic Bush Deficits	-260	-288	-306	-292	-291	-321	-272	-353	-378	-406	-485	-3391	-1498
The President's Budget (per OMB)	-296	-339	-188	-157	-123	-127							-934

Baseline estimates assume tax cuts expire as written in law and 2006 emergency supplemental funding repeats every year and grows with inflation
negative items make deficits worse

* Includes outlay effects. Amounts reduced by tax cuts enacted in H.R. 4297

** \$110 billion for 2007 and \$50 billion for 2008

*** CBO estimates of policy reduced by amounts included in the President's Budget