HOUSE BUDGET COMMITTEE

Democratic Caucus

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

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Frequently Asked Questions About the Federal Budget

1. What were federal revenues, spending, and the deficit for 2005?

2005 Federal Budget Summary		
Total Budget (Including Social Security)		
Revenues: $2.154 trillion	Spending: $2.472 trillion	Deficit: $318 billion
On-Budget (Excluding Social Security)		
Revenues: $1.576 trillion	Spending: $2.070 trillion	Deficit: $493 billion

2. What is the expected deficit for 2006?

In March, the Congressional Budget Office (CBO) projected that the 2006 deficit would be $336 billion. In the May Monthly Budget Review, CBO said the 2006 deficit could be as low as $300 billion. CBO will release official updated estimates in August.

3. What comprises federal spending and revenues?

According to CBO projections, the federal government will collect $2.3 trillion in revenues in 2006 from various sources. Individual income taxes make up $1.0 trillion of the amount, or 43.4 percent.

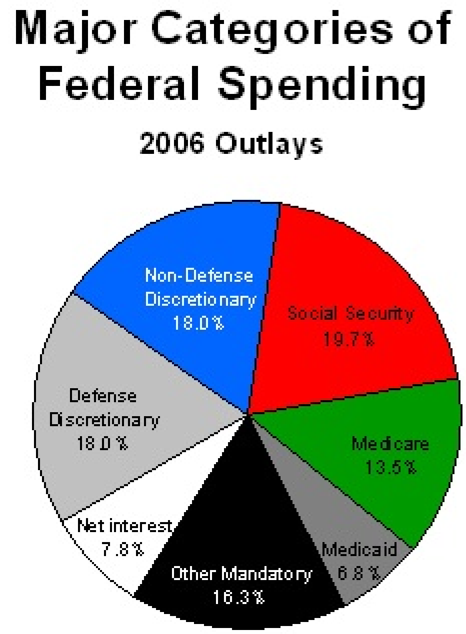
Total federal government spending (including Social Security) for 2006 is projected to be $2.6 trillion. "On-budget" spending, which excludes Social Security and net spending of the Postal Service, will be $2.2 trillion. "Off-budget" spending will be the additional $428 billion.

2006 Revenues By Source

	$ in Billions	*% of Total*
Individual Income	1,003	*43.4*
Corporate Income	302	*13.1*
Social Insurance	838	*36.2*
Excise	75	*3.2*
Estate and Gift	28	*1.2*
Customs Duties	25	*1.1*
Miscellaneous	41	*1.8*

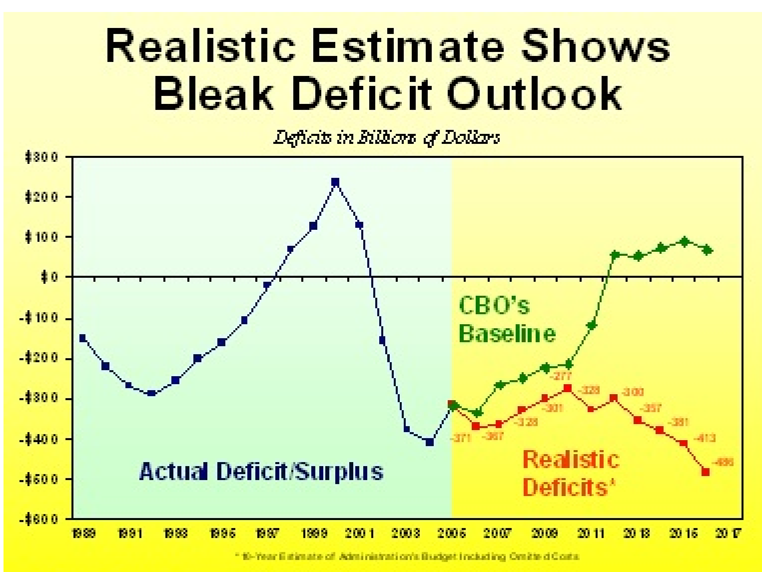
Major Categories of Spending 2006 Outlays	
Discretionary spending:	
Defense	$501 billion
Non-Defense	$501 billion
Entitlements:	
Social Security	$550 billion
Medicare	$377 billion
Medicaid	$190 billion
Other Mandatory /a	$454 billion
Miscellaneous receipts that offset spending:	$-142 billion
Net interest	$218 billion

/a Civil Service and Military Retirement, SSI, EITC, Veterans' Benefits, etc.



4. What is the budget outlook for the future?

Over ten years (2007-2016), CBO projects a baseline cumulative budget deficit of $726 billion. However, this projection understates the magnitude of the budget deficits because CBO assumes no policy changes relative to current law. That means the $726 billion estimate assumes that Congress does not extend the tax cuts enacted in 2001 and 2003 when they expire in 2011 and that no change is made to the Alternative Minimum Tax (AMT). However, the President and Congressional Republicans have pledged to make the 2001 and 2003 tax cuts permanent, as well as to extend other expiring tax provisions. The cost to extend all expiring tax measures over the next ten years is $2.0 trillion, while fixing the AMT costs $864 billion over the same period. If additional debt service is included, extending the expiring tax provisions worsens the deficit by $2.3 trillion, and fixing the AMT worsens the deficit by $1.0 trillion. Once the full impact of Republican tax policy is factored in, the ten-year deficit rises from $726 billion to over $4.1 trillion.



5. What is the debt limit and when was it increased?

The federal debt limit is currently $8.965 trillion. On March 20, for the fourth time since the Bush Administration took office, Republicans increased the debt limit. The $781 billion increase in March follows an $800 billion increase in November 2004, a $984 billion increase in May 2003, and a $450 billion increase in June 2002.

The deficit numbers set forth in the Republican budget resolution call for another increase in the debt limit – $653 billion – bringing the total debt limit to $9.618 trillion and the total increases in the debt limit under the current Administration to $3.7 trillion. House rules provide that upon adoption of a conference report on the budget resolution, a bill to increase the debt limit is automatically sent to the Senate without a separate vote. Because Congress has not approved a final budget resolution, the House will need to vote to increase the debt limit again before the debt exceeds the current $8.965 trillion limit.

Republicans Increase the Debt Limit by $3.7 Trillion

Debt Limit Increases, Billions of Dollars

June 2002	**$450**
May 2003	**$984**
November 2004	**$800**
March 2006	**$781**
House Budget Res. Level	**$653**
Total Increases	**$3,668**

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

6. What is the status of the congressional budget resolution, and what are the consequences of failing to pass a budget resolution?

Congressional Republicans have failed to pass a final budget resolution. No final budget resolution was adopted for fiscal year 2005; when Republicans also controlled both houses of Congress and the White House. A Republican House and Senate failed to agree on a final budget resolution for fiscal year 1999 - the first time in history a budget resolution was not adopted - during the Clinton Presidency. A Republican-controlled House and a Democratic-controlled Senate did not complete action on the fiscal year 2003 budget resolution.

Congress did not adopt a conference report on the budget resolution, and without this blueprint for funding and revenue priorities, Congress cannot consider spending and tax measures within the context of an overall fiscal framework. Aside from neglecting to complete one of its most important responsibilities, Congress makes many of its other tasks more difficult without a final budget resolution. When there is no budget resolution, the law requires Congress to remain subject to the totals set forth in the most recently passed budget resolution conference report.

As in previous years when there is no budget resolution, the House and Senate circumvented that requirement by using other legislation to "deem" the adoption of new budget levels. But without an official budget resolution, the House must take a separate vote to raise the debt limit and the Senate loses its ability to put tax and entitlement legislation on a fast track.

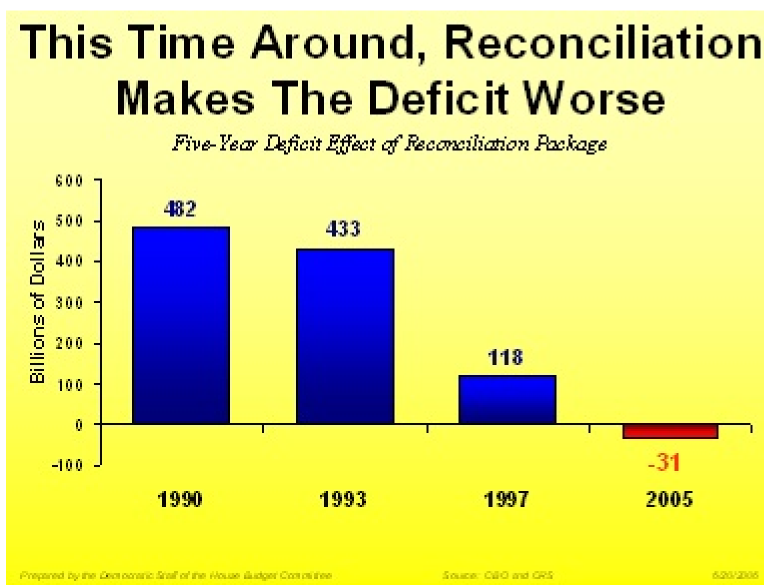
7. What happened to the budget process rules?

All of the main budget enforcement rules in effect in the 1990s, including the pay-as-you go rule (PAYGO) and discretionary spending caps, have expired. The PAYGO rule required tax cuts and mandatory spending increases to be offset with other revenue or spending changes, so that new policies would be deficit-neutral. Statutory caps on appropriations placed a strong limit on the funding amount Congress could provide in a given year. These budget rules were instrumental in providing the discipline that helped turn large structural deficits into surpluses during the 1990s. House and Senate Republicans have failed to renew these successful budget enforcement measures, and the country now faces chronic deficits for at least the next decade.

On June 22, 2006, the House has passed the so-called "Legislative Line-Item Veto Act," which would allow the President to selectively cancel the spending authority for specific programs and narrowly tailored tax provisions. If signed into law, this measure will do little to bring deficits under control and could distract the Congress from passing an effective deficit reduction plan. Not only has Congress failed to pass a budget resolution, it has allowed proven budget rules to expire and pushed through fast-track reconciliation packages that make the deficit worse, not better.

8. What happened to the fiscal year 2006 reconciliation cuts?

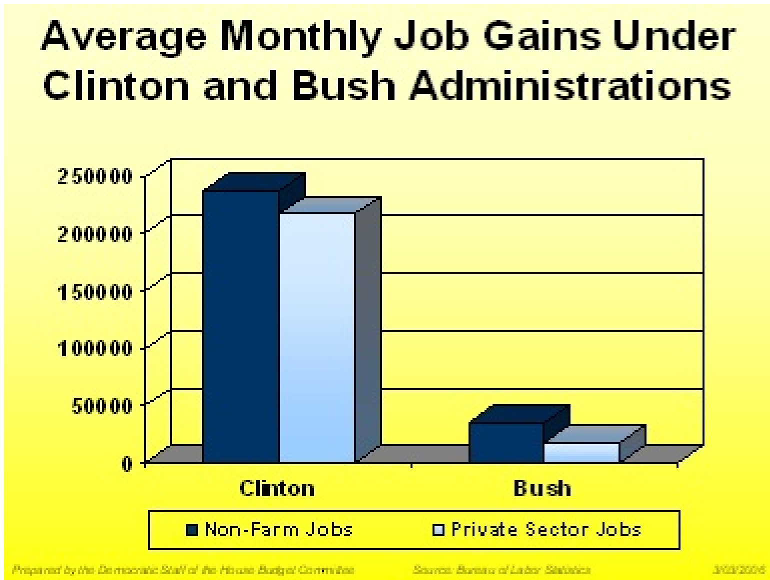
The so-called "Deficit Reduction Act" was signed into law on February 8, 2006. The legislation, when combined with the $70 billion in tax cuts allowed under last year's reconciliation instructions, made the deficit worse by $31 billion over five years. The measure cut Medicare, Medicaid and the State Children's Health Insurance Program, farm programs, student loan programs, child support enforcement, and child welfare programs, among others.



However, the version signed into law is not the same version that passed the House of Representatives on February 1, 2006, calling into question whether the law is valid. Several lawsuits have been filed regarding the status of this legislation.

9. I've heard that the economy is healthy. Is this true?

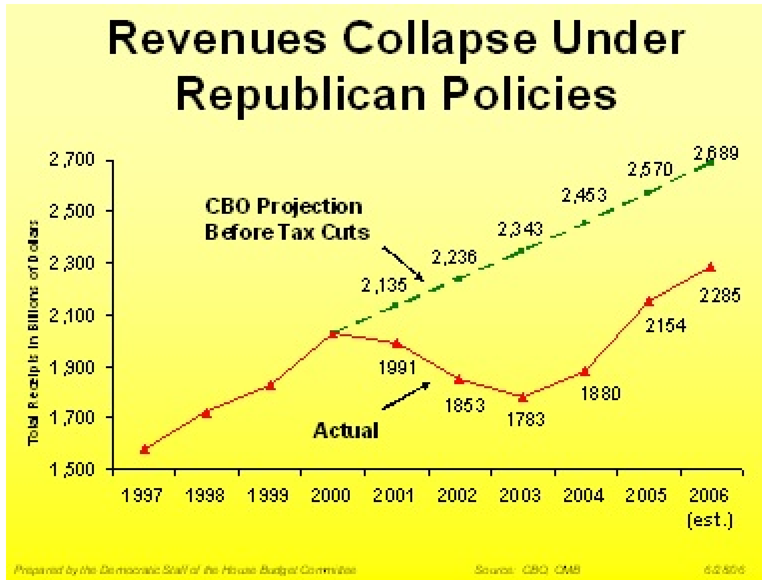
Most claims of a healthy economy typically hinge on a single statistic – the growth in GDP. While average GDP growth was nearly 50 percent higher under President Clinton than under President Bush, the growth in GDP over the past few years indicates a moderately healthy economy. However, recent gains in GDP have failed to translate into better economic outcomes for many American families and workers. For example, the Census Bureau estimates that the typical American family's income is $1,700 less than it was at the beginning of the Bush Administration, after adjusting for increased cost of living.



Many workers face sluggish growth in wages and jobs. The 2.6 million jobs added to the economy by the Bush Administration pales in comparison to the 22.7 million jobs added to the economy under President Clinton, and the monthly gains in jobs under President Bush are at their lowest levels since the Eisenhower Administration. Many American workers have not benefitted from the current economic "expansion," with inflation-adjusted hourly wages actually down since the end of recession in November 2001. These conditions for workers, combined with increased energy prices, slow growth in the stock market, and rapidly growing interest costs, help to explain why the economy is not as strong as some claim. While overall GDP growth is certainly important, many Americans are still struggling to keep up.

10. Do tax cuts actually pay for themselves by raising new revenue?

No. Despite CBO and JCT estimates that the tax cuts will cost over $4.5 trillion if extended through 2016, some Republicans in Congress argue that these cuts will result in such strong economic growth that the expanded economy will generate more net revenue than before, even at lower tax rates. These claims are not supported by data. The President's former top economist, Greg Mankiw, wrote that there is "no credible evidence" that tax cuts pay for themselves. Since the federal government is currently recording persistent budget deficits, any benefits attributed to the tax cuts must be balanced against the costs of additional borrowing by the Treasury to finance the tax cuts. Not only must this extra borrowing be repaid with interest (often to foreign lenders), but it also carries other negative economic consequences, such as upward pressure on interest rates and reduced private investment. CBO estimates that the President's tax cuts will result in small changes to GDP growth over the first five years, ranging from a decrease of 0.3 percent to an increase of 0.1 percent. These modest changes in GDP mean that the effect of economic growth on the estimated cost of tax cuts will be small (and may be either positive or negative), and that tax cuts certainly do not "pay for themselves."



Some of the confusion surrounding the impact of economic growth on the cost of the tax cuts may arise from the fact that tax receipts increased in 2004 and 2005. However, due to factors such as population growth and inflation, tax receipts typically increase from the prior year especially in the years when the economy is recovering from a recession. In the fifty years before President Bush took office, tax receipts increased in all but five years. However, after President Bush took office and initiated the tax cuts, revenues decreased for three consecutive years. Individual income taxes, which were the tax base most directly affected by the President's tax cuts, have yet to reach their 2000 level, and the total tax revenues in 2005 were $416 billion less than the level expected by CBO before the tax cuts were implemented.