# 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


July 16, 2002

# Broken Budget: The President's Mid-Session Review

Dear Democratic Colleague:

Yesterday, the Administration released its Mid-Session Review of the budget. For three reasons, those hoping to address the worrisome budget outlook can only be disappointed by the President's new report:

- ***Rosy Numbers*** — The Mid-Session Review obscures with implausible projections the growing fiscal challenges that our nation faces. The report claims that there has been only a modest $175 billion deterioration in the ten-year budget outlook since February. In fact, the budget picture is far more bleak. In light of the revenue collapse of April and the sagging stock market, the Administration's projections simply are not credible. In addition, the Administration's updated budget omits the cost of programs that the President has advocated, most notably the cost of his Social Security privatization plan.

- ***Social Security Goal Abandoned*** — Just a year ago, the President and every Republican leader in Congress were promising to protect every penny of the Social Security surplus. This budget, however, spends the Social Security Trust Fund surplus every single year for the next decade. The Administration proposes to spend, without so much as an apology, $2.0 trillion of the Social Security surplus over ten years.

- ***Dodging the Cause of the Budget Breakdown*** — The Administration claims that the breakdown in the budget results from the direct and indirect effects of September 11. However, spending for the war on terrorism accounts for only 12 percent of the ten-year decline in the deficit. Meanwhile, last year's tax cut has accounted for 29 percent of the deterioration in the surplus since February 2001.

Since the tragic day of September 11, our fiscal world clearly has changed. The problem is, the Administration's approach to fiscal policy ***has not.*** Please contact me or the House Budget Committee's Democratic staff (226-7200) if you have any questions.

Sincerely,

John M. Spratt, Jr.
Ranking Democratic Member

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# Statement of Congressman John Spratt On the Administration's Mid-Session Review of the Budget

Those hoping to address the worrisome budget outlook can only be disappointed by the Mid-Session Review, because it obscures with implausible projections the growing fiscal challenges that we face. The Administration claims that the breakdown in the budget results from the direct and indirect effects of September 11. But spending for the war on terrorism accounts for only 12 percent of the ten-year decline in the deficit, and GDP is better than expected.

Even if one accepts the Mid-Session Review's rosy assumptions, the Bush Administration's budget still spends the Social Security surplus in every year for the next ten. Last year, OMB embraced our goal, declaring that, "The President and Congress are committed to preserving the Social Security surplus for debt reduction." This year, that goal is abandoned; the Administration lacks even a plan for attaining it. It proposes to spend, without so much as an apology, $2.0 trillion of the Social Security surplus over ten years.

The Mid-Session Review claims that there has been only a modest $175 billion deterioration in the ten-year budget outlook since February. In light of the revenue collapse of April and the sagging stock market, that claim simply is not credible. Even Senate Budget Committee Republicans believe that the 2003 budget deficit will be $194 billion, fully $85 billion more than the Administration's figure.

Here is why the Mid-Session Review is a dubious report:

- OMB assumes that GDP will be higher in every one of the next ten years than it projected in February ***and*** that a higher proportion of GDP will be subject to tax.

- OMB assumes that over the next five years individual income tax receipts will zoom back to the record percentages of GDP of the 1990s.

- OMB predicts that corporate profits will jump 25 percent in 2005 — the year when unified budget balance is claimed — even though profit surges this large have happened only three times in the last half century.

- OMB projects that revenues from capital gains taxes will grow in 2003 when this year's taxes are filed — even though the stock market is down sharply this year.

- OMB continues to show Medicare baseline spending following a lower path than CBO projects — even though health care cost increases have gone up sharply.

This budget also omits costs of programs that the President has advocated:

- The Mid-Session Review shows only $190 billion for a Medicare prescription benefit — even though the Administration has endorsed the House Republicans' $350 billion proposal.

- This budget pretends that non-defense, non-security programs will be cut in nominal dollars in 2003 and in real dollars every year thereafter — while the President advocates increased funding for foreign aid, education, the National Institutes of Health, and the SEC.

- The Administration claims to be concerned about an alternative minimum tax that will apply to 39 million taxpayers by 2012 — including more than half of all families with children — but the $300 billion to $500 billion needed to fix the AMT cannot be found in this budget.

- This budget does not acknowledge the cost of renewing a host of popular expiring tax provisions — even though the Administration has argued that anyone who lets a tax break expire is a "tax raiser".

- And finally, this budget omits any mention of the trillion dollars needed to implement the President's proposal to partially privatize Social Security by allowing individuals to divert a portion of their payroll taxes into individual accounts invested in stocks.

In fact, there is no mention of Social Security in this budget. Just a year ago, the President and every Republican leader in Congress were promising to protect every penny of the Social Security surplus. But in this budget, there is no prospect of getting out of the Social Security Trust Fund surpluses in any year in which President Bush could possibly serve. This explains why the Administration chose not to show ten year numbers revealing the full impact of its budget on the Social Security surplus.

According to the Mid-Session Review's own numbers, last year's tax cut has accounted for 29 percent of the deterioration in the surplus since February 2001. The Administration proposes to enact another ten-year tax cut of over $500 billion on top of those already enacted, accounting for almost 10 percent more, even though it knows every cent of taxes cut will have to be borrowed from the Social Security trust fund. New spending — all approved by the President — accounts for another 29 percent. Economic and technical revisions account for 32 percent.

The Administration claims that this 32 percent, due to economic and technical factors, could not have been foreseen. But economic factors really are not the issue because the recession has proven shorter and milder than expected. Even with the stronger recovery, revenues are well below expectations. There was ample warning — both from Congressional Democrats and CBO — that this might happen. Several analysts pointed out that the very high level of receipts relative to GDP was related to the soaring stock market, and the stock market already was declining when the first Bush budget was passed.

Regardless of what caused $5 trillion of the surplus to disappear over the last 18 months, our fiscal world clearly has changed. The problem is, the Administration's approach to it ***has not.***

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# ANALYSIS OF OMB MID-SESSION REVIEW

There are two major causes for concern in the Administration's summer update. First, *the Administration adopts a number of questionable assumptions* and thus produces numbers that are implausibly optimistic. In all likelihood, the true budget picture is even worse than reported in the Mid-Session Review. Second, even taken at face value, *the Administration budget calls for substantial on-budget deficits and thus gives up on its previous promise to protect the Social Security surplus. The Mid-Session Review calls for spending $1.97 trillion of the Social Security Trust Fund surplus from 2002 to 2011.*

Despite the Administration's claims to the contrary, this dramatic deterioration of the budget picture cannot be primarily attributed to the effects of September 11 and the recession. Spending for the war on terrorism accounts for only 12 percent of the ten-year budget decline, while the Mid-Session Review assumes GDP that will be between $130 billion and $240 billion per year higher than that assumed in the President's budget five months ago.

## The Administration's Report

- **Ten-Year Picture** — The Administration's summer update shows only a modest $175 billion downward revision over ten years relative to its February 2002 projection. The 2002-11 unified surplus has declined from the $5.6 trillion surplus estimate in February 2001 to a $444 billion post-policy surplus today. The on-budget accounts (that is, excluding Social Security) for 2002-11 have deteriorated from a baseline surplus of $3.0 trillion in February 2001 to a $1.97 trillion deficit for the same period. Thus,

**From Surplus to Deficit in Non-Social Security Budget**

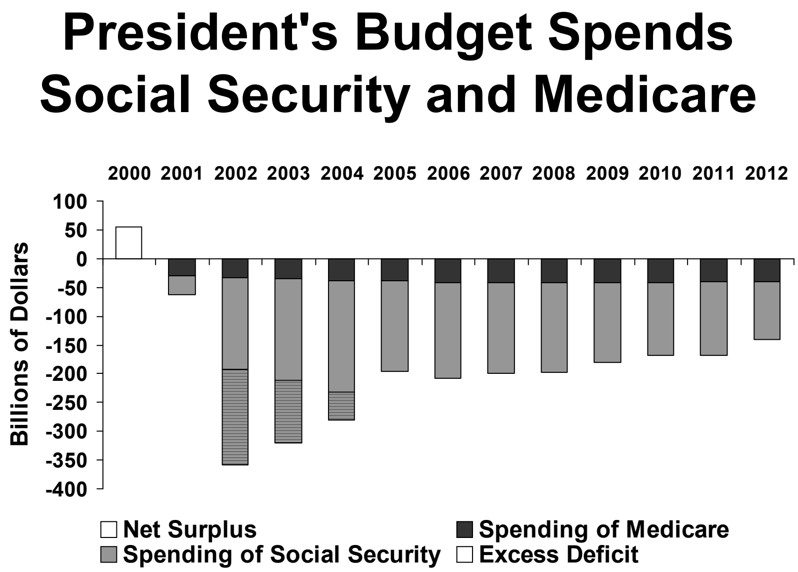
Trillions of Dollars

| | 2002-2011 |
|---|---|
| April 2001 | 3.046 |
| August 2001 | 0.575 |
| February 2002 | **-1.650** |
| July 2002 | **-1.968** |

Source: Office of Management and Budget

the Mid-Session Review continues to show an Administration budget that chronically spends the Social Security surplus.

- **Year-By-Year Picture** — The Administration projects a unified deficit for 2002 of $165 billion, revised downward from their February projection of $106 billion. The Administration claims that the deficit will shrink from $165 billion in 2002 to $109 billion in 2003. (By contrast, the Senate Budget Committee Republican staff estimates that the 2003 deficit will increase to $194 billion.) The Administration asserts that in 2005 the budget will achieve a small surplus ($53 billion), with growing surpluses thereafter. However, in no year covered by these projections does the Administration project that unified surpluses will be as large as the Social Security surplus, meaning that the Administration's budget will continue to spend the Social Security surplus in every year covered by these projections.




## The Administration's Numbers Are Implausibly Optimistic

The small $175 billion ten-year OMB downward revision of the budget outlook is simply not credible, in light of April's revenue collapse and the recent state of the stock market. OMB's rosy outlook results from a variety of questionable assumptions. (The Administration has made only minor changes in its policy prescriptions.) The overly optimistic economic and technical assumptions mask the true extent of the likely deterioration in the budget outlook. The most notable examples of questionable assumptions that make projected deficits look smaller and projected surpluses look larger are the following:

<u>**Economic Assumptions**</u>

- **Overall Income Tax Receipts —** OMB claims to have provided cautious new revenue estimates, in light of the enormous drag in FY2002 income tax receipts. However, their new numbers are still rosy. Absent the enacted and proposed tax cuts, OMB's projected individual income tax revenues for 2007 are projected to have zoomed right back up to the record level of FY2000. Since the President submitted his budget in February, revenues have collapsed, and the stock market has declined. Yet, the Administration assumes that revenues will increase by nearly 9 percent in 2003 and by almost as much in 2004 and 2005. The budget further predicts that total revenues in 2006 through 2012 will be greater than assumed in the President's February budget.

- **Taxable Share of GDP —** In last year's Mid-Session Review, OMB predicted that the taxable portion of GDP will decline over the next decade. CBO's projections have been consistent with this view; this trend results from the assumption that rising health care costs will drive up the portion of income that is not taxed over time. However, this year's Mid-Session Review reverses course, predicting now that the taxable portion of GDP will rise rather sharply between now and 2005 before trending down from that higher level. This means that for most of the ten-year period, OMB is now assuming that the taxable portion of GDP will be hundreds of billions higher than OMB assumed just a year ago.

- **Tax Revenues from Capital Gains** — On Friday OMB Director Mitch Daniels stated that the Administration's projection assumes that tax revenues from capital gains will increase, albeit slowly, from their current level. However, this assumption seems at odds with the facts: capital gains tax receipts next April will be determined by capital gains realizations this calendar year, and the average for the S&P 500 thus far this year is down about 10 percent from its 2001 average.

- **Jump in Corporate Profits —** The Mid-Session Review asserts that the unified deficit will grow smaller in 2003 and will reach balance in 2005. The Mid-Session Review also assumes that corporate profits will jump by more than 20 percent in 2003 and by more than 25 percent in 2005. In the last half century, there have been only three years when corporate profits have jumped by more than 25 percent and only six years when they increased by more than 20 percent.

<u>Understated Costs</u>

- **Medicare Baseline —** The Mid-Session Review ten-year baseline projections for Medicare spending continue to be lower than CBO's baseline projections. The Mid-Session Review projections show some increase in baseline Medicare spending but are still $173 billion below CBO's March 2002 projections for the same period.

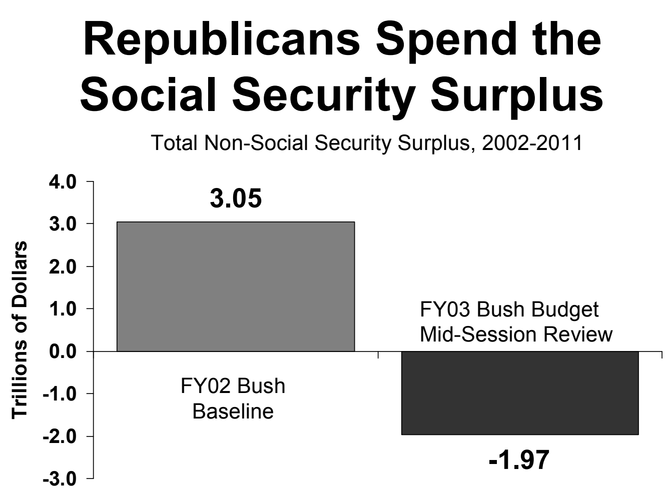
- **Understated Prescription Drug Costs —** The Mid-Session Review bases its numbers on a figure of $190 billion for Medicare prescription drugs, despite the Administration endorsement of the $350 billion bill passed by House Republicans.

- **Unrealistic Cuts to Discretionary Spending —** At first glance, the Mid-Session Review shows appropriations outside of Defense and Homeland Security growing by 2 percent from 2002 to 2003. However, a true picture of domestic appropriations requires subtracting international affairs spending and adding the transportation obligation limitations provided by the Appropriations Committee. When these numbers are included, it is apparent that the Administration arrives at its apparently smaller deficit number for 2003 only by assuming a nominal cut of 0.4 percent in domestic appropriations. In light of the President's proposals for increases in foreign assistance, education, health research, and the SEC, such a cut in total domestic spending is not plausible.

- **Other Omitted Costs —** The Mid-Session Review does not include the cost of numerous other items, including: a fix for the Alternative Minimum Tax (AMT); the Administration's February proposal to make permanent the three-year bonus depreciation contained in the stimulus bill; an extension of popular tax provisions due to expire in the next few years; the roughly $1 trillion needed to fund the transition costs of the President's proposal to privatize Social Security; the cost of natural disasters; and the roughly $30 billion cost of the President's Millennium Challenge Account foreign assistance proposal.

## The Administration's Budget Has Given Up on Protecting Social Security

- **By Administration's Own Numbers, $1.97 Trillion Spent from Social Security Surplus —**Last year, the President and House Republican leaders reaffirmed their promise to protect every penny of the Social Security Trust Fund surplus. Indeed, last year's Mid-Session Review highlighted this pledge by placing it on page 1 and page 2 of the report. One year later, the report contains no discussion of this promise. The numbers contained in the update reveal why. Even taken at face value, the Administration's budget shows a chronic invasion of the Social Security Trust Fund. The Social Security Trust Fund surplus is more than consumed by on-budget deficits through 2004, and it is partially consumed throughout the ten-year projection. The Administration's budget, taken at face value, consumes $1.97 trillion of the Social Security Trust Fund surplus from 2002-11.

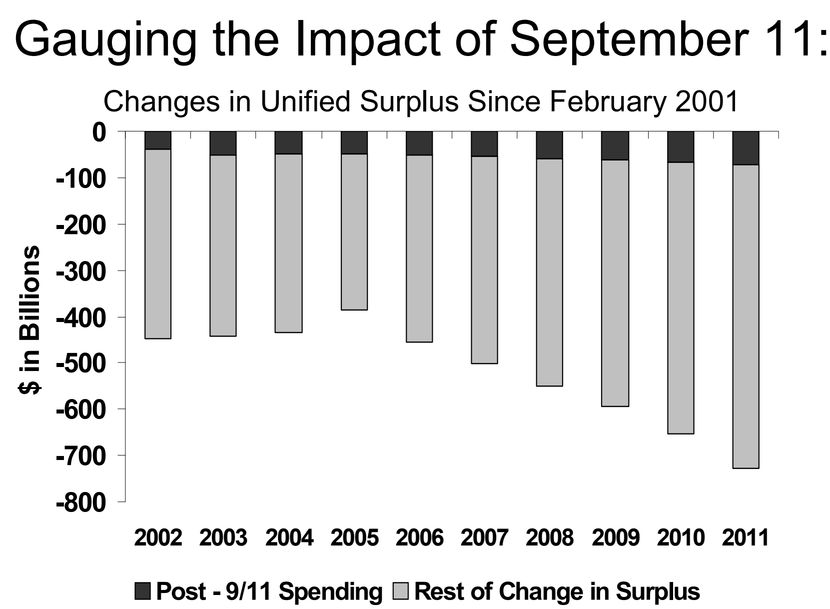



- **Administration Chooses More Tax Cuts Over Protecting Social Security —** Despite the clear deterioration of the budget picture since February 2001, the Administration continues to push for additional tax cuts, even though these tax cuts mean deeper invasions of the Social Security Trust Fund. Indeed, this Mid-Session Review proposes over $500 billion in new tax cuts over ten years.

- **True Picture Likely to Be Much Worse —**As discussed in the previous section, there are numerous reasons to suggest that the Administration's budget outlook is overly optimistic. A more realistic projection of the items noted above would likely show an Administration budget with worse deficits and deeper spending of the Social Security surplus.

## September 11 and Recession are not the Primary Cause of the Budget Deterioration

- **September 11 About One-Third the Impact of the Tax Cut** — When the Administration assumed office, the unified surplus over the 2002 - 2011 period was $5.6 trillion. OMB now estimates it to be $444 billion, a decrease of $5.2 trillion. As discussed in detail below, the broadest reasonable definition of the total cost of September 11 would reach about $600 billion, including interest. In comparison, the 2002-2011 cost of the enacted Bush tax cut, including interest, is $1.5 trillion according to OMB's latest estimate (and the President now proposes another $541 billion of tax cuts, not including interest, over 2003-2012). While significant, the total incurred and projected cost of September 11 pales in comparison to the Bush tax cuts. September 11 accounts for less than 12 percent of the total deterioration of the surplus, while the enacted tax cut alone accounts for 29 percent.




- **The Cost of September 11 Is Approximately $600 Billion** — The cost of September 11 includes the $40 billion emergency spending bill enacted in the aftermath, the airline bailout bill, the USA PATRIOT Act, and the victims compensation bill. It also assumes enactment of the 2002 supplemental; the doubling of homeland security funding above pre-September 11 levels; establishment of the Department of Homeland Security (H.R. 5005); and the Pentagon's cost of conducting the war on terrorism at more than $20 billion per year. This last assumption could easily prove overly pessimistic, as operations in Afghanistan are already slowing. If so, the ultimate cost would come in lower. These costs are detailed (outlays only) in the attached table and include interest costs as well.

- **The Problem is Not the Recession** — The Administration also argues that the impact of the recession is larger than that of the tax cut. However, the numbers indicate the contrary. In its own February FY 2003 *Budget* (table S-16, page 415) and the accompanying *Analytical Perspectives* volume (table 2-4, page 28), OMB showed that the tax cut was the largest single cause of the deterioration, accounting for 43 percent of the total change over the ten years 2002-2011. The economy contributed only 30 percent of the total change; legislation other than the tax cut contributed 17 percent; and technical estimating factors (such as the effect of the stock market on tax collections) contributed 10 percent.

Since that time, the economy has performed better than the Administration had assumed (with the recession ending sooner than expected, and with the recovery stronger than projected), making it inconceivable that the cost due to the recession could now surpass that of the tax cut. OMB's current claims regarding the impact of the economy are based on the combined costs of economic factors and technical estimating factors, which is contrary to the measurement practice of all other recent administrations. (This Administration has chosen to combine those two factors in its numerical tables in the *Mid-Session Review,* to hide the true breakdown of the costs.)

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July 16, 2002

"No one, as far as I know, really saw this [the drop in revenues relative to GDP] coming."

OMB Director Mitchell Daniels
Press Conference, July 12, 2002

# Why the Drop in Revenues Relative to GDP Should Not Have Surprised OMB

**The Previous Administration's Caution**

"The future is uncertain; and so our budget should always have something in hand, in case outcomes are unfavorable. We learned in the 1980s that betting the budget on an optimistic forecast and speculative policies is unwise. We learned in the 1990s that fiscal discipline works. We know that every day takes us closer to demographic developments whose occurrence is certain, but whose effects are profoundly uncertain. This is no time for another self-indulgent fiscal experiment; we should not rush to undertake ***counter-productive*** fiscal policy. We should stay with what works, and make allowances for the uncertainties just a few years in the future. That would best serve those who will follow us - a concept that somehow seems somewhat more vivid to me on this particular day."

OMB Director Jacob J. Lew
Testimony before the Senate Budget Committee, January 19, 2001

**Republicans' Over-Optimism Last Year**

"There is not more than enough room for the President's tax relief plan. There is vastly more than enough room... Being, as I think a banker would look at it, over-reserved against the unknown, we have fully enough money left to give a refund to the American taxpayer... The budget is built on very conservative and cautious assumptions... The revenue relative to GDP numbers are extremely cautious."

Mitchell Daniels, Director of the Office of Management and Budget<br>*White House Bulletin,* February 28, 2001

"Fiscal responsibility used to be about as common in this town as Halley's comet, but we put the tax-and-spend century behind us. We are here today to replace it with a century of surplus."

House Majority Leader Richard Armey<br>*Congressional Record,* H1270, February 28, 2001

**Ample Warning That the Republicans Left No Room for Error and Were Betting the Budget on the Stock Market**

"CBO says that its current budget projections may be subject to even greater error than in the past...[saying] 'The longer-term outlook is also unusually hard to discern at present.'...CBO calculates that there is about a one in five chance that the budget outside of Social Security and Medicare will be in deficit after 2003."

*Budget Talking Points*<br>House Budget Committee Democrats, February 12, 2001

"One of the reasons for the growing budget surpluses over the past few years has been higher capital gains tax revenue as a result of the booming stock market....Mark Zandi, Chief Economist at Economy.com, explains, 'We've had years of stock-juiced surpluses at all levels of government. But a flat equity market will quickly weigh on government's good fiscal fortunes.'"

*Ten-Year Budget Surplus Estimates Are Unreliable*<br>House Budget Committee Democrats, March 12, 2001

"I hope that these blue-sky projections that total some $5.6 trillion in surpluses over the next ten years will materialize. It will be a great bounty for all of us. But if they do not and if we pass this [budget] resolution, we can find ourselves right back in the red again in the blink of an economist's eye."

Representative John M. Spratt<br>Ranking Democrat, House Budget Committee<br>*Congressional Record*, March 28, 2001

"CBO's recent budget re-estimates have shown a similar variation — which means that large re-estimates, perhaps in the opposite directions are possible....Over the past year alone, CBO has increased its surplus projection by

$2.5 trillion.  Over the past three years, CBO has increased its surplus projection by almost $5 trillion....Similar re-estimates could occur again, going in either direction."

*Long-Term Budget Estimates Are Unreliable*
House Budget Committee Democrats, May 24, 2001

"There are good reasons to expect that revisions of the surplus in coming months will be negative....[T]he amount of revenue generated by every dollar of GDP is likely to decline sharply in the short run and may not recover much in the long run. The ratio of revenues to GDP had risen to record levels, and until recently both OMB and CBO had assumed that it would retreat only modestly.  However, with weaker growth of income tied to the stock market — like capital gains, stock options, executive compensation, and bonuses — the revenue from such sources may well reverse its earlier disproportionate growth.  Even small changes in the ratio of revenues to GDP can have major impacts on the budget."

*Republican Stimulus Proposals Make a Bad Situation Worse*
House Budget Committee Democrats, December 13, 2001

"The headline estimates of GDP growth and unemployment suggest that the recession was much milder than CBO had anticipated.  However, taxable income seems to have taken a much more significant hit than the GDP figures suggest. And CBO received confirmation last week that the Bureau of Economic Analysis (BEA) significantly overestimated wage and salary income in 2001."

CBO Director Dan Crippen
Testimony before the House Budget Committee, May 2, 2002

"Thus, Democrats already were arguing a year ago that the unusual run-up during the late 1990s of tax receipts per dollar of GDP could easily reverse, given the market decline unfolding at that time.  Now, the sharply lower level of receipts in April 2002 appears to confirm this prediction.  The largest component of the recent revenue shortfall is taxes on non-withheld income, where one would expect severe stock-market effects."

*Significant Downward Revisions of the 10-Year Surplus Won't Surprise Democrats*
House Budget Committee Democrats, May 9, 2002

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# REPUBLICAN CLAIMS ABOUT THE BUDGET

**Republicans Claimed that the Social Security Trust Fund Surplus Would Be Protected**

To make sure the retirement savings of America's seniors are not diverted into any other program, my budget protects all $2.6 trillion of the Social Security surplus for Social Security and for Social Security alone.

President Bush, Address to Joint Session of Congress, February 27, 2001

Inherent in the budget, of course, is our desire to make sure we protect Social Security—I think there is unanimity on the table for that—that we set clear priorities, that we fund the priorities. In our budget, we're going to prove to the American people that we can pay down debt, fund priorities, protect Social Security, and there will be money left over, which we strongly believe ought to be passed back to the taxpayers.

President Bush, Remarks at Meeting with Members of House and Senate Budget Committees, February 15, 2001

None of the Social Security surplus will be used to fund other spending initiatives or tax relief.

*A Blueprint for New Beginnings: A Responsible Budget for America's Priorities*
Office of Management and Budget, February 28, 2001, Page 11

We are going to wall off Social Security trust funds and Medicare trust funds . . . And consequently, we pay down the public debt when we do that. So we are going to continue to do that. That's in the parameters of our budget and we are not going to dip into that at all.

House Speaker Dennis Hastert, quoted in BNA's *Daily Tax Report*, March 2, 2001

**Republicans Claimed that Their Budget Left a Margin for Error**

We should also prepare for the unexpected, for the uncertainties of the future. We should approach our Nation's budget as any prudent family would, with a contingency fund for emergencies or additional spending needs . . . And so, my budget sets aside almost a trillion dollars over 10 years for additional needs.

President Bush, Address to Joint Session of Congress, February 27, 2001

Tax relief is central to my plan to encourage economic growth, and we can proceed with tax relief without fear of budget deficits, even if the economy softens. Projections for the surplus in my budget are cautious and conservative. They already assume an economic slowdown in the year 2001.

President Bush, Remarks at Western Michigan University, March 27, 2001

In sum, there is ample room in the Administration's budget to pay off debt as far as possible, to reduce taxes for American families to fund program priorities, and still leave roughly $1.0 trillion for Medicare modernization and to meet other programmatic and contingency needs as they arise.

*A Blueprint for New Beginnings: A Responsible Budget for America's Priorities*
Office of Management and Budget, February 28, 2001, Page 13

There has been considerable public discussion of the potential downside risks to the surplus projections. However, the greatest "risk" to accurate forecasting in recent years has been on the upside as a result of stronger than expected revenue growth and weaker than expected outlay growth. Revenues have contributed most to surplus underestimates . . .

*A Blueprint for New Beginnings: A Responsible Budget for America's Priorities*
Office of Management and Budget, February 28, 2001, Page 14

**Republicans Claimed that Their Budget Would Pay Down Maximum Debt**

We owe it to our children and grandchildren to act now, and I hope you will join me to pay down $2 trillion in debt during the next 10 years. At the end of those 10 years, we will have paid down all the debt that is available to retire.

President Bush, Address to Joint Session of Congress, February 27, 2001

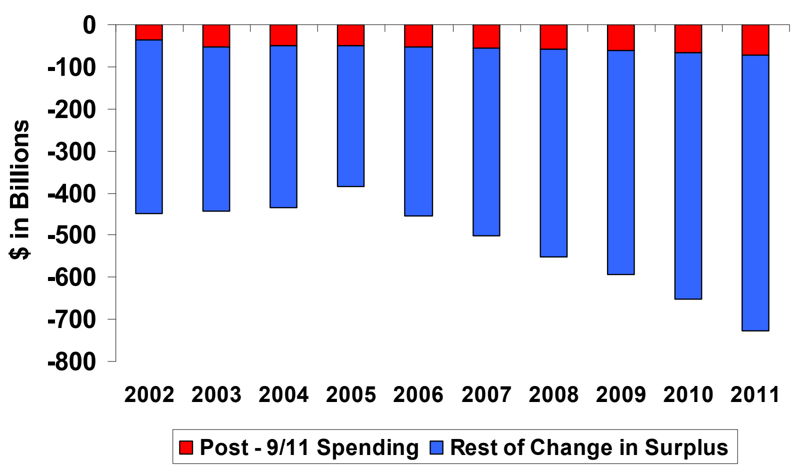
This new approach is also responsible: It will retire nearly $1 trillion in debt over the next four years. This will be the largest debt reduction ever achieved by any nation at any time. It achieves the maximum amount of debt reduction possible without payment of wasteful premiums. It will reduce the indebtedness of the United States, relative to our national income, to the lowest level since early in the 20th Century and to the lowest level of any of the largest industrial economies.

*A Blueprint for New Beginnings: A Responsible Budget for America's Priorities*
Office of Management and Budget, February 28, 2001, Page 3

# National Debt Clock Resumes

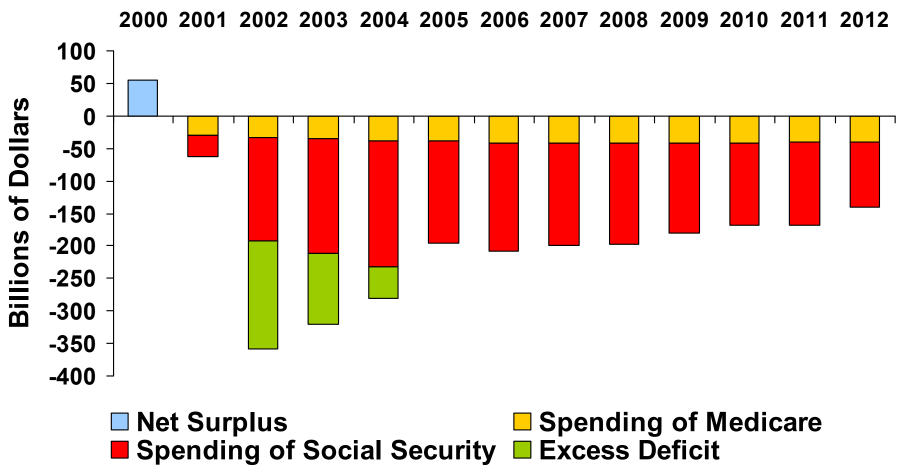

## Gauging the Impact of September 11:

Changes in Unified Surplus Since February 2001




*Prepared by the Democratic Staff of the House Budget Committee* *Source: OMB* *07/15/02*

# President's Budget Spends Social Security and Medicare




*Prepared by the Democratic Staff of the House Budget Committee* *updated 07/15/02*

# From Surplus to Deficit in Non-Social Security Budget

Trillions of Dollars

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|---|---|
| April 2001 | 3.046 |
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| February 2002 | **-1.650** |
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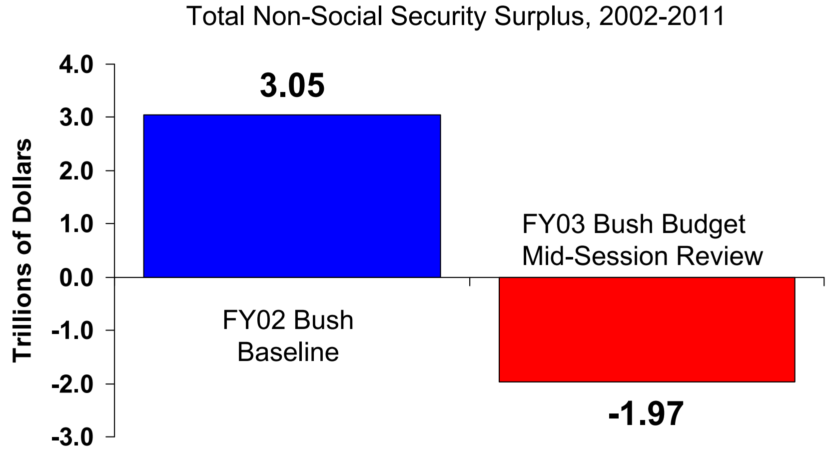
Source: Office of Management and Budget

*Prepared by the Democratic Staff of the House Budget Committee* *07/15/02*

# Republicans Spend the Social Security Surplus

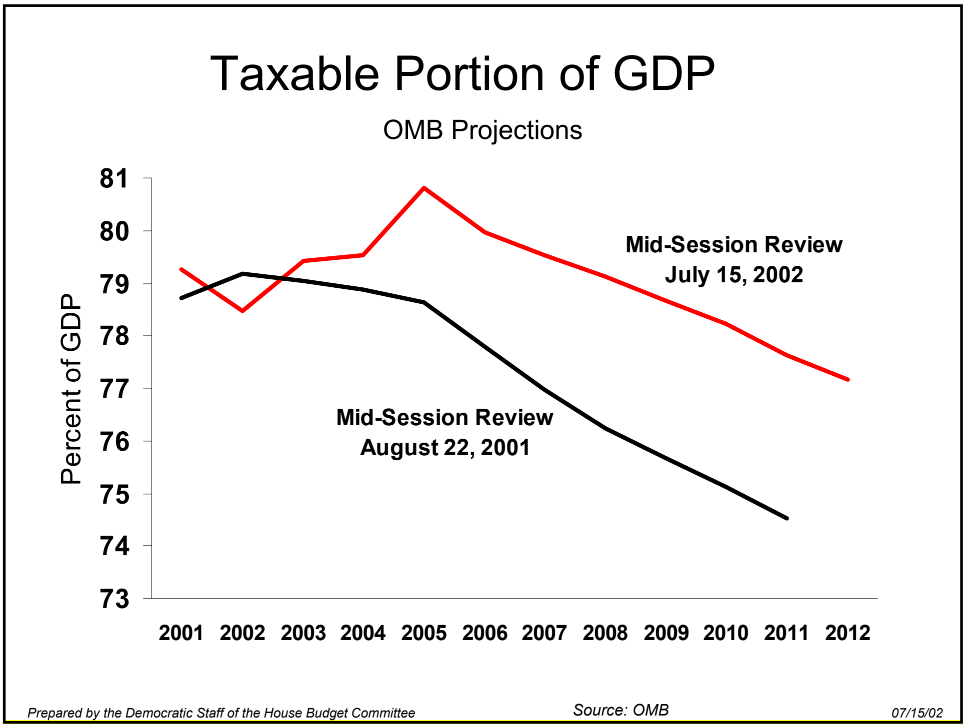


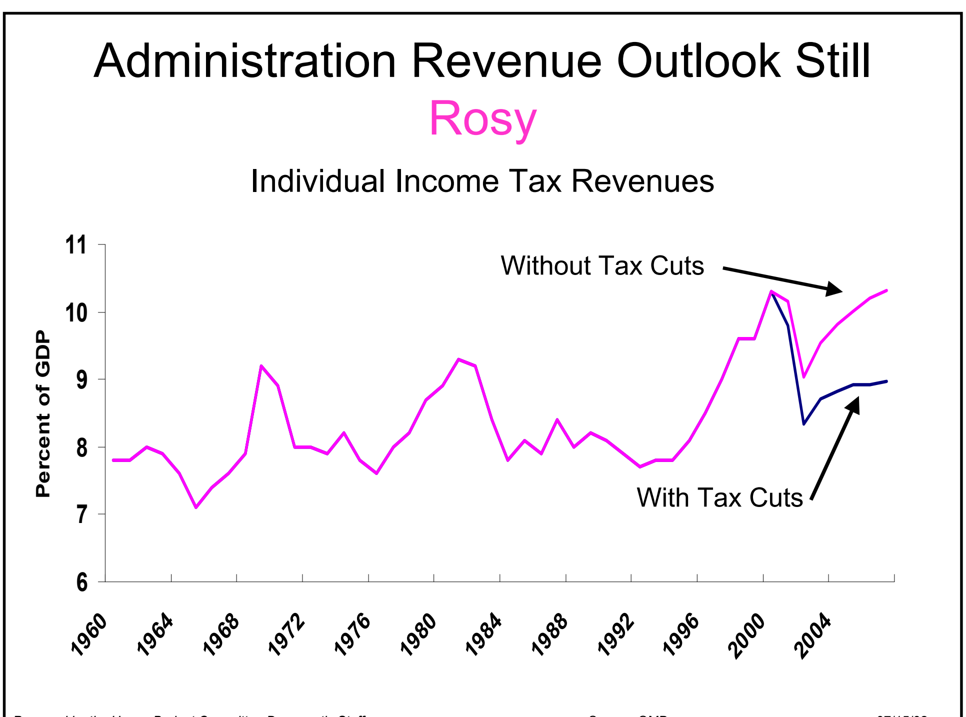

*Prepared by the Democratic Staff of the House Budget Committee* Source: OMB *updated 07/15/02*

# The Mid-Session Review Numbers Are Not Credible

- Optimistic GDP growth
- Higher share of GDP assumed taxable
- Medicare baseline more optimistic than CBO
- Omitted fix of AMT and extension of expiring tax benefits
- Assumed expiration of depreciation benefit in 2004
- Omitted extra cost of House Medicare Rx bill
- Omitted costs of President’s proposed spending increases
- Omitted costs of natural disasters

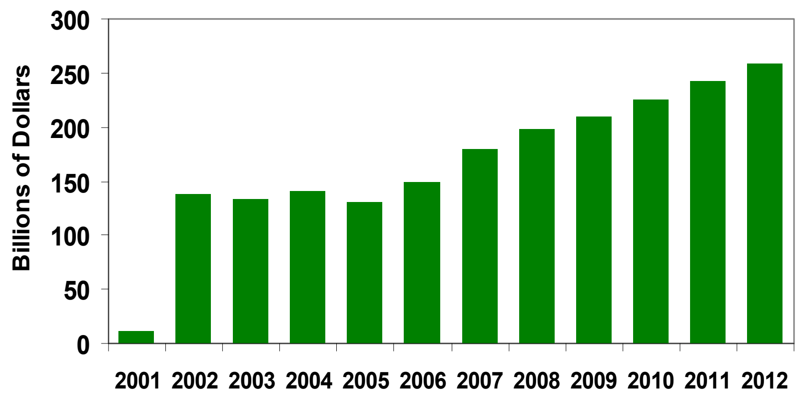
*Prepared by the Democratic Staff of the House Budget Committee* *7/15/02*


Taxable Portion of GDP
OMB Projections
Percent of GDP
81
80
79
78
77
76
75
74
73
2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012
Mid-Session Review
July 15, 2002
Mid-Session Review
August 22, 2001
Prepared by the Democratic Staff of the House Budget Committee
Source: OMB
07/15/02


Administration Revenue Outlook Still
Rosy
Individual Income Tax Revenues
Percent of GDP
11
10
9
8
7
6
1960 1964 1968 1972 1976 1980 1984 1988 1992 1996 2000 2004
Without Tax Cuts
With Tax Cuts
Prepared by the House Budget Committee Democratic Staff
Source: OMB
07/15/02

# OMB Projects Higher GDP

**Difference Between OMB's Current GDP Projection and February 2002 Projection**




*Prepared by the Democratic Staff of the House Budget Committee* *Source: OMB* *07/15/02*

# OMB Mid-Session Review:

## Percent Change in Appropriations, 2002-03

**(dollars in billions)**

| | ***2002*** | ***2003*** | % change |
|---|---|---|---|
| Total Discretionary Budget Authority | 688 | 757 | 10% |
| minus Defense | 328 | 376 | 15% |
| minus Homeland Security | 12 | 25 | 111% |
| **= Other Gov't Operations** | **348** | **356** | **2%** |
| minus International | 24 | 25 | 5.1% |
| plus Transportation | 41 | 33 | -19.7% |
| **= Domestic Appropriations** | **364.9** | **363.6** | **-0.4%** |

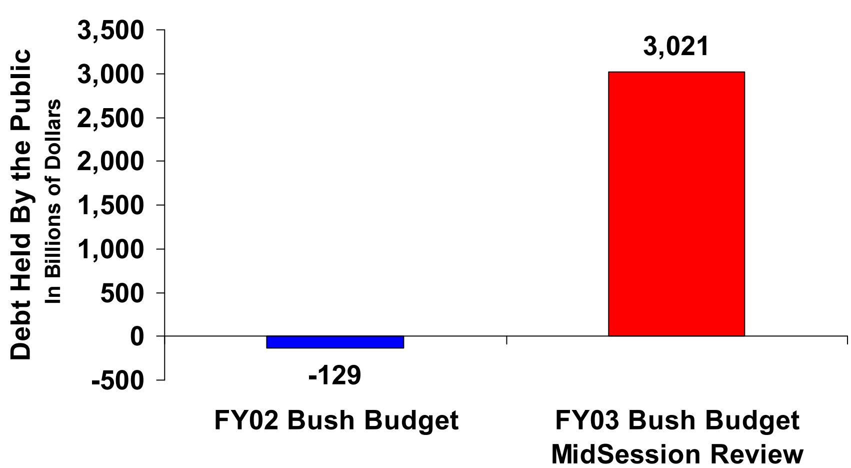
*Prepared by the House Budget Committee Democratic Staff* Data source: top 4 lines, OMB MSR Table 9 07/15/02

# Pending and Prospective Tax Reduction 2003-2012

| | |
|---|---|
| Bush Budget – Entirely New Tax Provisions (OMB) | 266 |
| Tax Extenders in Budget (OMB) | 55 |
| Repeal of 2010 Sunset (OMB) | 353 |
| Bush Budget: Subtotal | 675 |
| AMT: Extension of 2001 Provision (CBO) | 139 |
| AMT: Hold Harmless for 2001 Enacted Tax Cuts (JCT/HBC) | 127 |
| AMT Hold Harmless at Current Level (HBC) | 150-250 |
| Other Tax Extenders (CBO) | 166 |
| Missing Pieces: Subtotal | 582-682 |
| **Grand Total** | **1,257 - 1,357** |

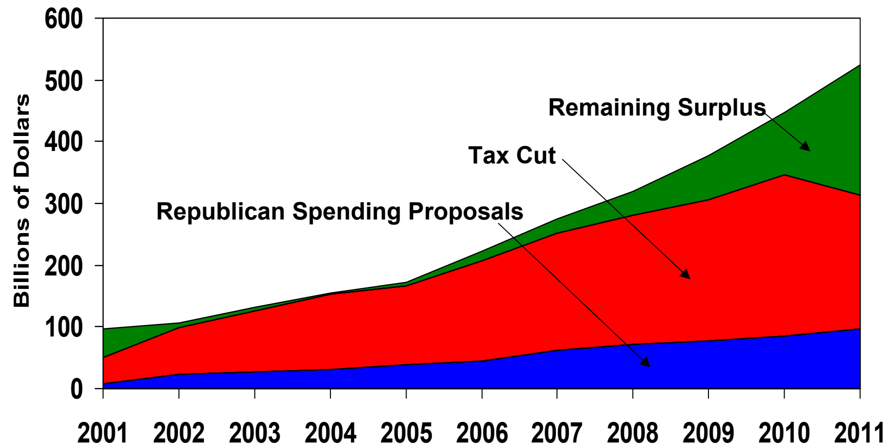
*Prepared by the Democratic Staff of the House Budget Committee* *02/28/02*

# From Debt-Free to $3.0 Trillion in Debt in 2011




*Prepared by the Democratic Staff of the House Budget Committee* Source: OMB *updated 715/02*

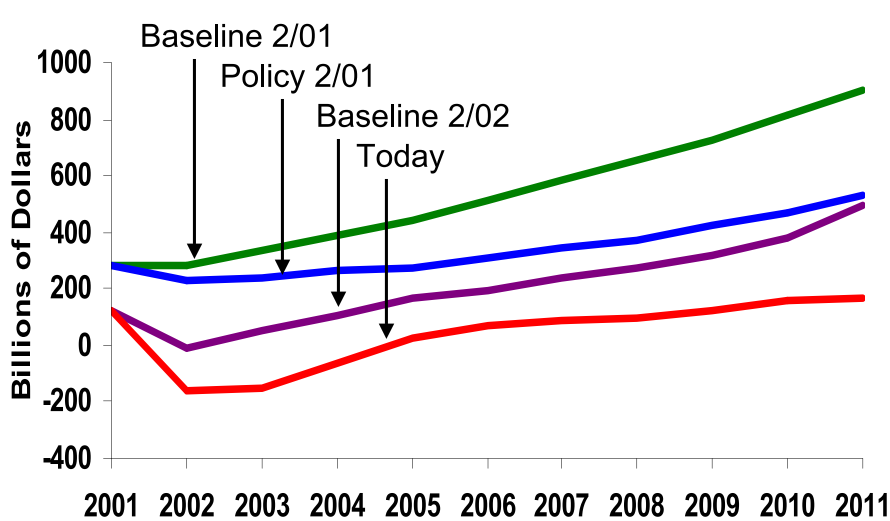
# Last Year's Republican Budget Left No Margin for Error




**April 2001 Projection of Non-Medicare, Non-Social Security Surplus;
Tax and Spending Proposals in Last Year's Republican Budget Resolution**

*Prepared by the Democratic Staff of the House Budget Committee* *02/08/02*

# Budget Deterioration To Date




*Prepared by the Democratic Staff of the House Budget Committee* *7/15/02*