

HOUSE BUDGET COMMITTEE

Democratic Caucus

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

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February 7, 2005

Bush 2006 Budget: Wrong Choices, Record Deficits

Deficits Grow Even Larger With President's Full Agenda

Overview

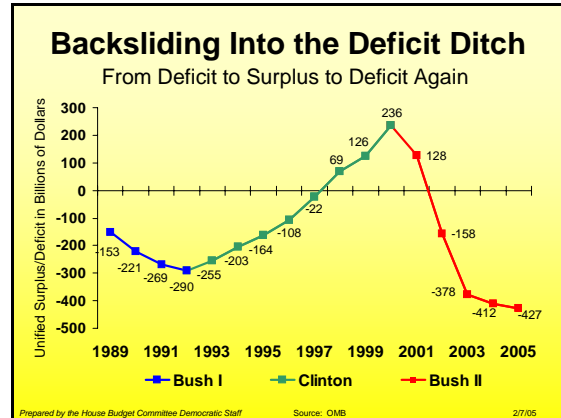
Today's Administration budget continues the wrong choices and misplaced priorities that have created record deficits and rising debt over the last four years. For the third year in a row, the Administration's budget creates a new record deficit, while offering no plan to restore the budget to balance. On the contrary, the Administration's response to these budget problems is to propose costly and misguided initiatives on Social Security and taxes, while omitting the full costs of these proposals from the budget. To help pay for a small portion of these costly plans, the Administration cuts investments in a range of critical services.

More Record Deficits — Today's budget provides further evidence that the Administration has no plan to deal with the large deficits that its policies have created. The budget calls for a 2005 deficit of \$427 billion — the third year in a row that the Administration will set a new deficit record. This 2005 deficit marks a deterioration of \$63 billion relative to the Administration's projection for 2005 made just last January. The \$5.6 trillion ten-year surplus inherited by this Administration— which should have been used to strengthen Social Security — instead has been squandered and replaced by a deficit of \$4.0 trillion over the same time period (2002-2011), including the omitted costs discussed below.

Administration's Deficit Numbers, Which Omit Key Items							
OMB Deficit Projections, in Billions of Dollars							
	2005	2006	2007	2008	2009	2010	2006-2010
Unified	-427	-390	-312	-251	-233	-207	-1,393
On-Budget	-589	-560	-506	-466	-463	-460	-2,455

True Picture Is Even Worse — The Administration masks the true size of the fiscal problems its policies create by providing no deficit figures at all after the first five years, and by omitting the full costs associated with major agenda items, including:

- Social Security privatization (about \$750 billion over the period 2009-2015 alone, none of which is reflected in the budget);
- the Administration’s tax cut extension agenda (which including debt service costs \$1.9 trillion over the next ten years, only a part of which is reflected in the budget);
- full repair of the Alternative Minimum Tax (another \$640 billion, if the tax cuts are extended — \$774 including debt service — none of which is reflected in the budget);
- realistic costs for Iraq and Afghanistan (over the next ten years, perhaps as much as \$400 billion more than is included in the budget).



When these omitted costs including debt service are accounted for, the deficit for the next ten years (2006-2015) is \$4.8 trillion. Over the time period 2002-2011, the deficit is \$4.0 trillion, a reversal of \$9.6 trillion relative to the \$5.6 trillion the Administration inherited when it took office.

Deficits Much Worse than Administration Admits										
Budget Provides No Plan to End Deficits										
Unified Deficit in Billions of Dollars										
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Bush Budget	-390	-312	-251	-233	-207					
Bush Budget Including Omitted Items	-461	-436	-394	-415	-428	-481	-469	-518	-557	-598

Administration Leaves Legacy of Debt to Future Generations — The President has stated that “leadership means not passing problems on to future generations,” but that is exactly what his budget does by creating deficits and debt that future generations will have to pay back.

President’s Social Security Plan Would Weaken Both the Budget and the Trust Funds — Creating private accounts in Social Security, as the President proposed in the State of the Union speech last week, would have enormous costs — about \$750 billion through 2015 alone, even though the plan would not be fully phased in until 2011. Over the first 20 years of full implementation, the plan would cost between \$4 trillion and \$5 trillion. In addition to creating even larger budget deficits than are currently projected, the plan would draw down the Social Security trust funds much more rapidly than under current law, causing them to become exhausted sooner. Far from “fixing” the problems of Social Security, the President’s plan would

cause Social Security income to fall below outgo starting in 2012, rather than in 2018 as under current law. The trust funds would be completely exhausted in 2031 under the President's plan — 11 years sooner than under current law.

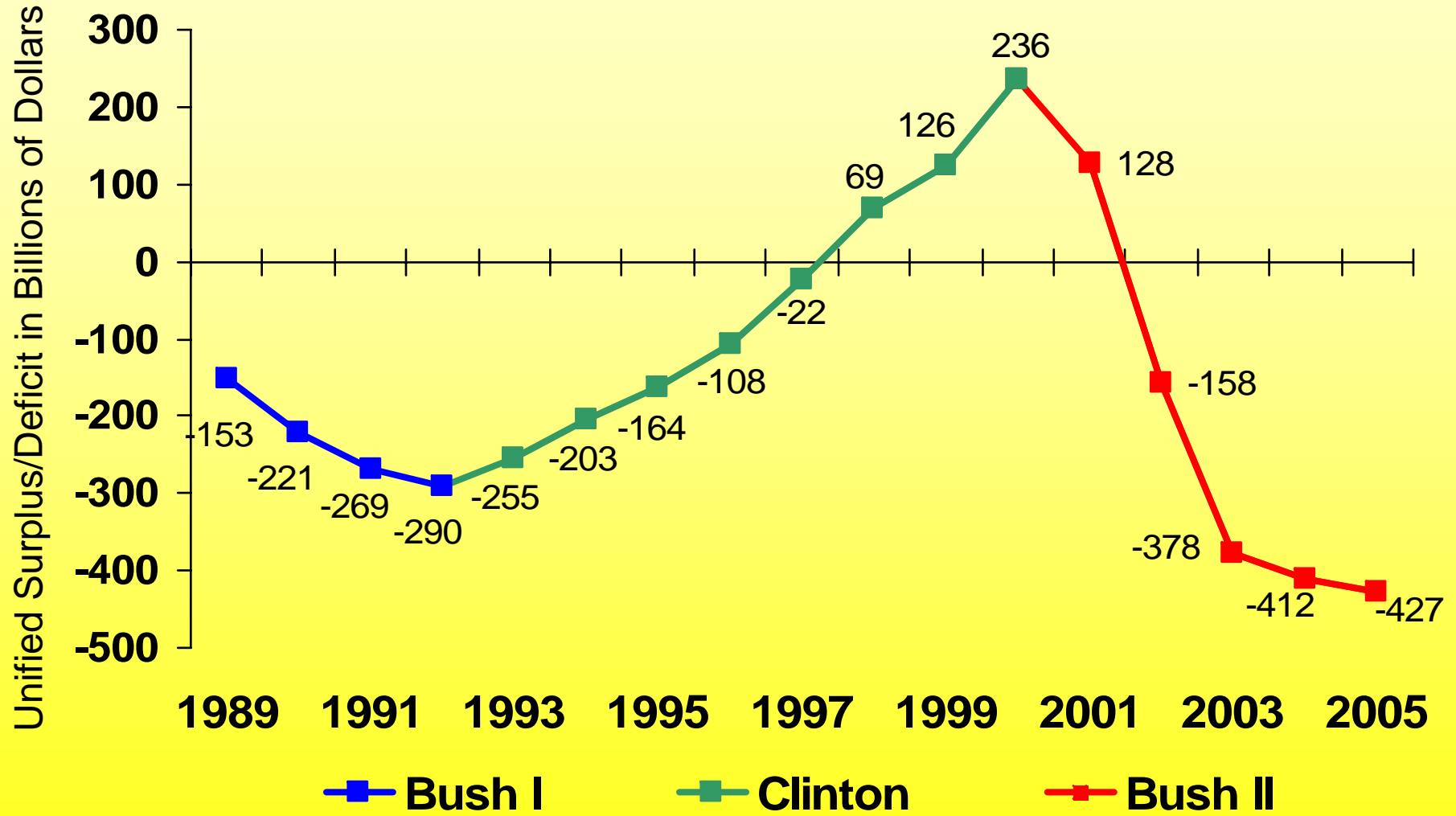
Administration Continues to Fund Tax Cuts With Cuts in Critical Services — Despite the costly fiscal consequences of its previous tax cuts, the Administration continues to call for \$1.9 trillion in additional tax cuts over the next ten years, only part of which is included in this budget. At the same time, the Administration cuts critical investments in a range of key services, many of which it claims to support. The budget shortchanges domestic non-homeland security discretionary funding, cutting this area of the budget for 2006 by \$9.6 billion below the 2005 enacted level and \$18.3 billion below the amount needed to maintain current services. The budget also includes cuts to a number of mandatory programs. Among the discretionary and mandatory cuts are:

Bush Budget Summary	
Fiscal Year 2006	
Total Revenues	\$2,178 billion
Total Expenditures	\$2,568 billion
Total Deficit	-\$390 billion

- Medicaid — a gross cut of \$60 billion over ten years and a net cut of \$44 billion;
- education — 48 programs eliminated and 16 others cut, with an overall cut for 2006 of \$1.3 billion below current services;
- veterans — increased fees and co-payments for veterans' medical care;
- Environmental Protection Agency — a cut of nearly \$500 million (more than 5 percent);
- Department of Justice — cut \$1.1 billion below the 2005 enacted level.

Backsliding Into the Deficit Ditch

From Deficit to Surplus to Deficit Again



Bush Budget Omits Ten-Year Costs

Realistic Deficit Picture Much Worse Than Administration Admits

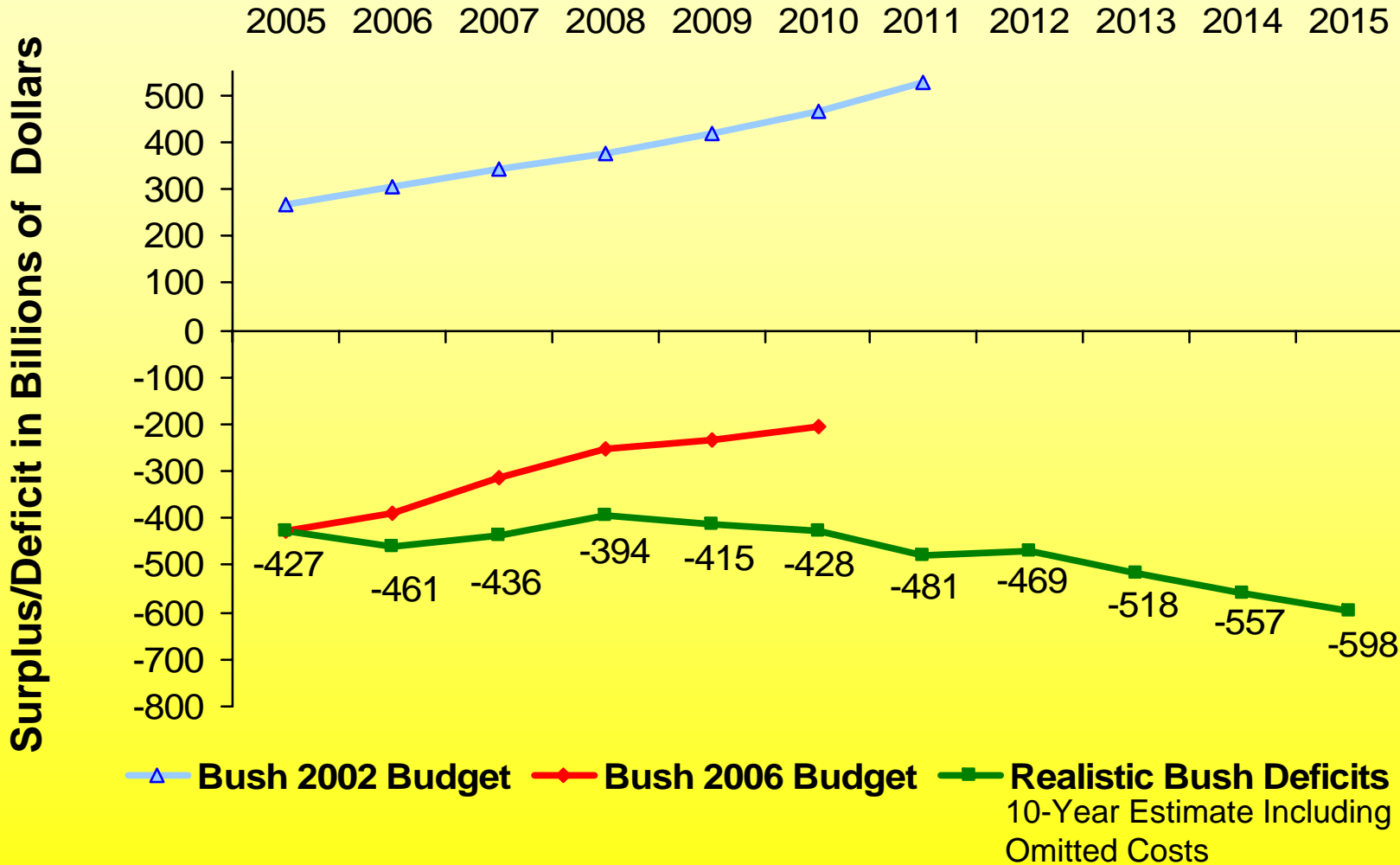
▪Cost to Repair AMT	\$642 Billion
▪Cost of Social Security Privatization	\$754 Billion
▪Realistic War Costs Beyond \$80 Billion for 2005	\$384 Billion
▪Debt Service	\$267 Billion
▪Total Outlays, 2006-2015	\$2.0 Trillion

Administration Has **No Credible Plan** To Cut Deficit By Half In Five Years

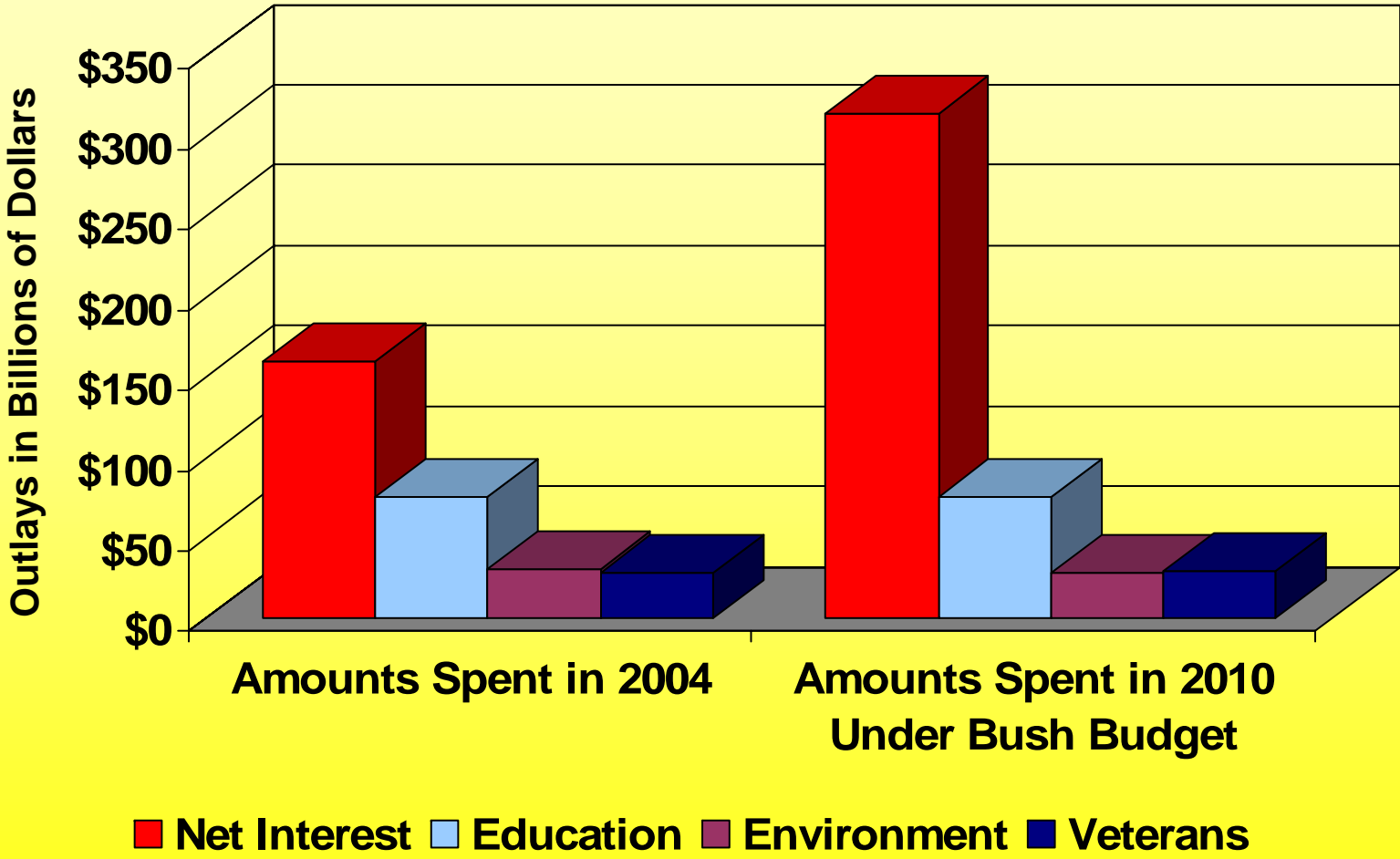
Budget Forgets to Include:

- Full Repair of the Alternative Minimum Tax
- Cost of Social Security Privatization
- Realistic War Costs
- Debt Service

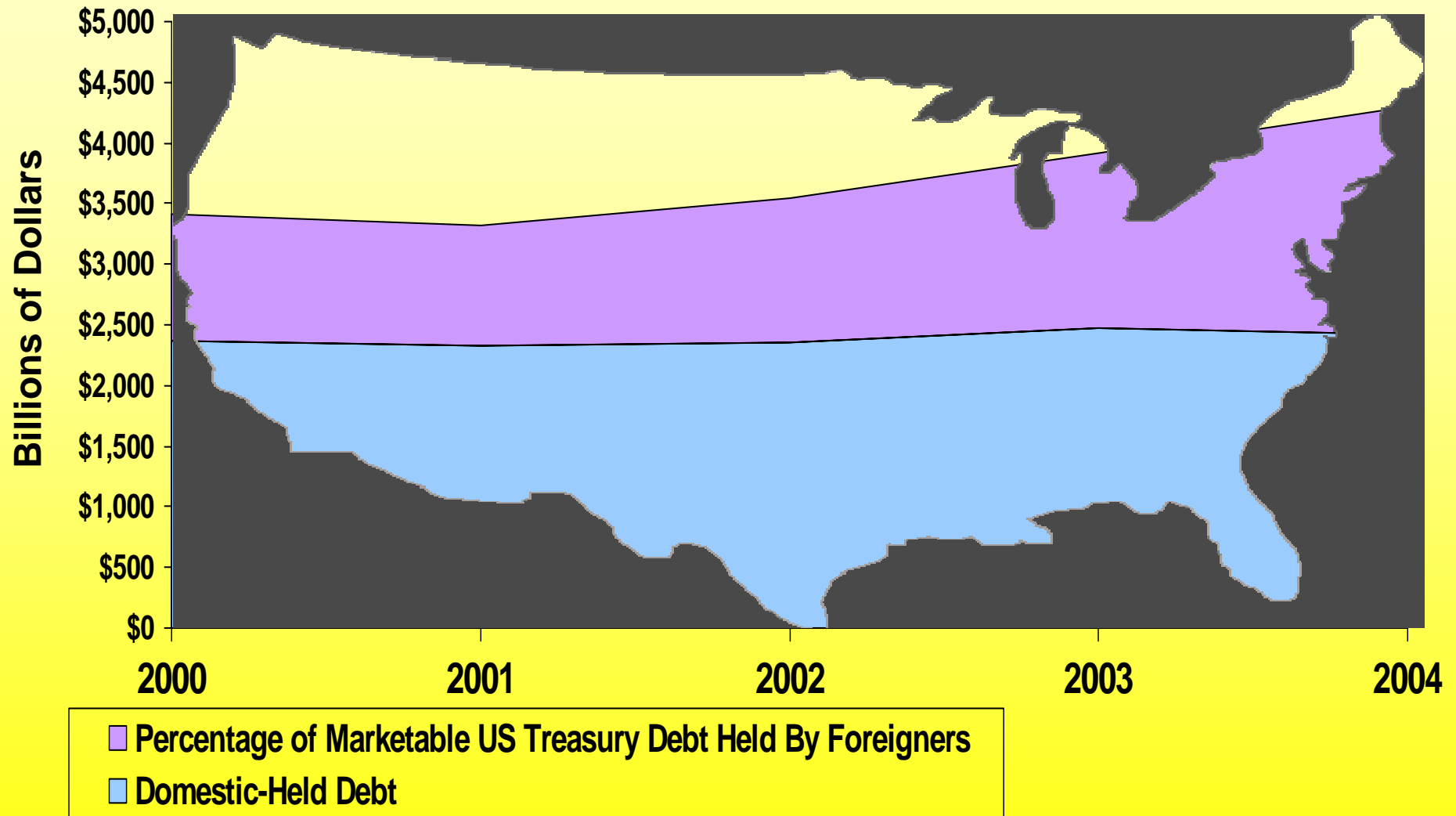
More Accurate Estimate Shows Even Bleaker Budget Outlook



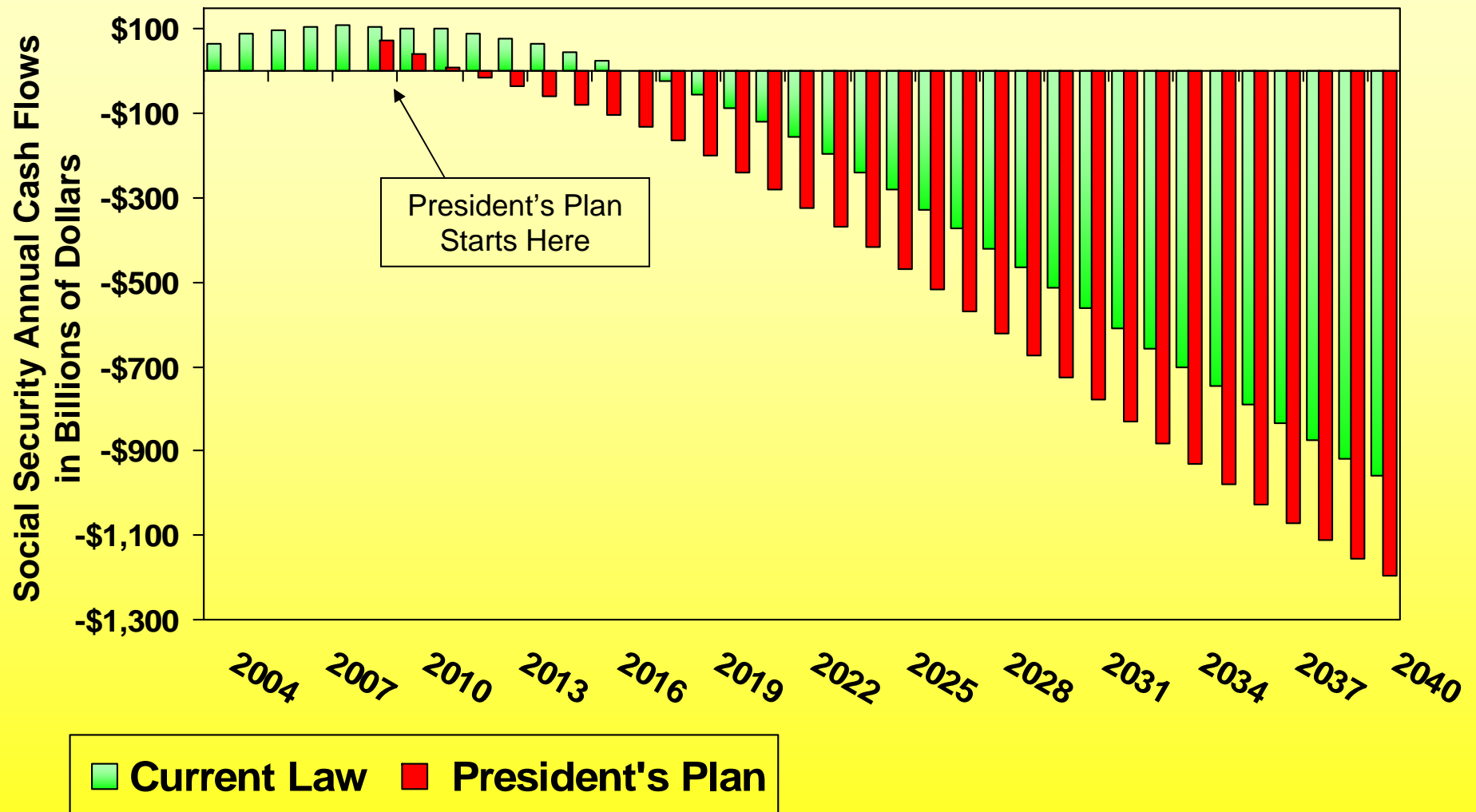
Interest Payments Dwarf Spending On Other Priorities; Only Getting Worse



Portion of Foreign-Owned Debt Rises To 41% Under Bush Administration

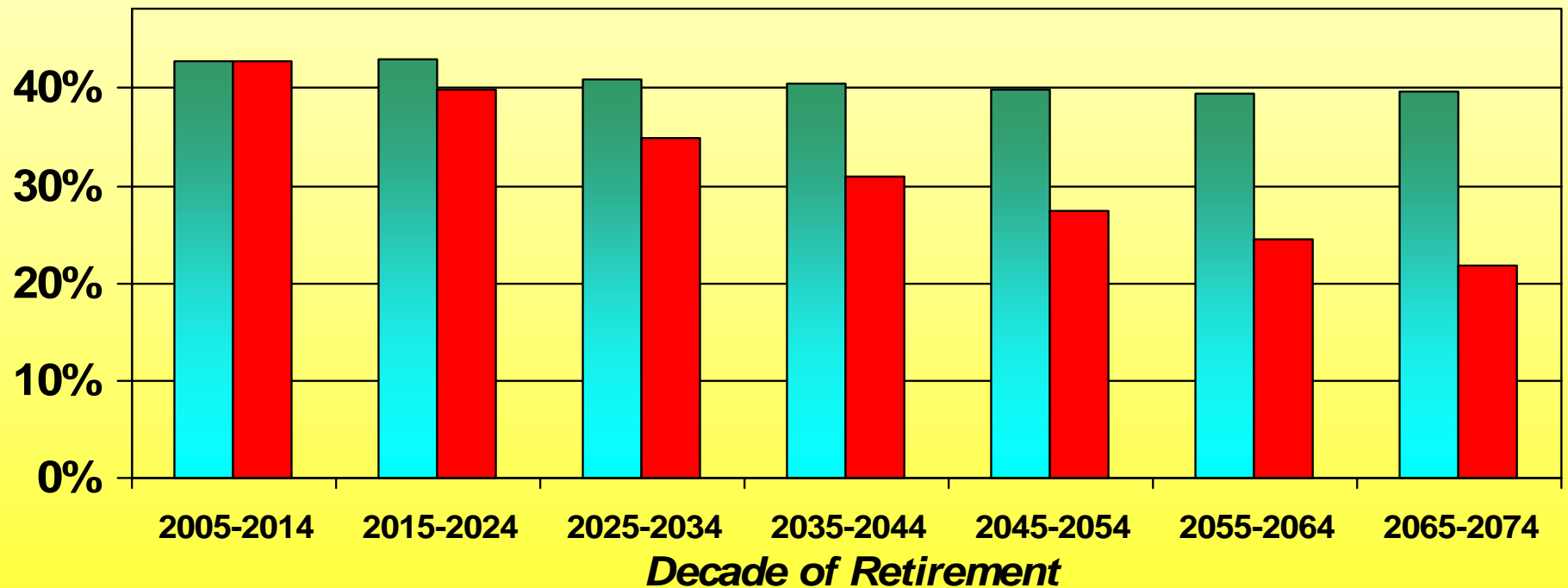


President's Privatization Plan Would Weaken Social Security For Decades



President's Plan Would Require Benefit Cuts To Assure Social Security Solvency

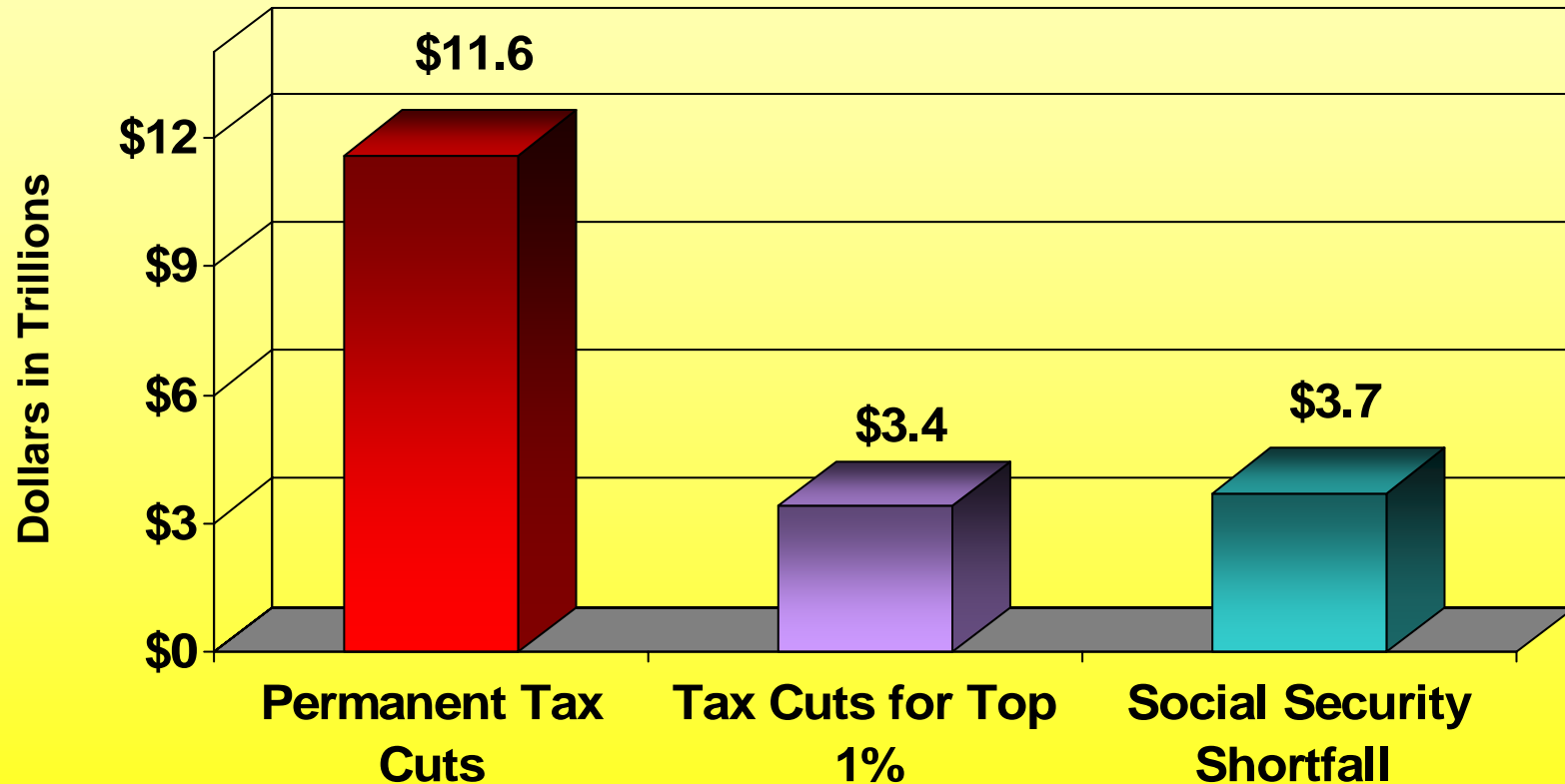
Estimated first-year benefits for median-wage worker retiring at age 65, including account proceeds, expressed as percentage of average pre-retirement earnings



■ Current-law Scheduled Benefits
■ Total Benefits Assuming Cuts Comparable To Commission's Plan 2

Tax Cuts Cost More than Social Security Shortfall

*In Trillions Of Dollars Over 75 Years**



*Measured in present value

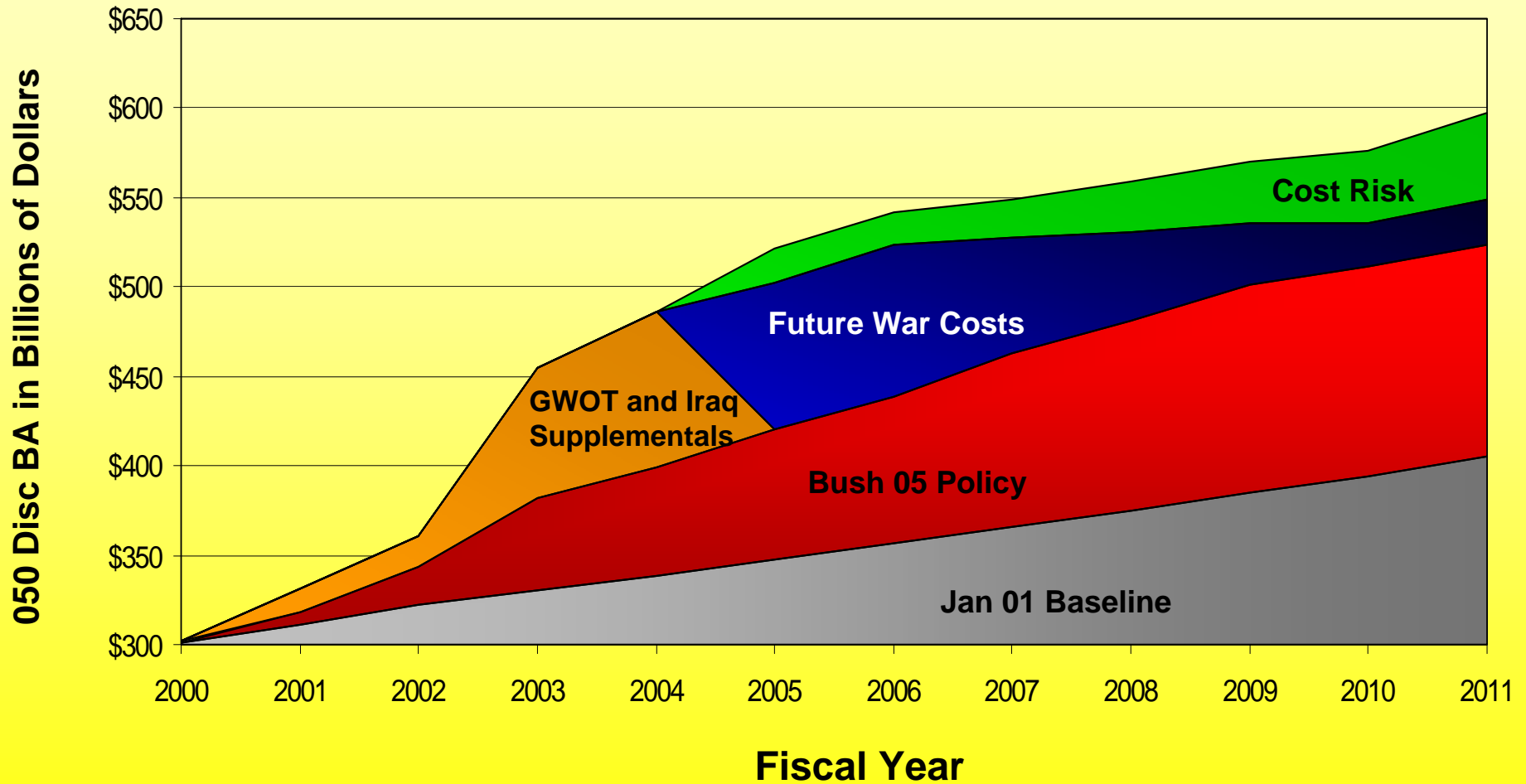
Prepared by the Democratic Staff of the House Budget Committee

Source: CBPP

2/7/05

Increased Cost of Defense Under Bush Administration

With Estimate of Future Contingency Costs



Defense Increases During Bush Administration

National Defense Discretionary Budget Authority in Billions of Dollars

	<u>2002- 2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2002- 2011</u>
CBO January Baseline 2001	991.0	347.4	356.3	365.5	374.9	384.6	394.5	404.9	3619.0
<u>Policy Increases Excluding Supplemental and Assuming \$60 Billion Cut</u>									
Included in Latest Baseline	133.9	73.4	74.4	74.8	76.2	77.5	78.7	80.1	669.0
Above Latest Baseline	-	-	8.2	22.3	29.9	39.0	37.8	38.8	175.9
Iraq/Afghanistan/ Enhanced Security	176.8	81	85	65	50	35	25	25	542.8
Cost Risk	-	19.7	17.7	20.9	28.1	33.7	39.8	48.6	208.5
Total Increase	310.7	174.1	185.2	183.0	184.3	185.1	181.3	192.4	1,596.1
Total Bush Defense Program	1301.7	521.5	541.5	548.5	559.1	569.7	575.8	597.3	5,215.2