

HOUSE BUDGET COMMITTEE

Democratic Caucus

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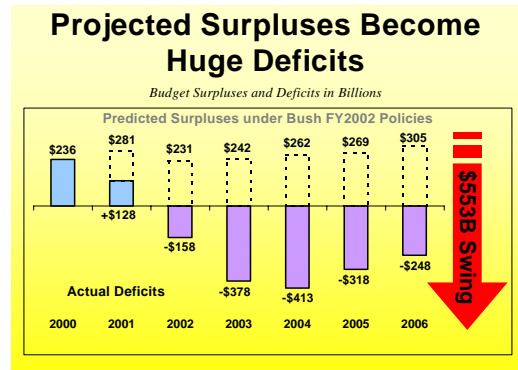
Republican Budget Deficits: A Continuing Problem with Long-Term Consequences

The Republican Congress and Administration have no plan for wiping out the long-term budget deficits that they have created. Over the past five fiscal years, Republicans have transformed record budget surpluses into triple-digit deficits that continue as far as the eye can see. Although the deficit for fiscal year 2006 is smaller than the Administration predicted earlier in the year, large deficits still undermine our economic security and leave our children a mountain of debt.

The 2006 Deficit: No Cause for Celebration

2006 Budget Far Worse than Forecast in 2000 — President Bush’s first budget forecast a \$305 billion surplus for 2006. Instead, 2006 has closed with a deficit of \$248 billion – more than *half a trillion dollars below* the original estimate. Clearly, such deterioration is no cause for celebration.

Deficit Not Halfway to Balance — Despite the Administration’s claims, the 2006 deficit of \$248 billion is not half the size of the record-setting 2004 deficit, which was \$413 billion. In any case, first creating record deficits and then setting a goal of cutting them in half over five years is not a credible measure of fiscal success. Even reducing a record deficit by half would not be a sign that the budget is on a path to eliminate the deficit entirely, as might be implied by Administration claims.

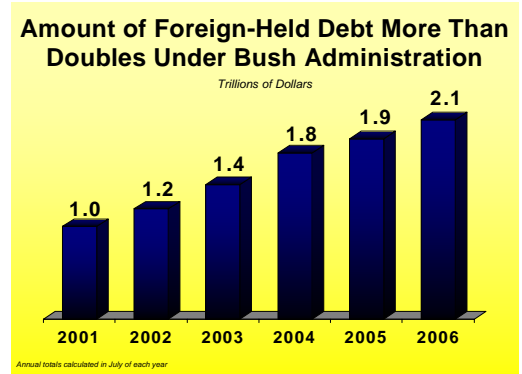


Future Deficits Grow Larger — Today’s updated estimate of the 2006 deficit does not alter the forecast for future Republican deficits, which remains grim. Even the Administration’s own estimates this summer show the deficit growing larger in 2007 and the budget never returning to balance. The forecast is even bleaker once you add the cost of policies that the Administration omits from its figures but that are part of its agenda, such as fixing the Alternative Minimum Tax and the full cost of the ongoing military operations in Iraq and Afghanistan.

Consequences of Republican Deficits

Deficits Weaken U.S. Competitiveness — The World Economic Forum released a report last month concluding that the United States economy has slipped from first to sixth in global competitiveness, in part because of the large deficits and mounting debt the federal government is accruing. Unfortunately, the Republican Congress has no plan to bring the budget back to balance, lower the national debt, or reduce the growing interest payments on that debt.

Foreign-Held Debt is Rising — Republican budget deficits have led to a rapid accumulation of public debt, which has risen from \$3.4 trillion when President Bush took office in 2001 to \$4.8 trillion today. The increase in deficits and national debt has heightened the need for the government to borrow from investors, and has led to a dramatic increase in the amount of U.S. Treasury debt held by foreign investors, which has more than doubled under this Republican Administration. Today, foreign investors hold over \$2.1 trillion in U.S. Treasury debt – nearly 45 percent of all public debt outstanding – which increases our economy’s vulnerability to potential political or economic instability from abroad.

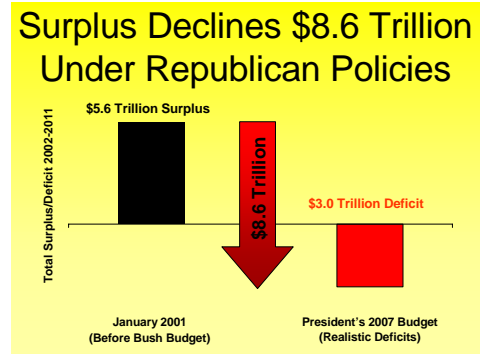


Budget Deficit Impacts the Trade Deficit — Higher interest payments to foreign holders of our national debt contribute to our worsening trade deficit. In 2005 alone, the U.S. government paid \$114 billion in interest payments to foreign investors – an increase of 28 percent above the previous year. And since foreign purchases of U.S. Treasury debt are made in U.S. dollars, they drive up demand for U.S. currency and that keeps the value of the dollar higher than it otherwise would be. Since a high dollar value means that American products are more expensive relative to those produced by foreign competitors, increased lending to foreign investors means it is harder to sell American goods.

Wages Are Stagnating and Job-Growth Is Weak — Employment growth during the Bush Administration has averaged just 46,000 jobs per month – the lowest monthly rate for any administration since Eisenhower, when the labor force was much smaller. Typically, about 140,000 to 150,000 total new jobs are needed each month to absorb new workers coming into the labor force. And for those who do have jobs, inflation-adjusted hourly wages have actually decreased since August 2003, when the economy stopped losing jobs. Even the Administration’s own Mid-Session Review this summer estimated that aggregate wages and salaries for 2006 will drop by \$71 billion relative to the level predicted in February, and that wages and salaries in each of the next five years will also be lower than the Administration estimated earlier this year.

No Republican Deficit Solution in Sight

Republican Budgets Make the Deficit Worse — The Bush Administration inherited an estimated ten-year budget surplus of \$5.6 trillion when it arrived in office; after five years of Republican control, that same ten-year period (2002-2011) is projected to show a budget deficit of \$3 trillion under the President’s policies, a swing of \$8.6 trillion in the wrong direction. Neither the President’s 2007 budget nor the budget resolution passed this year by the House ever return to fiscal balance – in fact, they make the deficits worse.



Spending Continues to Rise Under Republicans — Spending continues to rise under this Administration, at a rate that is more than twice that under the Clinton Administration. Total federal outlays grew by an average of 7.7 percent annually under the Bush Administration (fiscal years 2002 through 2006), but by an average of 3.6 percent under the Clinton Administration (fiscal years 1994

through 2001). And the Bush Administration is increasing annually appropriated discretionary spending at almost three times the rate that funding changed under the previous eight years of the Clinton Administration. Discretionary budget authority has grown by an average annual rate of 8.5 percent so far under this Administration, compared with average annual increases of 3.0 percent under the Clinton Administration.

Democrats Return the Budget to Balance — House Democrats have repeatedly offered balanced budgets. Again this spring, House Democrats offered a fiscally responsible budget resolution. It reaches balance in 2012 and includes tough budget enforcement rules. It balances priorities, providing tax cuts for working families and investing in key priorities such as homeland security, education, and health care.