



John Spratt,
Chairman

U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON THE BUDGET

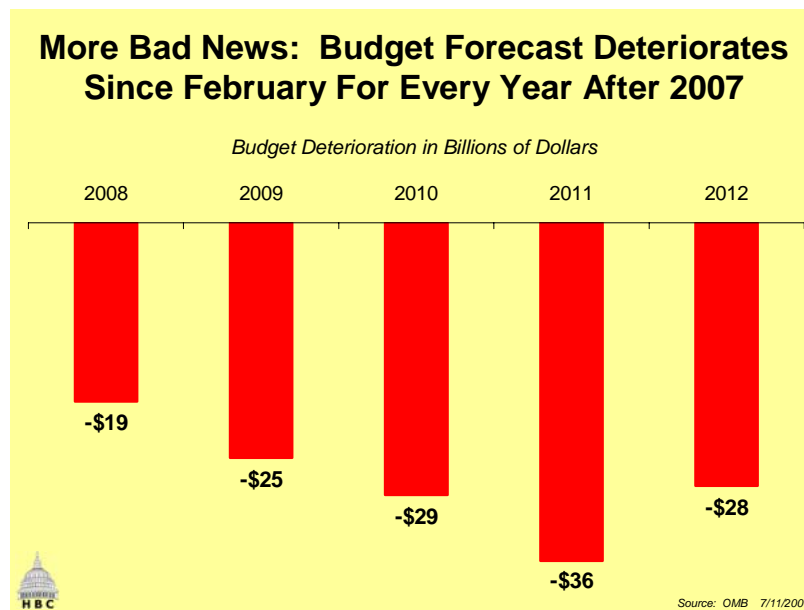
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July 11, 2007

Administration's Mid-Session Review of the Budget

Key Points

- The Mid-Session Review shows a modest improvement in the deficit for 2007 relative to the Administration's projections from February, but shows the deficit getting worse relative to February in every year thereafter. Over the 2008-12 period, the deficit gets worse by a total of \$137 billion relative to February's estimates, which means that over the entire 2007-12 period covered by today's report, the deficit gets worse by \$98 billion. In short, the government's deficits remain high and the long-term fiscal picture remains bleak.



- The Administration promotes more of the same policies that have helped cause our current fiscal woes and fails to deliver satisfactory economic results for many Americans.
- The Administration continues to push misplaced priorities – cutting key services and under-funding investments in order to help pay for \$2 trillion in new tax cuts that heavily benefit those who need the help the least.
- The Democratic 110th Congress is restoring fiscal responsibility while addressing longstanding needs that have been ignored in recent years.

Republican Fiscal Record of Deep Deficits and Growing Debt

Today's Forecast Actually Shows Deficit Getting Worse — Though the Administration has been claiming credit for the fact that its new estimate of the deficit for 2007 is somewhat smaller than its February projection, today's figures show the deficit getting worse relative to February in every year thereafter. Over the 2008-12 period, the deficit gets worse by a total of \$137 billion relative to February's estimates, and over the entire 2007-12 period covered by today's report, the deficit gets worse by a total of \$98 billion relative to February's estimates.

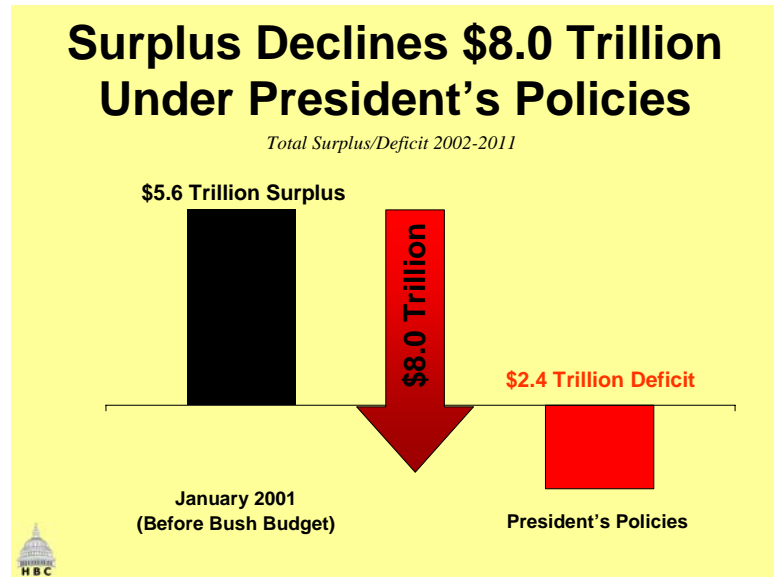
Deficits Under the President's Budget Policies

billions of dollars

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2007-2012</u>	<u>2008-2012</u>
February Estimate	-244	-239	-187	-94	-54	61	-758	-514
Mid-Session Review	-205	-258	-213	-123	-89	33	-856	-651
Difference	39	-19	-25	-29	-36	-28	-98	-137

Administration Has Worst Fiscal Record in History — During the Bush Administration, the government has posted the highest deficits in history. Six years ago, this Administration inherited a budget with a surplus that was projected to grow to over half a trillion dollars for 2007 alone. Today's deficit projection of \$205 billion for 2007 represents a deterioration of over three quarters of a trillion dollars from that projection.

Administration Has Turned Record Surpluses Into Record Deficits and Debt — Today, the \$5.6 trillion projected ten-year (2002-2011) surplus inherited by the Administration has been squandered: transformed – according to the Administration's own estimates – into a \$2.4 trillion deficit over the same period, a swing of \$8.0 trillion. However, the deficit under the President's policies is likely to be worse than the Administration shows: according to the more objective assumptions of the non-partisan Congressional Budget Office developed in March, the Administration understated the deficit from 2007 through 2012 by nearly \$250 billion in its February release and, in fact, the President's budget never reaches balance.

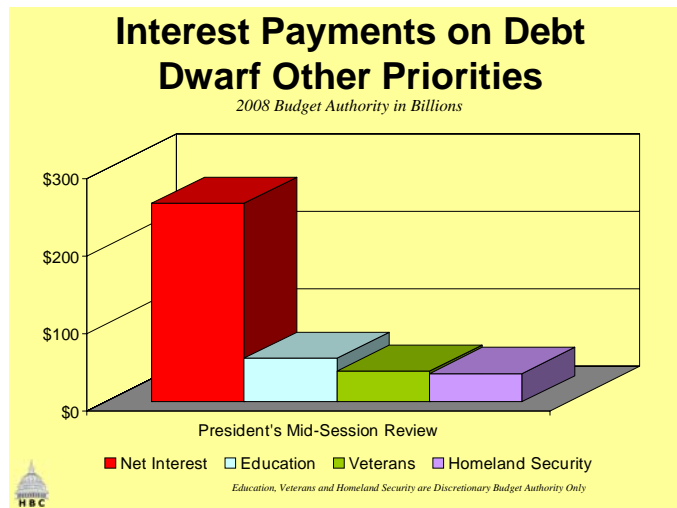


Administration Policies Lead in the Wrong Direction

Future Deficit Picture Remains Grim — Gross debt has exploded since the start of this Administration, rising from \$5.8 trillion in 2001 to an estimated \$9.0 trillion at the end of this year – an increase of more than \$3 trillion. This debt is accumulating at the worst possible time, just before the retirement of the baby boom generation. That period will bring renewed fiscal challenges as changes in our population will mean fewer workers to support each retiree. It is essential to get our fiscal house in order now to meet these future challenges.

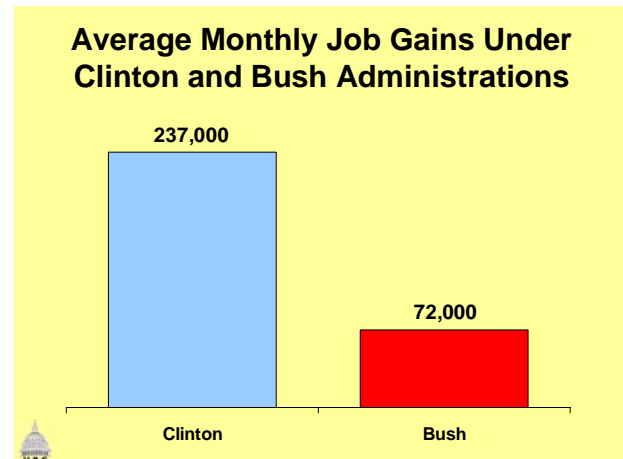
Large Deficits Are Financed With Foreign Borrowing — Foreign-held debt has skyrocketed under the Bush Administration, rising to \$2.2 trillion in April 2007 – an increase of \$1.2 trillion since January 2001. The high level of indebtedness to foreign investors heightens the economy's exposure to potential instability from abroad or even financial threat from unfriendly foreign governments, and places additional burdens on our children and grandchildren.

Ballooning Debt Service Costs Crowd Out Needed Services — According to the Mid-Session Review, the government's net interest payments will total \$256 billion in 2008. By 2012, net interest payments are estimated to increase to \$290 billion, far higher than the \$171 billion for 2002. These payments are just like interest payments on a family's credit card – they are obligatory, while providing no services or goods – no education for a child, no new roads, and no additional national security. Interest payments over the next five years dwarf spending on most national priorities including homeland security, education, and veterans' health care.

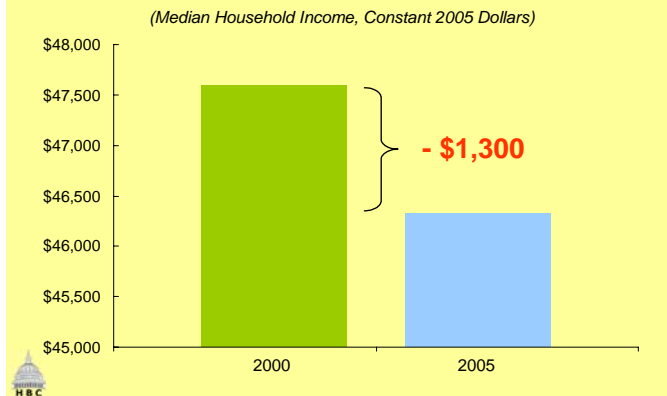


Many American Families Have Been Stretched Thin

Jobs Have Become Harder To Find — The economy, which created more than 200,000 jobs per month between 1993 and 2000, has averaged just over 70,000 new jobs a month since 2001 – only about half the pace needed to keep up with the growth of the working-age population. This weak job market has left over 900,000 more workers unemployed, and increased long-term unemployment by over 65 percent. The manufacturing sector has been particularly hard hit, with a *loss* of over 3 million jobs.



Typical Family Income Decreases Under Bush Administration



Hard Work Is Not Being Rewarded —

American workers are more productive than ever, but they are not benefitting from their increased output. Productivity has grown robustly since 2000, yet the real income of a typical family has *fallen* by almost \$1,300. Real income has declined for most households, but our most vulnerable citizens have fared worst: 37 million Americans are living below the poverty line – an increase of 5.4 million since 2000.

Families Are Being Squeezed —

From soaring energy prices to health care costs, it is getting harder for American families to make ends meet. In 2005, 44.8 million Americans were making do without health insurance. Since 2000, 6.4 million fewer people have insurance coverage. Those with health insurance are losing more and more of their paychecks to premiums without receiving more generous benefits. As costs are rising and incomes are falling, American families are going deeper in debt. Families are devoting more of their income to finance charges to service their debt, and are finding it increasingly difficult to make payments on time.

Administration Continues to Promote Same Flawed Policies and Priorities —

The President's 2008 budget contains more of the same policies that led to record deficits while ignoring the need to invest in vital services to families and communities. To help pay for a fraction of nearly \$2 trillion in new tax cuts over the next ten years, which largely benefit the most fortunate, the President's budget imposes harmful cuts on a range of critical services. The President's budget cuts Medicare by \$241 billion over ten years without

reinvesting those savings in health care, makes legislative cuts in Medicaid of \$29 billion over ten years, and cuts discretionary education funding for 2008 by \$1.5 billion below the enacted level for 2007.

Bush Economic Record: Nothing to Cheer About

- ✓ 900,000 more Americans are unemployed
- ✓ Real income for typical family down by \$1,300
- ✓ Five million more Americans living below the poverty line
- ✓ \$14,000 increase in average family's debt burden
- ✓ Six million fewer Americans have health insurance coverage



Tax Cuts Haven't Paid For Themselves

Revenue Still Lags Far Behind Projected Level — Despite today's revised numbers, revenues remain far below the levels projected when the Administration first proposed its tax cuts. As evidence that the tax cuts have fallen far short of paying for themselves, actual revenues over the past five fiscal years (2002-2006) have turned out to be \$2.2 trillion below what the Administration forecast back in 2001 as the level of revenues that would be achieved before the tax cuts. Indeed, today's figures do not support the supply-side notion that tax cuts increase

revenues and in time pay for themselves. In fact, revenues from individual income tax revenues – the taxes most directly affected by the 2001 and 2003 tax cuts – for 2006 were only 4 percent above the 2000 levels, far from keeping up with inflation, let alone the size of the economy.

Were It Not for the Tax Cuts, the Budget Would Be In Surplus — The cost of the Bush tax cuts in 2007 alone is well over \$200 billion, suggesting that without the tax cuts the currently forecasted deficit would turn into a surplus.

Administration Tax Policy Has Weakened, Not Strengthened, Economic Growth — Economic growth since the implementation of the tax cuts has failed to match CBO's estimate of economic growth without the tax cuts, and the economy's performance is generally weak compared with other economic recoveries. The weakness in the economy stems from lack of adequate national saving, driven in large part by the record budget deficits. Relative to February, today's report revises downward the real GDP growth estimate for this year, from 2.7 percent to 2.1 percent.

The Truth About Discretionary Spending

Overwhelming Percentage of Increases Are For Security-Related Needs and Administration Requests — In the face of record fiscal deterioration on its watch, the Administration has curiously chosen to criticize the Congress over relatively modest differences in discretionary spending. The appropriations bills being moved by the Congress differ from the Administration's requested level by only 2 percent. Of the increases in appropriations above the level needed to keep pace with inflation, nearly 90 percent go to military and homeland security related programs – increases in most cases requested by the Administration itself. Increases beyond the Administration's request for military and homeland security needs are for much needed improvements in veterans' health care services that have been under-funded by the Administration's budgets as well as for rejecting proposed cuts for first responders and other homeland security needs.

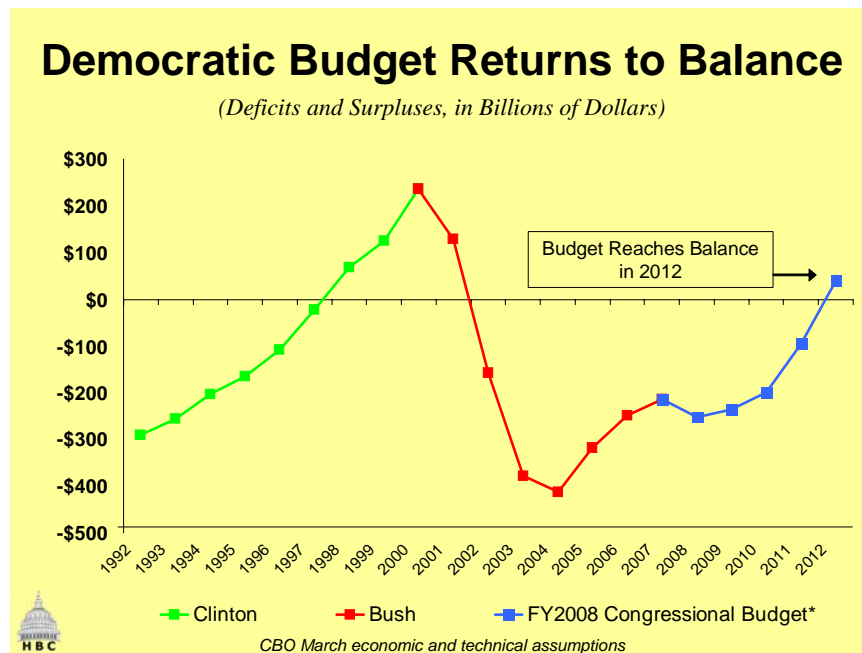
Appropriations Will Provide Responsible Investments in Domestic Programs — The appropriations bills now working their way through the legislative process provide responsible investments in domestic programs. These programs - including education, environmental protection, and scientific research and innovation - increase by \$3 billion or only one percent relative to levels needed to keep pace with inflation. After adjustment for both inflation and the underlying growth in the American population, spending is nearly level for domestic needs. Responsible investments in areas like human capital and scientific innovation must proceed if our economy is to prosper.

Effective Government Requires Balanced Priorities — The American people expect a fiscally responsible federal budget that meets crucial needs, a standard not met under Republican policies. Backlogs for receiving disability benefits, long delays for issuing passports, and lack of maintenance for buildings that house returning wounded soldiers are all symptoms of under-funding under the Administration's policies. The 2008 appropriations bills making their way through Congress will make a down payment toward revitalizing priority services, while complying with this year's budget resolution, which returns to balance in 2012.

Democrats Restore Budget Discipline

Leading the Way to Restore Fiscal Balance — The 110th Congress made a commitment to the American public to get our fiscal house in order, and it is delivering on that promise. So far this year the Congress has taken the following first steps:

- **Adopted Balanced Budget** — Adopted a budget resolution that achieves balance by 2012. The Republican-controlled Congress failed even to adopt a budget in three of the past five years.
- **Restored Pay-as-you-go Discipline** — The pay-as-you-go rule, a key tool in restoring fiscal balance during the Clinton Administration, was allowed to lapse in 2002. As part of its first order of business this year, the House restored pay-as-you-go discipline through its own rules. The budget resolution extended this discipline to the Senate.
- **Required Funding Tradeoffs** — Established mechanisms to fund vital priorities such as children's health, energy conservation, and the farm bill programs, while requiring tradeoffs to ensure fiscal responsibility.
- **Cracked Down on Waste and Fraud** — Protected funding needed to improve the integrity of government programs by reducing wasteful spending in health care, unemployment insurance, and other government benefits.



We inherited a fiscal situation characterized by large deficits and neglected priorities. We have now begun the hard work of digging out of that ditch, to reestablish a balanced budget with balanced priorities.

Charts for the President's Mid-Session Review of the Budget

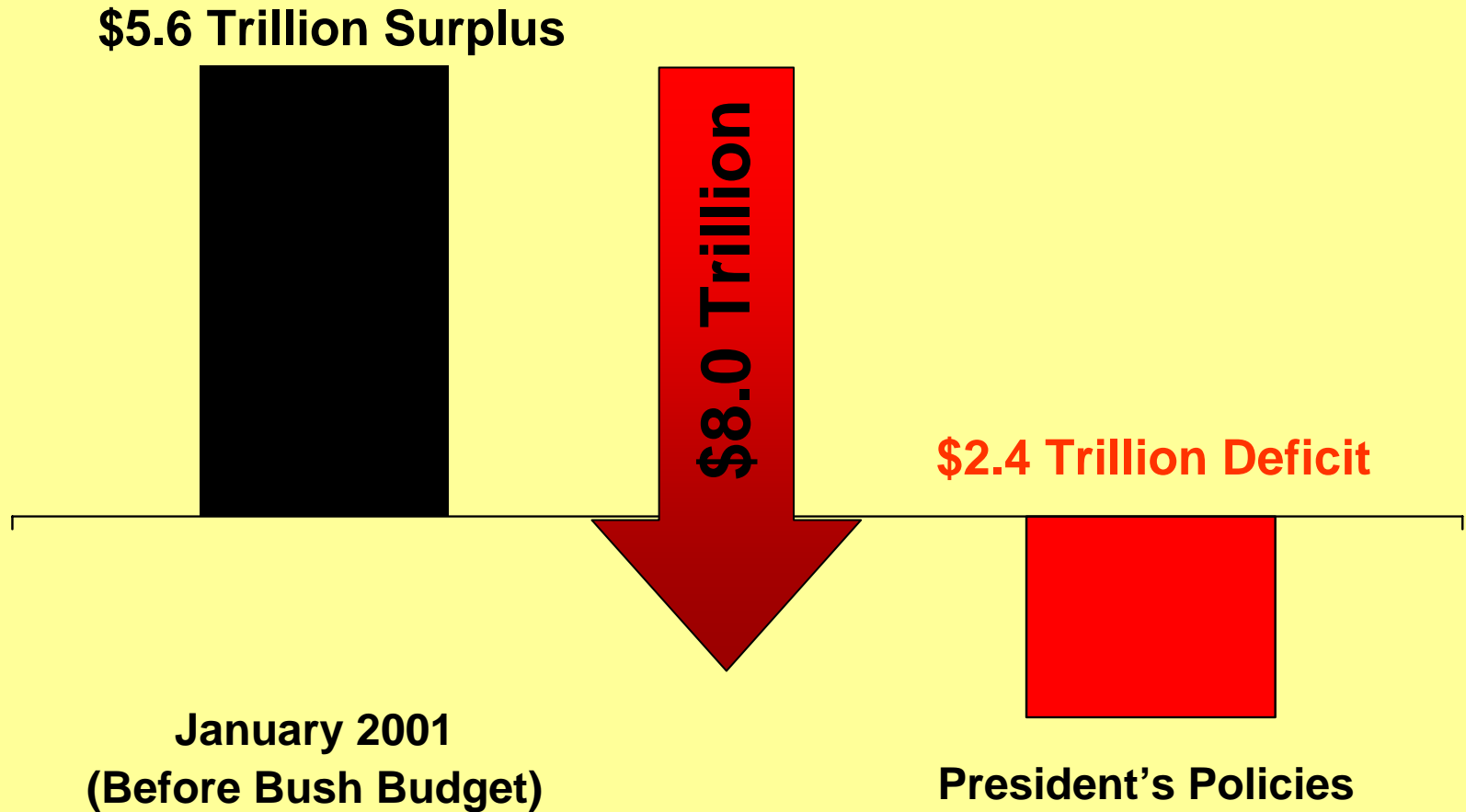
Prepared by the House Budget
Committee Staff

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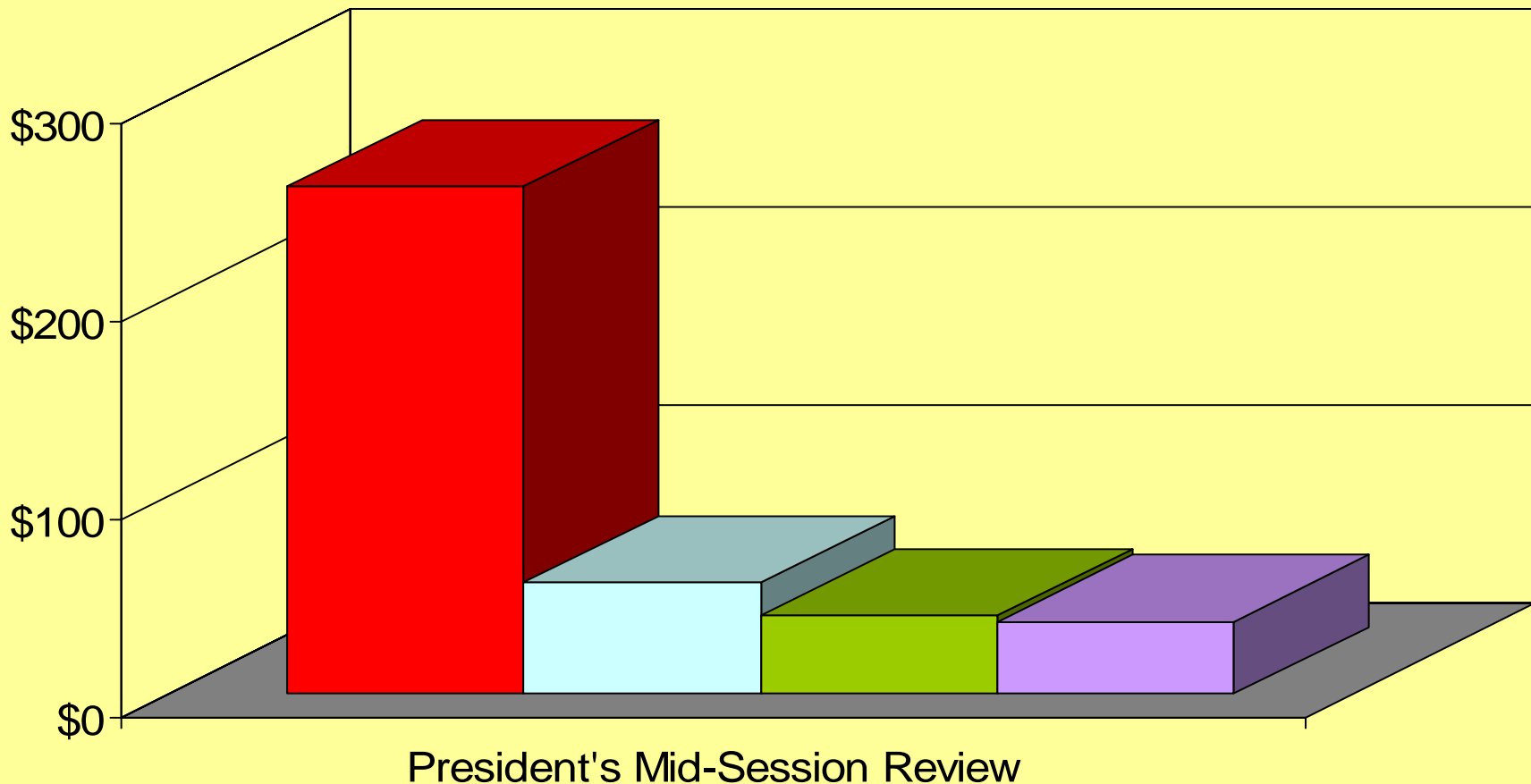
Surplus Declines \$8.0 Trillion Under President's Policies

Total Surplus/Deficit 2002-2011



Interest Payments on Debt Dwarf Other Priorities

2008 Budget Authority in Billions



■ Net Interest ■ Education ■ Veterans ■ Homeland Security

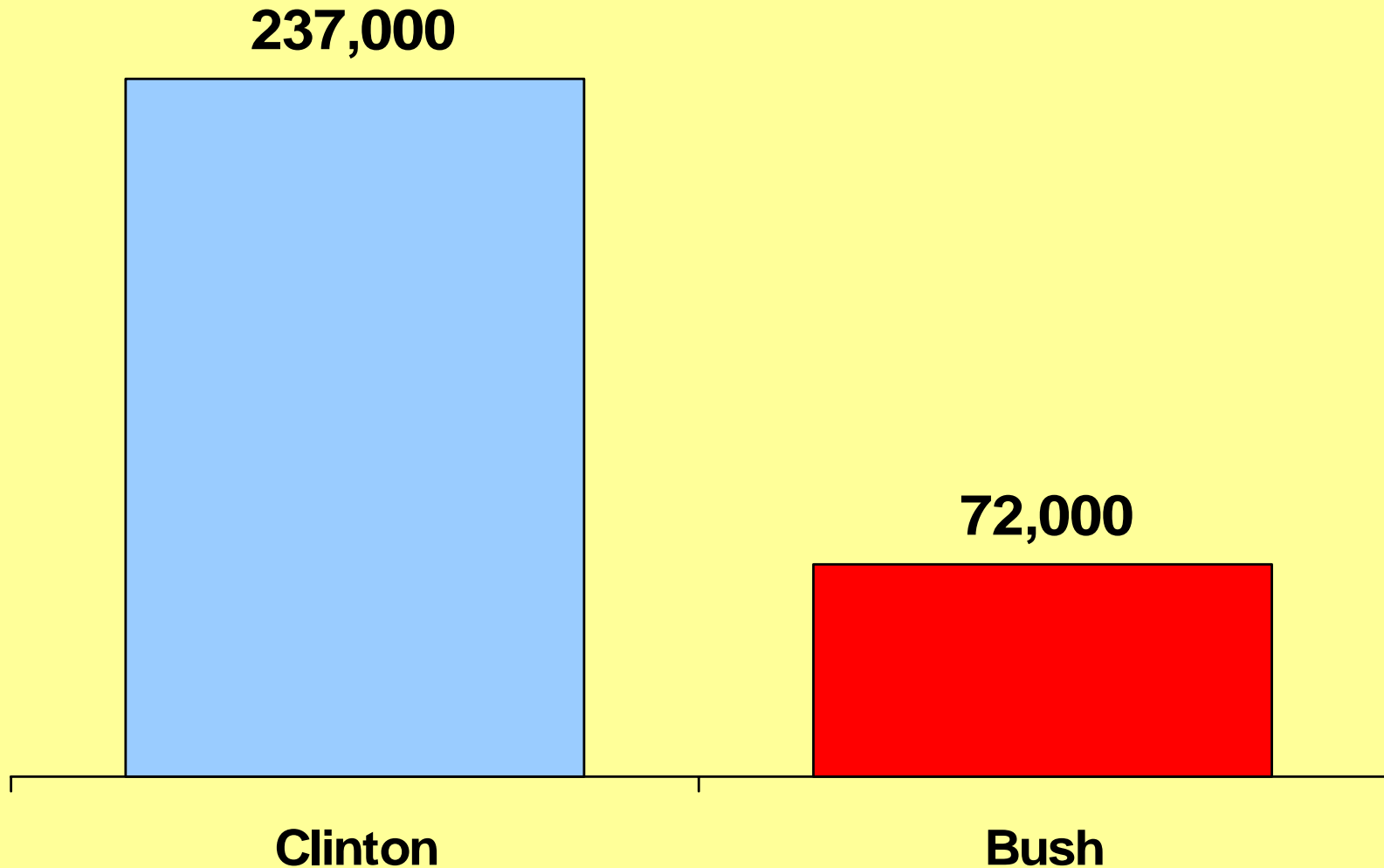
Education, Veterans and Homeland Security are Discretionary Budget Authority Only



Bush Economic Record: Nothing to Cheer About

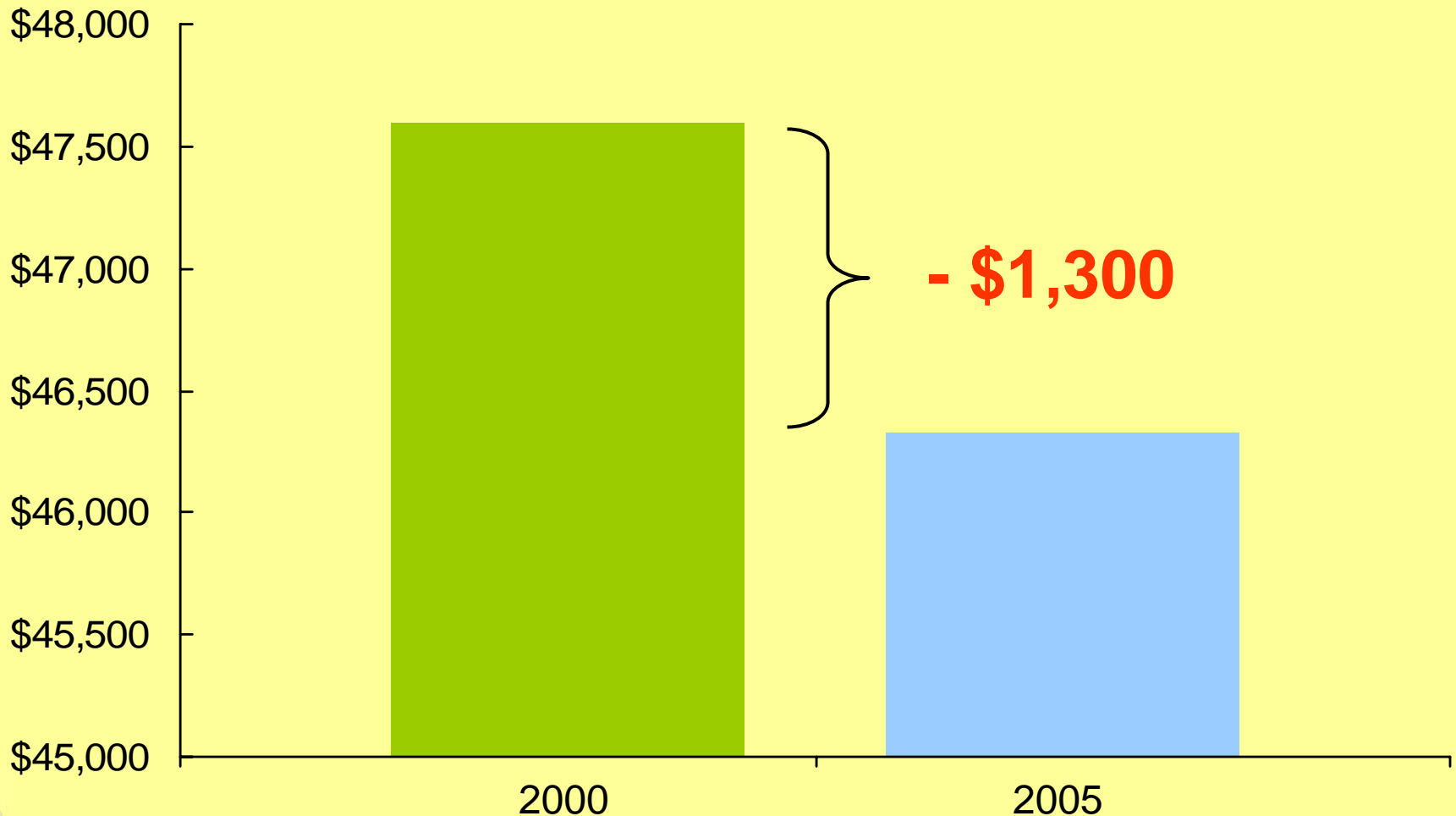
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Average Monthly Job Gains Under Clinton and Bush Administrations



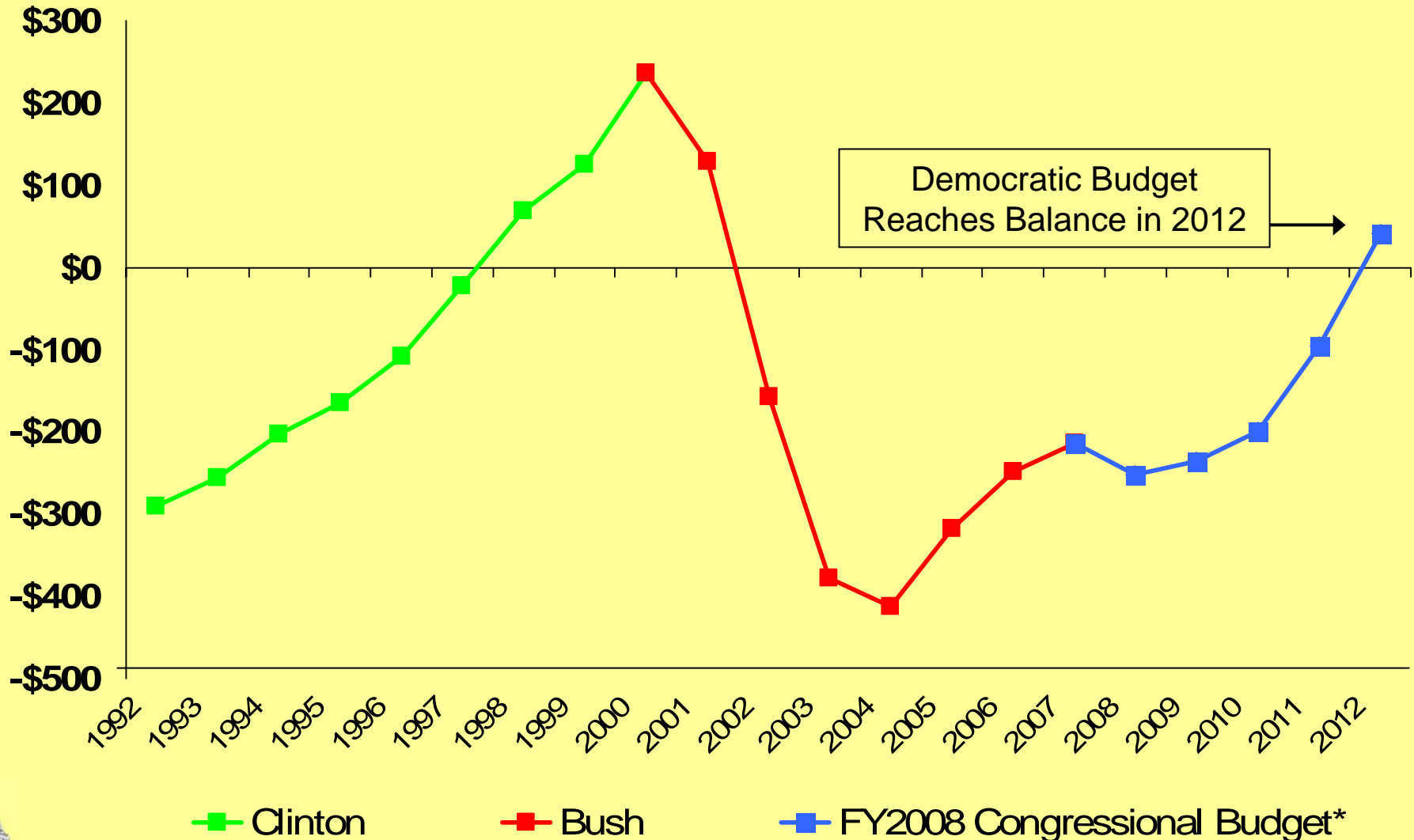
Typical Family Income Decreases Under Bush Administration

(Median Household Income, Constant 2005 Dollars)



Democratic Budget Returns to Balance

(Deficits and Surpluses, in Billions of Dollars)



* CBO March economic and technical assumptions

5/15/2007



More Bad News: Budget Forecast Deteriorates Since February For Every Year After 2007

Budget Deterioration in Billions of Dollars

