

# HOUSE BUDGET COMMITTEE

## Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Member

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January 26, 2004

### **CBO Forecasts Largest Deficits in American History**

Dear Democratic Colleague:

Today's new forecast by the Congressional Budget Office (CBO) provides the latest in a series of troubling reports about the deterioration of the budget under Republican management. CBO's projections show that deficits loom far into the future, and cast grave doubts on the Bush Administration's claim that it will cut the deficit in half over five years.

***Record Surpluses Replaced by Record Deficits*** — CBO forecasts a budget deficit for fiscal year 2004 of \$477 billion, the largest in history, larger even than the 2003 deficit of \$375 billion. The \$5.6 trillion ten-year surplus (2002-2011) projected three years ago has vanished; over the same period, CBO now projects a deficit of \$2.9 trillion. Since last January, the deficit has worsened considerably, with the projected deficit for 2004 growing \$332 billion worse and the ten-year deficit (2002-2011) growing \$2.9 trillion worse. These deficits result despite strong economic growth assumed in CBO's forecast.

***Tax Cuts Would Make the Picture Far Worse*** — Because CBO's projections assume no policy changes relative to current law, they understate the severity of the budget deficit. When one adds CBO's cost-estimate of other likely policies — like making permanent expiring tax cuts and reforming the Alternative Minimum Tax (AMT) — deficit projections grow much larger, by more than \$2 trillion over 2005-14.

***Deficits Threaten Economy, Priorities*** — While Republicans suggest that these record-breaking deficits are 'manageable,' there is growing anxiety over the dangers these deficits pose to the economy. Recent reports decrying the deficit have come from the International Monetary Fund, the Concord Coalition, and even investment banking firms like Goldman Sachs. Chronic deficits crowd out private investment, shove up interest rates, and slow down economic growth. Meanwhile, increasing debt service leaves less and less in the budget for priorities like education, health care, and retirement security.

***Administration Has No Credible Plan*** — It is becoming clear that the Bush Administration has no plan to eliminate these deficits. In the face of mounting deficits, the President proposes another round of tax cuts reducing revenues by more than \$1 trillion and driving the budget further into the red. The President's proposal to hold domestic appropriations to one percent growth in this year's budget — even if enacted — would do virtually nothing to reverse the growing deficit. Domestic appropriations in the current budget cycle increased by only two percent, and the deficit still went up by \$102 billion.

Attached are a number of charts that you may find useful. Please do not hesitate to call me or the House Budget Committee Democratic staff with any questions.

Sincerely,

/s

John M. Spratt, Jr.

Ranking Democratic Member

# CBO's Budget and Economic Outlook

House Budget Committee  
Democratic Staff  
January 26, 2004

# Projected 2004 Surplus Becomes Largest Deficit in History

Forecast of 2004 Surplus or Deficit, Billions of Dollars

	<b>Unified</b>	<b>On-Budget</b>
January 2001	397	196
August 2001	201	-3
January 2002	54	-141
August 2002	-111	-299
January 2003	-145	-319
January 2004	-477	-631

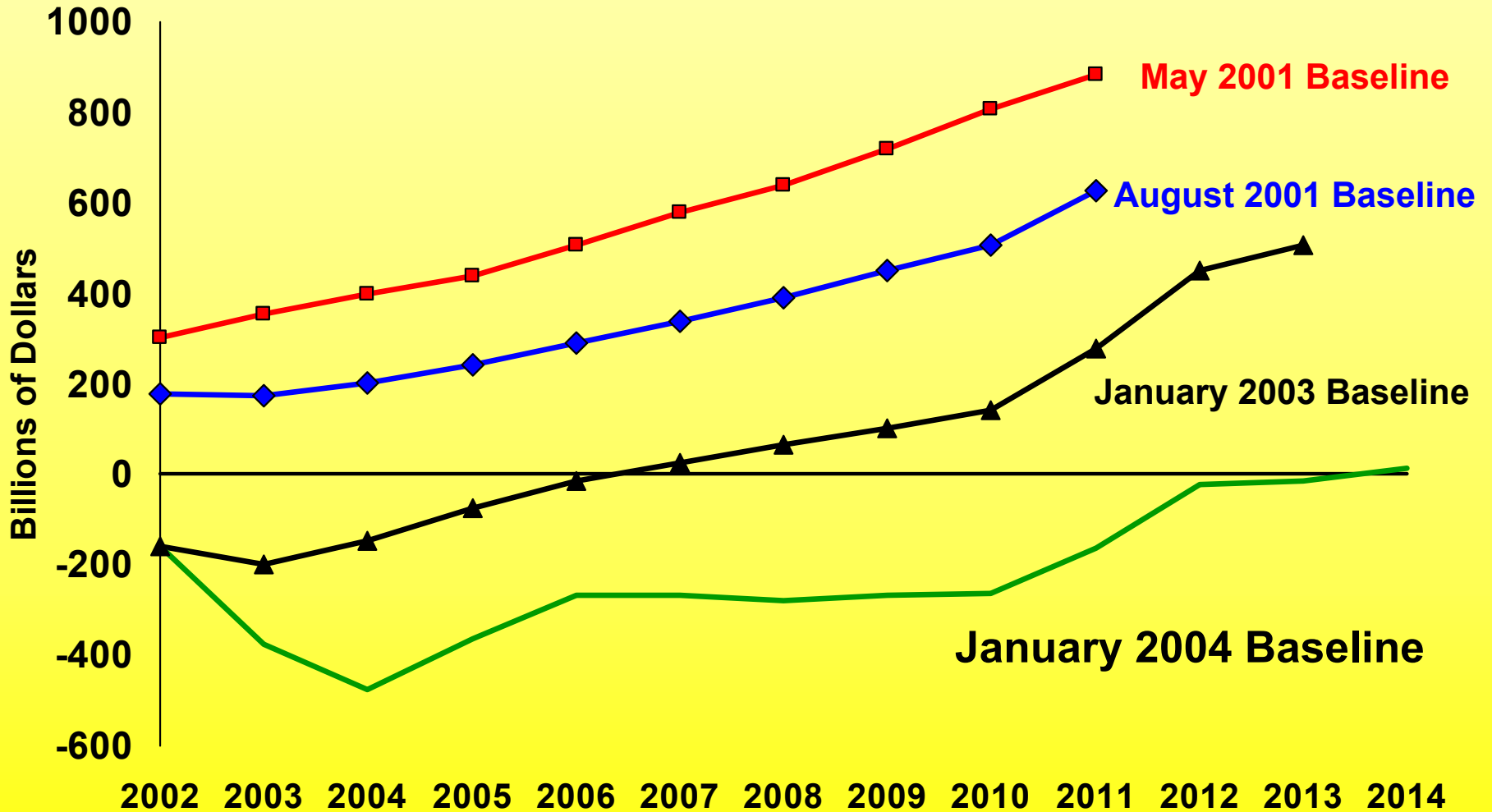
# Surplus Declines \$8.5 Trillion Under Republican Leadership

Unified Budget Surplus, Trillions of Dollars

	<b>2002-2011</b>
January 2001	5.610
August 2001	3.397
January 2002	1.601
August 2002	0.336
January 2003	0.020
January 2004	<b>-2.876</b>

# What Happened to the Surplus?

Unified Surplus or Deficit



# Surplus Declines \$8.5 Trillion During Bush Administration

Unified Budget Surplus, CBO Baseline  
Trillions of Dollars

	<b>2002-2011</b>	<b>2005-2014</b>
May 2001	5.629	n.a.
January 2004	<b>-2.876</b>	<b>-1.893</b>

# **CBO Baseline Assumes:**

- **Tax cuts sunset and are repealed**
- **Alternative Minimum Tax is not repaired**

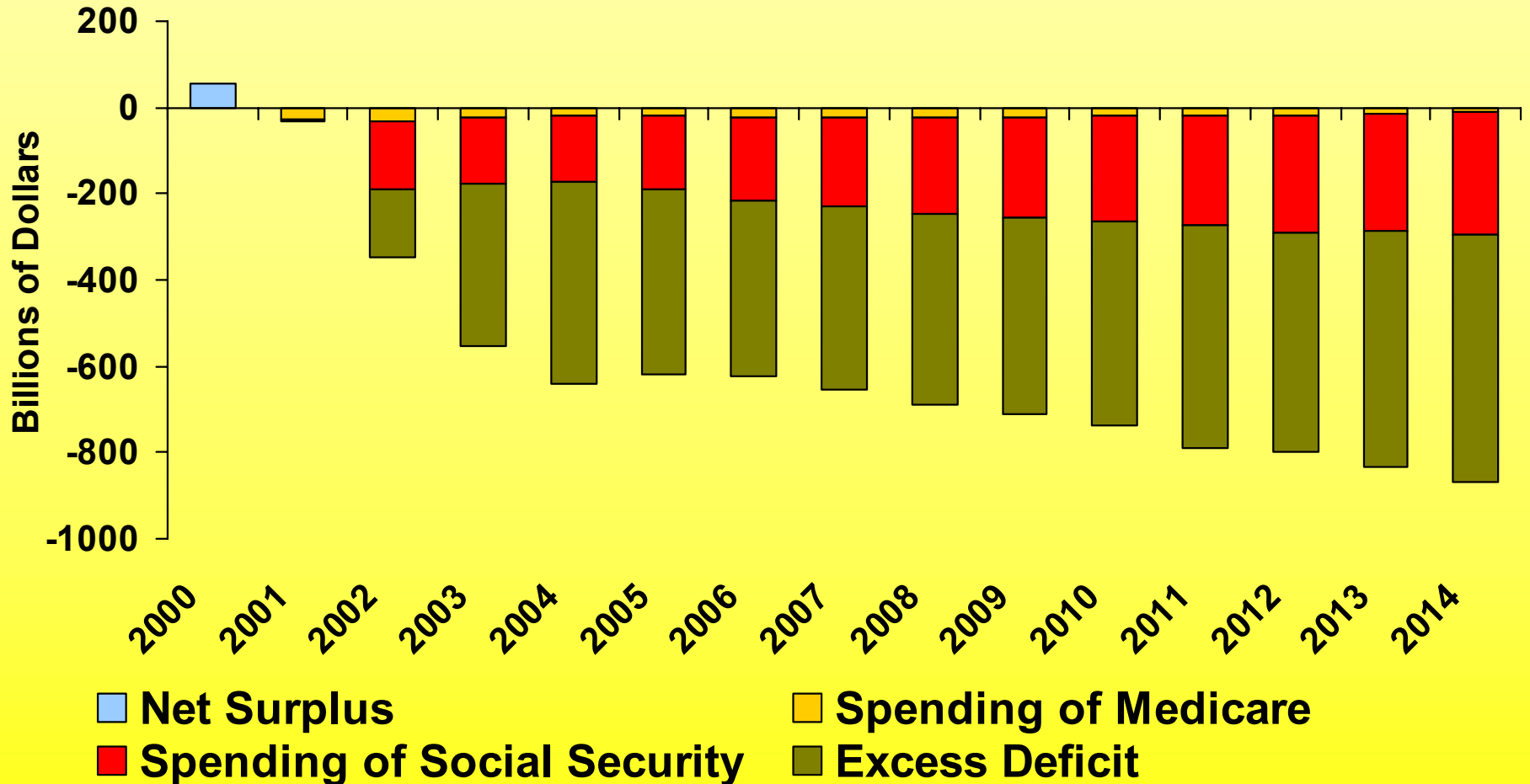


# Realistic Policy Adjustments Make Deficit Picture Worse

Unified Budget Surplus, Trillions of Dollars

	<b>2002-2011</b>	<b>2005-2014</b>
May 2001	5.629	n.a.
January 2004 Baseline with Republican Tax Cuts	<b>-4.154</b>	<b>-4.782</b>

# President's Policies Spend Social Security and Medicare



# **CBO Baseline Does Not Include:**

- **New Presidential initiatives such as lunar-based mission to Mars**
- **Social Security Reform**
- **Reauthorization of Transportation Bill**
- **The cost of addressing natural disasters like hurricanes, wildfires, floods, and earthquakes**

# Extending Expiring Tax Provisions Would Lower Revenues By \$2.3 Trillion over 2005-2014

**Table 4-10.**  
**Effect of Extending Tax Provisions That Will Expire Before 2014**  
(Billions of dollars)

Tax Provision	Expiration Date	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total, 2005-2009	Total, 2005-2014
<b>Provisions That Expired in 2003</b>														
Archer Medical Savings Accounts	12/31/03	*	*	*	*	*	*	*	*	*	*	*	*	*
Brownfields Remediation	12/31/03	-0.1	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-1.2	-2.1
Corporate Contributions of Computers to Schools	12/31/03	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.7	-1.7
Credit for Electric Vehicles	12/31/03	*	*	*	*	*	*	*	*	*	*	*	*	*
Credit for Electricity Production from Renewable Sources	12/31/03	*	*	-0.1	-0.2	-0.2	-0.5	-0.6	-1.1	-1.5	-1.9	-2.2	-1.2	-8.7
Deduction for Teachers' Classroom Expenses	12/31/03	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-1.1	-3.2
Deductions for Clean-Fuel Vehicles and Refueling Property	12/31/03	*	-0.1	-0.2	-0.4	-0.5	-0.4	-0.4	-0.4	-0.3	-0.1	-0.1	-1.6	-2.8
Interest Rate for Pension Calculations	12/31/03	4.8	3.7	1.6	0.6	-1.3	-2.2	-2.6	-2.0	-1.9	-2.0	-1.3	2.5	-7.3
Net Income Limitation for Marginal Oil and Gas Wells	12/31/03	*	*	*	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.5
Qualified Zone Academy Bonds	12/31/03	*	*	*	*	*	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.6
Reduction in Policyholder Dividends for Insurance Companies	12/31/03	*	*	*	*	*	*	*	*	*	*	*	-0.2	-0.4
Rum Excise Tax Revenue to Puerto Rico and the Virgin Islands	12/31/03	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.4	-0.8
Tax Incentives for Investment in the District of Columbia	12/31/03	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.3	-0.5	-1.5
Treatment of Personal Credits Under AMT	12/31/03	-0.1	-0.6	-2.3	-3.6	-4.2	-4.8	-5.5	-6.1	-7.4	-8.5	-9.2	-15.5	-51.1
Welfare-to-Work Tax Credit	12/31/03	*	*	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.3	-0.7
Work Opportunity Tax Credit	12/31/03	-0.1	-0.2	-0.3	-0.3	-0.3	-0.4	-0.4	-0.4	-0.4	-0.5	-0.5	-1.5	-3.7
Tax Incentives for Areas of New York City Damaged on Sept. 11	Various <sup>a</sup>	-0.1	-0.2	-0.3	-0.7	-0.9	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-3.0	-6.9
<b>Provisions That Expire Between 2004 and 2014</b>														
Credit for Research and Experimentation	06/30/04	-0.5	-2.8	-3.2	-3.7	-4.1	-4.6	-5.1	-5.6	-6.2	-6.7	-7.2	-18.4	-49.2
Abandoned Mine Reclamation Fees	09/30/04	n.a.	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	1.2	2.5
Depreciation for Business Property on Indian Reservations	12/31/04	**	-0.1	-0.4	-0.5	-0.5	-0.5	-0.4	-0.3	-0.3	-0.3	-0.3	-2.1	-3.6
Increased AMT Exemption Amount	12/31/04	n.a.	-7.1	-20.3	-26.8	-34.2	-42.8	-50.5	-42.0	-35.5	-30.6	-35.5	-131.1	-315.2
Indian Employment Tax Credit	12/31/04	n.a.	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.3	-0.8
IRS User Fees	12/31/04	n.a.	**	**	**	**	**	**	**	**	**	**	0.2	0.4
Partial Expensing at 50 Percent	12/31/04	2.1	-0.4	-7.1	-6.2	-5.75	-8.4	-9.8	-3.0	-2.2	-2.0	-2.4	-28.6	-40.1

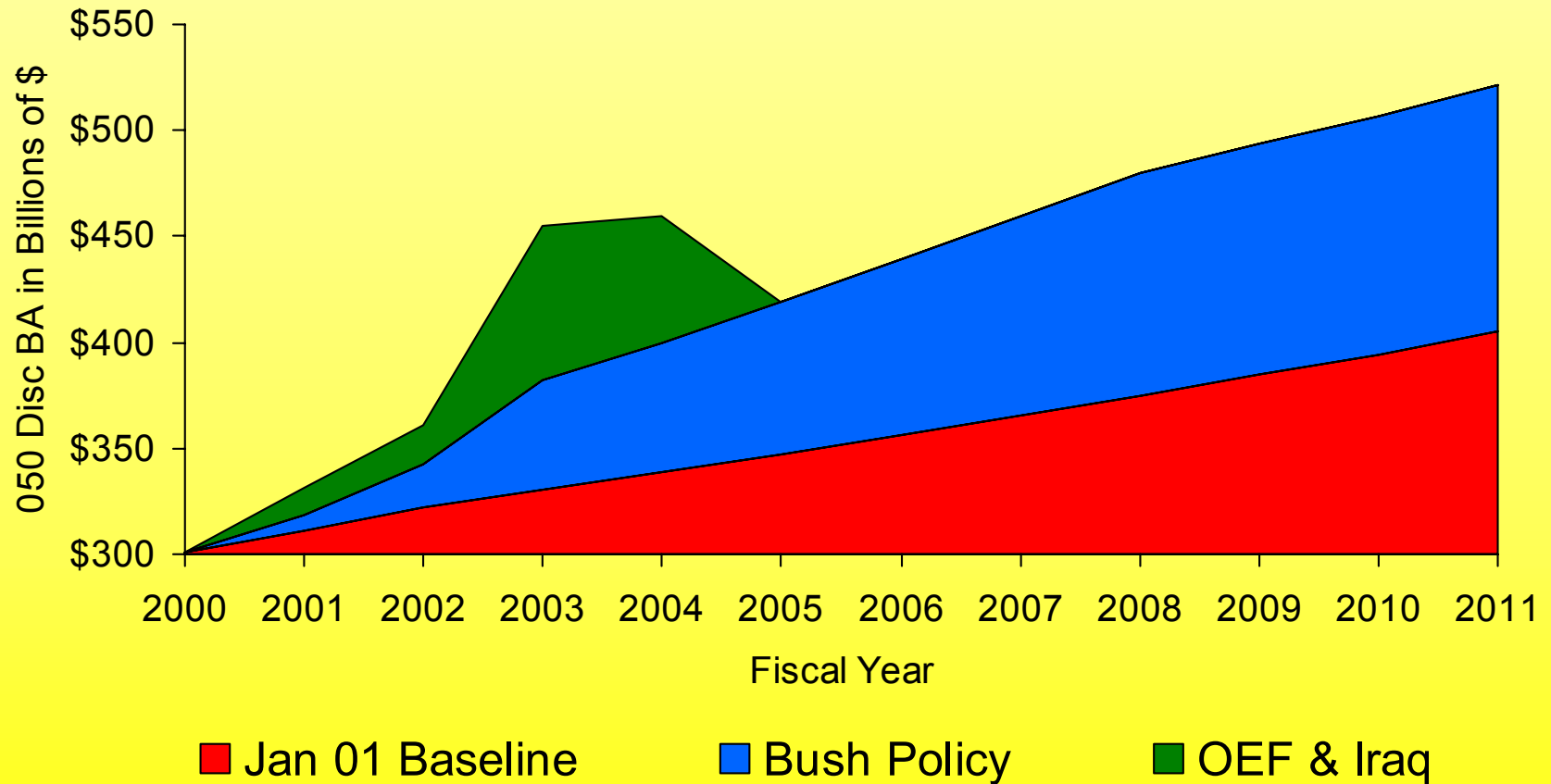
(Continued)

**Table 4-10.**  
**Continued**  
(Billions of dollars)

Tax Provision	Expiration Date	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total, 2005-2009	Total, 2005-2014
<b>All Expiring Provisions</b>														
Interaction from Extending All Provisions Together		0	-1.5	-3.2	-1.8	0.2	2.4	2.9	-11.4	-32.5	-34.6	-37.0	-3.9	-116.5
<b>Total</b>		<b>6.0</b>	<b>-64.9</b>	<b>-133.6</b>	<b>-141.9</b>	<b>-142.1</b>	<b>-148.1</b>	<b>-157.6</b>	<b>-286.7</b>	<b>-389.2</b>	<b>-406.7</b>	<b>-428.6</b>	<b>-630.7</b>	<b>-2,295.5</b>

Sources: Joint Committee on Taxation; Congressional Budget Office.  
 Notes: \* = between -\$50 million and zero; \*\* = between zero and \$50 million; n.s. = not applicable; AMT = alternative minimum tax; IRS = Internal Revenue Service; IRA = individual retirement account; FUTA = Federal Unemployment Tax Act; EGTRRA = Economic Growth and Tax Relief Reconciliation Act of 2001; JGTRRA = Jobs and Growth Tax Relief Reconciliation Act of 2003.  
 These estimates assume that the expiring provisions are extended immediately rather than when they are about to expire and that provisions that have already expired are reinstated immediately.  
 The provisions are assumed to be extended at the rates or levels existing at the time of expiration. These estimates do not include debt-service costs. When this report went to press, JCT's estimates based on the new economic projections were unavailable for most expiring provisions related to EGTRRA's and JGTRRA's individual income tax provisions and the AMT. For the two expiring AMT provisions, CBO updated JCT's previous estimates for the estimated effects of the changed economic projections. Estimates of provisions combined in the entry for "Other Provisions of EGTRRA and JGTRRA" have not been updated, although they were extended to 2014. JCT's updated estimates will be made available when they are completed. JCT has updated the estimates of provisions of EGTRRA and JGTRRA that are shown as separate entries and all other provisions except those for the AMT.  
 a. The provision that expands the work opportunity credit in New York City expired on 12/31/2003. The provisions that increase expensing under Section 179 and allow a five-year lifetime for leasehold improvements expire on 12/31/2006. The provisions related to partial expensing for property placed in service expire on 12/31/2006 and 12/31/2009.  
 b. These provisions affect several rates, brackets, credits, and other parameters for individual income taxes: the child tax credit; 10 percent rate bracket; 15 percent rate bracket and standard deduction for joint filers; 25 percent and higher tax rates; the phaseout of limitations on itemized deductions and personal exemptions; and certain education, pension, and other provisions. All of the provisions as enacted in EGTRRA expire at the end of 2010. Modifications enacted in JGTRRA expire at the end of 2004. The estimates do not include the deduction for qualified education expenses; the credit for IRA and 401(k)-type plans; reduced rates on dividends and capital gains; and the exemption amount for the AMT, which are shown in separate entries.

# Increased Cost of Defense Under Bush Administration

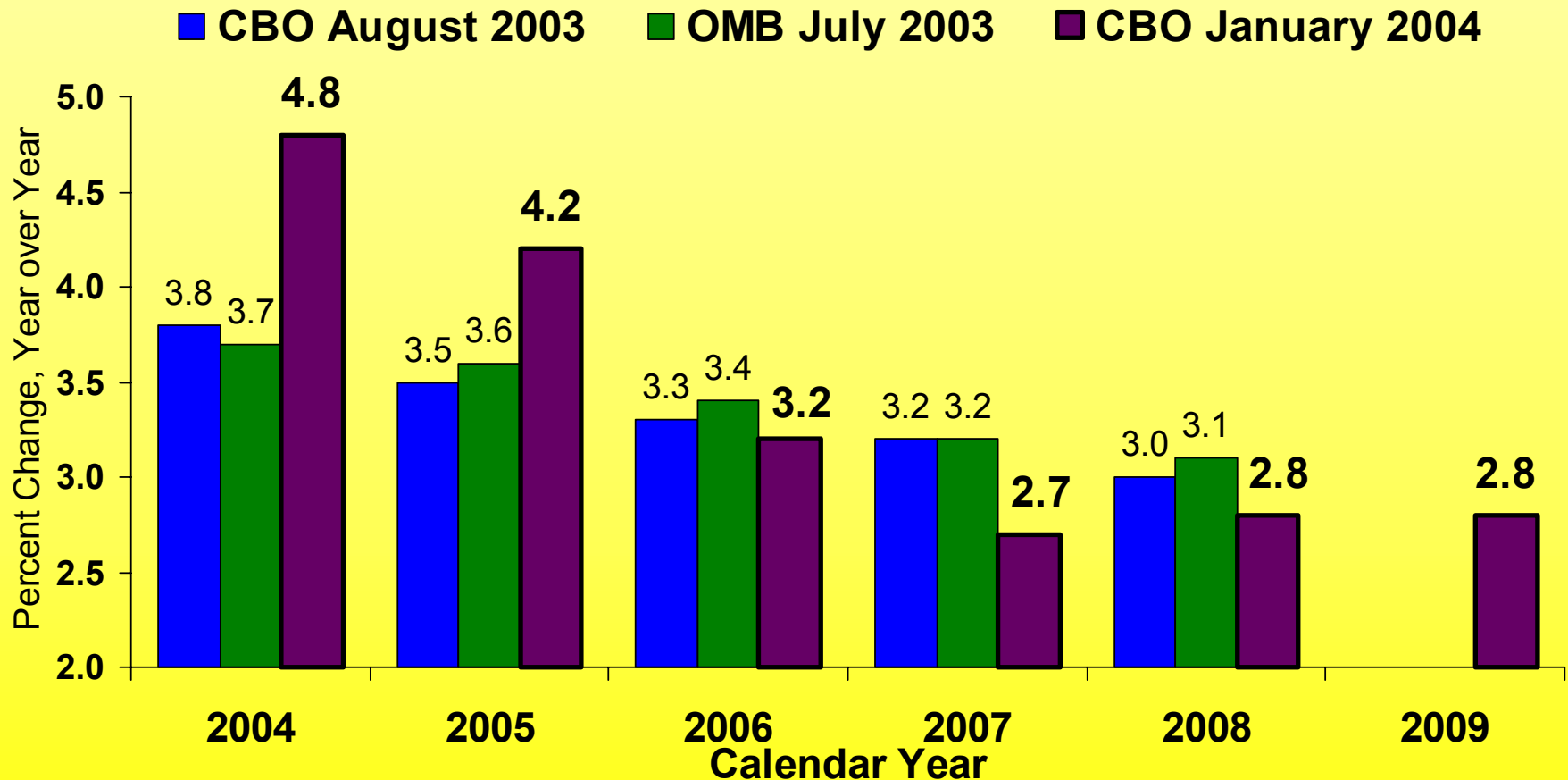


# Defense Increases During Bush Administration

(National Defense Discretionary Budget Authority in Billions of Dollars)

	<u>2002</u>	<u>2003</u>	<u>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	321.8	330.3	338.9	347.4	356.3	365.5	374.9	384.6	394.5	404.9	3619.0
Policy Increases Excluding Supplemental	20.7	51.8	61.1	72.0	83.2	94.2	105.3	108.7	112.5	116.4	826.0
Iraq/OEF Supplemental	18.4	72.4	59.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	150.7
Total Increase	39.0	124.2	121.1	72.0	83.2	94.2	105.3	108.7	112.5	116.4	976.7
<b>Total Bush Defense Program</b>	<b>360.8</b>	<b>454.5</b>	<b>460.0</b>	<b>419.4</b>	<b>439.5</b>	<b>459.7</b>	<b>480.1</b>	<b>493.3</b>	<b>507.0</b>	<b>521.3</b>	<b>4595.7</b>

# Budget Projections Already Assume Strong GDP Growth



## Rhetoric:

**"See, I ran for office to solve problems, not to pass them on to future Presidents and future generations."**

*President Bush at a Fundraiser  
in Oregon, August 21, 2003*

## Reality:

**Instead of paying off the public debt by 2011 as President Bush projected, this Administration will leave to future generations a debt of about \$7.6 trillion as of 2011.**