Finding *America's* compass

Part I: A Look at Where We Have Been

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Introduction

Stimulus. Omnibus. Debt. Deficit. GDP. TARP. In the midst of today's economy, it is confusing and daunting enough to navigate our personal financial situations, let alone master the many terms that impact our nation's economy. Yet, Americans recognize that as consequential as our personal financial decisions are now, so too are the financial decisions being made by our leaders in Washington. So consequential, in fact, that the impacts and costs of the policy choices made in Washington will be felt by Americans both in the coming years as our nation works towards economic recovery and for generations to come.

This week, Congress – without my support – gave final approval to a budget that will create the largest deficit in history that will result in more debt in the next ten years than the entire amount of debt accumulated by the federal government from 1789 to today. And throughout the course of the last year, the federal government has saddled the American taxpayer with the task of bailing out huge corporations, propping up failing quasi-government organizations, and providing hundreds of billions of dollars in "stimulus" programs – many of which will have little or no positive impact on the economy. Jobs, home values, and personal wealth have all faced losses over the last year and a half.

* Over the past 12 months, the number of unemployed Americans has increased by about 5.3 million, to 13.2 million as of March 2009.

* There is an almost 10 month supply of houses on the market as of February. Five to six months of supply is usually consistent with a balanced market. Home prices have fallen more than 30% from 2006.

* The average household net worth with persons between 45 and 54 years old has fallen by more than 45% during the past 5 years, dropping to $94,200 this year from $172,400 in 2004. For seniors, the decline in wealth was nearly 50% in 2009.

* The ratio of household debt to the U.S. gross domestic product has reached 100%. That ratio did not reach 50% until the mid-1980s, and did not reach 70% until 2000. This means that if you added up the personal debt of everyone in the United States, it matches the amount we produce every year.

* A record number of Americans are filing for personal bankruptcy. For example, the Bankruptcy Court for the Eastern District of Virginia, which is located in Richmond, saw 619 bankruptcy filings in January 2009. That is a 145% increase from January 2008, which had only 251 filings. In February 2009, there were 755 filings, or a 172% increase from February 2008.

Congress has made many attempts to solve these issues through bailout and stimulus packages. I am one of only 17 of 435 Members of the House of Representatives who voted against every one of these bills, however, primarily because these proposals lacked accountability, transparency – and most importantly – effectiveness. But voting against these proposals won't chart a course to a new economic future for America. To understand how to begin solving America's economic challenges we need to know where we have been and where we are going. Through the course of this two-part series, we will look first at the attempts of Congress over the last year to address the economic crisis and second at the principles that have made America great and how those principles can guide us towards solutions for economic recovery.

But voting against these proposals won't chart a course to a new economic future for America.

Especially at this time, your input and feedback is critical in my decision-making process. After reading this booklet, please send me your personal experiences and thoughts on how economic issues are impacting your family by emailing me through my website, http://randyforbes.house.gov. With kind personal regards, I am

Yours truly,

J. Randy Forbes
Member of Congress

BAILOUT & SPENDING TIMELINE

Over the course of the last year, Congress and both Administrations have sought to contain damages spilling over from the housing and financial markets through a series of tax and spending measures. The first effort by Congress to reverse the economic downturn began in February 2008 with a tax rebate bill of $150 billion that sent $300 and $600 checks to taxpayers in an attempt to stimulate consumer spending. Despite this tax rebate, economists and policy makers alike agreed the attempt did little to stem the nation's worsening economic outlook.

In July 2008, Congress passed the Hope for Homeowners Bill which allowed the federal government to takeover Fannie Mae and Freddie Mac, created a refundable tax credit for first-time homebuyers to increase housing demand, and included a refinance program for at-risk borrowers into viable mortgages. To date, the Housing and Urban Development Department has reported that the program has not insured a single loan, and FHA-approved lenders have closed on less than 50 loans. The program was designed to help 400,000 homeowners.

Following the collapse of financial giants Bear Stearns, Lehman Brothers, and the takeover of Fannie Mae and Freddie Mac, the government offered financial assistance to troubled firms through legislation that allowed the Treasury Department to purchase $700 billion in bad assets. Known as the Troubled Asset Relief Program (TARP), this broad intervention into the financial markets has thus far resulted in a largely wasteful and unsuccessful attempt to avoid the spread of financial instability into the broader market. Instead of injecting necessary capital into the banking system to increase lending, banks generally hoarded the taxpayer-supplied money, using it to shore up their eroded capital base while in some cases simultaneously paying for exorbitant executive bonuses and lavish corporate retreats. Since then, Congress passed an emergency bailout for the auto industry and the economic stimulus bill in February 2009. In addition, Congress has passed the 2009 federal government spending bill, and the President has presented his Fiscal Year 2010 budget to Congress – both of which significantly increase federal spending.

Throughout this booklet, we'll look at these four major spending proposals and their impact on our nation's economy and financial health:

1. The Troubled Asset Relief Program (TARP)
2. The Stimulus Bill
3. The Omnibus Bill
4. The President's Budget

TIMELINE OF RECENT MAJOR FEDERAL SPENDING

Date	Federal Spending Measure	Bill	Cost
January 2008	Tax Rebate Bill	H.R. 5140	$152 billion
July 2008	Hope for Homeowners and Fannie Mae/Freddie Mac Takover Bill	H.R. 3221	$300 billion
September 2008	AIG Bailout	No legislation required	$85 billion
October 2008	Troubled Asset Relief Program (TARP)	H.R. 1424	$700 billion
December 2008	Auto Bailout	Failed in Congress	TARP money used
February 2009	Stimulus Bill	H.R. 1	$793 billion

Troubled Assets Relief Program (T.A.R.P.)

The current financial instability became widely apparent in the credit markets in August 2007. Although initially thought to be limited to subprime mortgages, increasing defaults on prime mortgages caused losses that rapidly spread through the financial system in the form of mortgage-backed securities. Beginning in early 2008, multiple failures in large financial institutions prompted case-by-case government interventions to address these failures. As the number of these ad hoc responses grew, the Treasury proposed that Congress give them the broad authority to purchase troubled mortgage-related assets, hoping to stem uncertainty and fear by removing these assets from the financial system. In early October 2008, Congress passed, without my support, and the President signed, the Emergency Economic Stabilization Act of 2008 creating the Troubled Assets Relief Program (TARP), allowing the Treasury to purchase $700 billion in troubled assets from financial institutions.

Where's My Money?
A Breakdown of TARP Spending

Under the Bush Administration - $379.8 billion
$146.3 billion - Funds dispersed to financial firms
$50 billion - Citigroup
$45 billion - Bank of America
$40 billion - A.I.G.
$53.7 billion - pending
$24.8 billion - automakers

Under the Obama Administration - $320.2 billion
$100 billion - Term Asset-Backed Securities Loan Facility (TALF)
$75 billion – Making Homes Affordable Program
$30 billion - Additional A.I.G.
$160.2 billion – Uncommitted

Total: $700 billion

The TARP program was initially sold to Congress as a program by the Treasury to purchase troubled mortgage-related assets. After the bill passed however, the Treasury and Federal Reserve expanded the scope to include direct investment in banks, insuring assets rather than purchasing them, creating programs to prevent foreclosure, and case-by-case interventions in companies such as AIG, Citigroup, General Motors and Chrysler.

The Treasury has purchased or committed to purchase approximately $350 billion of assets, including $250 billion for financial institutions through government purchases of preferred shares. Seventy five billion dollars of TARP funds have been set aside for the President Obama's "Making Home Affordable" program which aims to help 4 million homeowners work with their lenders to modify the terms of their mortgages if their mortgage is less than the 105% of the value of their home, amongst other criteria. Five million more homeowners are targeted to refinance into more affordable fixed-rate loans.

For consumers and small businesses, $100 billion has been set aside to fund the Term Asset-Backed Securities Loan Facility (TALF), a facility that will help market participants meet the credit needs of households and small businesses by supporting the issuance of asset-backed securities collateralized by student loans, auto loans, credit card loans, and loans guaranteed by the Small Business Administration. In addition, through the Consumer Lending Facility, up to $20 billion in TARP funding will be used to absorb any losses of a separate $200 billion Federal Reserve credit facility to accommodate the credit needs of consumers and small businesses.

Related Reading & Resources:

Tracking the $700 Billion Bailout - The New York Times

State by State Breakdown of TARP Funds - Wall Street Journal

Adding Up the Government's Total Bailout Tab - New York Times

THE STIMULUS BILL

At the start of 2009, with the continued worsening performance of the economy, many lawmakers called for yet another round of spending, this time in the form of a much larger stimulus package. The resulting1,100 page bill was made available for Members of Congress to read at midnight and about 12 hours before voting on the measure, which also included the provision explicitly protecting AIG bonuses. Nonetheless, the American Recovery and Reinvestment Act of 2009, a $787 billion package passed, without my support, and was signed into law on February 17, 2009. It included spending for unemployment benefits, food stamps, revenue sharing with the States, and infrastructure projects.

THE STIMULUS BILL BY THE NUMBERS

$222,972
The amount of money the stimulus bill spends for every job it claims to create.

$6,700
Cost of stimulus per family in Virginia's Fourth District

34
Number of spending lines out of 152 in the House-passed bill that went directly towards saving jobs for Americans, like highway construction projects. 117 had no job saving estimate associated with them at all, like $1 billion for the 2010 census or $800 million in funding for Amtrak.

60%
Percentage of discretionary spending in the House-passed stimulus that will occur *after* 2010 by which point the recession would be entering its third year.

Despite proposing to immediately stimulate the economy through "shovel ready" projects, 60% of the discretionary spending in the House-passed bill would occur more than 19 months from the date of enactment by which point the recession would be in its third year. In addition, much of the costly legislation contains measures that most Americans would probably not consider "stimulative." For example, the bill contains:

- $50 million for the National Endowment for the Arts, which recently spent $95,000 for the American Ballet Theatre in New York City; $300,000 to restore an outdoor sculpture collection in Miami, Florida; and $190,000 for various artistic endeavors in San Francisco, CA;
- $25 million for repairs to the Smithsonian Institution, which recently spent $31,000 for designer upholstery, and $4,000 for a heater for the lap pool of their most recent Director; and
- $ 20 million for the catfish industry; and
- $1 billion for the follow-up to the 2010 Census, which does not even begin until April 2010.

The spending in this bill that gets highlighted the most for being "stimulative" is the transportation and infrastructure spending, yet less than 4% of the total cost of this legislation consists of highway projects.

HOW MUCH IS $818 BILLION?

The House-passed version of the American Recovery and Reinvestment Act totaled $818 billion. But how much is $818 billion?

- It is larger than 47 of our 50 state economies—all except CA, TX, and NY.
- It is almost the size of Mexico's economy ($893 billion in 2007).
- It is larger than 90% of the world's economies.
- It is larger than total federal spending as recently as 1983.
- It is 33.7% larger than all spending on Social Security
- It is 33.4% more than the defense budget.
- It is 24.6% more than federal spending on Medicare and Medicaid combined.
- It is enough to fund the SCHIP childrens' healthcare program for 163 years at FY 2008 funding levels.

THE OMNIBUS BILL

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On February 25, 2009, the House of Representatives passed a Fiscal Year 2009 omnibus spending bill totaling $410 billion. An omnibus bill is a spending measure designed to enact multiple appropriations bills, in this case, nine bills that were not passed by Congress last year. (The three appropriations bills that provided for defense, homeland security, and military construction and veterans affairs spending—were passed and signed into law last year.) Under this legislation, funding for the government agencies and programs in the remaining nine bills would increase by $32 billion, or 8.3%, over Fiscal Year 2008 - not including the funds appropriated by the recent "stimulus."

THE OMNIBUS BILL BY THE NUMBERS

8,570
Number of earmarks identified by Taxpayers for Common Sense in the Omnibus bill

$7.7 billion
Total cost of these earmarks

$301 billion
Combined omnibus and stimulus spending increase over FY08

80%
Percent combined omnibus and stimulus spending increase over FY08

The $32 billion increase represents the largest one-year hike in annual appropriated spending percentage since the Carter administration, with the exception of funding immediately after September 11th. And since many of these programs and agencies received funding in the recent "stimulus," the combined increase is $301 billion or 80% over Fiscal Year 2008.

This latest spending measure accounts for massive spending increases. Each of the nine individual appropriations bills that comprise the omnibus saw increases of between 4% and 13%. When the spending in the omnibus is added to the three previously enacted FY 2009 bills, it proposes to complete the regular appropriations process at a spending level of $1.01 trillion—an increase of $72.4 billion or 7.7% compared to last year. This is the first time in U.S. history that the regular appropriations process will break the $1 trillion mark.

SPENDING INCREASES – HOW DO THEY COMPARE?

The 2009 omnibus spending bill vastly outpaces average increases in inflation and median household incomes. In fact, this bill will grow government spending at more than double the rate of inflation and almost triple the rate of median growth in household incomes.

- Increase in inflation (2001 – 2008 yearly average) = 3.1%
- Increase in Median Household Income (2001 – 2008 yearly average) = 2.7%
- Average national home appreciation over last year = -12.4%
- Increase in 09 Omnibus bill over 2008 levels = 8%

The Omnibus appropriations bill contains funding for many of the same agencies and programs that received funds in the "stimulus" bill. Therefore, to uncover the true level of spending for these programs this year, the funding levels of both bills must be combined.

For example, the Departments of Labor and Health and Human Services receive $152 billion in the 09 Omnibus – an increase of $7.4 billion over the 2008 funding level. The House-passed stimulus bill contains $124.3 billion for 2009 for the same agencies. When you combine the total funding under both bills for 2009, these departments will receive $276.6 billion this year – or a 91% increase over last year. In fact, the combined FY 2009 funding for agencies included in both bills is $680 billion – $301 billion more than these programs received in 2008, for an 80% increase in spending this year.

The following is a summary of the combined cost of 2009 spending contained in the FY 2009 Omnibus and the recently passed "stimulus" bill (by subcommittee, in billions):

Subcommittee	2008 Funding Level	09 Omnibus Funding Level	"Stimulus" Funding for 2009	Combined Total FY 09 Spending	Percent Increase Over FY 08
Agriculture	$18.1	$20.5	$5.7	$26.1	45%
Commerce/State/Justice	$51.9	$57.7	$15.3	$72.9	41%
Energy & Water	$30.9	$33.3	$43.3	$77.6	151%
Financial Services	$20.6	$22.7	$6.8	$29.5	43%
Interior	$26.6	$27.6	$10.9	$38.5	45%
Labor/HHS	$144.8	$152.3	$124.3	$276.6	91%
Leg Branch	$4	$4.4	$0.025	$4.4	12%
State/Foreign Ops	$32.8	$36.6	$0.6	$37.2	13%
Transportation/HUD	$48.8	$55	$61.8	$116.8	139%
Totals	$378.4	$409.9	$269.7	$679.6	80%

The President's Budget

Each year, the President is required to prepare and submit a comprehensive federal budget to Congress for the fiscal year that begins on October 1. While not a piece of legislation, this document allows the President sets out his national priorities and proposes policy initiatives.

Presented to Congress at the end of February, this year the President's 2010 budget proposes to increase the national debt from today's level of $10.8 trillion to 20.1 trillion over the next ten years. The amount of new debt proposed by this budget is larger than the total amount of debt accumulated by the federal government from 1789 to today. In addition, the budget:

- Raises taxes by $1.4 trillion over 10 years
- Expands net entitlement spending by $1 trillion over 10 years.
- Increases non-defense appropriations by 9.3 percent in 2009.
- Doubles the national debt in 8 years.

Related Reading: President's Budget

Debt & the Deficit

When the federal government increases government spending, it can either raise taxes or increase the national debt to pay for this expenditure. At the start of 2008 our federal government was in debt over $9 trillion dollars. That figure computed to $30,903.41 per man, woman, and child in the U.S.

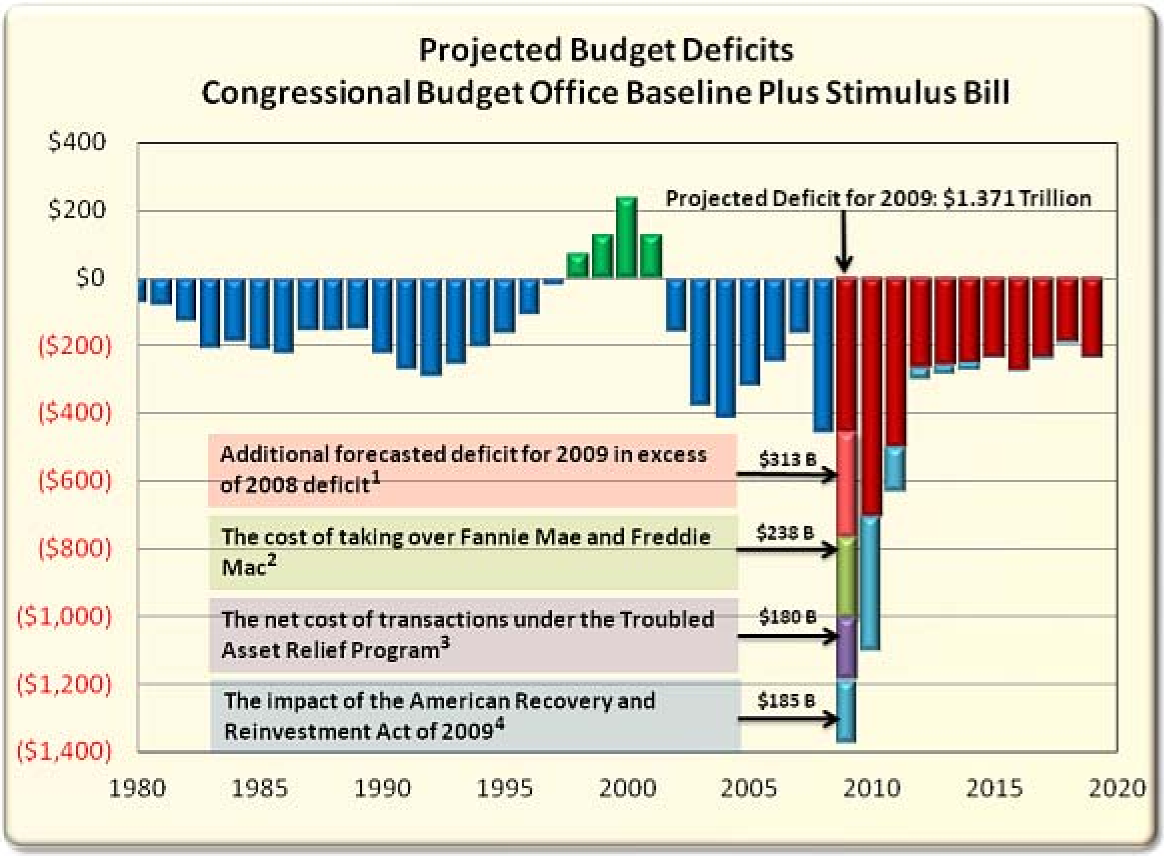
In January of 2009, the Congressional Budget Office (CBO) projected that the FY2009 deficit would be $1.2 trillion or 8.3% of GDP. This would be the largest nominal deficit in U.S. history, as

Key Terms: Debt vs. Deficit

National Debt:
The net amount of accumulated dollars that have been borrowed by the federal government in all previous years

Federal Deficit:
The difference between what the government spends and what it receives in one year. Each year's deficit is added to the existing debt.

well as the largest deficit as a percentage of GDP in U.S. history, outside of World War II. Since January 2007, the national debt has increased from $8.67 trillion to $10.73 trillion, an increase of $2.06 trillion or 23.8% in just two years. To put this in perspective, the increase to the national debt over just the past two years is larger than the total amount of debt accumulated by the federal government from 1789 to 1985. To accommodate this additional debt burden, Congress has passed legislation to increase the national debt limit four times in the last seventeen months.



Source: The Budget and Economic Outlook: Years 2009 to 2019 and *Letter dated February 13, 2009 from CBO to Speaker Pelosi*

Graph reprinted with permission from Perot Charts.

In the short run, growth in the public debt impacts the composition of economic output. According to the Congressional Research Service, federal government borrowing adds to overall credit demand and tends to push up interest rates. Higher interest rates increase the cost of financing new investment in plant and equipment and thus have negative impacts on business development and productivity.

In the long run, the relationship between the growth rate of the federal debt and the overall rate of economic growth is critical to financial stability. As long as the debt grows more rapidly than output, the ratio of debt to gross domestic product (GDP) will rise. Perpetual debt growth in excess of economic growth is an inherently unstable situation.

In addition, the annual interest payments on the debt force policy makers to forgo options they otherwise would have had to spend that money if it were needed in the future. For instance, the annual interest payment alone for the stimulus and bailout packages equal the entire budgets of the National Science Foundation, NASA, the FBI, the costs to operate the White House, the costs to run Congress, the Department of Justice, all the Army Corps of Engineer projects for one year, the Department of Transportation, Department of Commerce, Department of Interior, Department of Labor, and Department of Treasury.

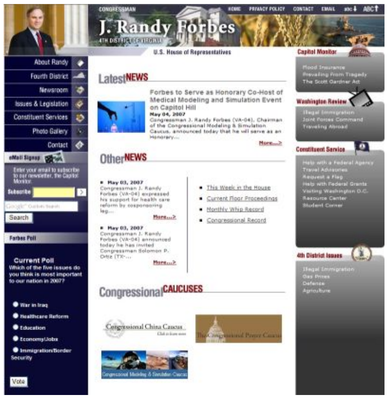
What matters most, as far as financial stability is concerned, is what investors believe to be the long-run trend in the debt-to-GDP ratio. If large deficits are expected to persist, or if the interest rate on the debt is expected to exceed the growth rate indefinitely, then at some point the federal government may begin to find it more difficult to sell new securities and the nation may suffer from increasing inflation.

In addition, too much foreign investment can allow for unwelcome influence in our national affairs by other countries. The U.S. government is itself the largest holder of the debt, mainly in the trust funds. However, foreign investors hold 24.8% of the debt, and China holds more U.S. debt that anyone else in its reserves. Using financial reserves to leverage other action is not new. In 1956, the U.S. forced the British to give up their efforts to seize the Suez Canal, largely by threatening to sell all of our reserves of the British Pound. The U.S. held such a large amount of Britain's debt, that it was believed that any such selloff would devalue the Pound so much as to make it worthless, and rather than face that prospect, the British instead called a cease-fire even though Britain and their allies had the upper hand militarily against Egypt.

FOR MORE INFORMATION…

Finding America's Compass continues with
Part II: Charting Course to a New Economic Future, available in the coming days.

The following information and resources are available on my Web site.



- **A Guide to Surviving the Economic Downturn.** Find resources and information on anything from avoiding foreclosure, to securing your retirement, to employment opportunities with the federal government. Visit: http://forbes.house.gov/constituentservices/economicresources.htm
- **Legislation to Address Our Economy.** Read detailed information on legislation I have cosponsored on the economy. Visit: http://randyforbes.house.gov/issues/taxes.htm.
- **Informational Primers.** To read primers on the following topics, visit:
  - Wall Street Bailout Primer
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  - Gas Prices Primer
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- **Solutions Lab.** Do you have a solution to address one of our economic issues? Share your idea at the Solutions Lab.

I would appreciate hearing your thoughts on the economy or any other issue of concern to you. Please take a moment to Email me via my website, or call my Washington, D.C. office at (202) 225-6365.