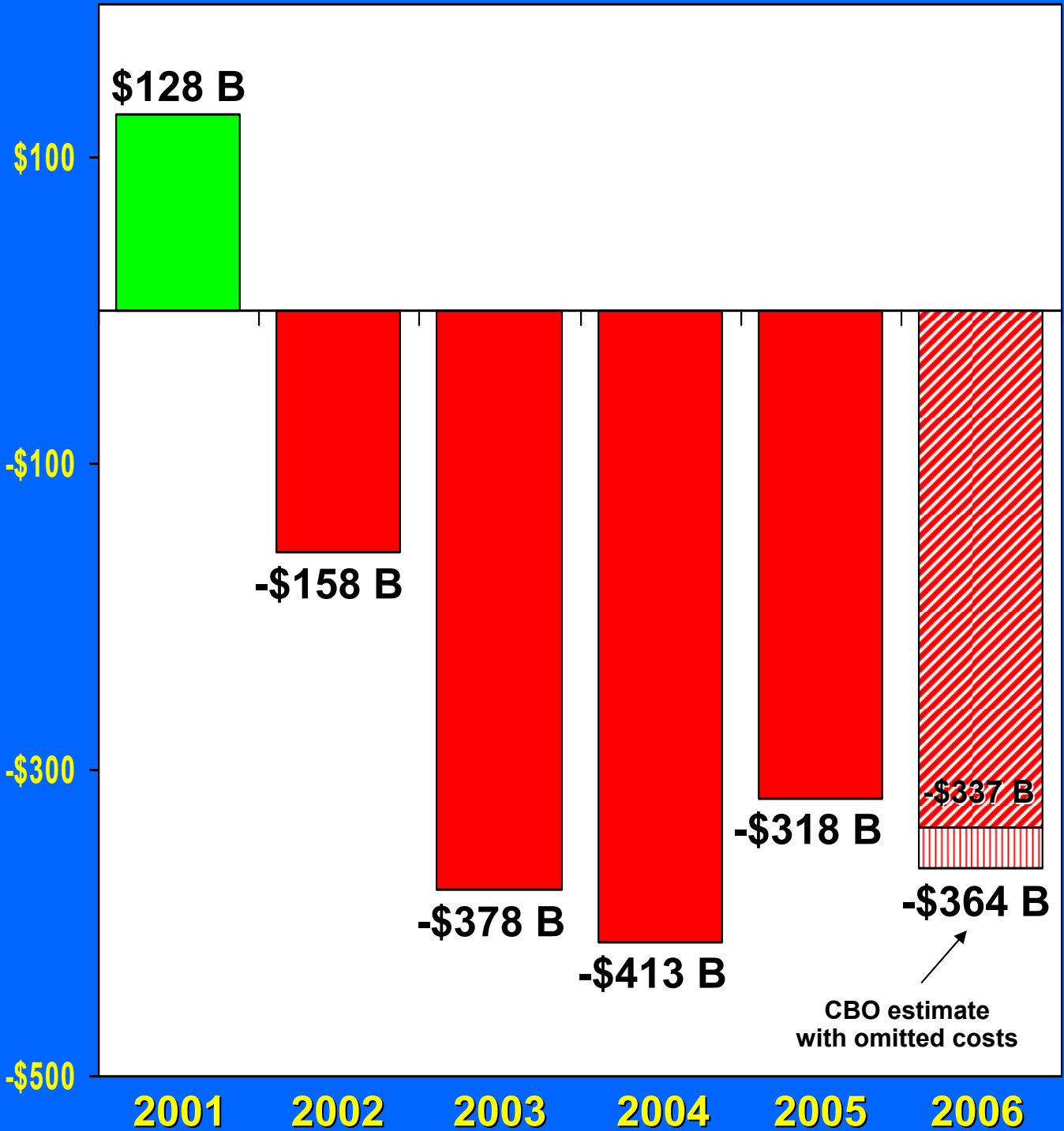


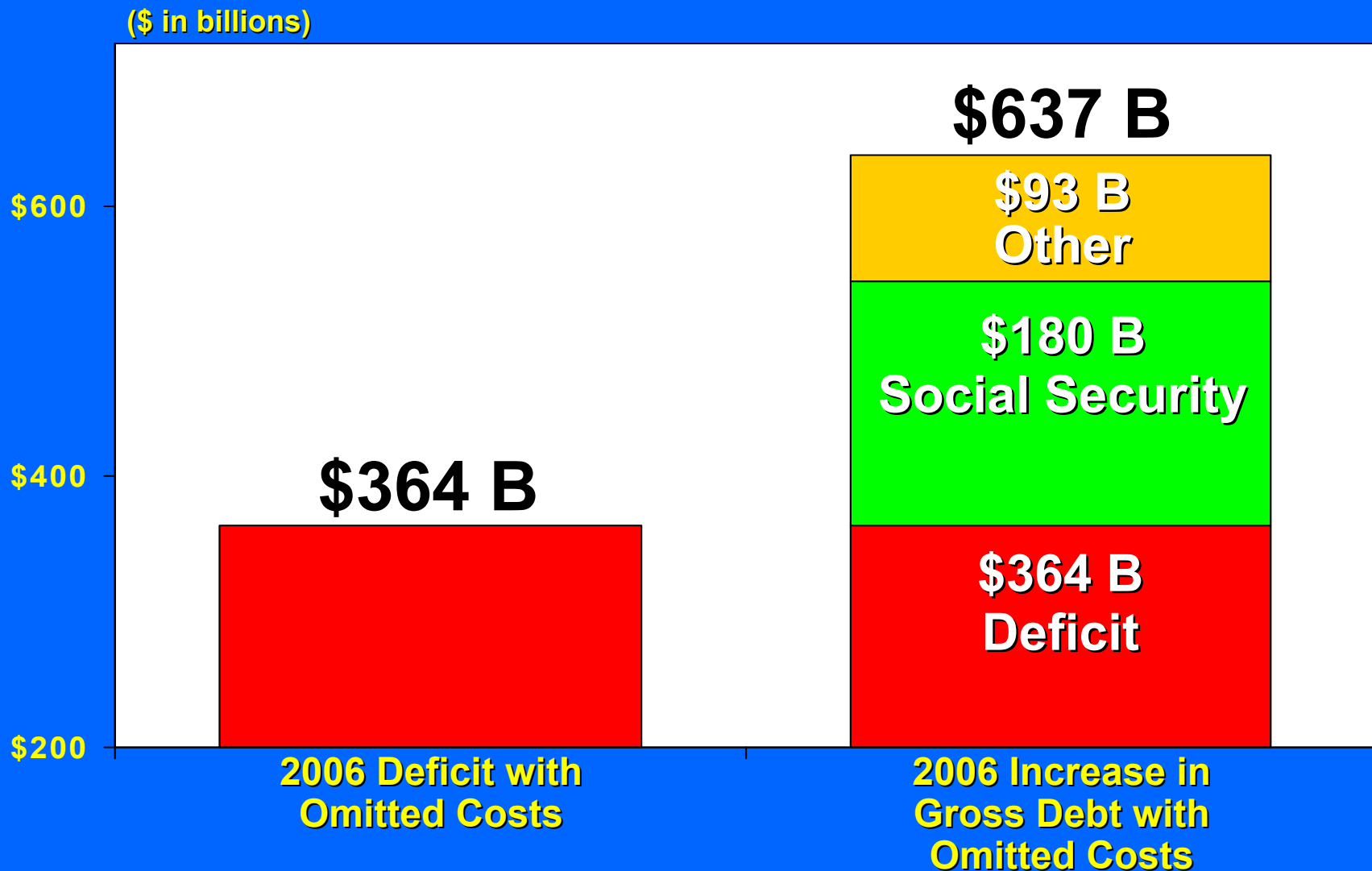
Dramatic Deterioration in Budget Picture

(Deficit in billions of \$)



Source: CBO and SBC Democratic staff

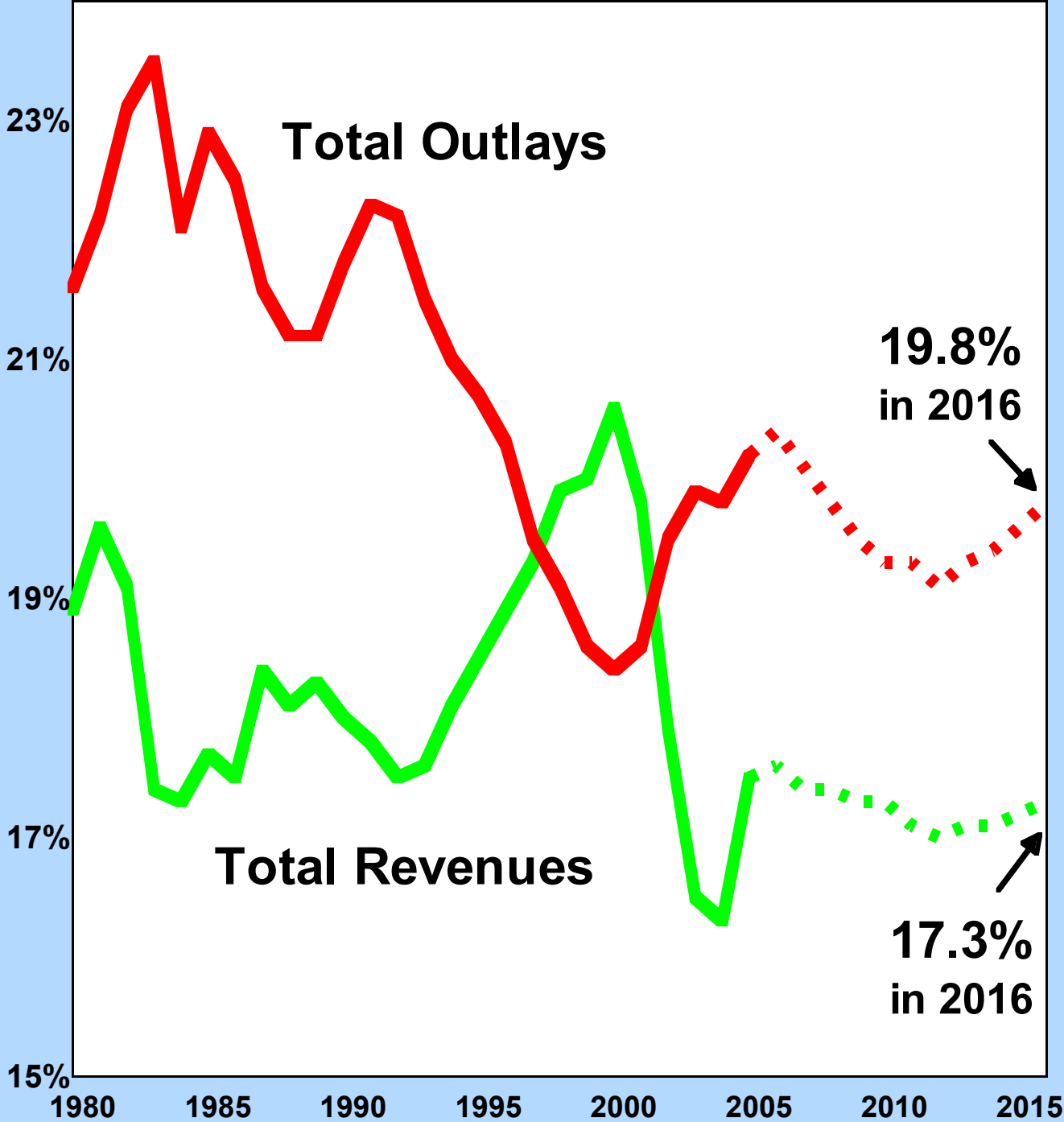
Increase in Debt in 2006 is Far Greater Than the \$364 Billion Deficit



Source: CBO and SBC Democratic staff

Spending and Revenues

(% of GDP)

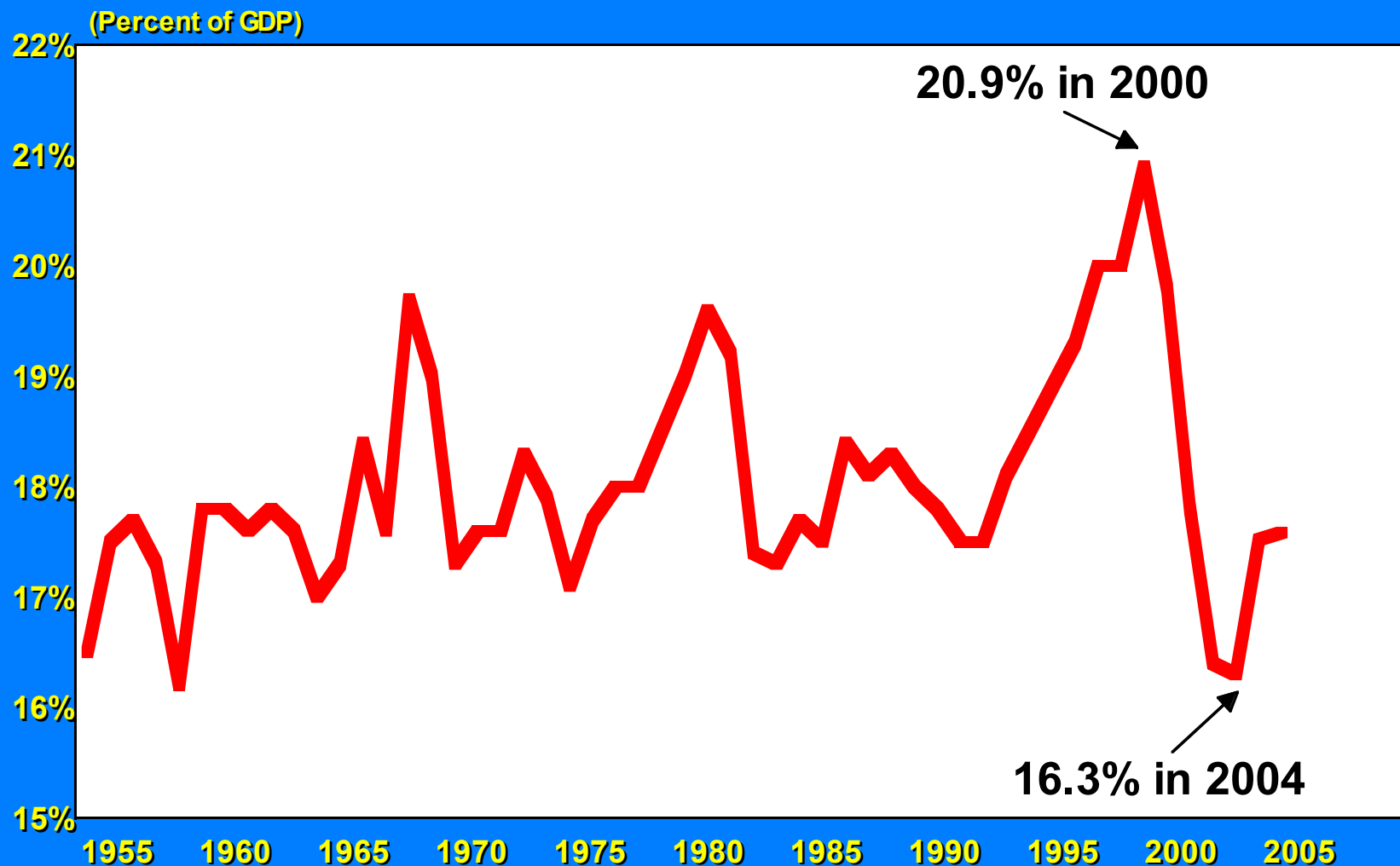


Source: CBO

Note: CBO January 2006 estimate with tax cuts made permanent, AMT reform, ongoing war costs, Bush defense buildup, spending reconciliation conference report, and without extension of 2006 supplementals.

Revenues as a Percent of GDP

2004 Level is Lowest Since 1959



Source: CBO and SBC Democratic staff

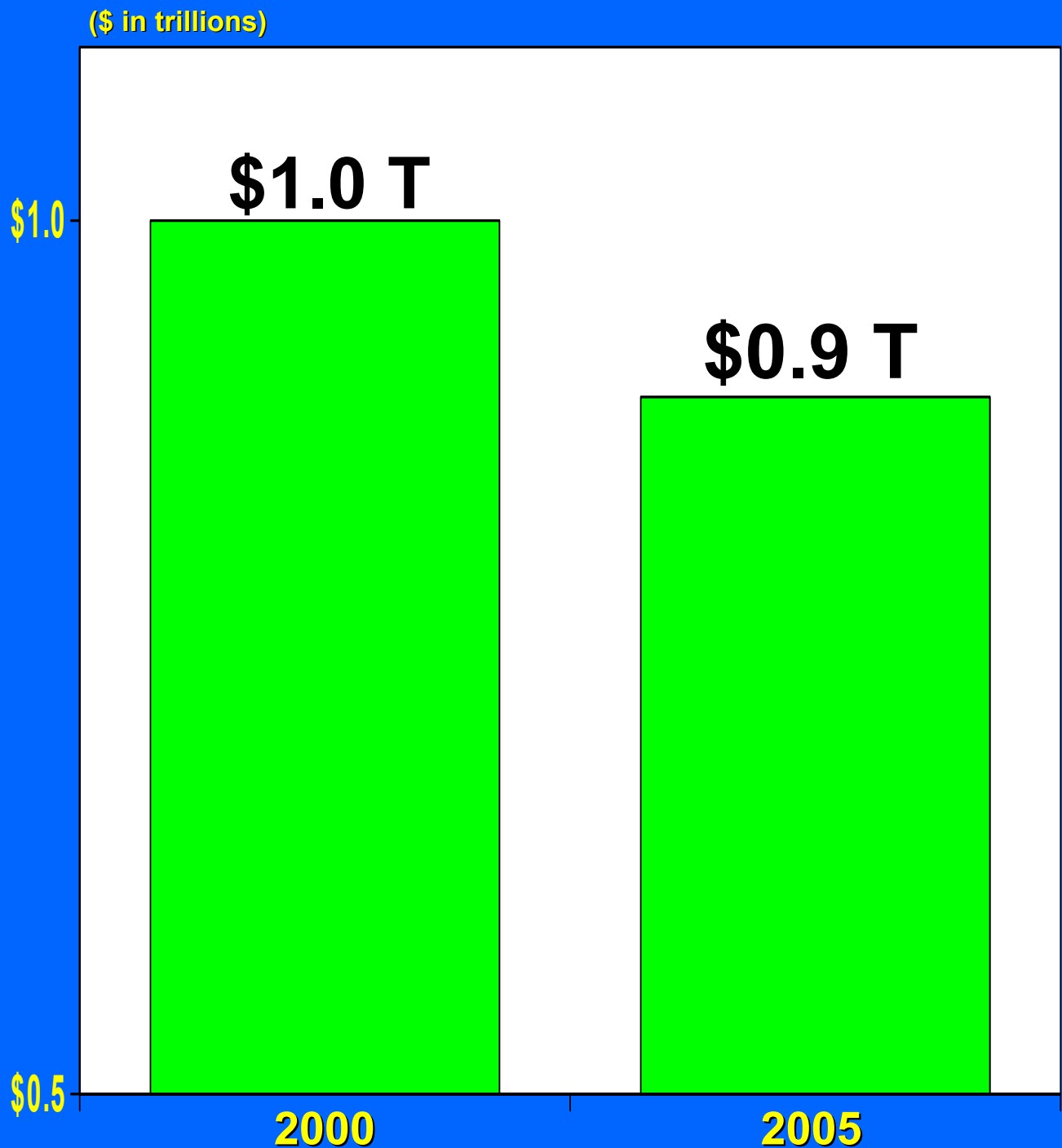
Revenues Have Experienced Virtually No Growth Since 2000

(\$ in trillions)



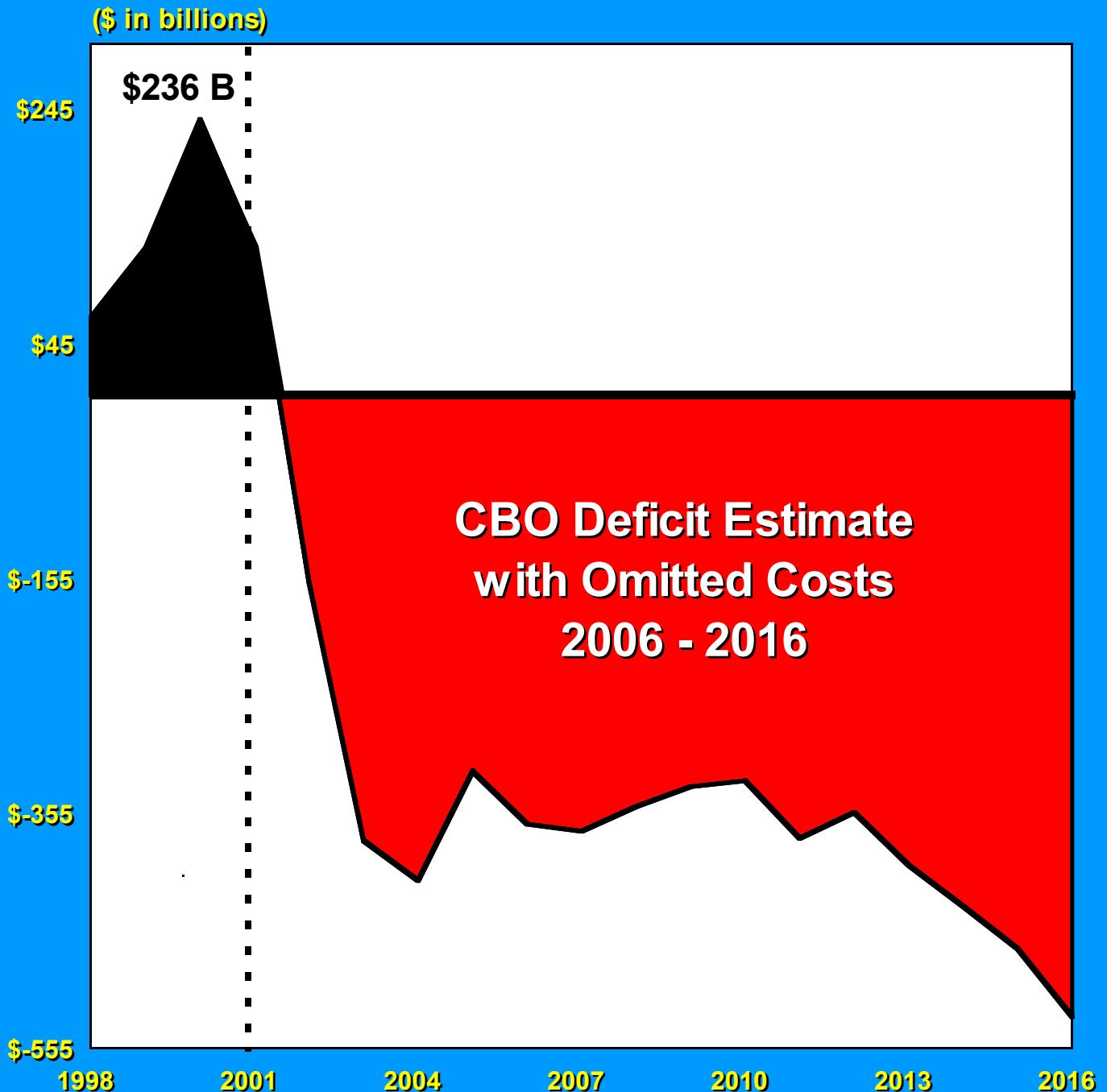
Source: CBO, OMB

Five Years Later Revenues from Individual Income Taxes are Still Below Their 2000 Level



Source: CBO, OMB

Long-Term Budget Outlook

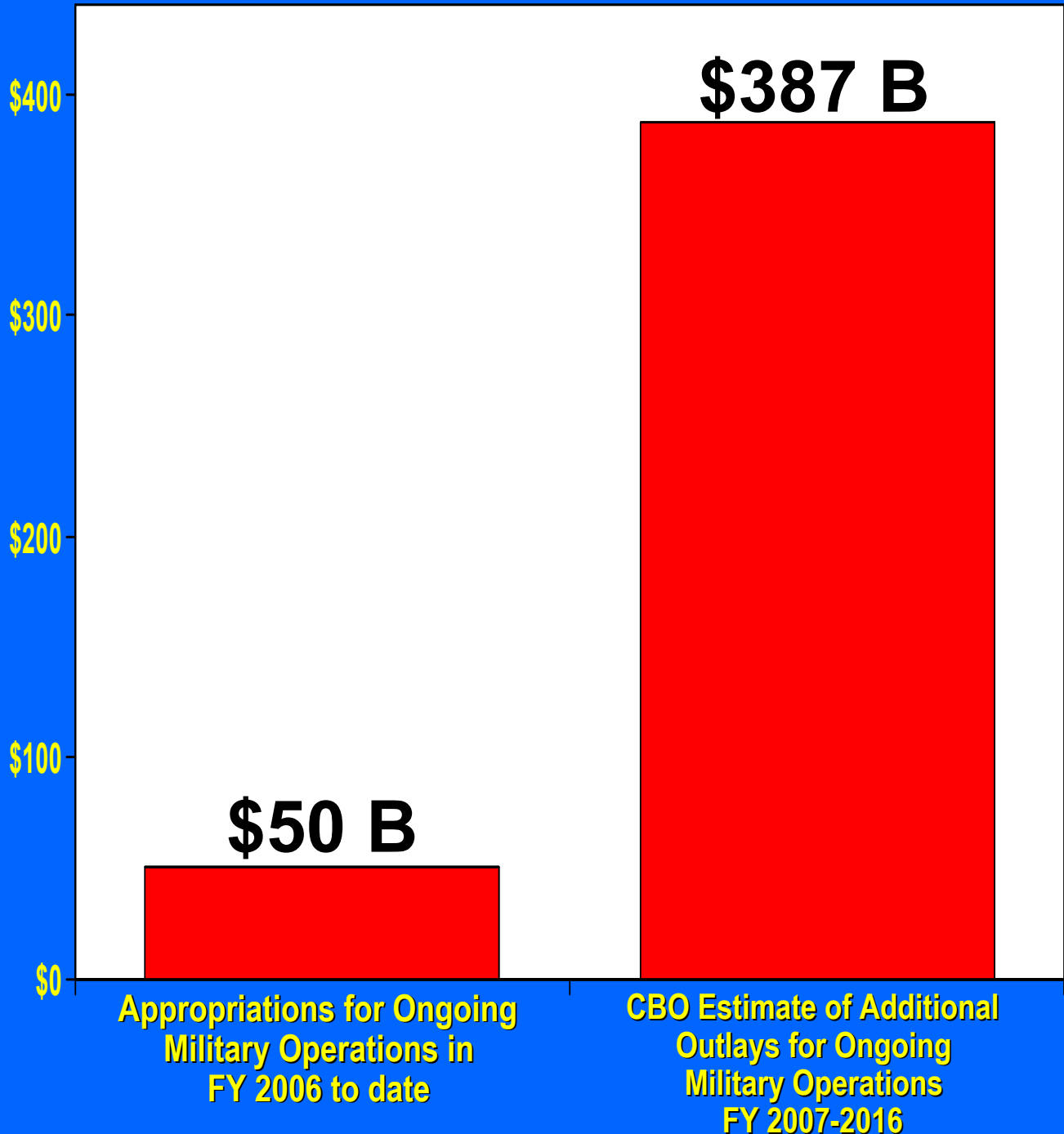


Source: CBO and SBC Democratic staff

Note: CBO January 2006 estimate with tax cuts made permanent, AMT reform, ongoing war costs, Bush defense buildup, spending reconciliation conference report, and without extension of 2006 supplementals.

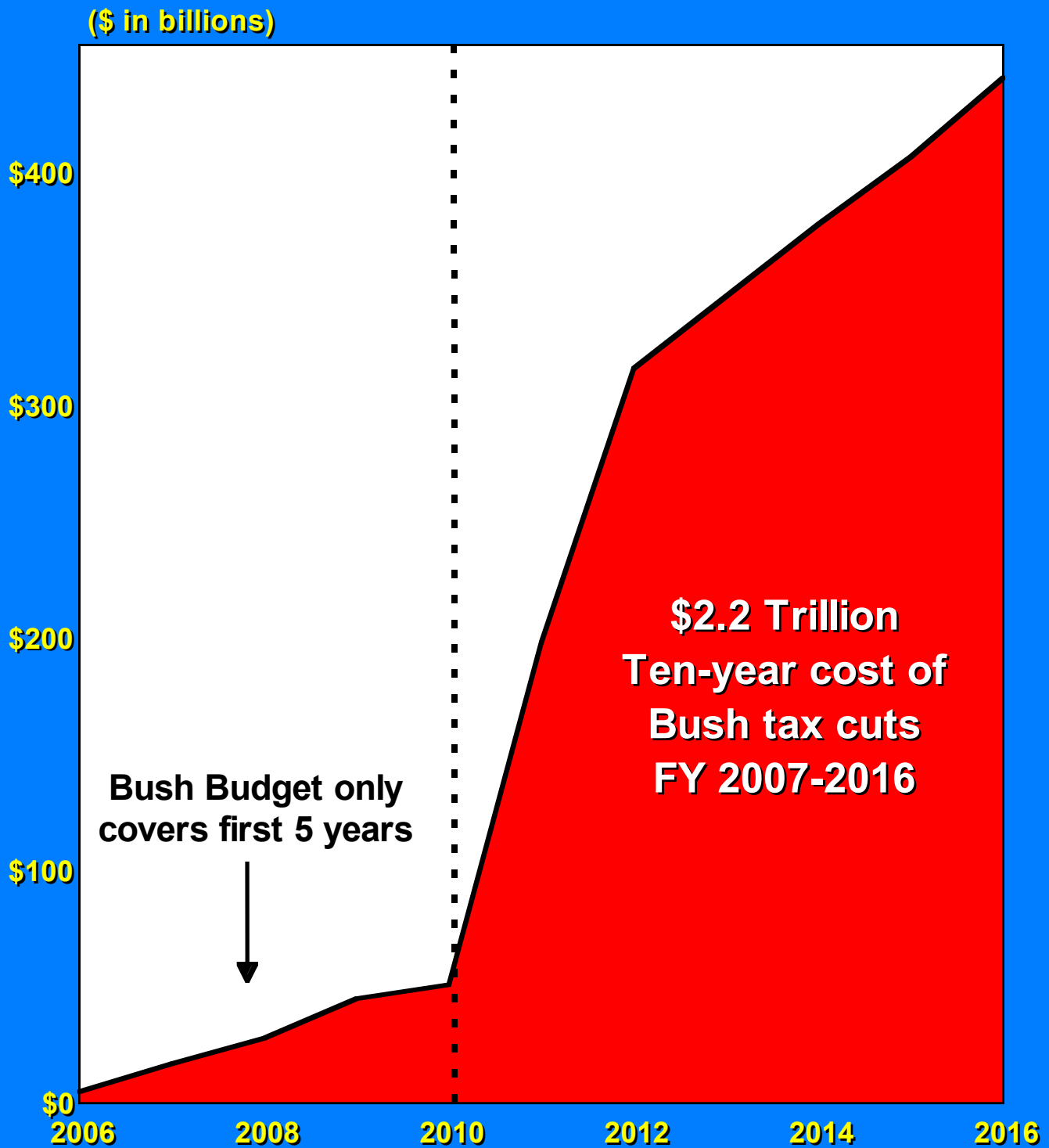
Long-Term War Costs Underfunded

(\$ in billions)



Note: Ongoing military operations include operations in Iraq, Afghanistan, and the continuing war on terrorism.
Source: CBO

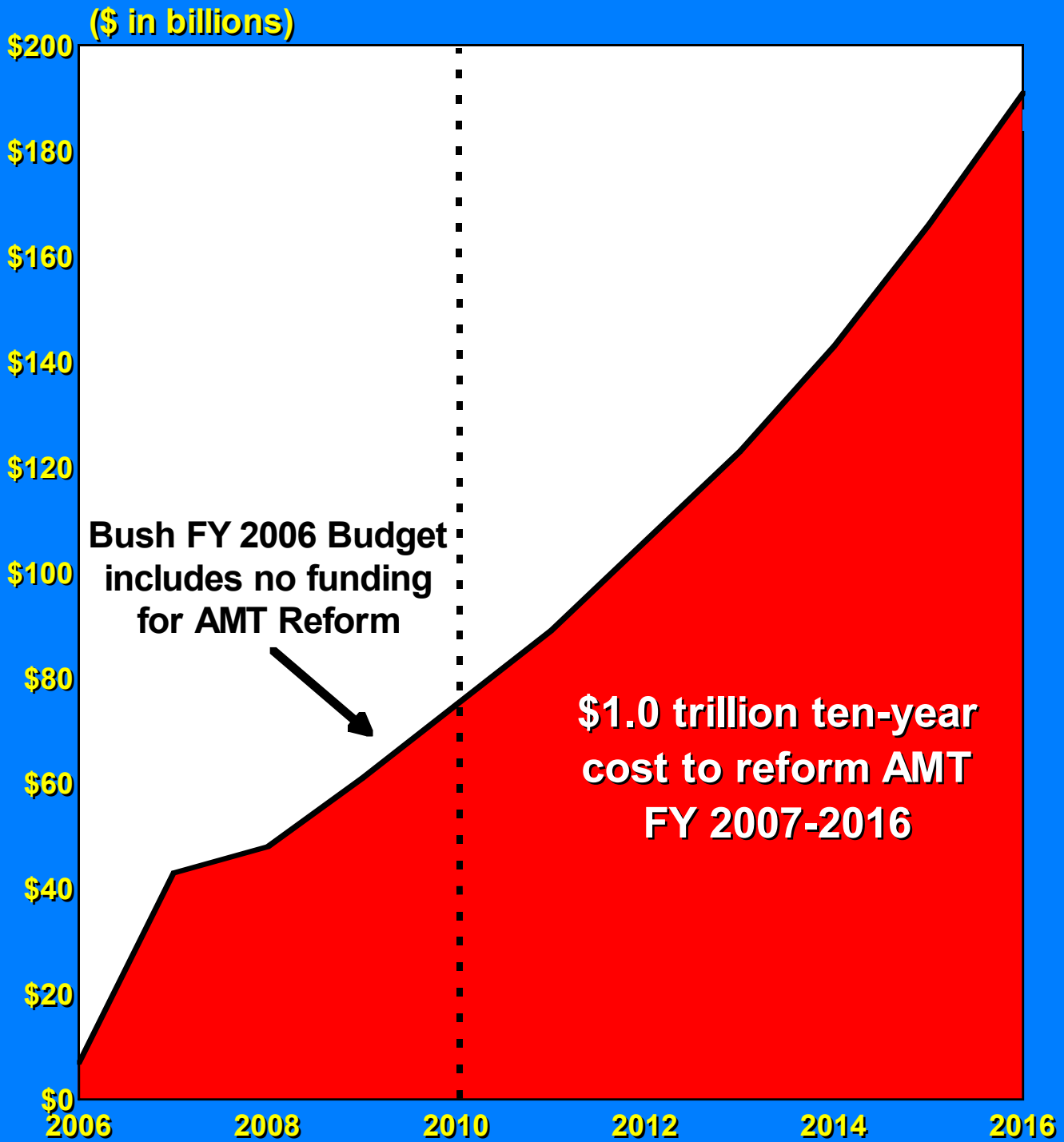
Cost of Bush Tax Cuts Explodes Outside Five-Year Budget Window



Source: CBO

Note: Includes debt service.

Cost of AMT Reform Explodes Outside Five-Year Budget Window



Source: CBO

Note: Includes interest cost, assumes tax cuts made permanent.

Bush Administration on Importance of Paying Down Debt

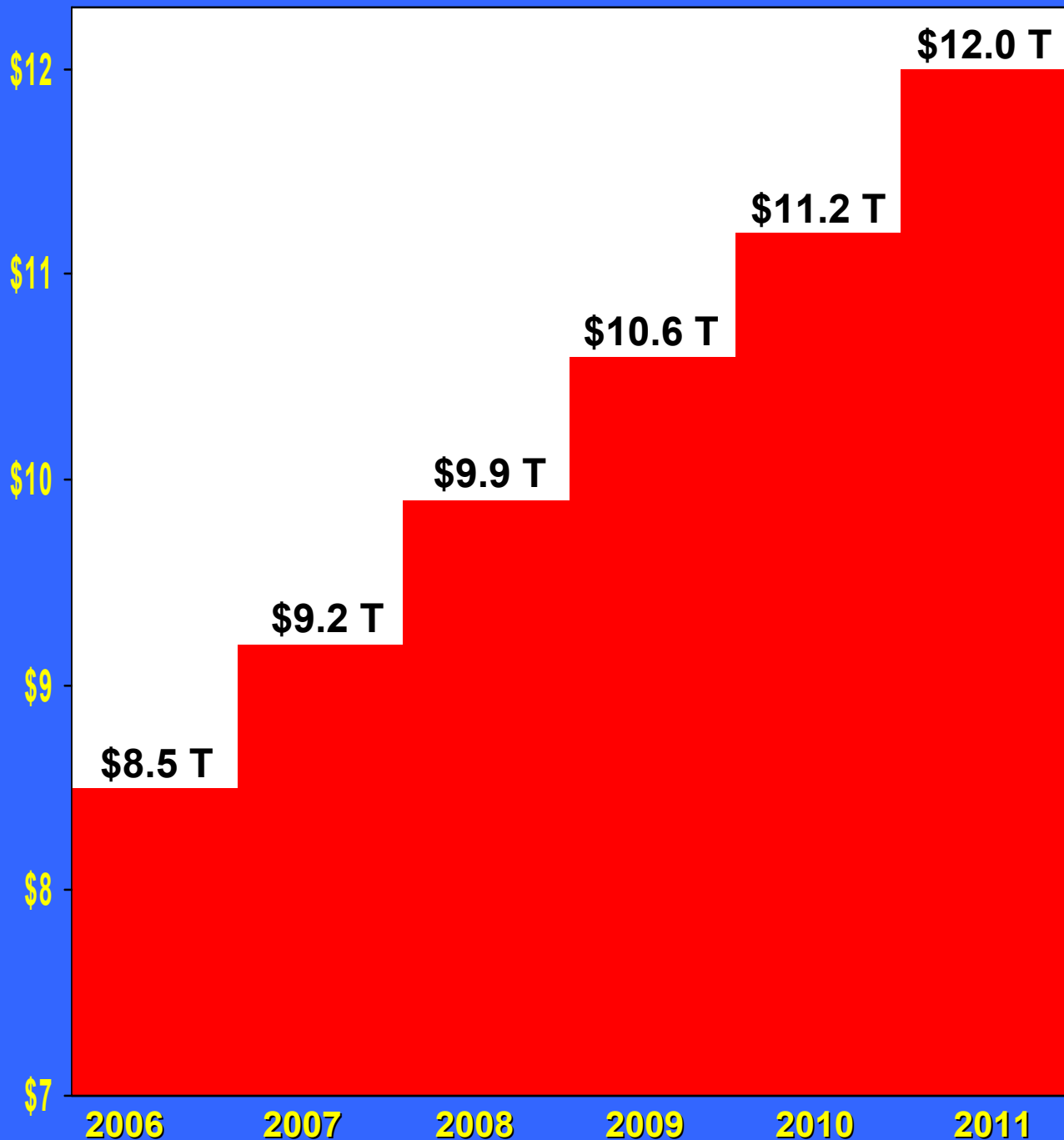
“...(M)y budget pays down a record amount of national debt. We will pay off \$2 trillion of debt over the next decade. That will be the largest debt reduction of any country, ever. Future generations shouldn't be forced to pay back money that we have borrowed. We owe this kind of responsibility to our children and grandchildren.”

**–President George W. Bush
Radio Address
March 3, 2001**

Building a Wall of Debt

Gross Federal Debt Soars

(\$ in trillions)



Source: CBO and SBC Democratic staff

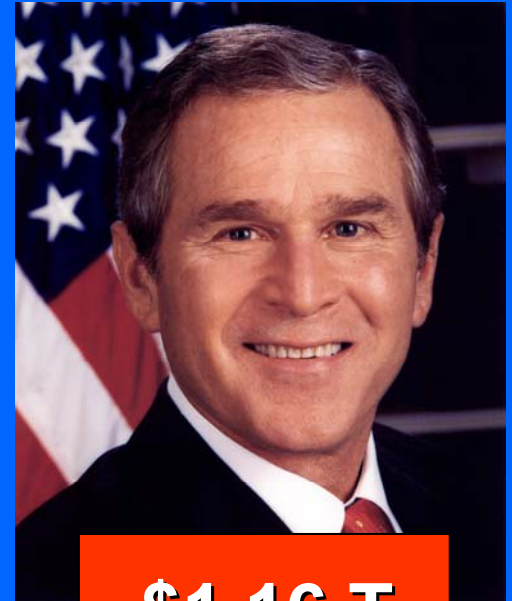
Note: CBO January 2006 estimate with tax cuts made permanent, AMT reform, ongoing war costs, Bush defense buildup, spending reconciliation conference report, and without extension of 2006 supplementals.

President Bush Doubles Foreign-Held Debt in 5 Years

It Took 42 Presidents 224 Years to Build Up Same Level of Foreign-Held Debt



224 Years
(1776-2000)



\$1.16 T

5 Years
(2001-2005)

Top Ten Countries Holding Our National Debt

Japan	\$683 B
China	\$250 B
United Kingdom	\$223 B
“Caribbean Banking Centers”	\$115 B
Taiwan	\$71 B
OPEC	\$68 B
South Korea	\$66 B
Germany	\$66 B
Canada	\$54 B
Hong Kong	\$46 B

Source: Department of Treasury

Note: As of November 2005



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

December 29, 2005

The Honorable Kent Conrad
Ranking Member
Committee on Budget
United States Senate
Washington, DC 20510

Dear Senator Conrad:

The Administration now projects that the statutory debt limit, currently \$8,184 billion, will be reached in mid-February 2006. At that time, unless the debt limit is raised or the Treasury Department takes authorized extraordinary actions, we will be unable to continue to finance government operations.

Accordingly, I am writing to request that Congress raise the statutory debt limit as soon as possible. You should note that even if the Treasury Department were to take all available prudent and legal actions to avoid breaching the statutory debt limit, we anticipate that we can finance government operations no longer than mid-March.

As you know, the "full faith and credit" of the United States is a unique asset that underlies the leadership position of our country in world capital markets and our unparalleled access to those markets at the lowest possible funding cost. A failure to increase the debt limit in a timely manner would threaten this unique and important position.

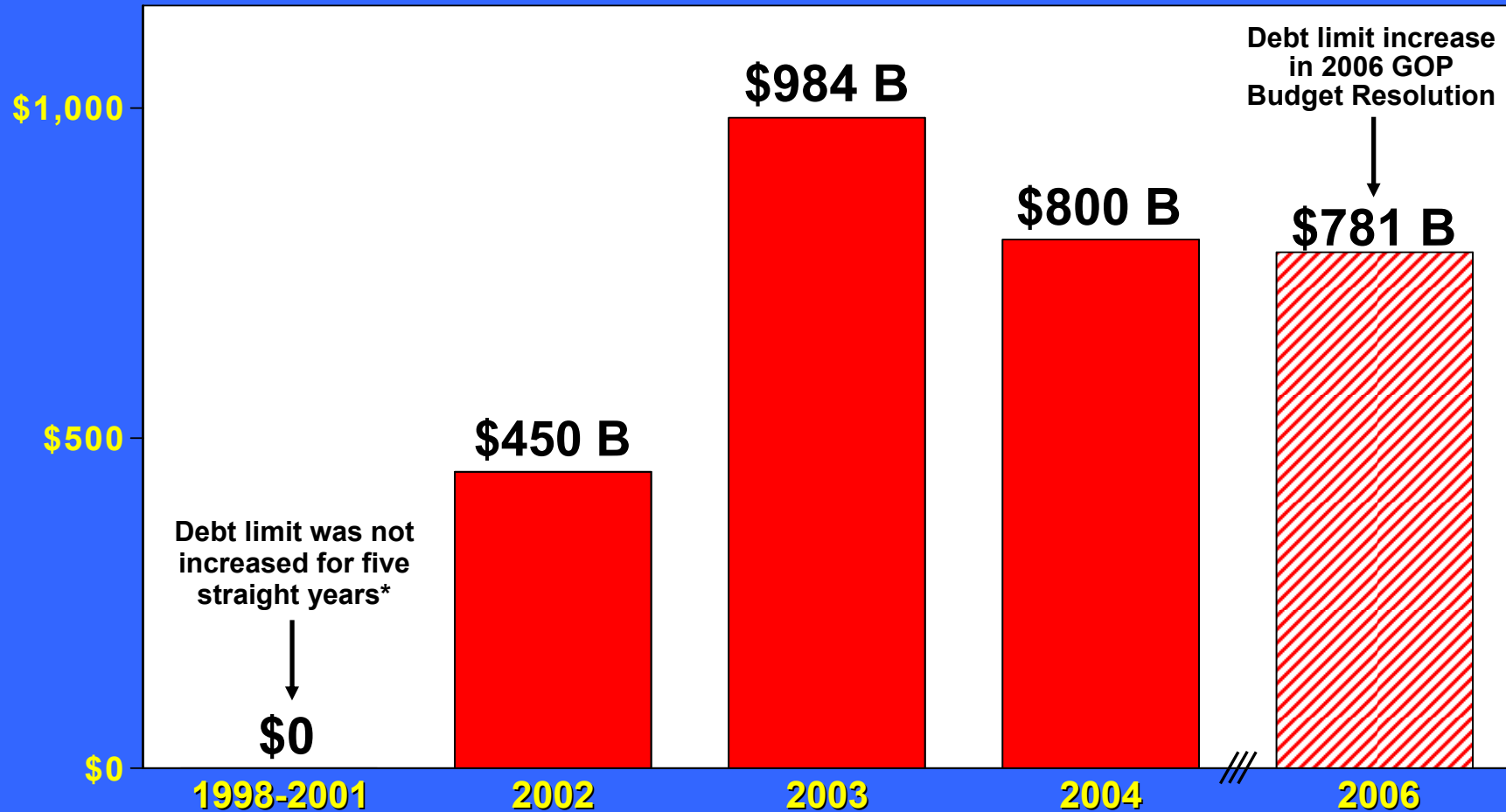
Thank you for your attention to this matter.

Sincerely,

John W. Snow

Debt Limit Increases \$3 Trillion Under President Bush

(\$ in Billions, Annual Increases in Statutory Debt Limit)



*Debt limit was not increased between August 1997 and June 2002.
Source: OMB and 2006 GOP Budget Resolution

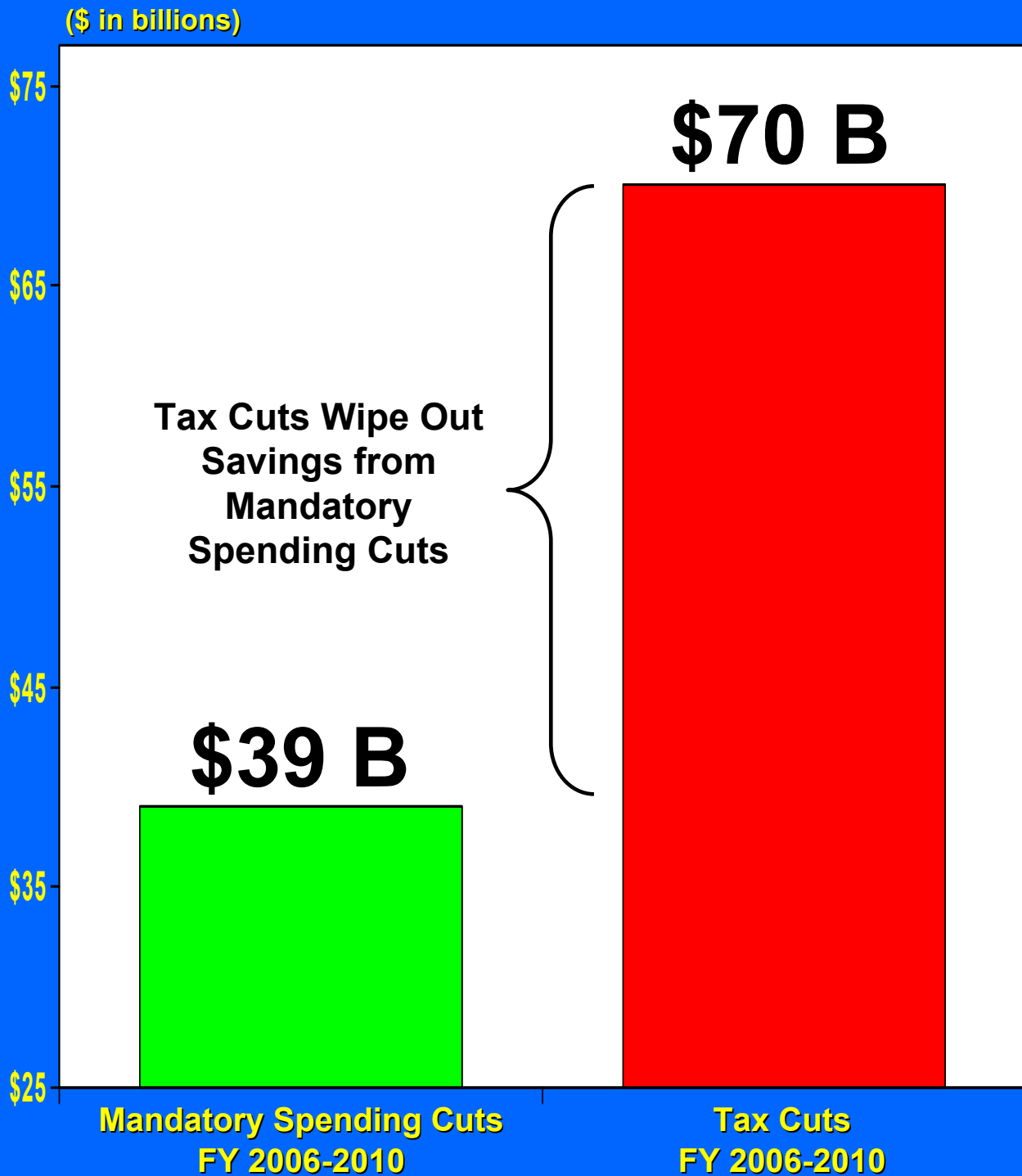
Three Chapters of Reconciliation

Chapter 1 Mandatory Spending Cuts - \$39 B

Chapter 2 Tax Cuts - \$70 B

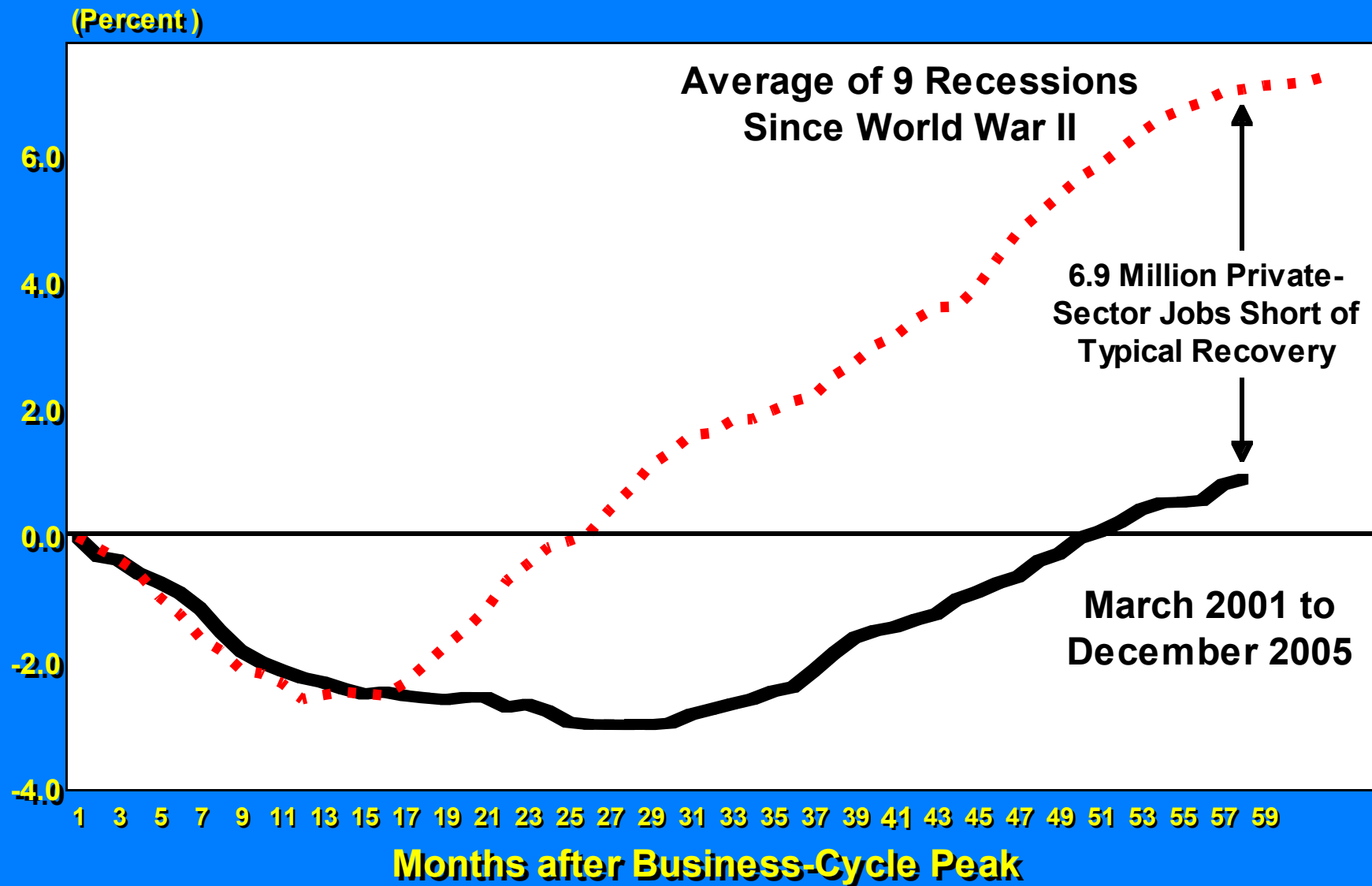
Chapter 3 Debt Limit Increase - \$781 B

Budget Reconciliation Increases Deficit by \$31 Billion



The Job-Loss Recovery

Private-Sector Jobs, Percent Change from Business-Cycle Peak



Source: BLS

Federal Reserve Chairman Greenspan Opposes Deficit-Financed Tax Cuts

**“...[W]e should not be cutting taxes
by borrowing.”**

**– Federal Reserve Chairman Alan Greenspan
Testimony before Joint Economic Committee
November 3, 2005**

Federal Reserve Chairman Greenspan on Restoring PAYGO

“All I’m saying is that my general view is I like to see the tax burden as low as possible. And in that context, I would like to see tax cuts continued. But, as I indicated earlier, that has got to be, in my judgment, in the context of a PAYGO resolution.”

**– Federal Reserve Chairman Alan Greenspan
Testimony before House Budget Committee
March 2, 2005**

Pay-Go Amendment Eliminates Loophole

Current GOP Pay-Go Rule

- Exempts all tax cuts and mandatory spending increases assumed in any budget resolution, no matter how much they increase deficits

Loophole:

Failure to include stronger pay-go rule allows \$351 billion in deficit-financed tax cuts or mandatory spending over 2006-2015 with only 51 votes.

Stronger Pay-Go Rule

- All mandatory spending and tax cuts that increase deficits must be paid for, or require 60 votes

Conrad Tax Cut Package

Same extensions as the Grassley/Baucus substitute

- Small business expensing (2009)
- Savers credit (2009)
- Tuition deduction (2009)
- New market tax credit (2008)
- Sales tax deduction (2007)
- R&D credit (2007)
- Work opportunity and welfare-to-work credits (2007)
- Teacher classroom expenses (2007)
- Leasehold and restaurant improvements (2007)
- Other traditional extenders (2007)
- AMT hold harmless (2006)

Package is fully paid for over 10 years

Conrad Tax Cuts Fully Paid For Over 10 Years

Offsets Include:

- same offsets as Grassley/Baucus substitute – closing tax gap by shutting down abusive tax shelters and other reforms (\$34 billion)
 - including revoking tax benefits for leasing foreign subway and sewer systems
- ending a loophole for oil companies that lets them avoid taxes on foreign operations (\$9 billion)
- require tax withholding on government payments to contractors like Halliburton (\$7 billion)
- renewing superfund tax so that polluting companies pay for cleaning up toxic waste sites (\$17 billion)
- closing other tax loopholes/miscellaneous offsets (\$22 billion)

Five-Story Cayman Islands Building That 12,748 Companies Call Home

