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U.S. HOUSE OF REPRESENTATIVES

# COMMITTEE ON THE BUDGET

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January 7, 2009

## CBO Report Confirms President Bush's Fiscal Legacy

Today the Congressional Budget Office (CBO) released its annual fiscal outlook, painting a bleak picture of the economy, the budget deficit, and growing debt. CBO reports a stunning \$1.186 trillion budget deficit for fiscal year 2009 and large deficits for as far as the eye can see. Even these large numbers, however, understate the true size of the deficits that the outgoing Administration is leaving behind for years to come, because by law the CBO forecast cannot incorporate the costs of ongoing policies that are not reflected in current law. CBO also forecasts real decline in the size of the economy for 2009 as well as rising, sustained unemployment rates above 9.0 percent for most of 2010.

### CBO Baseline Deficits

<u>2008</u>	<u>2009</u>
- \$455 billion	- \$1,186 billion

CBO's report provides the penultimate chapter on this Administration's dismal fiscal record. In January 2001, the Clinton Administration left office with a budget surplus projected to be \$5.6 trillion over ten years. The Republican Administration has squandered that budget surplus, and now is leaving a projected deficit of well over \$4 trillion for that same period (2002-2011). As bad as this record is, the final accounting of the Bush Administration's fiscal legacy will grow worse as it is updated to reflect the cost of legislation to address the economic crisis and the deterioration of critical services that have foundered under eight years of neglect.

What is clear now is that the grim short-term budget outlook will continue or even worsen before it gets better. Equally clear is the importance of a workable long-term budget plan to restore fiscal sustainability.

### Immediate Priorities: The Economy and Other National Needs

**Economy is Still Declining** — According to the National Bureau of Economic Research, the nation is experiencing a prolonged recession that already exceeds the length of the past two recessions in 1990-91 and 2001. The current recession is 13 months long and counting. If this were the average post-World War II recession, it would have lasted 10 months and ended in October. Instead, the economy shrank 0.5 percent in the third quarter of 2008, and CBO forecasts that it will shrink by 2.2 percent over 2009, making it the deepest recession since the end of World War II.

The impact of the recession is felt across the economy. U.S. housing prices have fallen for 20 consecutive months, leaving millions of American households owing more on their mortgages than their homes are worth. Meanwhile, foreclosure rates have soared. Financial markets are down 30 percent or more over the past year and banks are reluctant to lend to one another or to consumers. The construction, manufacturing, and retail sectors are suffering as the collapse in consumer spending matches declines last seen in the 1981-1982 recession. The result has been the loss of 1.9 million jobs through November, a 6.7 percent unemployment rate that is a 15-year high, and 12 straight months of declining real hourly earnings for those who still have their jobs. The December jobs and unemployment reports to be released Friday will likely show even worse numbers; CBO forecasts unemployment rising above 9.0 percent for most of 2010. As more jobs are lost and housing prices continue to fall, more families are likely to curtail their spending and become delinquent on mortgages and consumer debt.



**The Need for Economic Recovery** — To break the cycle, substantial fiscal intervention is required. The Federal Reserve, the International Monetary Fund (IMF), prominent Members on both sides of the aisle, and a host of independent economists have all articulated the need for such an intervention to mitigate the substantial fall in aggregate demand and to restore confidence to markets and consumers. A fiscal recovery bill should steer substantial dollars to households who will spend it, put Americans back to work through reinvesting in America’s infrastructure and capital stock, and be of an order of magnitude necessary to bridge the gap between actual Gross Domestic Product (GDP), which is shrinking, and potential GDP. Substantial outlays are needed to stimulate the economy and prevent a drop in aggregate demand that the IMF warns in a December 29, 2008, report “could be larger than in any period since the Great Depression.” While a successful stimulus will impact the deficit adversely in the near term, the necessity of stabilizing the economy amid the housing and financial crises must take precedence. Moreover, failure to pass a recovery bill will mean a much longer recession with growing deficits.

**The Need to Fix Broken Government** — The outgoing Administration is leaving a legacy not only of huge deficits and a dramatically weakened economy, but also of a breakdown in critical government services. For example, the Social Security Administration is facing a record backlog of disability hearings because of chronic understaffing and increased claims, and the Food and Drug Administration has been unable to keep pace with its mission because of its lack of adequate resources. In addition, the country delayed investments in critical infrastructure and

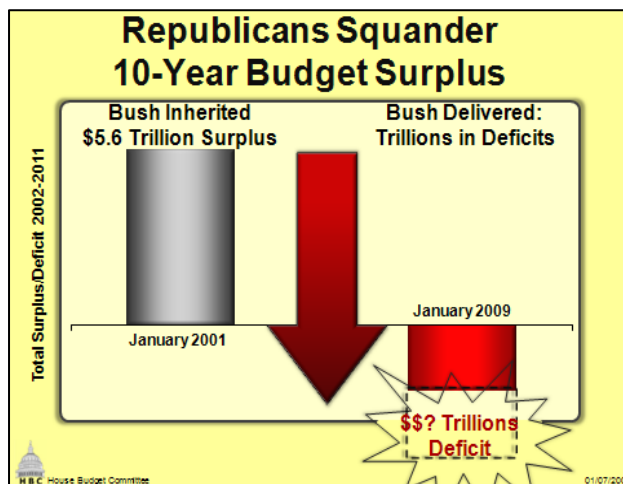
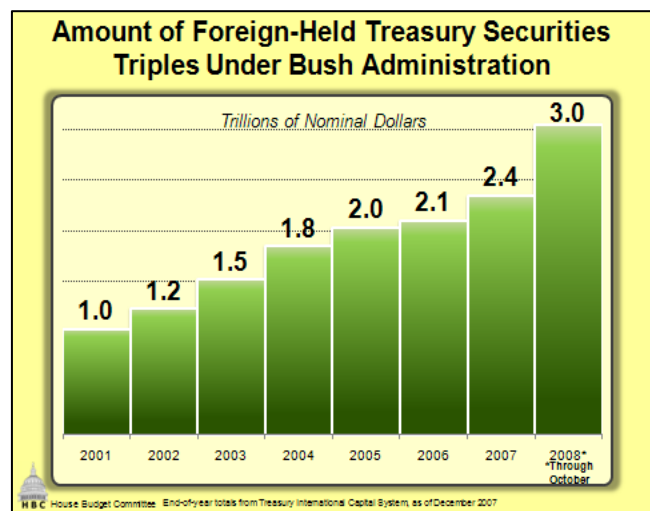
failed to make needed improvements in homeland security and emergency response. Restoring critical government services is another challenge that awaits the new Administration and the new Congress, and its cost should be included in the tabulation of the fiscal legacy of the departing Administration.

## Bush Administration's Deficits Will Linger

**President's Deficits Continue to Grow** — As a result of their misguided fiscal choices, President Bush and Republican Congresses squandered the budget opportunities they inherited and are passing along historically large budget deficits that will persist for years. The baseline deficits that CBO is reporting today will grow larger when updated to reflect the outyear costs of ongoing policies not reflected in current law.

This Administration's deficit legacy must also reflect the cost of responding to the economic crisis and deteriorated government services that it is leaving behind.

**The Legacy of Mounting Debt** — One result of the current Administration's fiscal choices is that debt held by the public has grown from \$3.4 trillion in 2001 to \$6.3 trillion in 2009, an increase of 89 percent in just eight years. At the same time, the amount of that debt that is foreign-owned has tripled, from \$1.0 trillion in 2001 to \$3.0 trillion.



**Deficits Greater than CBO's Baseline Reflects** — CBO's baseline is not a projection of the cost of ongoing or likely future policies, but rather a mechanical projection of the budgetary effects only of current law. It does not include many likely additional costs, such as extending the middle income tax cuts that expire next year, full costs of the wars in Afghanistan and Iraq, legislation to spur economic recovery, or even complete government spending for the current year. Once these costs are tallied, the books will close on this Administration's fiscal record.

## **CBO Estimates for TARP, Fannie Mae, and Freddie Mac**

As it does for federal credit programs, CBO estimates the costs of the Troubled Assets Relief Program (TARP) on a net present value basis. As mandated by the Emergency Economic Stabilization Act, CBO estimates adjust standard credit accounting to account for market risk (including changes to interest rates) when assessing likely streams of any equity purchases, loan disbursements, repayments, dividends, sale of assets, or other returns to the government's investments. CBO calculates the total cost of TARP as \$189 billion on a net present value basis – not the expected disbursement of \$700 billion – because it anticipates some portion will be returned to the Treasury as the program progresses.

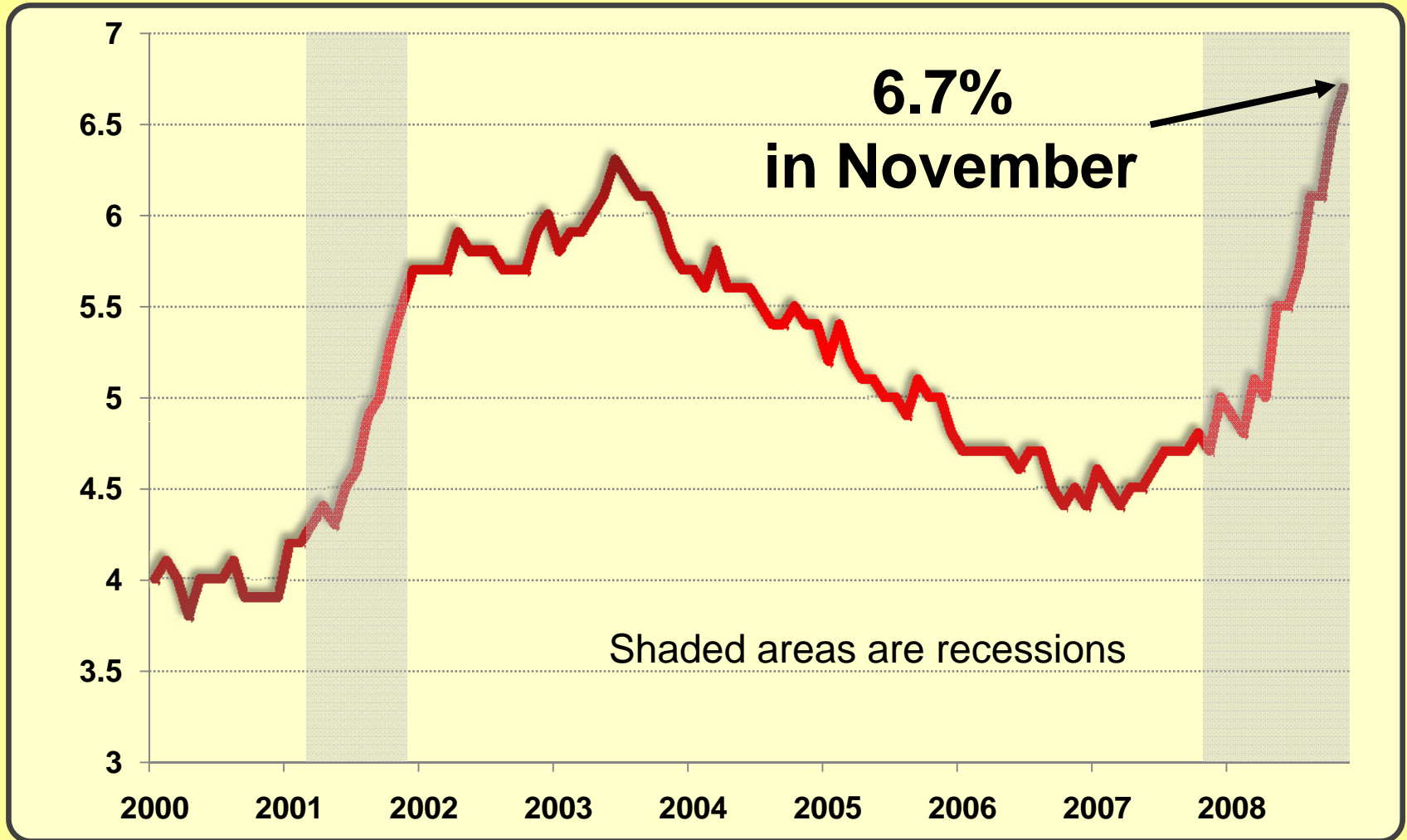
CBO includes the entire operations of Fannie Mae and Freddie Mac in the baseline projection. Although there has been a long-standing implicit government guarantee of the GSEs' debt obligations, their transactions have not previously been considered part of the budget. With the direct financial and management assistance to the GSEs included in the Housing and Economic Recovery Act of 2008, CBO has decided that the GSEs' operations now more clearly represent governmental actions and should be recorded in the budget. CBO estimates all Fannie Mae and Freddie Mac transactions using the same risk-adjusted accounting used for the TARP. A one-time adjustment for moving the existing Fannie Mae and Freddie Mac portfolios into the budget adds \$200 billion to the reported 2009 deficit, reflecting the shortfall between the GSEs' assets and their liabilities. There are additional costs of about \$40 billion in new subsidies also recorded in 2009.

## **Long-term Priority: Restoring Fiscal Sustainability**

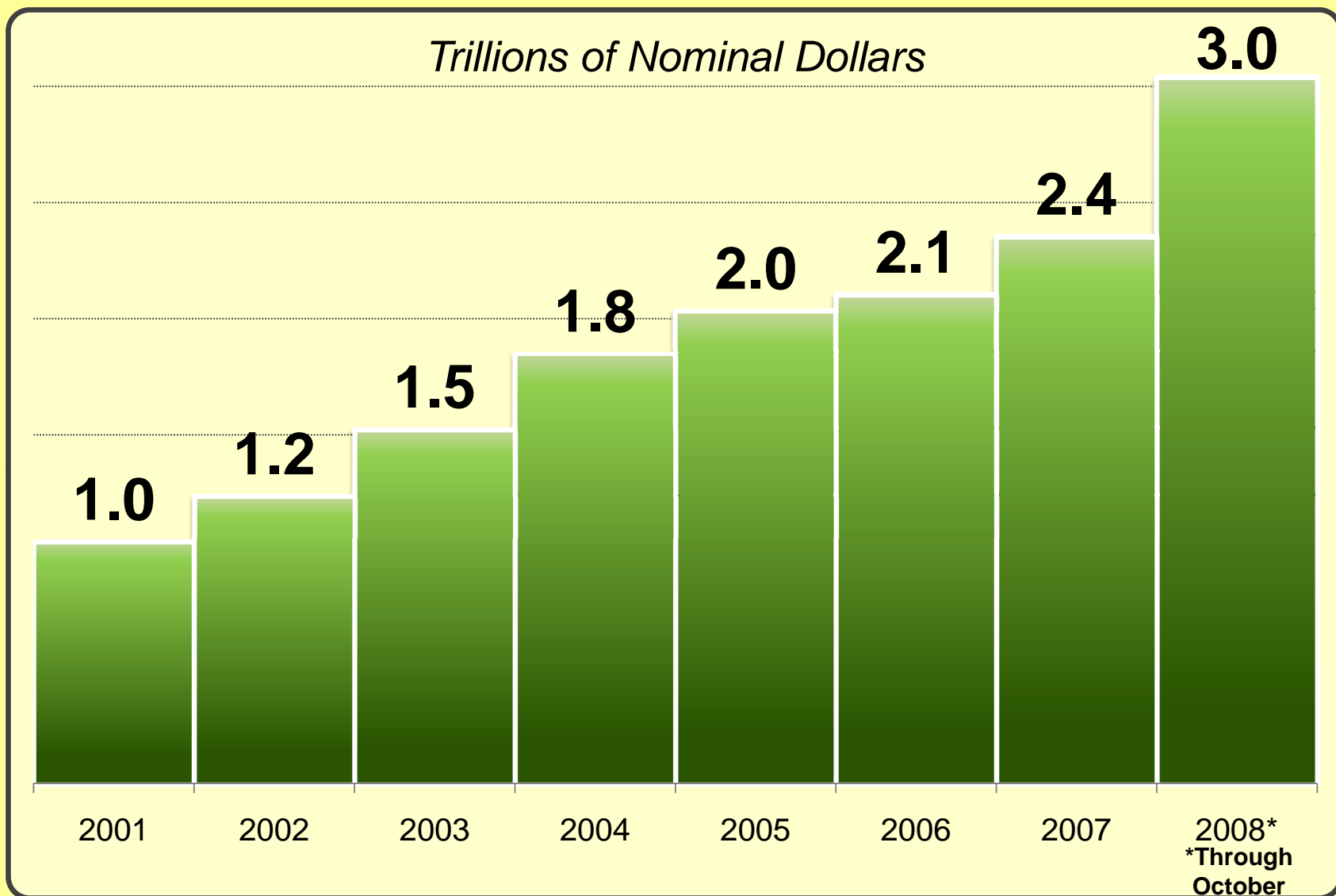
**Improving the Economy** — In the long run the federal budget is on a daunting path, with the national debt growing faster than the economy. This is because rising costs for health care and the aging of the population will cause federal spending to grow rapidly over the next few decades in excess of currently projected revenues, causing even larger budget deficits. Now, with the grim economic and fiscal outlook, Congress and the new Administration will need to work together to craft policies that address immediate priorities and make necessary new investments to kick-start the economy, while also addressing the need for long-term fiscal sustainability.

**Turning Around the Deficit in Time** — The Clinton Administration proved that sustained efforts over time can successfully make progress in reducing deficits; it will likewise take time to climb out of the budgetary ditch that the current Administration is leaving behind.

# Unemployment Rate Reaches 15-Year High



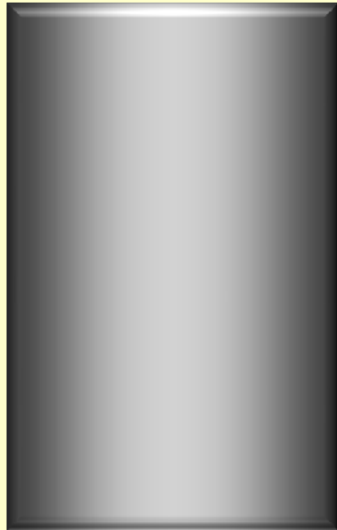
# Amount of Foreign-Held Treasury Securities Triples Under Bush Administration



# Republicans Squander 10-Year Budget Surplus

Total Surplus/Deficit 2002-2011

**Bush Inherited  
\$5.6 Trillion Surplus**



January 2001

**Bush Delivered:  
Trillions in Deficits**



January 2009



**\$\$? Trillions  
Deficit**

