

# HOUSE BUDGET COMMITTEE

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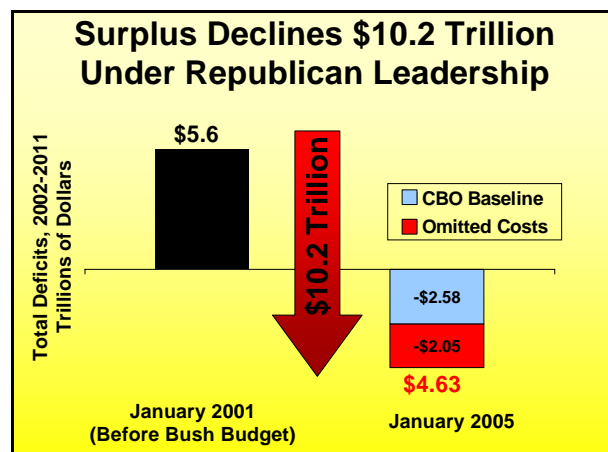
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January 25, 2005

## CBO Confirms Republican Policies Make Deficits Even Worse

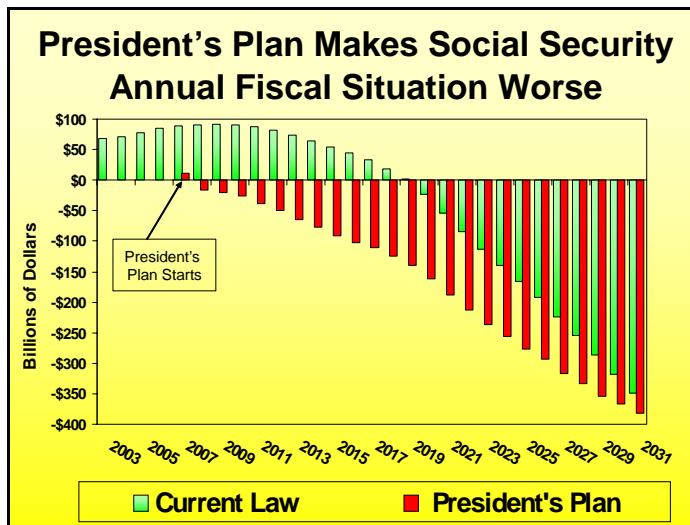
Today's forecast by the Congressional Budget Office (CBO) contains the latest evidence of the long-term fiscal deterioration that has occurred under this Administration's policies. While the Bush Administration continues to claim that it will cut the deficit in half by 2009, today's forecast confirms that it will not. Instead, this Administration's policies will create even larger deficits for as far as the eye can see.

**Record Deficits Under Republican Administration** — CBO confirms that the 2004 deficit was the largest in history, \$412 billion. CBO projects a 2005 deficit of \$368 billion—even before additional 2005 supplemental funding for Iraq and Afghanistan is added in—making the deficits for 2003, 2004, and 2005 the three largest of all time. An estimate of the 2005 deficit adjusted to reflect anticipated new supplemental funding for 2005 grows to \$408 billion. Over the ten-year period 2002-2011, the \$5.6 trillion projected surplus inherited by this Administration when it took office has been replaced by a deficit of \$2.6 trillion, a reversal of \$8.2 trillion. Over the 2006-2015 window, CBO projects a deficit of \$855 billion. These figures do not include any new supplemental funding for Iraq and Afghanistan for 2005 and beyond, nor do they reflect the cost of a number of expensive Bush Administration policy proposals discussed below. When adjusted for these policies and the associated interest costs, the 2002-2011 deficit grows to \$4.6 trillion (a \$10.2 trillion reversal) and the 2006-2015 deficit grows to \$6.1 trillion. (See chart, “Surplus Declines \$10.2 Trillion Under Republican Leadership.”)



**Republican Policies Make the True Picture Even Worse** — While CBO projects a 2006-2015 deficit of \$855 billion, this baseline projection understates the magnitude of the budget deficits created by the Republican agenda because the baseline is required to assume no policy changes

relative to current law. Indeed, today’s numbers exclude the major initiatives expected from this Administration’s second term—extension of the President’s tax cuts (\$1.6 trillion over ten years), the privatization of Social Security (\$1.9 trillion over ten years), the Iraq war (perhaps an additional \$426 billion over ten years), and continuation of a general defense buildup (\$234 billion over ten years). The CBO projection also excludes the cost of the necessary repair of the Alternative Minimum Tax (\$642 billion over ten years, including effects of the interaction with extension of the President’s tax cuts). After adding in these costs and the associated interest (\$595 billion), and subtracting the baseline’s assumption that 2005 disaster-related supplemental funding will recur, the ten-year deficit (2006-2015) grows from \$885 billion to an alarming \$6.1 trillion. (See chart, “CBO Baseline Does Not Include . . .”)



**Social Security Privatization Adds \$1.9 Trillion to Already Large Deficits —**

Rather than averting the so-called “crisis” that it decries, the Administration’s plans for Social Security privatization will create a crisis where currently only a challenge exists. The Administration’s proposal is likely to add \$1.9 trillion to the deficit over the next ten years, and to dramatically accelerate the depletion of Social Security’s Trust Fund assets. (See chart, “President’s Plan Makes Social Security Annual Fiscal Situation Worse.”)

**Republican Policies Spend Social Security Trust Fund Surplus —**

According to today’s figures, \$2.2 trillion of the Social Security Trust Fund surplus over the next ten years will be used to fund deficits rather than being saved for Social Security. If the Social Security Trust Fund surplus were saved for Social Security, the deficits would be even larger: \$537 billion for 2005, \$4.6 trillion over the period 2002-2011, and \$3.4 trillion over the period 2006-2015—even before adjusting for the cost of Bush Administration policies. After adjusting for proposed policies, these numbers grow to \$577 billion for 2005, \$6.7 trillion for 2002-2011, and \$8.7 trillion for 2006-2015.

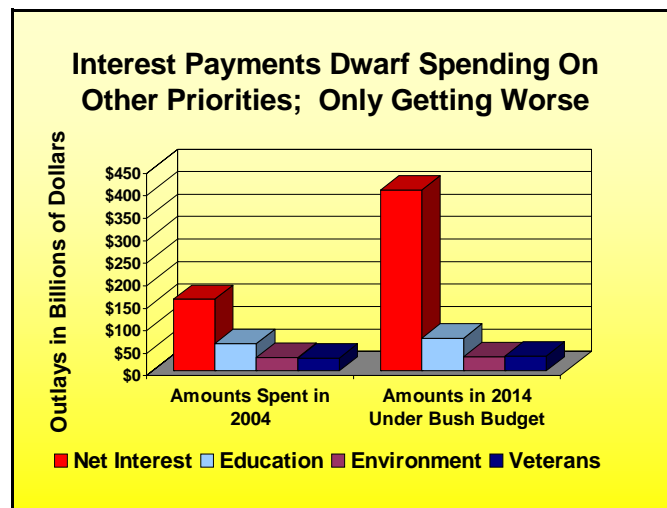
**Republican Tax Cuts Major Source of Deterioration** — Responsible fiscal policies could have avoided a major portion of this reversal: more than half of the fiscal deterioration for 2005 caused by legislative changes is the result of oversized Republican tax cuts. In the face of this track record, Republicans now propose to dig the fiscal hole even deeper with additional tax cuts.

**Today’s Numbers Represent No Improvement** — Although today’s numbers may at first glance appear to show an improving deficit picture relative to recent forecasts, the very first summary page of today’s CBO report notes that an “apples-to-apples” comparison would in fact show a

baseline fiscal outlook for the 2005-14 period that has worsened by more than \$500 billion since the September baseline. The apparent improvement occurs primarily because today's numbers include no current or future funding for the war in Iraq. CBO's baseline forecasts are required to assume that all current-year funding repeats each subsequent year. Thus, CBO's September 2004 forecast had to assume that the roughly \$115 billion in supplemental appropriations for Iraq and Afghanistan approved in fiscal year 2004 would be repeated for every future fiscal year (at levels increased for inflation). By contrast, because Congress has not yet approved any 2005 funding for Iraq and Afghanistan, today's baseline artificially assumes that there will be no further funding for these ongoing military operation and does not reflect the anticipated supplemental request for 2005 of approximately \$80 billion. As a result, the 2005 deficit figure included in today's forecast is artificially low. Over a ten-year period, this difference in the inclusion and exclusion of supplemental funding in the baseline produces the appearance of a \$1.4 trillion "improvement" in today's budget outlook.

**Shift in Ten-Year Window Contributes to Illusory "Improvement"** — Another piece of the apparent improvement in today's ten-year deficit numbers results from the shift in the ten-year window relative to September's forecast. Today's report provides ten-year deficit numbers for the period 2006-2015, a shift from the 2005-2014 window contained in the September document. Today's ten-year numbers therefore exclude the 2005 deficit of \$368 billion, and instead include the \$141 billion surplus figure for 2015. According to the rules for constructing the baseline, the 2015 number must reflect the assumption that 2001 and 2003 tax cuts will have expired and that relief from the Alternative Minimum Tax (AMT) will not have been extended. As a result, today's ten-year numbers will *appear* to reflect \$509 billion dollars of improvement because of this shift in the ten-year window alone. This apparent improvement would largely disappear under a more realistic assumption that the tax cuts and AMT relief would be extended.

**Large Deficits Undermine Other Priorities** — Large deficits mean growing national debt, resulting in more and more resources being wasted to pay the interest on that debt. CBO projects net interest payments exceeding \$178 billion every year for the next ten years, even before the cost of additional Republican policies are added in. According to CBO's March estimate of the President's 2005 budget, \$402 billion will be spent on interest payments in 2014. These interest payments absorb scarce resources that could be better spent on priorities like homeland security. In fact, annual interest payments already dwarf the size of federal spending on priorities like education, the environment, and veterans' services. Meanwhile, foreign investors now hold more than 40 percent of the public debt. (See chart, "Interest Payments Dwarf Spending on Other Priorities; Only Getting Worse.")



**Large Deficits Threaten Long-Term Strength of Economy** — While this Administration has claimed that record deficits are “manageable,” there is widespread agreement among mainstream economists that large, structural deficits have negative economic consequences. Such large deficits will likely result in higher long-term interest rates and a rising national debt, which will in turn crowd out private investment and dampen our prospects for long-run economic growth. Just this month, the President of the Federal Reserve Bank of New York provided the latest caution about the potentially damaging economic consequences of large deficits.

**Administration Has No Plan to Deal with the Deficits It Created** — The Administration’s claim that it will cut the deficit in half by 2009 lacks credibility. First, the Administration lowers the bar by \$54 billion by basing its math on a 2004 deficit number that is artificially inflated by more than \$100 billion. Next, it omits from its calculations the big-ticket items of Social Security privatization, the war in Iraq, and fixing the Alternative Minimum Tax. Meanwhile, even the Administration’s stated goal would leave a 2009 deficit in excess of \$250 billion—with absolutely no plan for reducing the deficit below that level. Indeed, the Administration’s budget is expected once again to fail to provide any deficit figures at all beyond 2010, thus masking the long-term budget damage caused by policies such as making the tax cuts permanent and privatizing Social Security. (See chart, “Administration Has No Plan to Deal with Deficit.”)

**Deficits Cannot Be Realistically Eliminated by Economic Growth or Domestic Appropriations Cuts** — The Administration at times suggests that the deficit problem can be solved through economic growth, but CBO’s forecast of large deficits already builds in solid economic growth

for the next ten years. Republicans often claim that restraining domestic appropriations is critical to balancing the budget, but domestic appropriations outside of homeland security make up only 1/6 of the annual budget — and even the elimination of *all* of this part of the budget would barely bring the budget to balance. (See charts, “Administration Has No Plan to Deal with Deficit” and “CBO Budget Projections Already Assume Strong Economic Growth.”)

