U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON THE BUDGET
House Budget Committee 110th Congress Majority
John Spratt, Chairman
207 Cannon House Office Building, Washington, DC 20515 (202) 226-7200 ★ www.budget.house.gov

March 27, 2007

The Democratic Budget: Growing Our Economy

Overview — After six years of an irresponsible fiscal policy that has undermined our economy's future performance, the Democratic budget brings the budget back to balance while making the investments necessary to re-establish our economy as the most competitive in the world.

Budget Promotes Economic Growth by Achieving a Balanced Budget and Providing for Needed Investments — The budget outlines a fiscal policy strategy that will strengthen the economy. First, it reduces the deficit, which will increase public and national saving, and in turn, promote economic growth. Second, it adequately invests in education, job training, and health care, which will make the workforce more productive. Third, it allows for tax policy changes that will reduce burdens on middle-income families, be more fair and more efficient, and be more conducive to economic growth.

Budget Invests in Economic Growth by Funding Education – The budget increases funding for vital programs such as Head Start, special education (IDEA), Title I and other programs under the No Child Left Behind Act. The budget also provides for funding the increase in Pell Grants so that high school students know that if they work hard, they can go to college. Meanwhile, the budget rejects the President's proposal to cut funding for the Department of Education by $1.5 billion below the 2007 enacted level and eliminate 44 different programs.

Budget Provides Funding for Innovation Agenda — In order to maintain American competitiveness, we must make substantial investments in scientific research and education. The budget provides funding for initiatives to educate new scientists, engineers, and mathematicians in the next four years, and place more highly-qualified teachers in math and science K-12 classrooms. It makes critical investments in basic research, putting us on the path to doubling funding for the National Science Foundation, and bolstering investments in research and development throughout the budget.

Majority Budget Provides Funds for Critical Investments in Energy Independence— America's dependence on oil is damaging to our environment, our national security, and our economy. A sustained investment in research and development is crucial to creating cutting-edge technologies that allow us to develop clean, sustainable energy alternatives and capitalize on America's vast renewable natural resources. The budget provides increased funding for basic and applied energy research, to help America achieve energy independence in 10 years.

Budget Reverses Administration's Poor Track Record on Deficits, National Saving, and Foreign Debt — By bringing the budget back to balance, the budget resolution reverses the Administration's dismal track record on deficits, national saving, and foreign debt. The budget deficits created by the Administration's policies have driven down national saving, which dropped from 5.0 percent of national income when President Bush took office to just 1.7 percent today. The low rate of national saving means that Americans need to borrow more from abroad to support current levels of consumption and investment. In fact, since 2001, foreign holdings of Treasury securities have more than doubled, and increases in foreign holdings account for about three-fourths of the newly accumulated public debt. This increased reliance on foreign capital, coupled with a low national saving rate, heightens the risk that interest rates will need to rise in order to attract foreign lending and makes the U.S. economy more vulnerable to foreign investment decisions. Higher interest rates will increase the cost of borrowing for American families, meaning that households will pay more for expenses such as college tuition and home ownership.

***Budget's Fiscal Responsibility Raises the Standard of Living for Future Generations* —** The budget accumulates less debt and smaller interest payments than the President's budget, and, unlike the President's budget, returns to balance. Getting our fiscal house in order is critical, because putting off paying down the debt for 20 years turns every dollar of debt into more than three dollars, assuming a relatively low interest rate of 6 percent. This means the burden handed down to younger generations is many times the size of today's deficits. Greater reliance on foreign capital to finance the Administration's deficits also means that as our children and grandchildren pay down this multiplied debt over the rest of their lifetimes, they or other younger Americans will not be on the receiving end of those payments – younger citizens of *other* countries will be.

***Budget Strengthens Agricultural Economy and Rural Communities* —** The budget supports an enhanced farm bill that would strengthen the farm bill's economic benefits. The budget provides a deficit-neutral reserve fund for the reauthorization of the farm bill, allowing for an increase of up to $20 billion in mandatory agriculture funding between 2008 and 2012. The farm bill provides valuable support to our nation's farmers, ranchers, and rural communities by creating an economic safety net for producers, installing natural resource conservation measures on agricultural operations that also enhance farm income, and investing in research and rural development projects that strengthen our rural economies.

***Budget Boosts Funding for Transportation Infrastructure* —** The budget addresses the nation's transportation challenges by increasing federal investment in transportation infrastructure. To the average American, this will mean: shorter commutes that save time and fuel; better access to work, school, health care, and recreation; lives saved (many of the more than 43,000 highway fatalities each year could be prevented); and fewer delays for the estimated 794.3 million passengers who will travel by air in fiscal year 2008.

***Administration Economic Policies Have Weakened Competitiveness and Hurt the Typical American Family* –** In its most recent study on global economic competitiveness, the World Economic Forum (WEF) concluded that the U. S. economy has slipped from first to sixth in global competitiveness, in part because of large budget deficits and mounting government debt. Meanwhile, the typical American family has experienced a decline in real income over the Bush Presidency, meaning it has less purchasing power today than in January 2001. Real median income in 2005 had declined $1,273 per family (2.7 percent) below its level in 2000. The Administration's budget includes no efforts to reverse this trend, while the Democratic budget calls for greater investment in education and job training, leading to higher productivity and better wage growth in the future.

***Administration Economic Claims Don't Withstand Scrutiny* —** Economic growth since the implementation of the tax cuts has failed to match CBO's estimate of economic growth *without* the tax cuts, and the economy's performance is generally weak compared to comparable points in other economic recoveries. Meanwhile, total job growth under President Bush is far behind the job gains experienced under President Clinton, and less than one-third of the 237,000 jobs per month created on average during the Clinton Administration.