

# The Washington Post

Tuesday, September 23, 2008

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## CHAIN REACTION

# Currency's Dive Points to Further Pain

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The dollar took its steepest one-day drop in years as the financial crisis eroded the nation's basic measure of value, helping to drive U.S. stocks sharply lower and the dollar-based prices of oil and gold sharply higher.

The convergence of negative sentiment came as investors focused on the uncertainties in the Bush administration's emergency plan for a massive bailout of the financial system, outlined this weekend. Indications yesterday that the administration would need more time to iron out a compromise with Congress raised questions about what the

plan will ultimately look like, even as investors tried to assess how and whether it would work.

New concerns also emerged over the toll the crisis will take on the U.S. economy, with many analysts saying the slowdown could worsen, perhaps costing more jobs and hurting consumers.

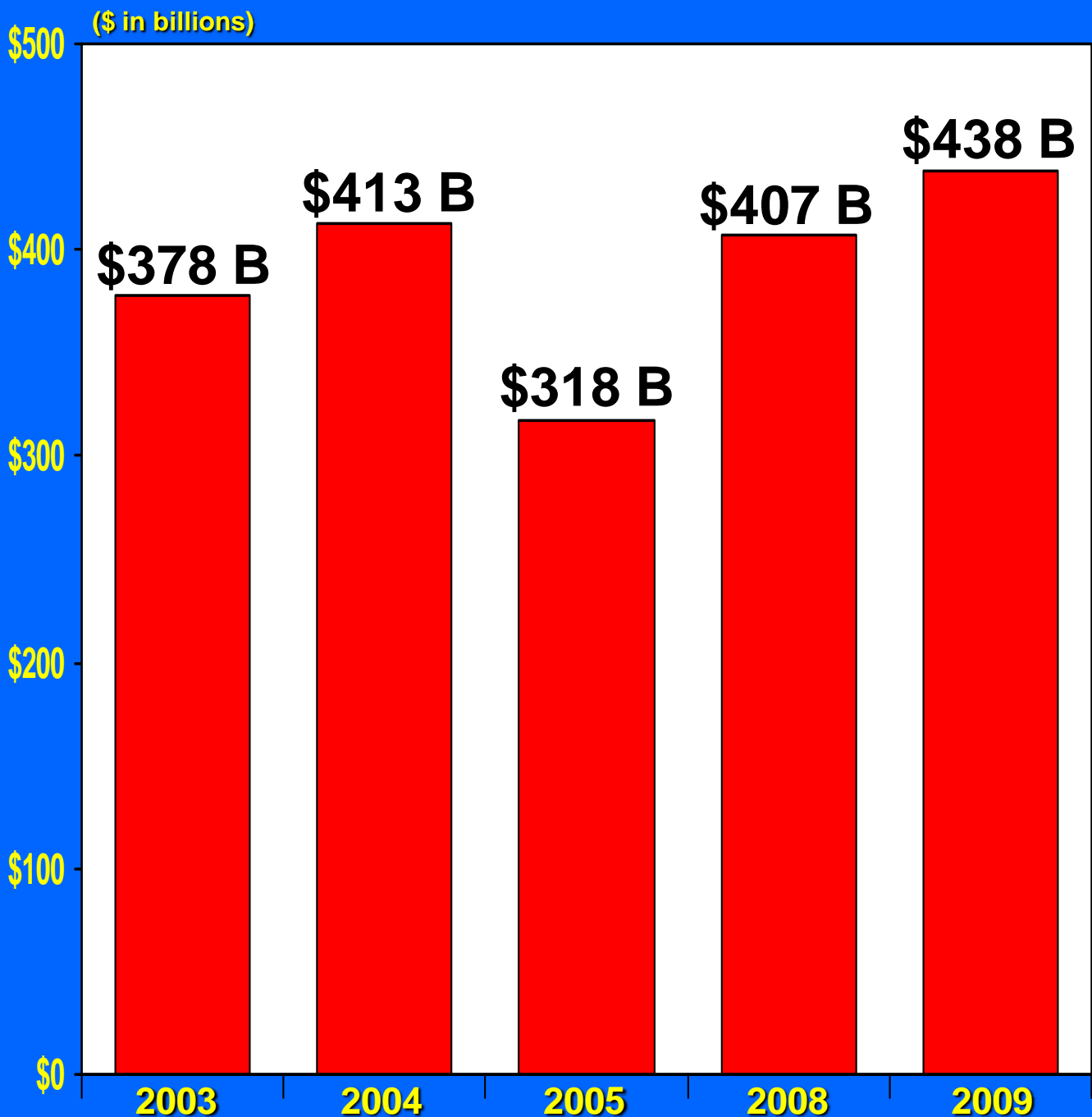
The government's plan to spend up to \$700 billion to take troubled assets off the books of ailing firms and billions more to guarantee money-market mutual funds will force the Treasury to add to the already massive national debt. It may have to raise that money by selling more Treasury bills and perhaps even printing more dollars. That, economists said, could trigger higher inflation and drag

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See **DOLLAR**, A8, Col. 1

# Five Highest Deficits in U.S. History

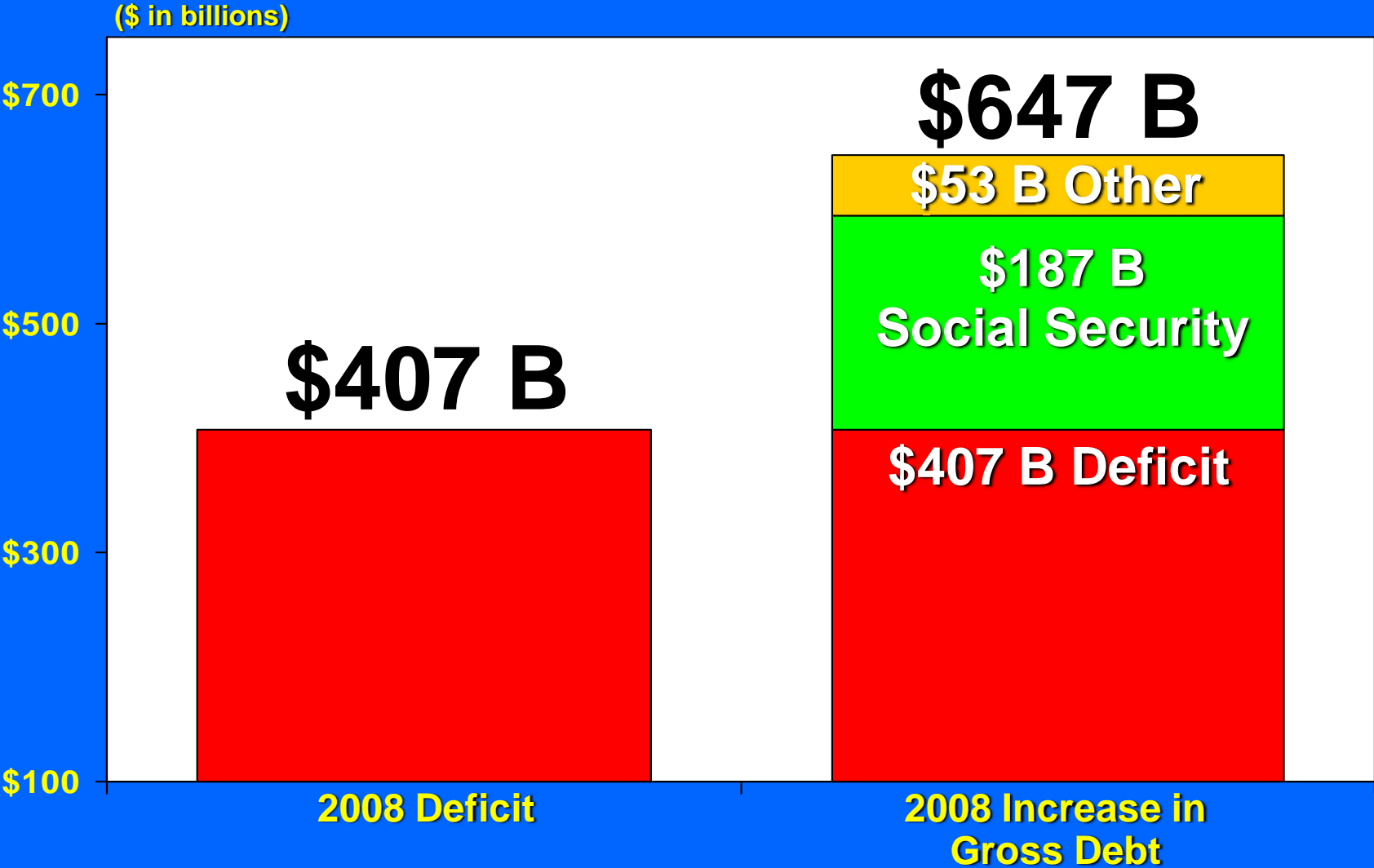
*All Under President Bush*



Source: OMB

Note: 2008 and 2009 deficits projected in CBO Summer Budget Update

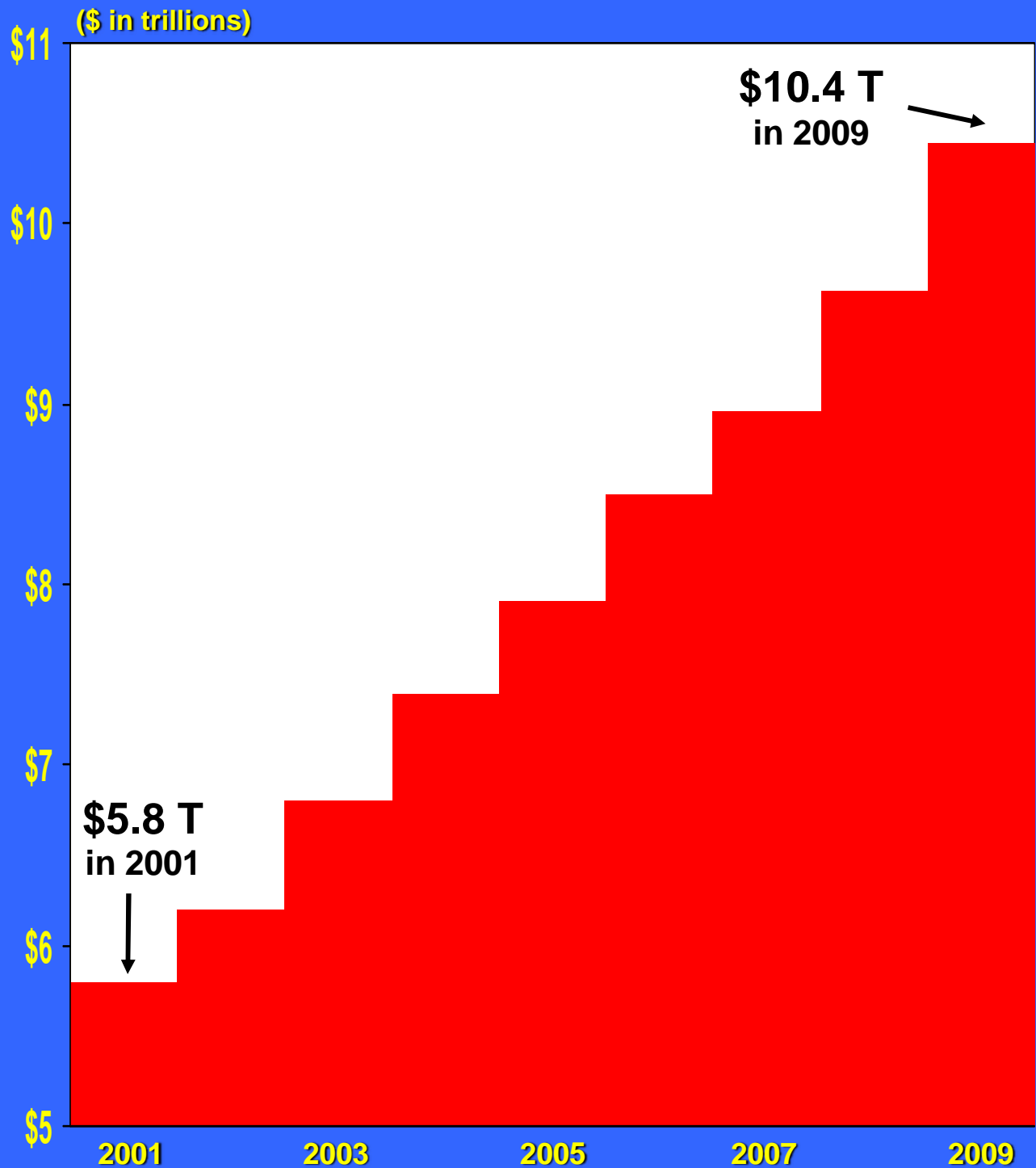
# Increase in Debt in 2008 is Far Greater Than the \$407 Billion Deficit



Source: CBO, SBC  
Note: 2008 estimate from CBO Budget and Economic Outlook: An Update.

# Building a Wall of Debt

## Gross Federal Debt Soars



Source: CBO

Note: 2008-2009 estimates from CBO Budget and Economic Outlook: An Update, adjusted to include cost of AMT reform, realistic war costs, and associated interest costs.

# The New York Times

SUNDAY, SEPTEMBER 21, 2008

## **ADMINISTRATION IS SEEKING \$700 BILLION FOR WALL ST.; BAILOUT COULD SET RECORD**

### **GOES TO CONGRESS**

#### **Treasury Would Face Few Restrictions on Buying Bad Debt**

WASHINGTON — The Bush administration on Saturday formally proposed a vast bailout of financial institutions in the United States, requesting unfettered authority for the Treasury Department to buy up to \$700 billion in distressed mortgage-related assets from the private firms.

The proposal, not quite three pages long, was stunning for its stark simplicity. It would raise the national debt ceiling to \$11.3 trillion. And it would place no restrictions on the administration other than requiring semiannual reports to Congress, granting the Treasury secretary unprecedented power to buy and resell mortgage debt.

“This is a big package, because it was a big problem,” President Bush said Saturday at a White House news conference, after meeting with President Álvaro Uribe of Colombia. “I will tell our

citizens and continue to remind them that the risk of doing nothing far outweighs the risk of the package, and that, over time, we’re going to get a lot of the money back.”

After a week of stomach-flipping turmoil in the financial system, and with officials still on edge about how global markets will respond, the delivery of the administration’s plan set the stage for a four-day brawl in Congress. Democratic leaders have pledged to approve a bill but say it must also include tangible help for ordinary Americans in the form of an economic stimulus package.

Staff members from Treasury and the House Financial Services and Senate banking committees

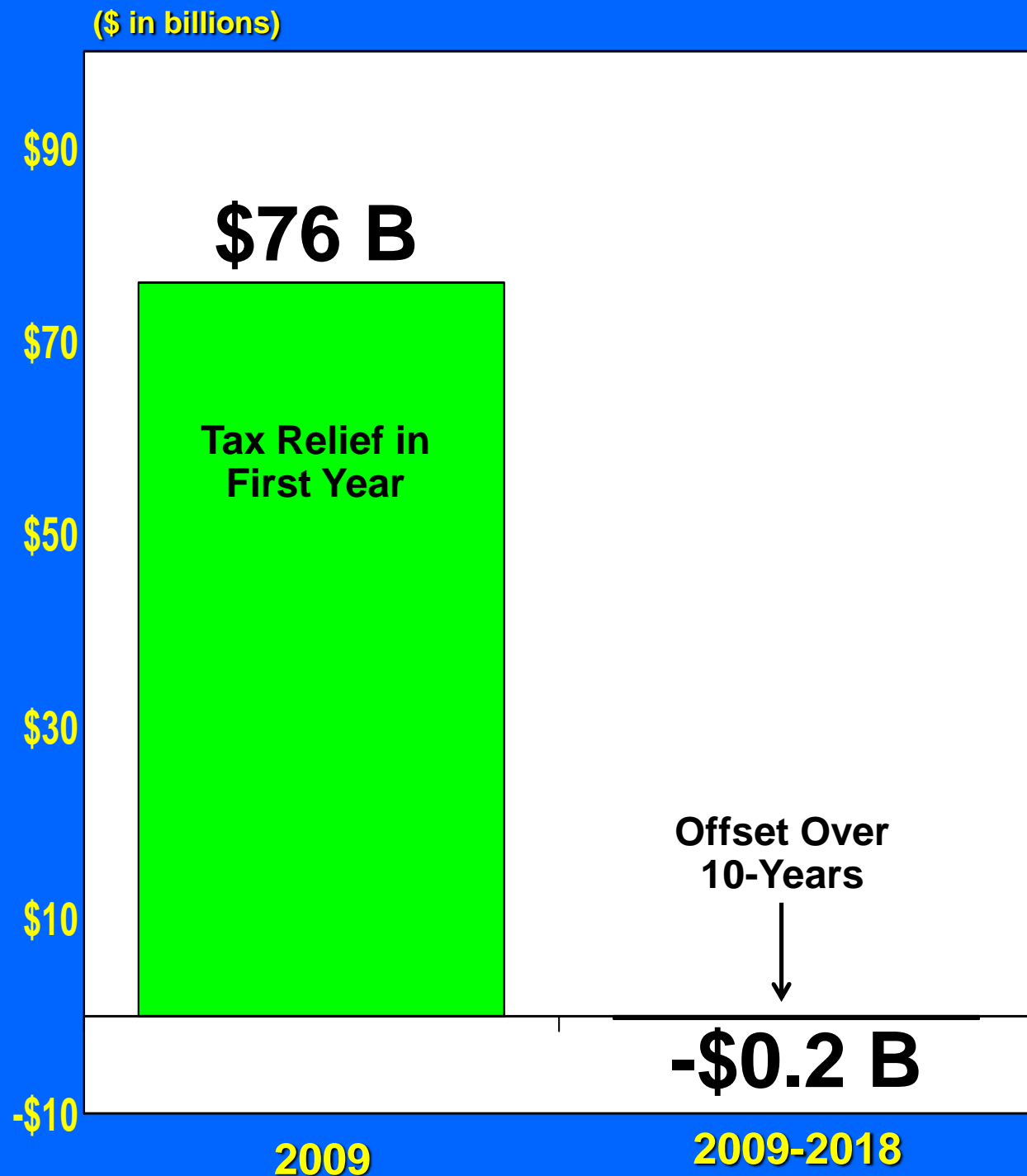
*Continued on Page 19*

# Former Fed Chairman Greenspan Reiterates Opposition to Deficit-Financed Tax Cuts

“...[U]nless [tax cuts are] paid for on the so-called pay-go, I’m not in favor of it. I’m not in favor of financing tax cuts with borrowed money.”

–Former Federal Reserve Chairman  
Alan Greenspan  
On Bloomberg Television’s Political Capital  
with Al Hunt  
September 12, 2008

# AMT Amendment Provides Tax Relief in First Year, But Paid for Gradually Over Ten Years

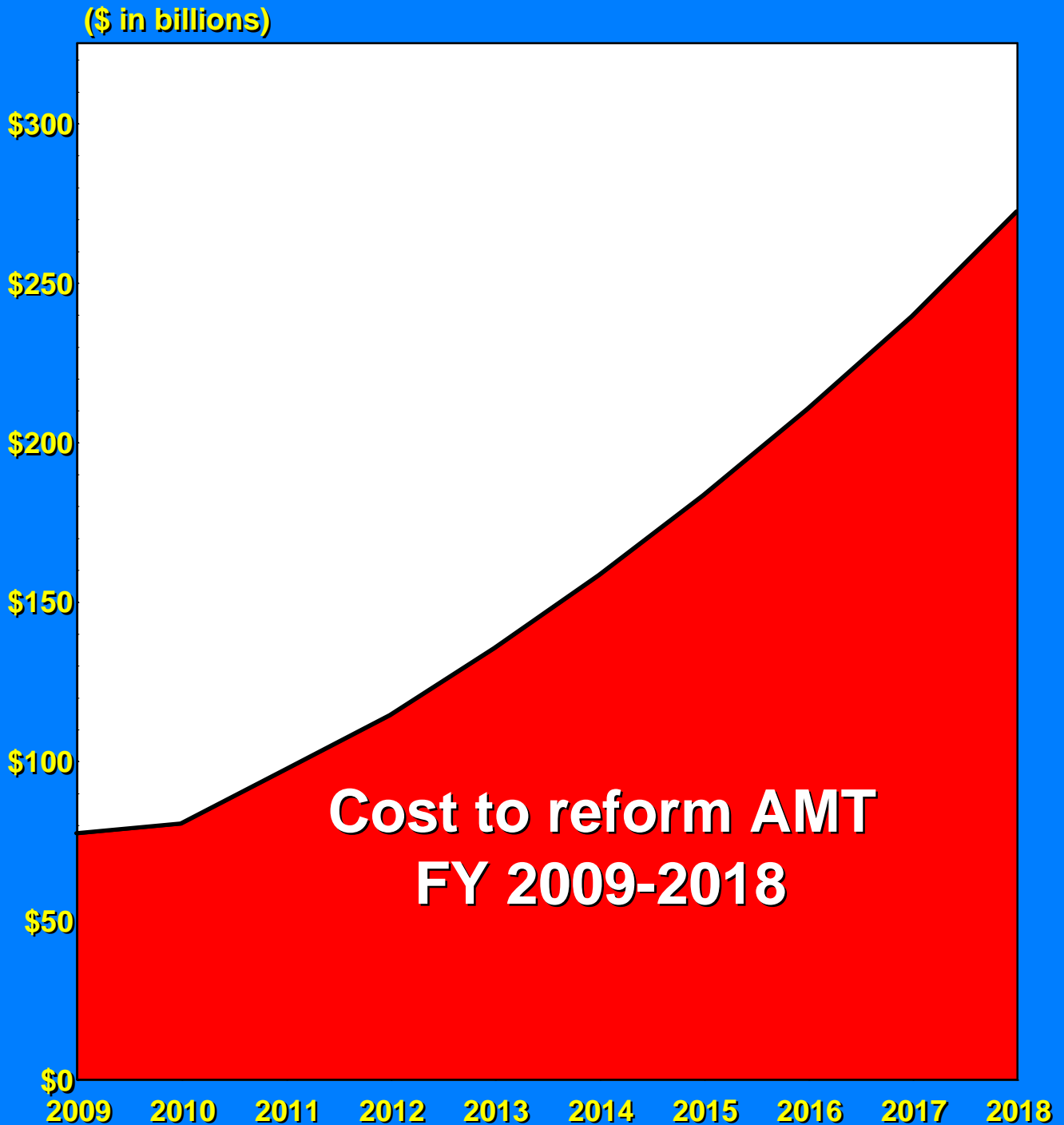


# **Proposed Loophole Closers to Pay for AMT Relief**

- **Ending deferral of offshore compensation by hedge fund managers trying to evade current taxation**
- **Delaying implementation of new worldwide interest allocation provision designed to benefit some multinational corporations**
- **Correcting underpayment of royalties for oil and gas production on federal land in Outer Continental Shelf**
- **Codifying economic substance – prohibiting transactions with no economic rationale, done solely to evade taxes**



# \$1.6 Trillion Ten-Year Cost to Reform AMT

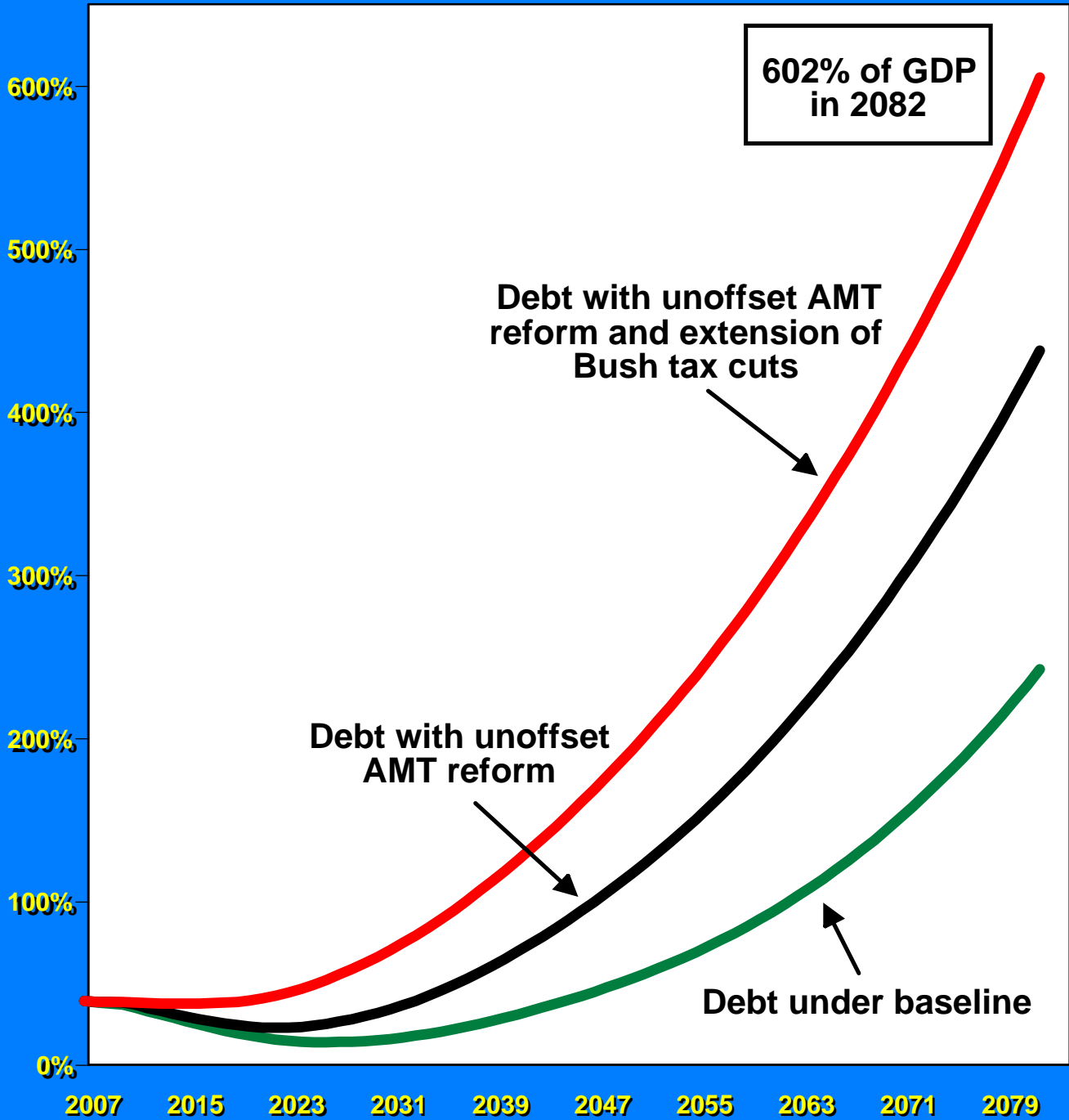


Source: CBO

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

# Debt Explodes to Unsustainable Level if AMT Reform and Bush Tax Cuts Are Not Paid For

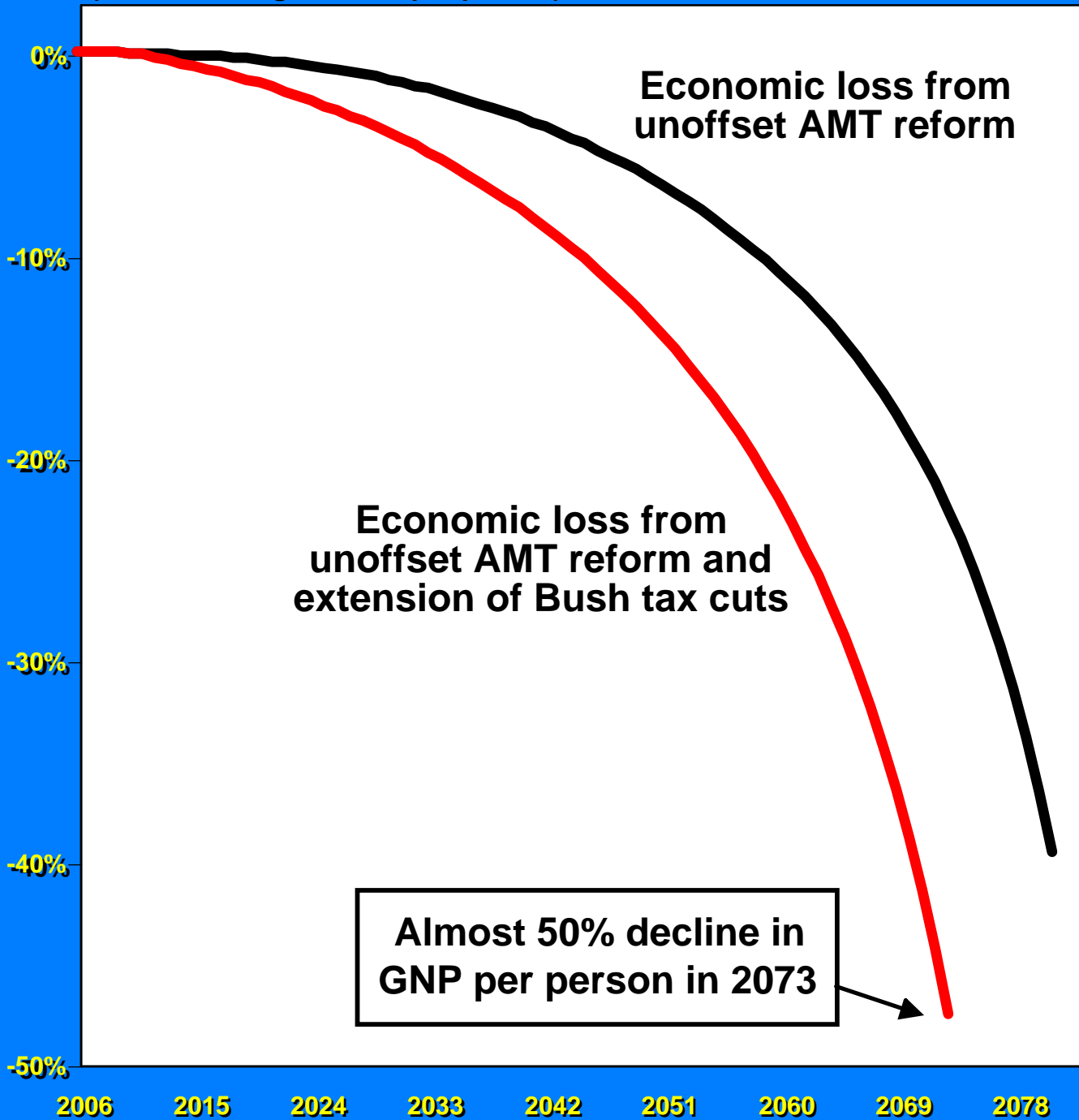
(Federal debt held by the public as a percent of GDP)



Source: CBO

# Failure to Pay for AMT Reform and Bush Tax Cuts Significantly Weakens Economic Growth

(Percent change in GNP per person)



Source: CBO

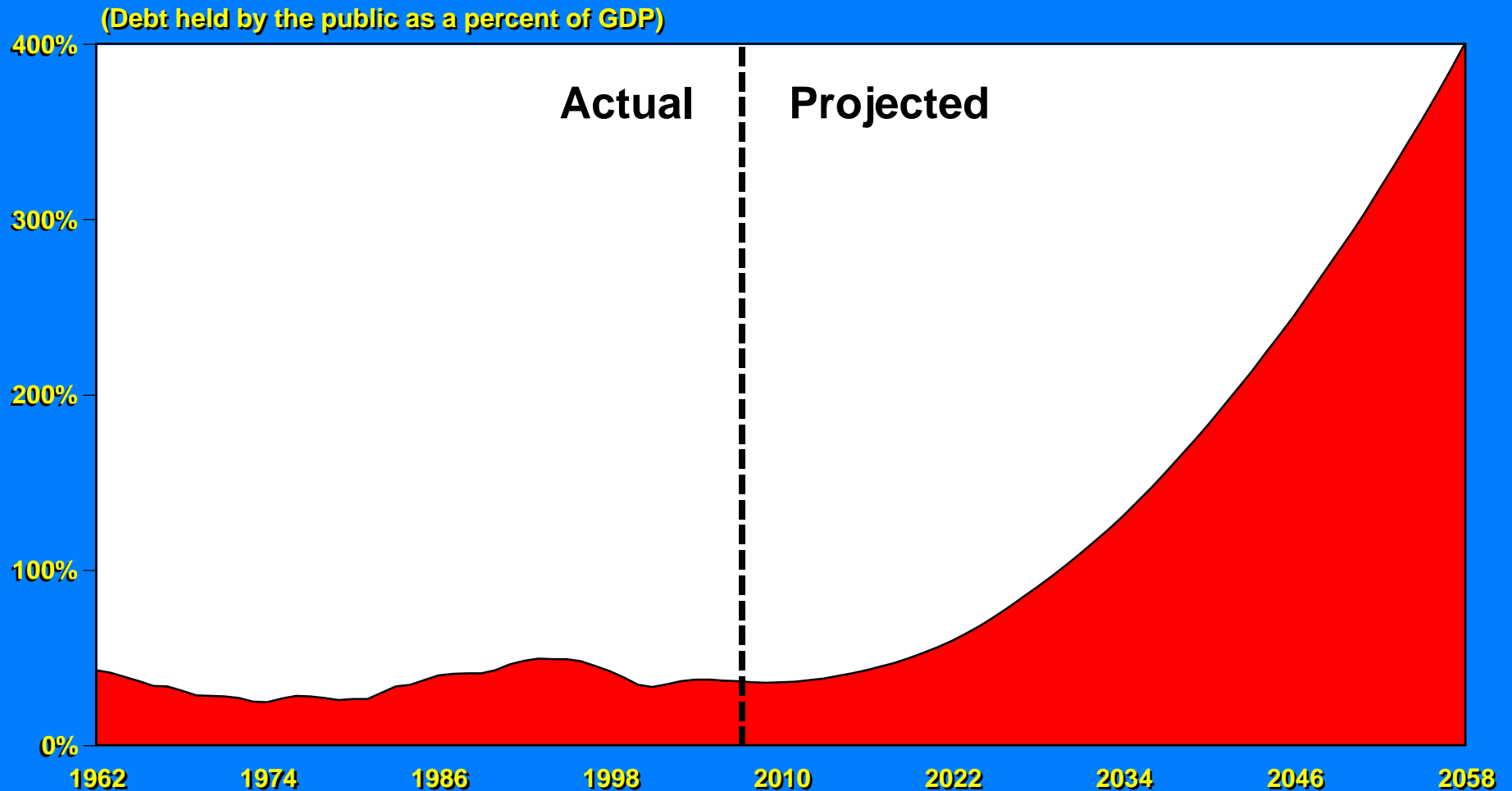
Note: The figure shows the effects on real (inflation-adjusted) gross national product (GNP) per person of financing the tax reductions with deficits compared with financing them from the start with a balanced mix of other policy changes that did not increase the deficit. The analysis relies on CBO's textbook growth model.

# **CBO Expects Economic Disruption From Deficits and Debt to be Far Worse Than Models Suggest**

**“Despite the substantial economic costs generated by deficits in that model, such estimates may significantly understate the potential loss to economic growth from financing the tax changes with deficits.... In reality, the economic effects of rapidly growing debt would probably be much more disorderly and could occur well before the time frame indicated in the scenario.”**

**– Congressional Budget Office Letter to  
Senate Budget Committee Chairman  
Kent Conrad (D-ND)  
July 17, 2008**

# Federal Debt Soars Under CBO Long-Term Budget Scenario



Source: CBO Long-Term Budget Outlook, December 2007

Note: CBO alternative fiscal scenario with tax cuts made permanent, AMT indexed for inflation, and Medicare physician payments growing with higher MEI rate.