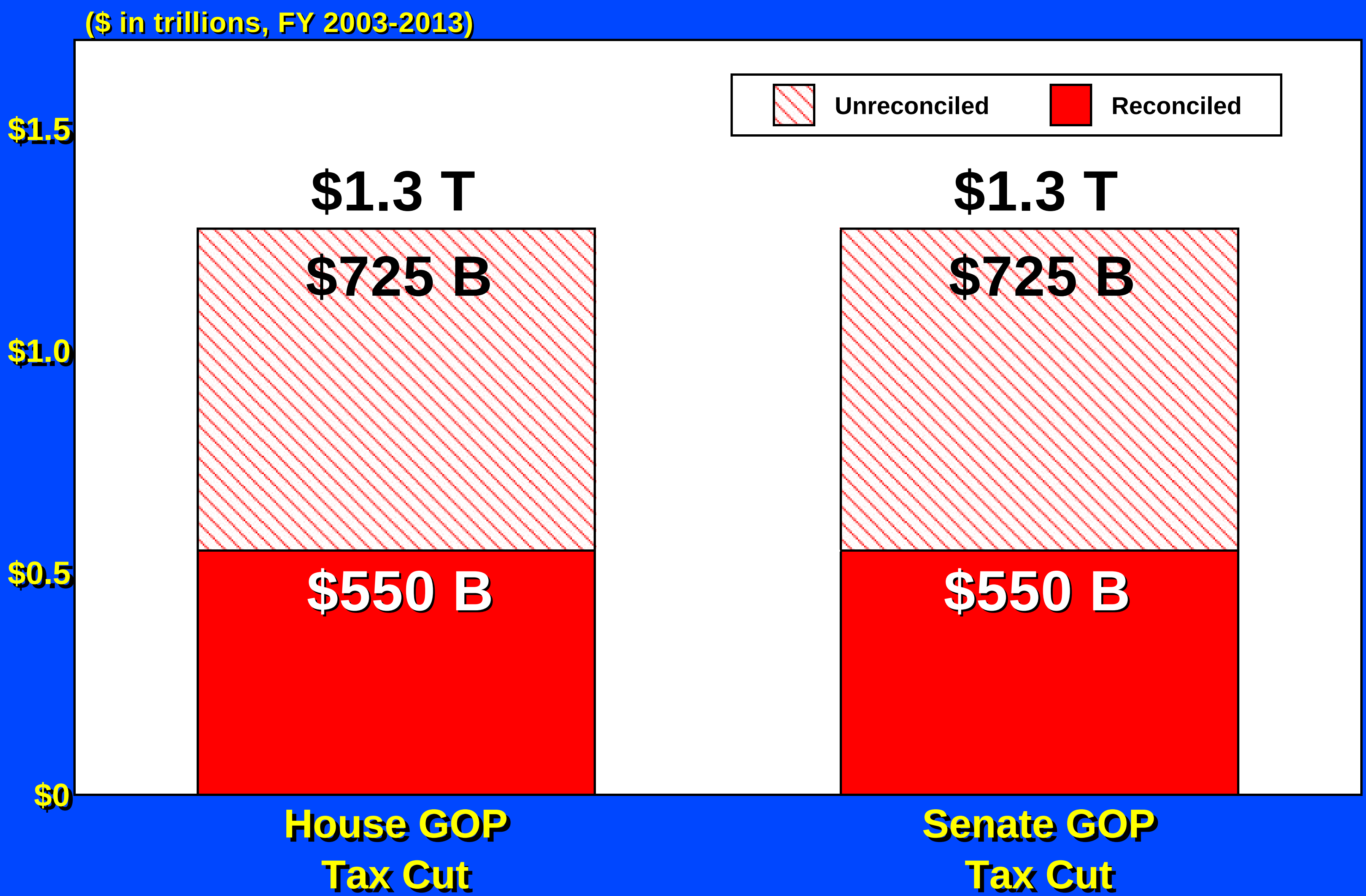
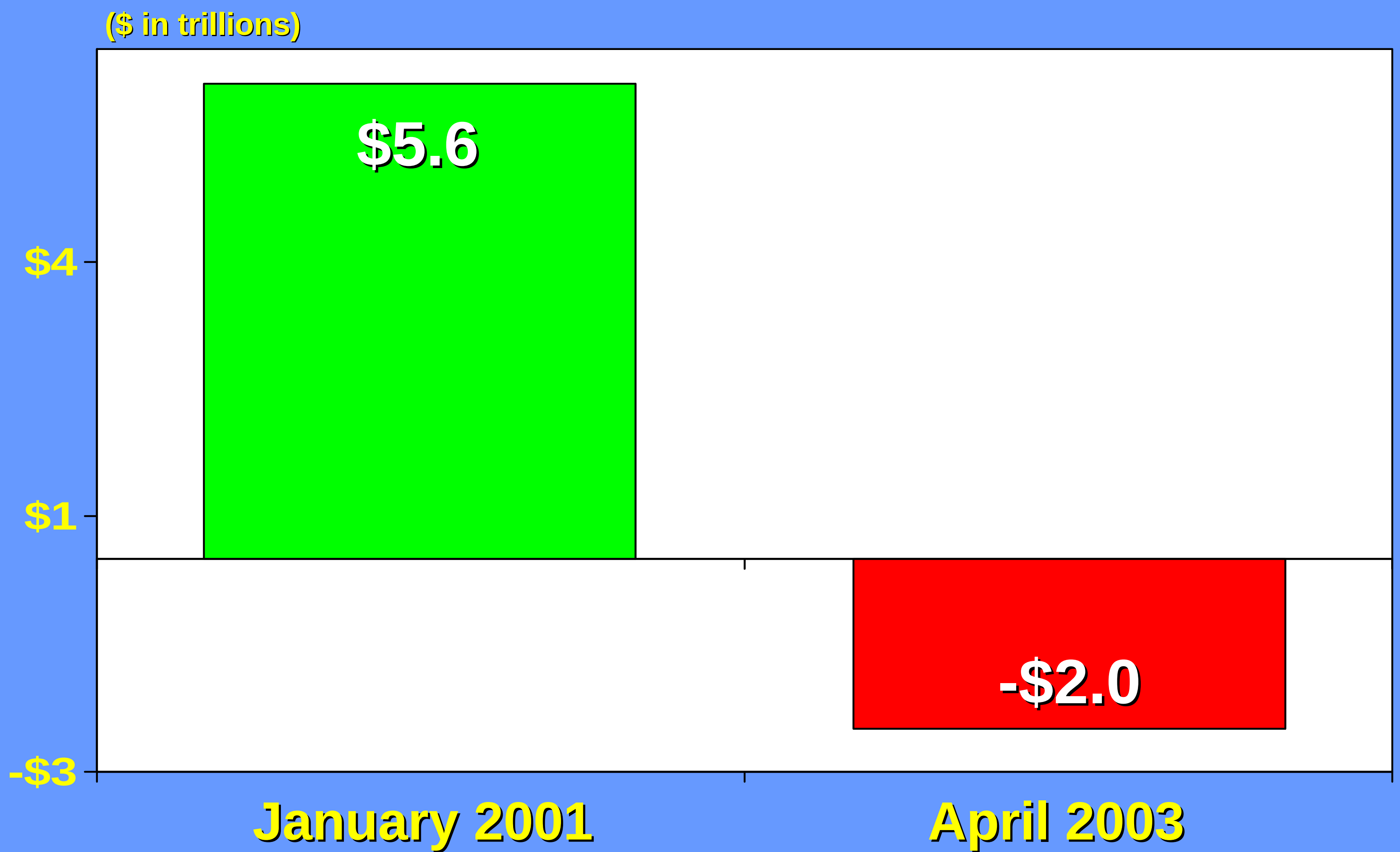
GOP Budget Agreement on Tax Cuts



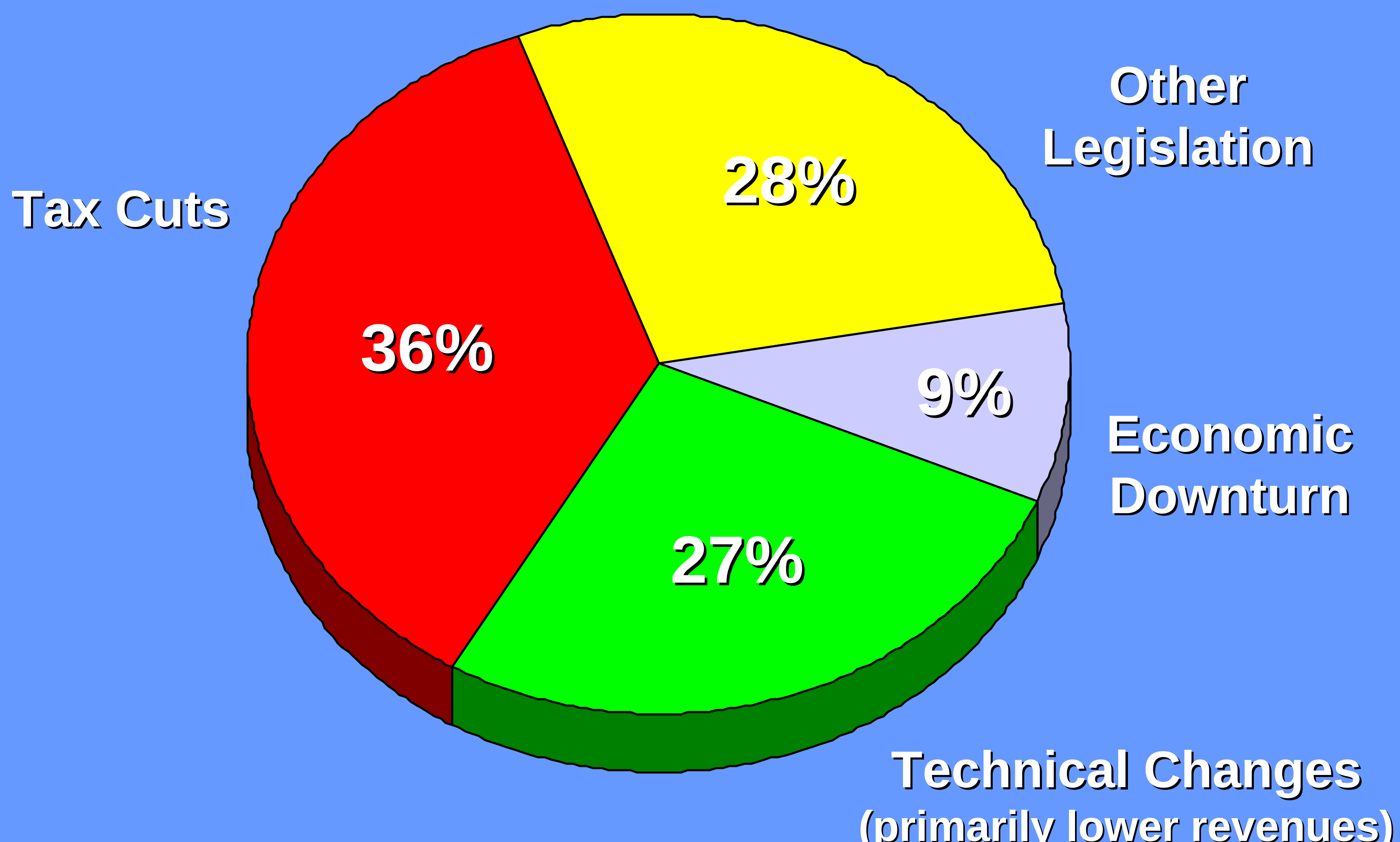
Source: Senate Budget Committee

Unified Surplus Disappears Under GOP Budget Policies
Nearly $7.6 Trillion Reversal in 2 Years
(FY 2002-2011)



Source: January 2001 - CBO January 2001 baseline
April 2003 - GOP FY 2004 Budget Conference Report

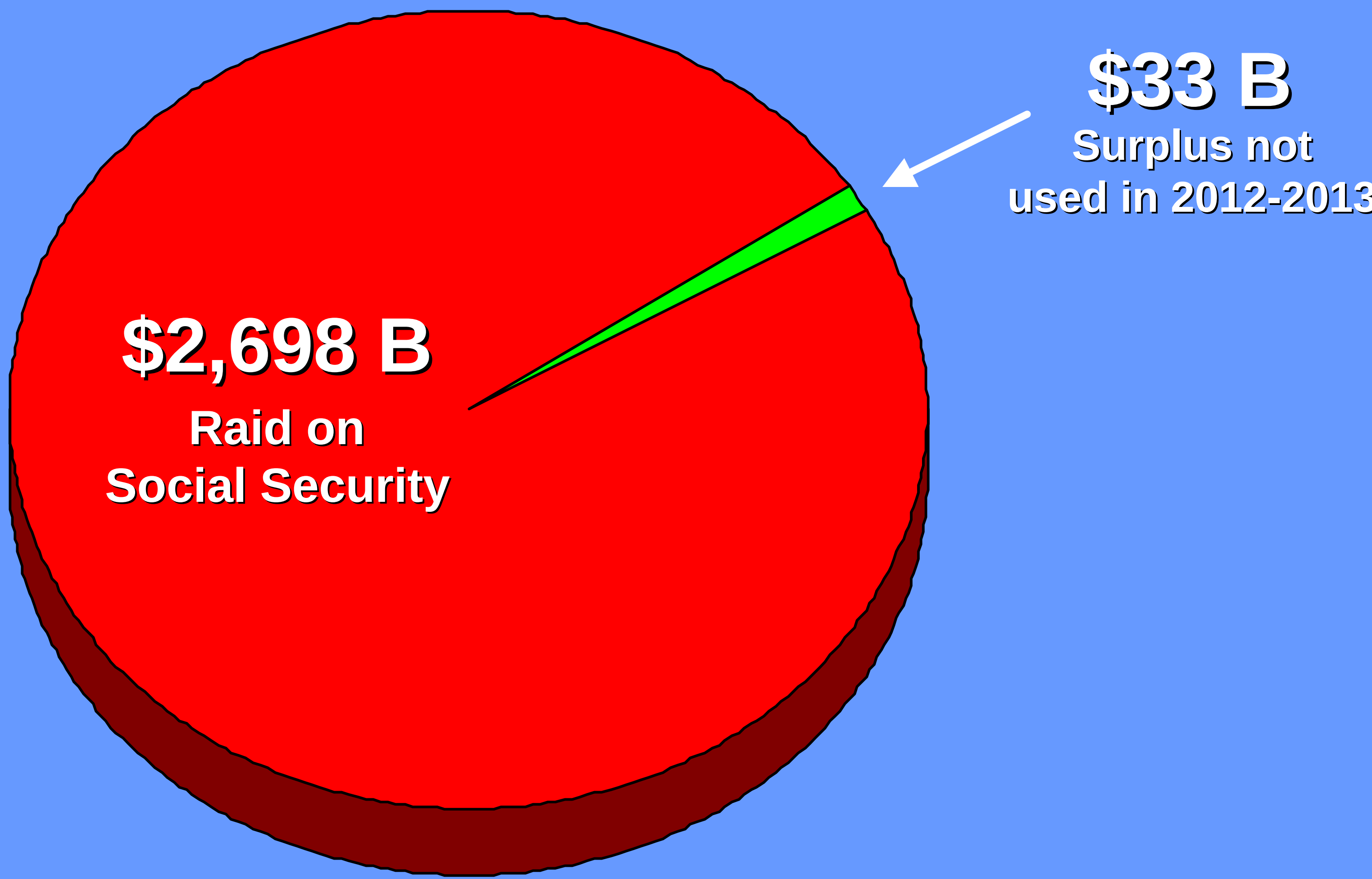
Reasons for $7.6 Trillion Reversal in Surplus Projections FY 2002-2011



Note: Reflects changes in projections from January 2001
to March 2003, including GOP budget policies
Source: CBO and FY 2004 GOP Budget Conference Report

Raid on Social Security in GOP Budget Conference Report

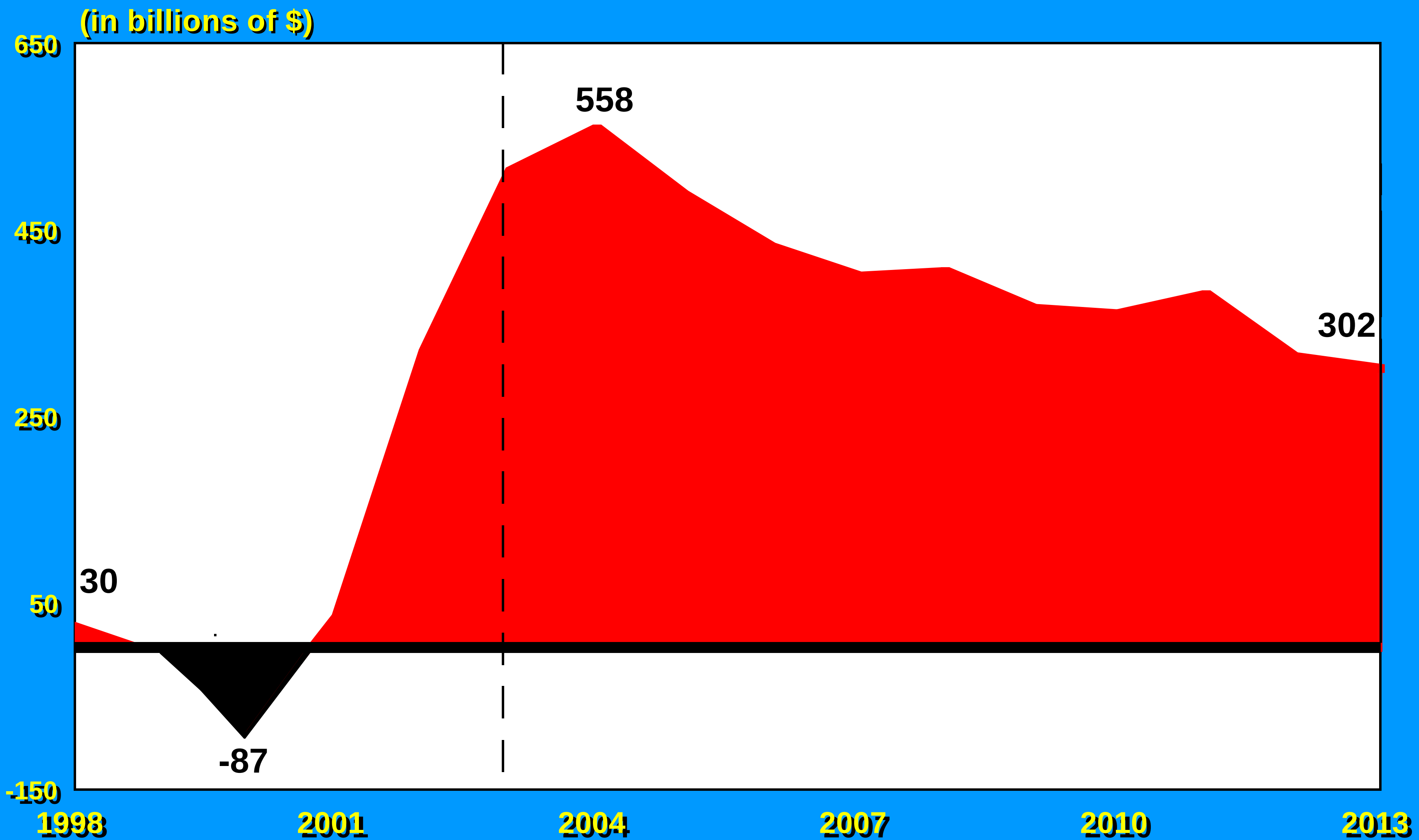
(FY 2003-2013; $ billions)



Source: Conference Report on FY 2004 Budget Resolution

Skyrocketing Deficits Under GOP Budget Conference Report

(Without Social Security)



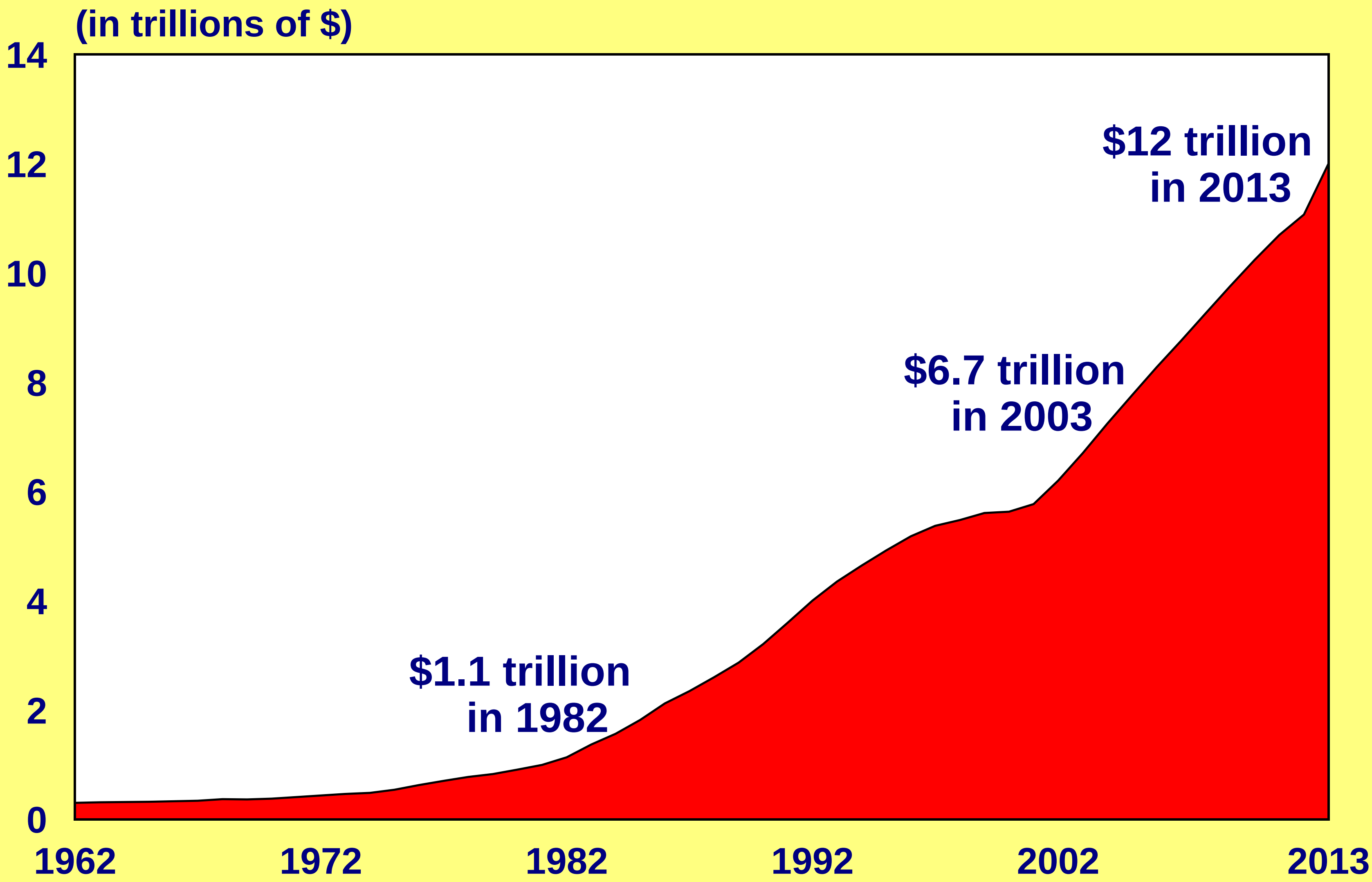
Source: CBO

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

Gross Federal Debt
Assuming Enactment of GOP Budget Conference Report



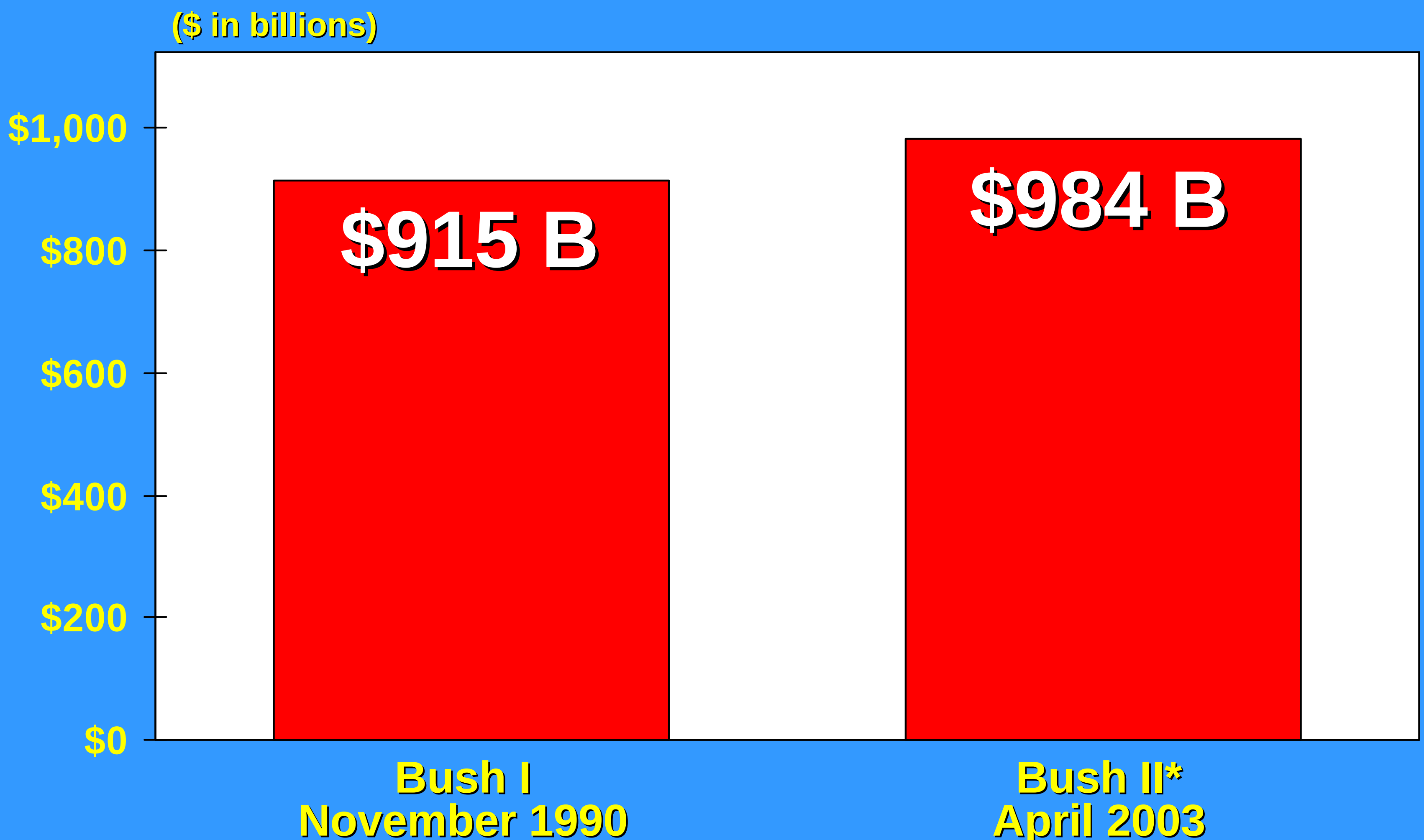
Source: CBO, Senate Budget Committee

President Bush Promises to Not Pass on Problems

“This country has many challenges. We will not deny, we will not ignore, we will not pass along our problems to other Congresses, to other presidents and other generations.”

–President George W. Bush
State of the Union Address
January 28, 2003

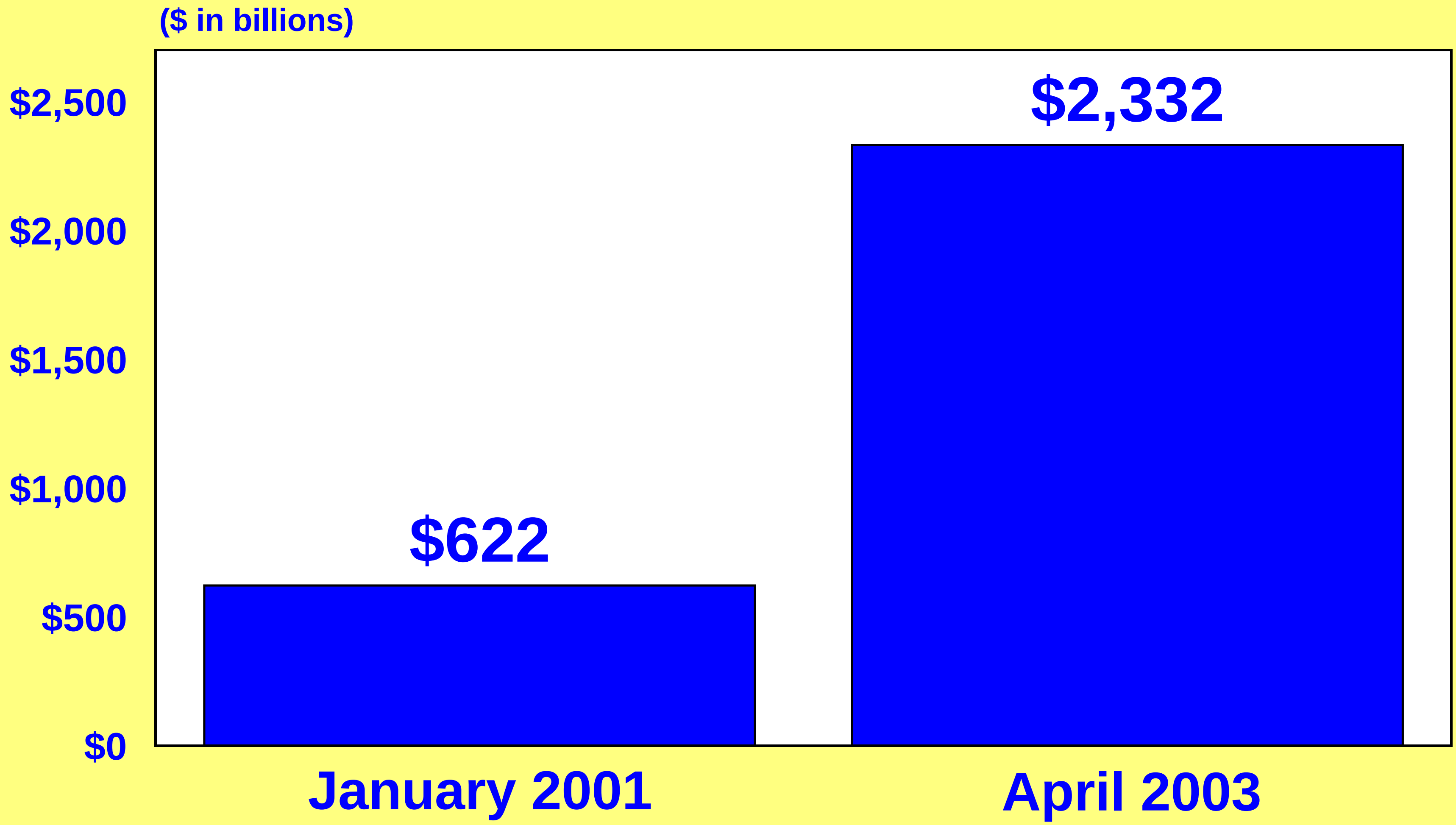
GOP Budget Conference Report Calls for Largest Debt Limit Increase Ever



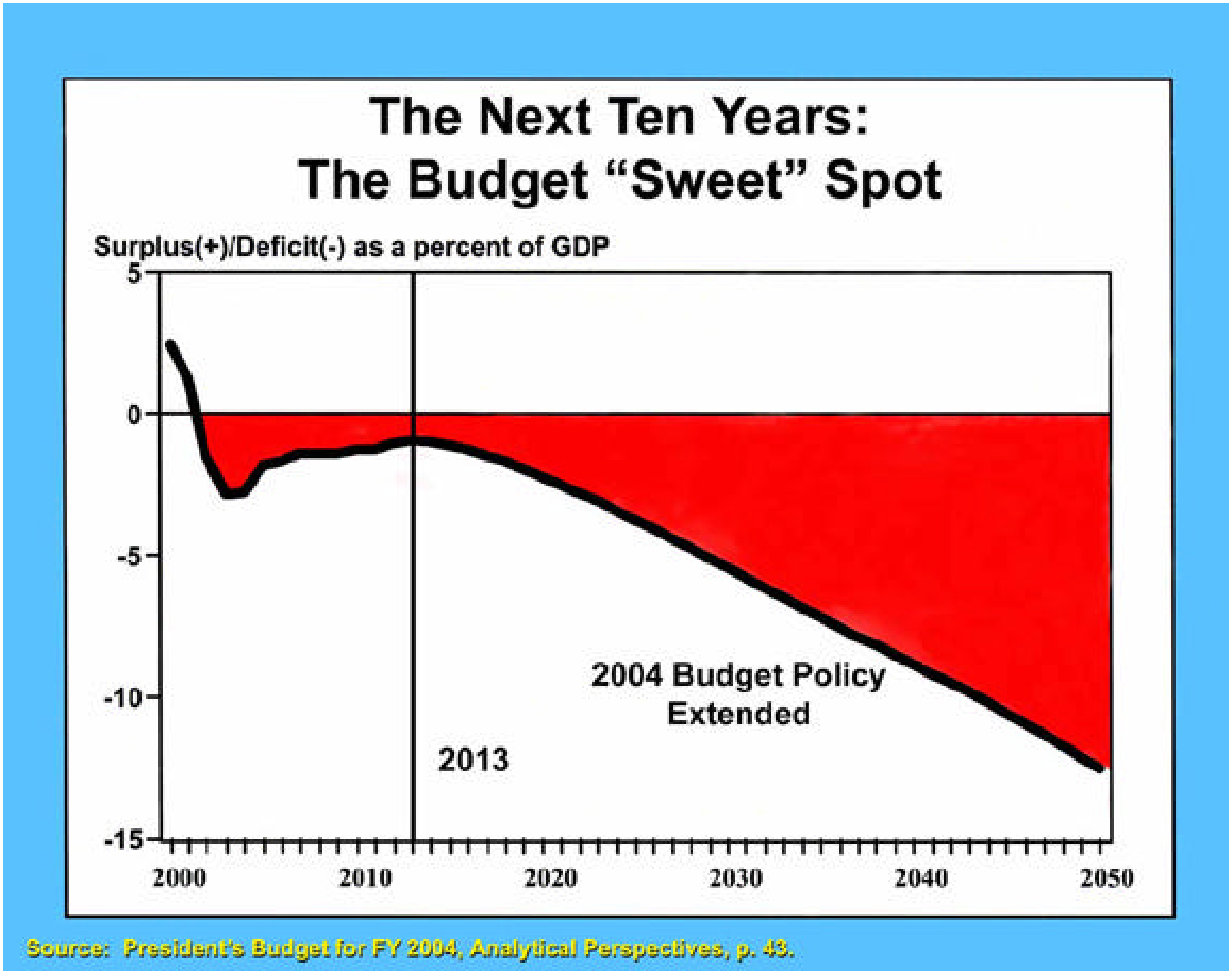
*Amount of debt limit increase automatically passed by House of Representatives as part of FY ’04 GOP Budget Conference Report

Total Federal Interest Costs Increase by $1.7 Trillion

January 2001 versus FY 2004 GOP Budget Conference Report, FY 2002-11



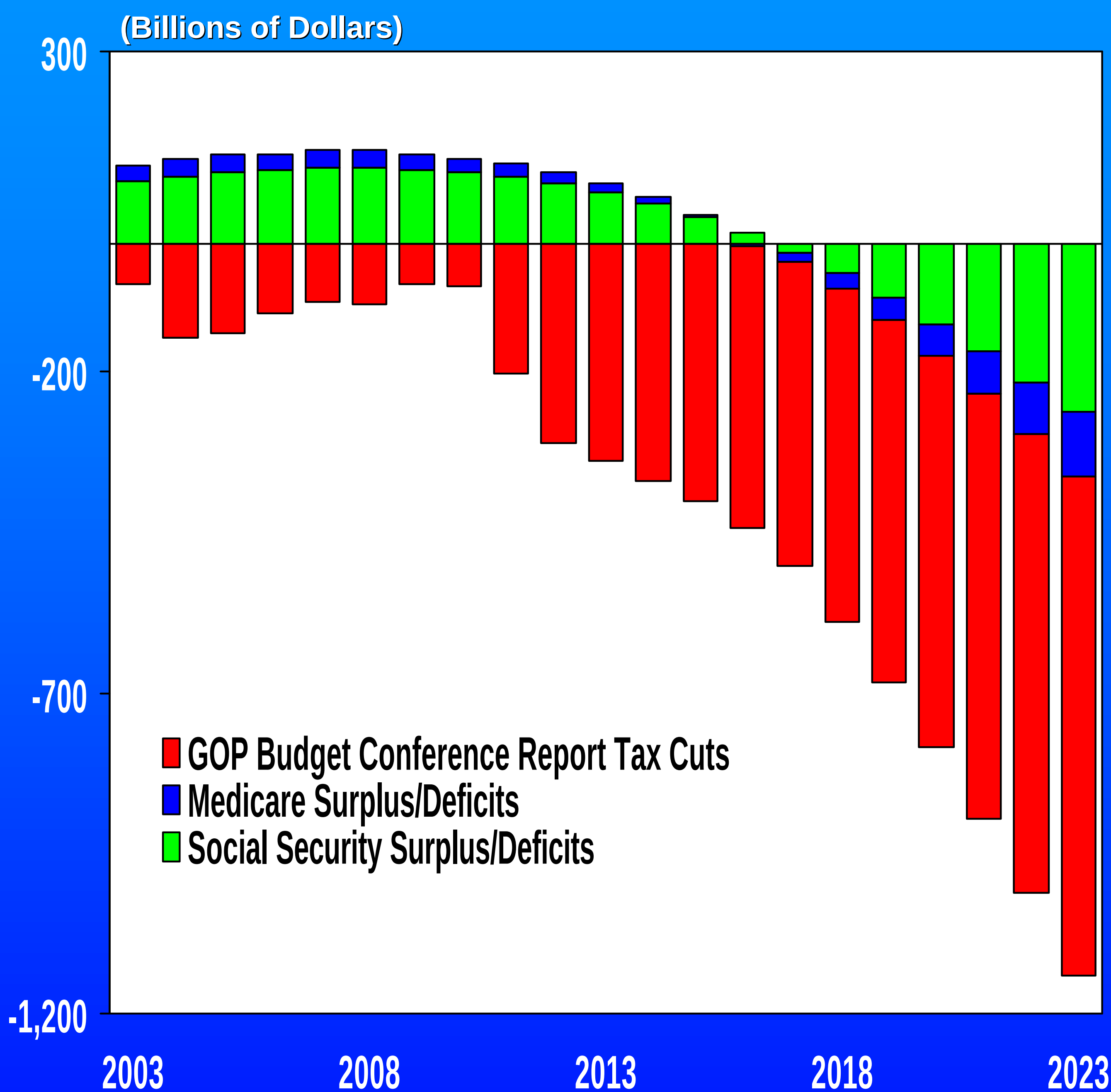
Source: CBO and Senate Budget Committee



The Next Ten Years:
The Budget "Sweet" Spot
Surplus(+)/Deficit(-) as a percent of GDP
5
0
-5
-10
-15
2000
2010
2020
2030
2040
2050
2004 Budget Policy
Extended
2013
Source: President's Budget for FY 2004, Analytical Perspectives, p. 43.

Tax Cuts Explode as Trust Fund Cash Surpluses Become Deficits

FY 2003-2023



Source: 2002 Trustees Report, CBO, and Senate Budget Committee Staff

Note: Tax cut includes associated interest costs.

Fed Chairman Alan Greenspan Believes Deficits Matter

"There is no question that as deficits go up, contrary to what some have said, it does affect long-term interest rates. It does have a negative impact on the economy, unless attended."

–Testimony before the Senate Banking Committee
February 11, 2003

Committee for Economic Development (CED) – Findings –

- Current budget projections seriously understate the problem.
- While slower economic growth has caused much of the immediate deterioration in the deficit, the deficits in later years reflect our tax and spending choices.
- Deficits <u>do</u> matter.
- The aging of our population compounds the problem.

Source: CED Policy Statement, "Exploding Deficits, Declining Growth: The Federal Budget and the Aging of America," March 2003

The New York Times

WEDNESDAY, APRIL 9, 2003

No New Tax Cuts

Paul Sahre

By Bob Kerrey, Sam Nunn, Peter G. Peterson, Robert E. Rubin, Warren B. Rudman and Paul A. Volcker

With a war in Iraq and looming post-war costs, growing pressures for a prescription drug benefit, increased expenses for domestic security and a ballooning budget deficit, Congress must exercise restraint on both revenues and spending to prevent fiscal policy from spiraling out of control. The consensus in favor of long-term budget balance must be re-established. This issue is now directly before Congress as it debates the federal budget.

The fiscal outlook is much worse than official projections indicate. These projections assume that the tax cuts enacted in 2001 will expire at the end of 2010. They also assume that discretionary spending, the part of the budget that pays for national defense, domestic security, education and transportation, will shrink continuously as a share of the economy. Neither of these assumptions is realistic.

Moreover, the official projections do not include the costs of war and reconstruction in Iraq. And they ignore the inevitable need to reform the alternative minimum tax, which is not indexed for inflation and will apply to some 40 million households within 10 years — up from two million today.

Under more realistic assumptions, the deficit projections are cause for alarm. A recent study by Goldman Sachs includes this forecast: if the president's proposed new tax cuts are enacted, a Medicare prescription drug benefit is approved, the A.M.T. is adjusted and appropriations grow modestly, the deficits over the next 10 years will total $4.2 trillion — even if the Social Security surplus is included. If it is not included, the deficit would be $6.7 trillion. Under these circumstances, the ratio of publicly held debt to gross domestic product climbs within 10 years to nearly 50 percent, from 33 percent just two years ago.

Bob Kerrey, Sam Nunn and Warren B. Rudman are former senators. Peter G. Peterson and Robert E. Rubin are former cabinet secretaries. Paul A. Volcker is former chairman of the Federal Reserve. All are members of the Concord Coalition, a group that focuses on federal budget policy.

And all of this happens before the fiscal going gets tough. Looming at the end of the decade is a demographic transformation that threatens to swamp the budget and the economy with unfunded benefit promises, like Social Security and Medicare, of roughly $25 trillion in present value. Our children and grandchildren already face unthinkable payroll tax burdens that could go as high as 33 percent to pay for these promised benefits. It is neither fiscally nor morally responsible to give ourselves tax cuts and leave future generations with an even higher tax burden.

Will Congress stand up for fiscal responsibility?

And yet tax cuts are the primary focus of this year's budget debate. To speed enactment of tax cuts, Congress is planning to use a special fast-track procedure called "reconciliation" in the budget resolution. While determining the size of the tax cut to be given fast-track protection in the budget is sometimes dismissed as a procedural matter, it is not: whatever its size, a tax cut that receives this protection is almost certain to be enacted in the later tax legislation. Members of Congress should not therefore approach the budget decision with the idea that a tax cut given such status now can be easily scaled back later.

The president has proposed a cut of $726 billion, which the House has already approved. The Senate has reduced the cut to $350 billion.

Given the rapidly deteriorating long-term fiscal outlook, neither proposal is fiscally responsible. It is illogical to begin the journey back toward balanced budgets by enacting a tax cut that will only make the long-term outlook worse. Furthermore, the proposed tax cuts are not useful for short-term fiscal stimulus, since only a small portion would take effect this year. Nor would they spur long-term economic growth. In fact, tax cuts financed by perpetual deficits will eventually slow the economy.

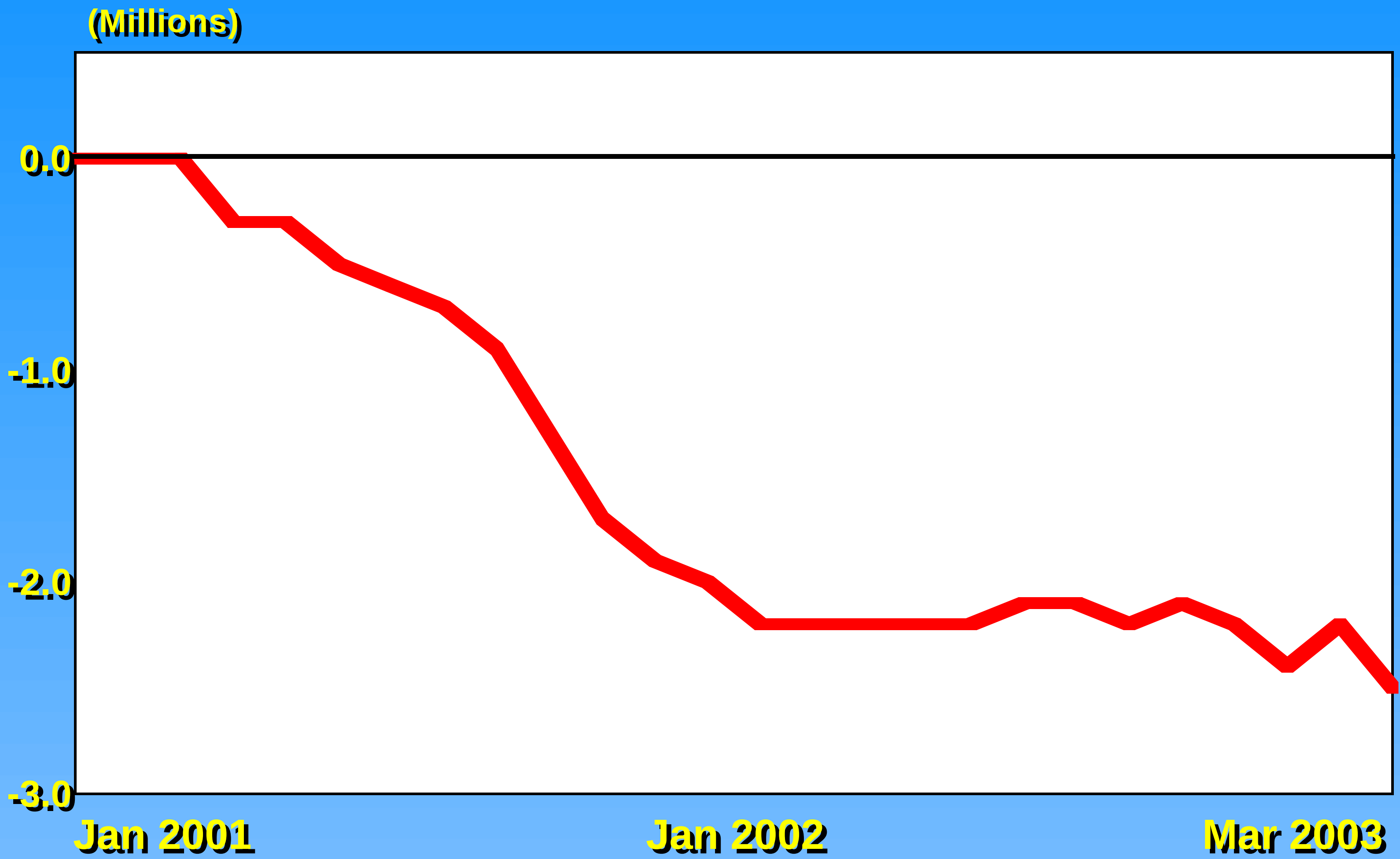
The tax cuts now before Congress do not pay for themselves. No plausible array of matching spending cuts or offsetting revenue increases has been, or will be, proposed to close the gap resulting from a large new tax cut.

We believe that there should be no new tax cuts beyond those that are likely to provide immediate fiscal stimulus, and that avoid growing revenue loss over time. If, however, Congress decides it must approve a tax cut, it should pass the Senate's. While a $350 billion tax cut does not fit our definition of fiscal responsibility, it comes closer than a tax cut of $726 billion. Moreover, Congress should reestablish the pay-as-you-go rule in which tax cuts and entitlement expansions must be offset. The discipline of this rule greatly contributed to the elimination of budget deficits in the 1990's and is clearly needed again.

Congress cannot simply conclude that deficits don't matter. Over the long term, deficits matter a great deal. They lower future economic growth by reducing the level of national savings that can be devoted to productive investments. They raise interest rates higher than they would be otherwise. They raise interest payments on the national debt. They reduce the fiscal flexibility to deal with unexpected developments. If we forget these economic consequences, we risk creating an insupportable tax burden for the next generation. □

Jobs Decline

2.6 Million Jobs Lost Since January 2001

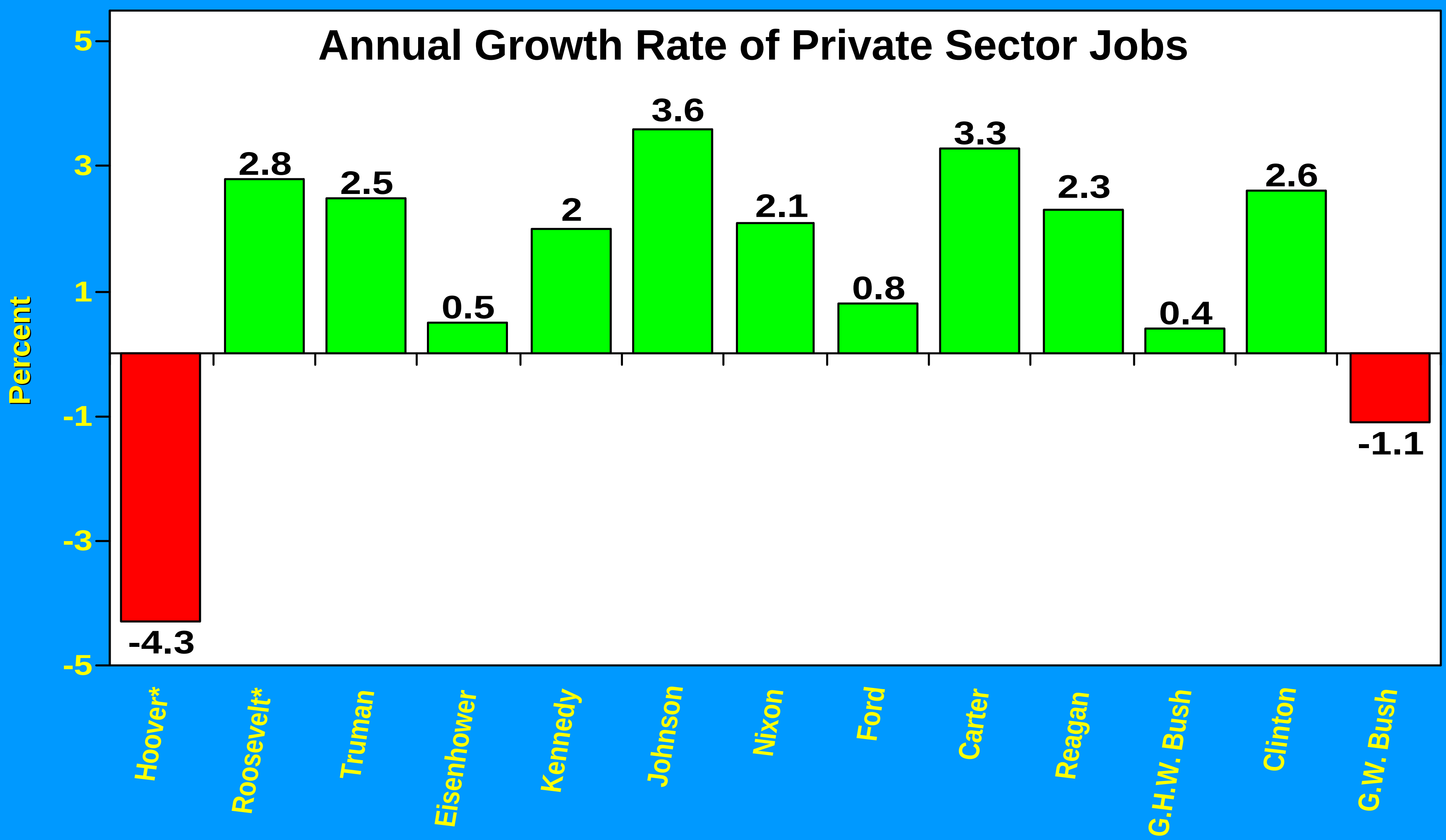


Source: Bureau of Labor Statistics

Note: Private Sector Jobs

Bush Economic Record:

First Administration to Lose Private Sector Jobs in 70 Years



*Total civilian employment

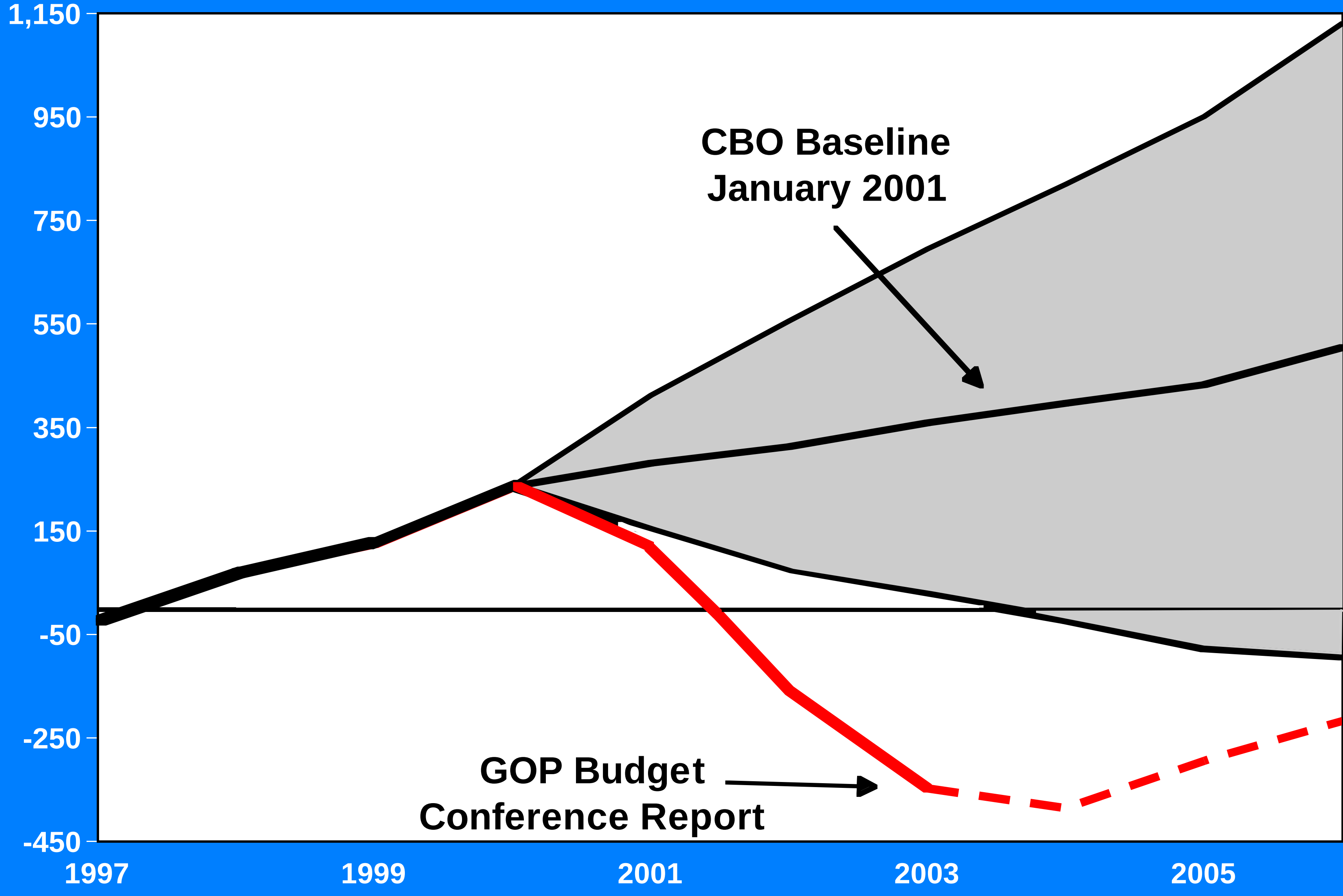
Two-Thirds of Americans Support Smaller Senate-Passed Tax Cut

"On the home front, Americans strongly agreed with the past week's Senate action to slash the president's proposed tax cut. Two in three respondents – Republicans, Democrats and independents alike – favored the Senate plan to reduce Bush's $726 billion tax cut by more than half to help pay for the war, shore up Social Security and reduce the deficit.

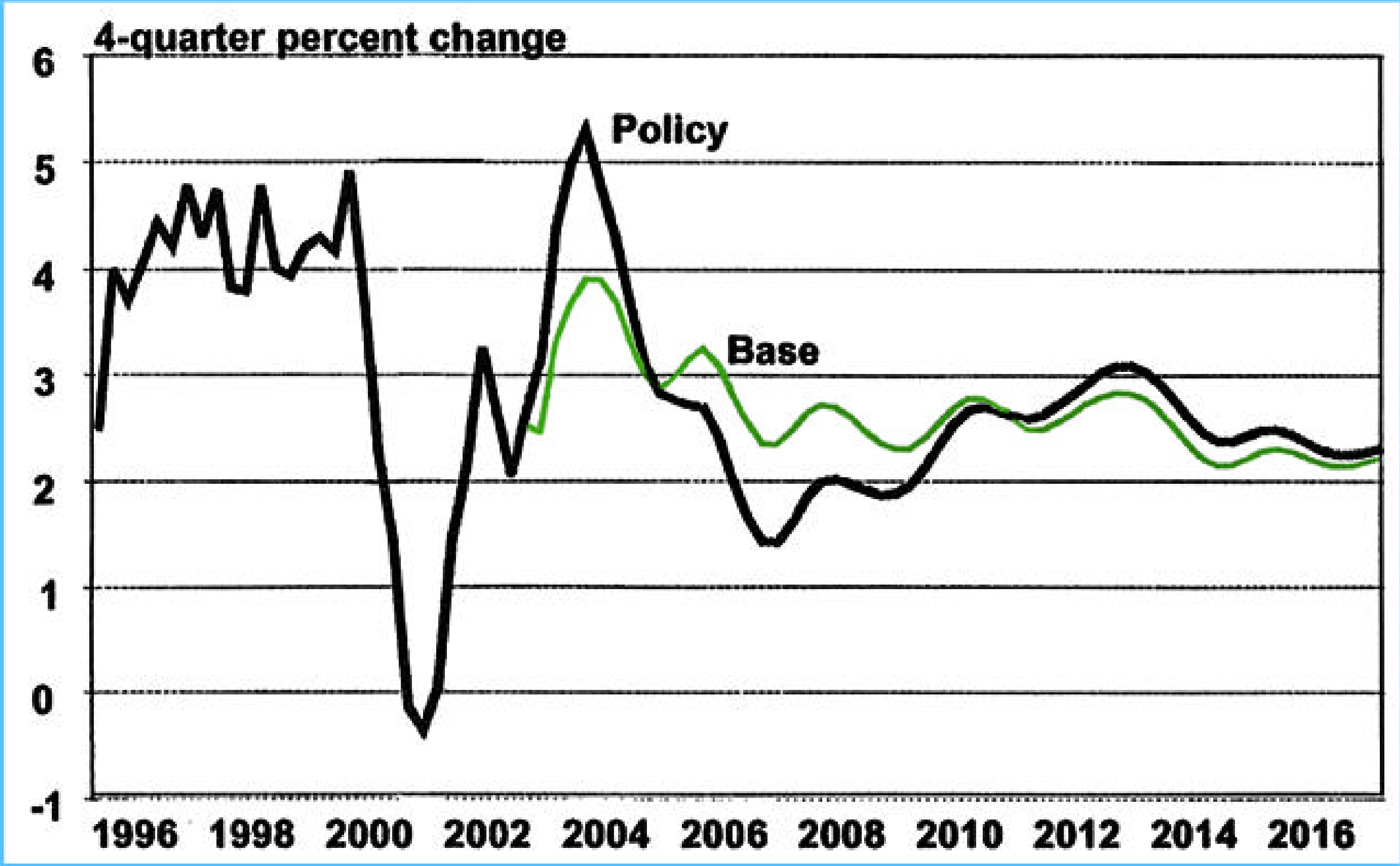
"Nearly three in 10 wanted the tax cut eliminated entirely, the poll found."

–Source: *Washington Post* article, "Support for War Is Firm, Poll Finds; On Home Front, Trimming Bush's Proposed Tax Cut Has 65 Percent Backing," March 30, 2003
Washington Post/ABC News poll

Uncertainty in Surplus Projections

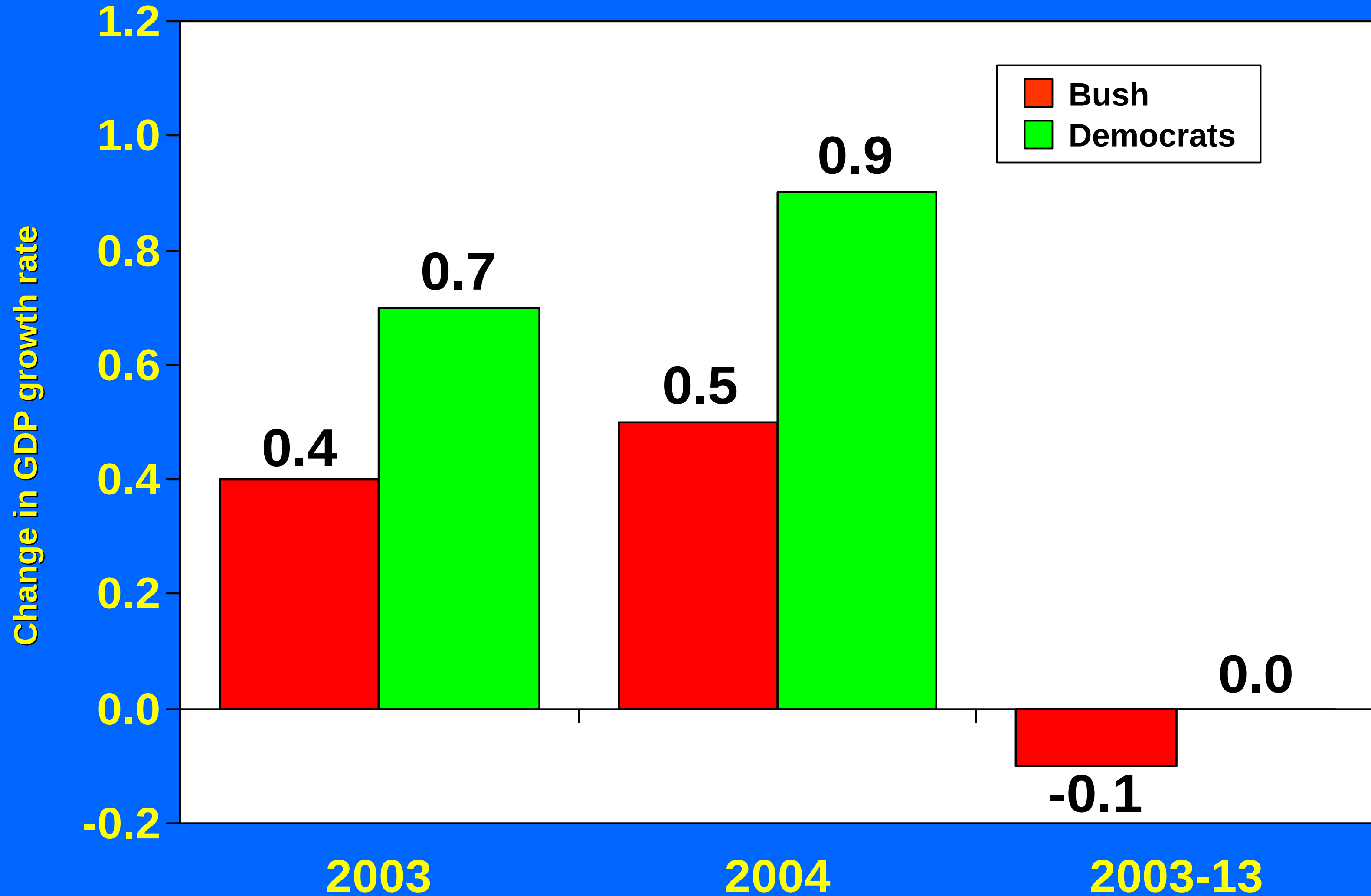


President's Plan Crowds Out Investment, Slows the Economy After 2004



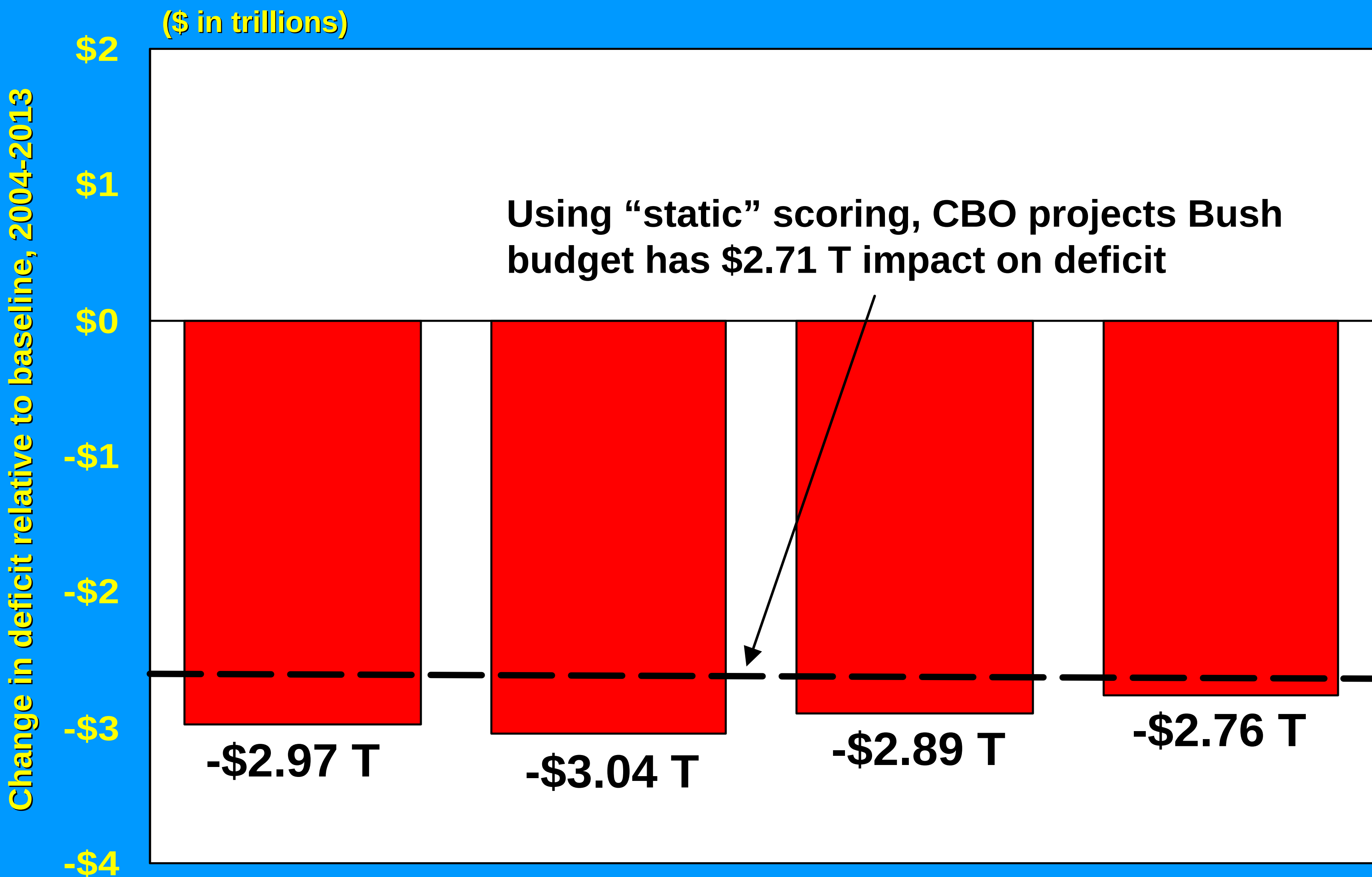
Source: Macroeconomic Advisers, LLC, January 10, 2003,
"A Preliminary Analysis of the President's Jobs and Growth Proposals"

Democratic Plan Trumps Bush Plan in Both Short and Long Term



Source: Mark Zandi, Economy.com, "The Economic Impact of the Bush and Congressional Democratic Economic Stimulus Plans", February, 2003.

Four of Seven Long-Term CBO "Dynamic" Estimates of Bush Budget Show Larger Deficits Than Under "Static" Scoring



Source: CBO