



John Spratt,
Chairman

U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON THE BUDGET

207 Cannon House Office Building, Washington, DC 20515 (202) 226-7200 ★ www.budget.house.gov

February 4, 2007

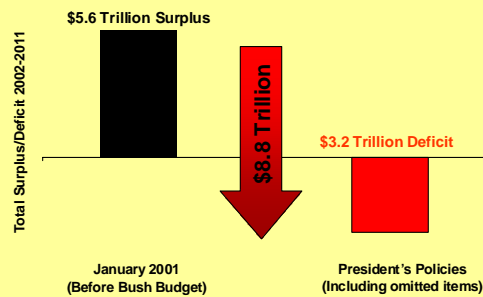
Final Bush Budget Continues Same Failed Fiscal Policies

Overview – Today’s budget continues the same failed Bush fiscal and economic legacy: large deficits, a growing burden of debt, a weakened economy, and an expensive deficit-financed tax agenda offset only in part by cuts to important services including Medicare, Medicaid, environmental protection, the Centers for Disease Control, and the Low-Income Home Energy Assistance Program (LIHEAP). Though the Administration claims its budget eventually reaches balance, under realistic assumptions it remains in deficit in every year. The Administration now shows that the 2008 deficit will be \$410 billion (the second largest in history), followed by a deficit for 2009 currently estimated to be \$407 billion (the third largest in history) but likely to grow once the full costs of Administration policies are included.

Five Biggest Deficits in American History

<u>Fiscal Year</u>	<u>Deficit</u>
2004	\$413 billion
2008	\$410 billion
2009	\$407 billion
2003	\$378 billion
2005	\$318 billion

Budget Deteriorates by \$8.8 Trillion Under Republican Policies



House Budget Committee 2/04/2008

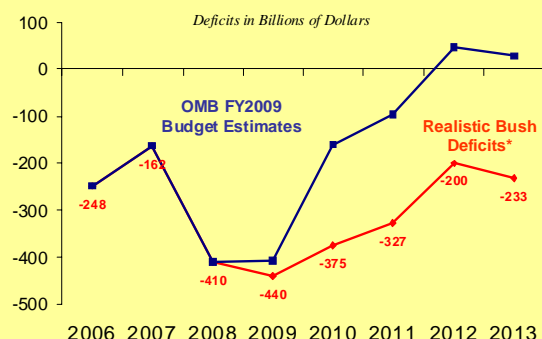
Administration Has Turned Record Surpluses to Record Deficits

– The Administration’s estimated deficit of \$407 billion marks a \$1.1 trillion deterioration for one year alone relative to the \$710 billion surplus estimated for 2009 when the Administration took office. In all, the \$5.6 trillion projected ten-year surplus that the Administration inherited when it took office has been converted, under realistic estimates, into a \$3.2 trillion deficit. This represents a swing of \$8.8 trillion in the wrong direction – the largest fiscal deterioration in American history.

Budget Never Reaches Balance Under Realistic Assumptions

– Though the Administration claims that its budget eventually reaches balance, it once again understates the fiscal impact of its policies, omitting the full cost of its Iraq policy and the cost of reforming the Alternative Minimum Tax (AMT). The omitted cost of the AMT totals \$408 billion over five years, and, according to a CBO scenario, war costs over the next five years could be as much as \$489 billion more than the Administration included

Realistic Bush Deficit Shows Administration Budget Never Reaches Balance



*Includes omitted costs such as AMT repair and realistic war costs

**This document has not been reviewed and approved by the House Budget Committee and may not reflect the views of all Members.*

in today's budget. When realistic costs of these policies are included in the estimate, the budget never reaches balance. The previous Administration inherited large deficits, but turned them into record surpluses. By contrast, this Administration has turned record surpluses into large deficits for as far as the eye can see.

Administration Leaves Legacy of Fundamentally Weakened Economy – The

Administration's fiscal and economic policies have produced a legacy not just of deficits and debt, but of a weakened economy overall. The current bipartisan efforts to enact an economic stimulus are an important step to respond to a number of worrisome recent developments: the economy actually lost jobs in January, while gas prices have topped \$3.00 per gallon, and real GDP growth in the most recent quarter was an anemic 0.6 percent. Unfortunately, the economic deterioration is not confined to just the last few months. Over the course of this Administration, real median household income has fallen by nearly \$1,000 relative to what it was in 2000. The current 4.9 percent unemployment rate stands significantly higher than the 4.2 percent rate inherited by this Administration, and there are now 1.6 million more unemployed Americans (7.6 million total as of January 2008), with a 62 percent increase in the share of total unemployed who have been unemployed for more than six months. During the Bush Administration, the economy has created only an average of 67,000 jobs per month, less than a third of the Clinton Administration's average of over 200,000 – and far less than is needed just to keep up with the growth of the labor force.

Administration Again Cuts Services and Shortchanges Investments to Fund Tax Agenda –

Today's budget calls for tax cuts with a total cost of \$3 trillion over ten years, largely targeted to those who need help the least. To help finance these tax cuts, the budget again proposes cuts to critical services and investments, including:

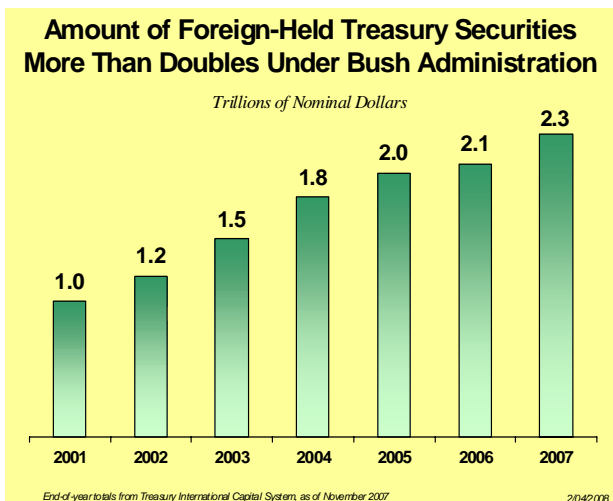
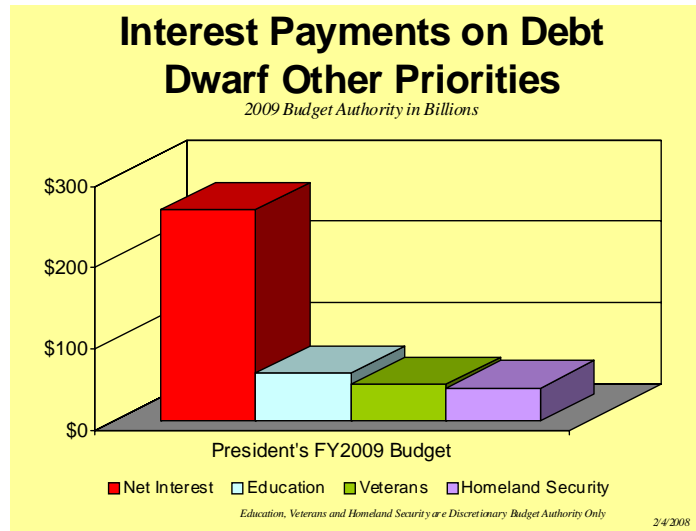
- Medicare cuts of \$556 billion over ten years;
- \$47 billion in net legislated Medicaid cuts over ten years;
- Centers for Disease Control cut by \$433 million for 2009;
- the Low-Income Home Energy Assistance Program (LIHEAP) cut by \$570 million for 2009 despite the fact that home heating costs are soaring and the program is only able to serve 16 percent of eligible families at its current funding level;
- Community Oriented Policing Services (COPS) eliminated for 2009;
- Social Services Block Grant (SSBG) cut by \$500 million for 2009 and completely eliminated in 2010, at a time when nearly half of states are facing budget shortfalls;
- the Environmental Protection Agency cut by \$330 million for 2009;
- \$5.2 billion in new fees on veterans over the next ten years.

Since 2001, the Administration has repeatedly proposed harmful cuts and failed to make needed investments. The results can be seen across a wide spectrum of government services and responsibilities – from backlogs in processing claims for Social Security and veterans' disability benefits to delays in making needed homeland security improvements. Later today, the House Budget Committee staff will issue a state-by-state analysis of the impact of some of these cuts in 2009.

War Costs Grow Even With Only Partial Request for 2009 — Today's budget includes a request of just \$70 billion for military operations in Iraq and Afghanistan, which the Administration acknowledges is a placeholder level that will not fund the full cost of the

Administration's policy for 2009. To date, including the Administration's full 2008 war request, the cost of the wars has been \$800 billion, and including today's request makes it \$870 billion. According to a CBO scenario that assumes deployed troop levels in the Iraq and Afghanistan theaters will reduce to a steady-state level of 75,000 by 2013, costs over the next ten years could run to \$1 trillion – which would bring the total to \$1.8 trillion.

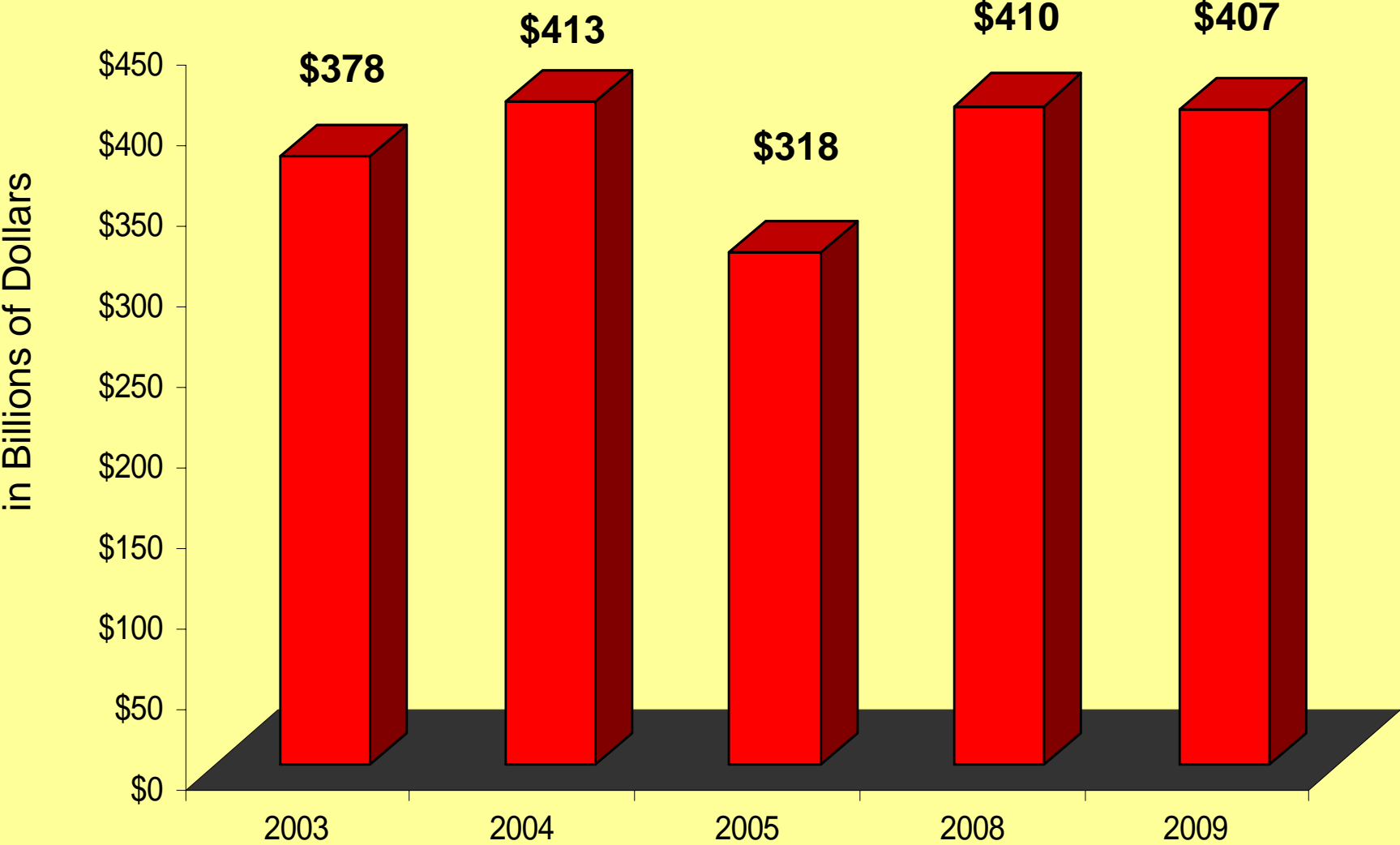
Record Increase in Debt Under Administration Policies – The total federal debt now stands at over \$9 trillion. Current estimates suggest that the debt will rise by a total of nearly \$4 trillion during this Administration, from \$5.7 trillion in January 2001 to \$9.7 trillion at the end of 2008. This Administration has accumulated more debt than during all of the Administrations from George Washington through Ronald Reagan combined. The government's net interest payments on this debt will total \$260 billion in 2009 and rise to \$302 billion for 2013, making net interest one of the fastest-growing parts of the budget.



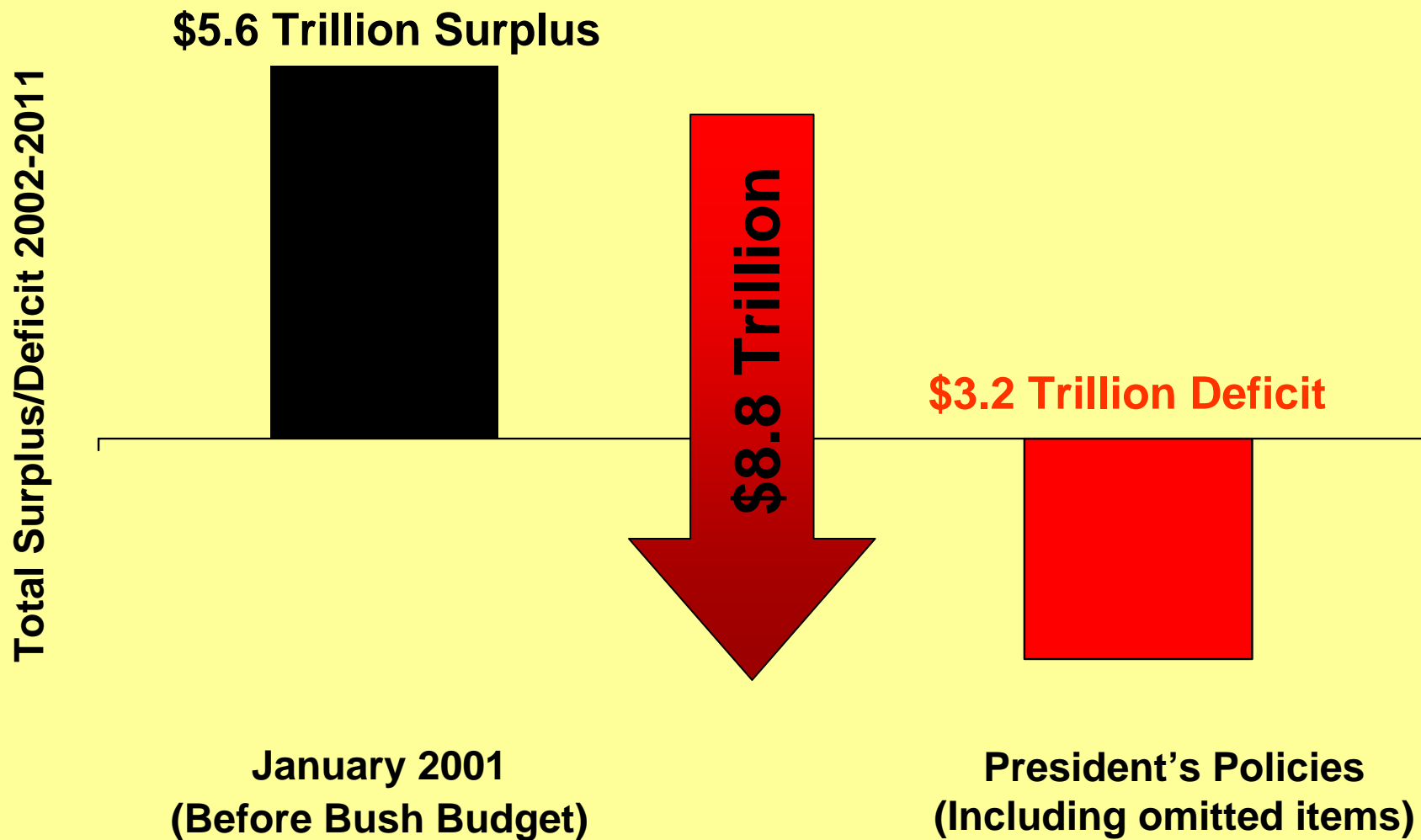
Foreign-Held Debt Has More Than Doubled Under this Administration – Since January 2001, U.S. government debt held by foreign investors has more than doubled, from \$1.0 trillion in January 2001 to \$2.3 trillion in November 2007. Since 2001, about 80 cents out of every dollar of new public debt is owed to foreign investors, including foreign governments. This skyrocketing indebtedness to foreign investors, including foreign governments, increases our economy's exposure to potential instability from abroad, and means that interest payments on the debt increasingly are paid to foreign investors.

Democrats Are Working to Put the Budget Back on the Right Track – Since taking the majority at the beginning of the 110th Congress, Democrats have been fighting to establish a new direction for the budget. We have reinstated the Pay-As-You-Go (PAYGO) rules that the previous majority allowed to lapse in 2002, and established new rules prohibiting the practice in previous Congresses of using fast-track reconciliation procedures to pass legislation making the deficit worse. Meanwhile, we have passed bills making fiscally responsible investments within the overall context of a budget that returns to balance.

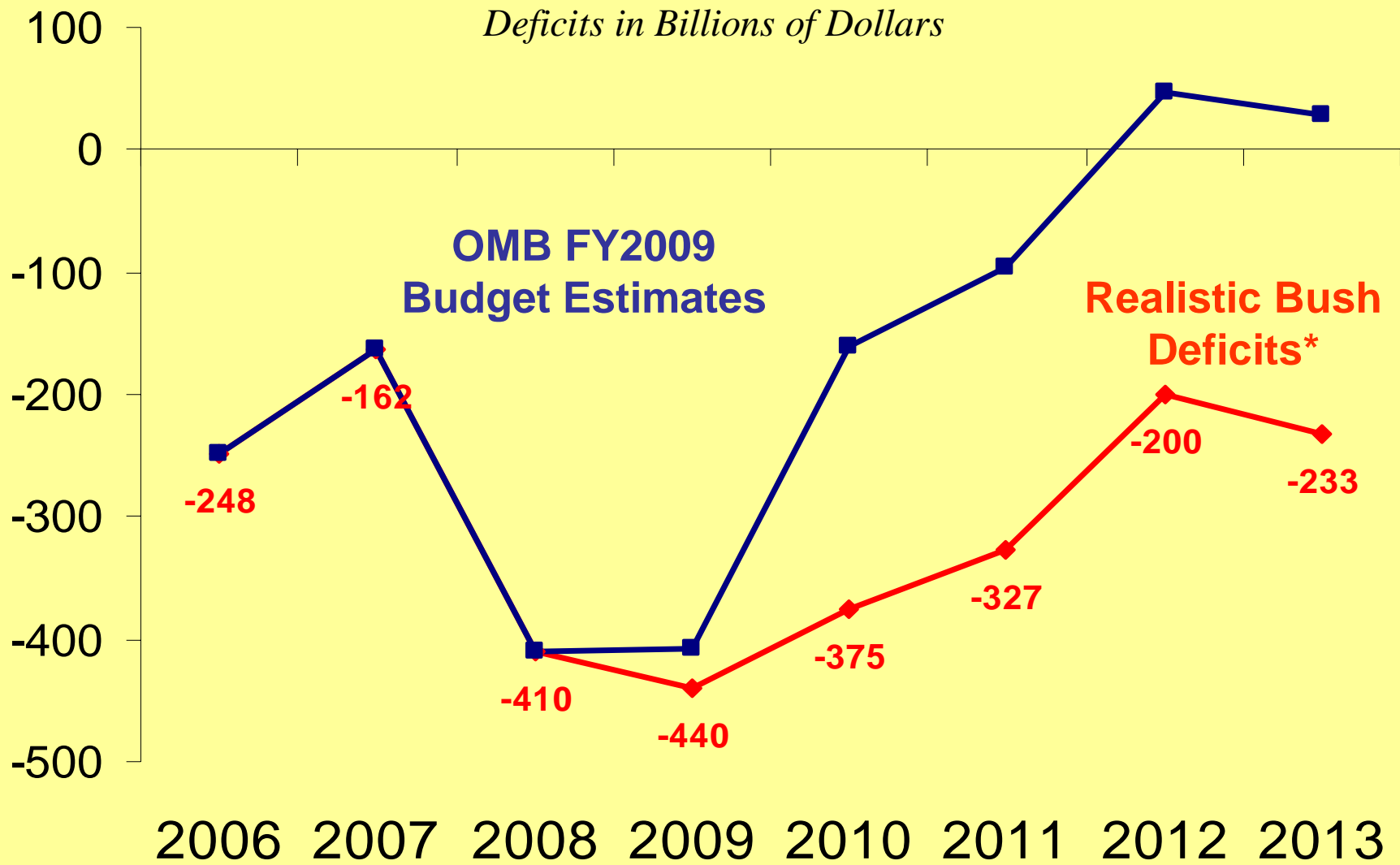
Bush Administration Responsible for Five Biggest Deficits In American History



Budget Deteriorates by **\$8.8 Trillion** Under Republican Policies



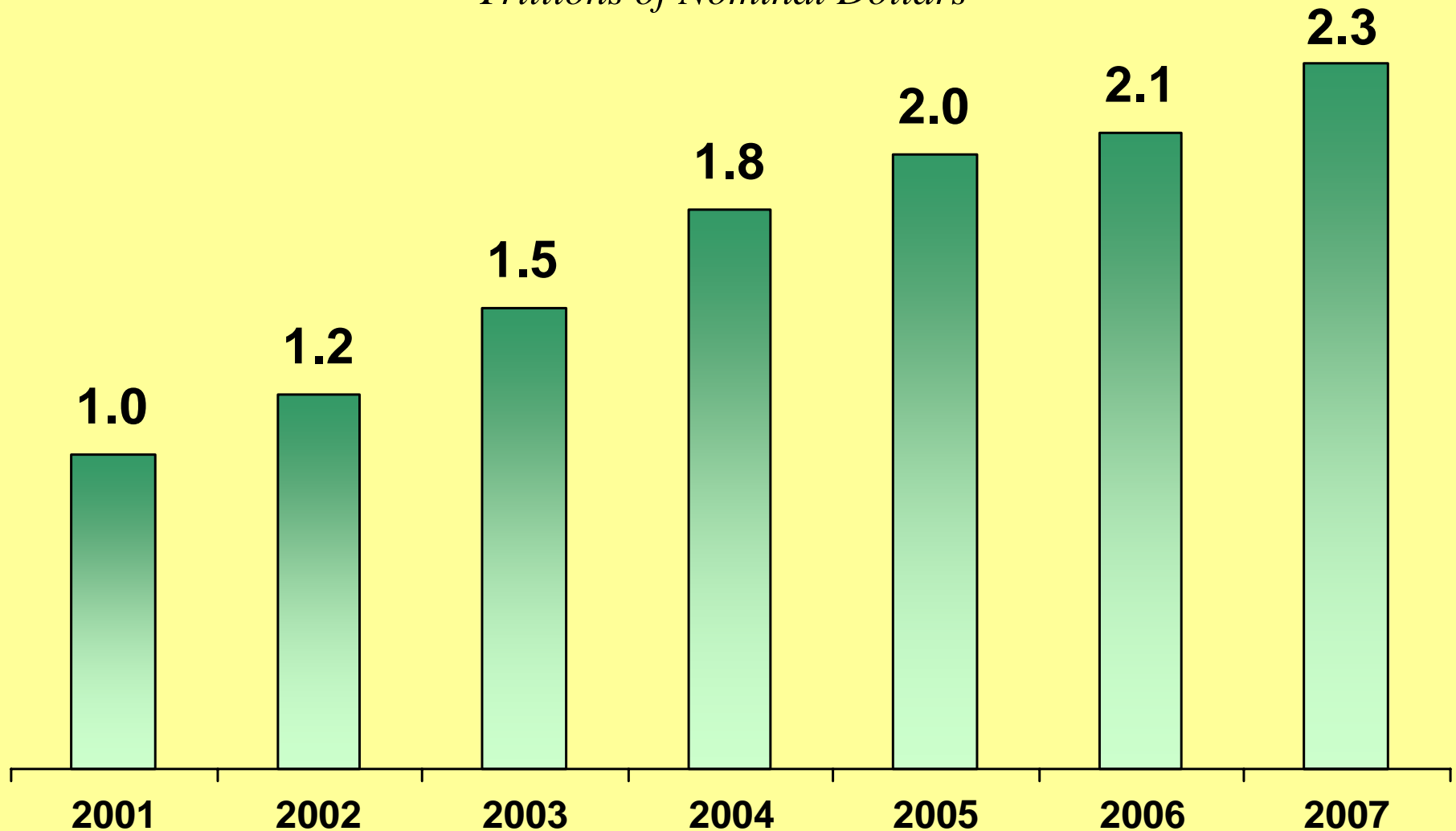
Realistic Bush Deficit Shows Administration Budget Never Reaches Balance



**Includes omitted costs such as AMT repair and realistic war costs*

Amount of Foreign-Held Treasury Securities More Than Doubles Under Bush Administration

Trillions of Nominal Dollars

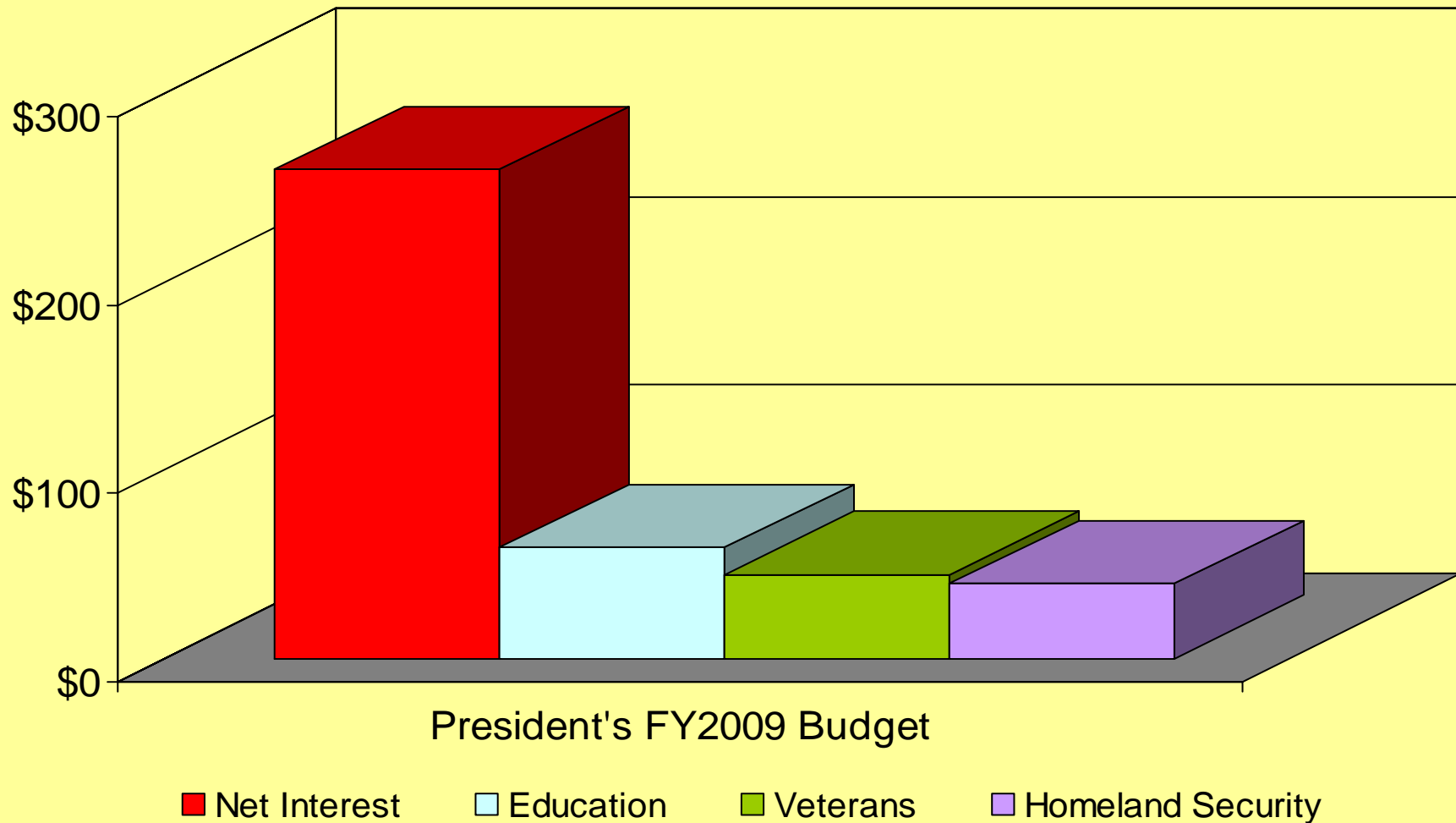


End-of-year totals from Treasury International Capital System, as of November 2007

2/04/2008

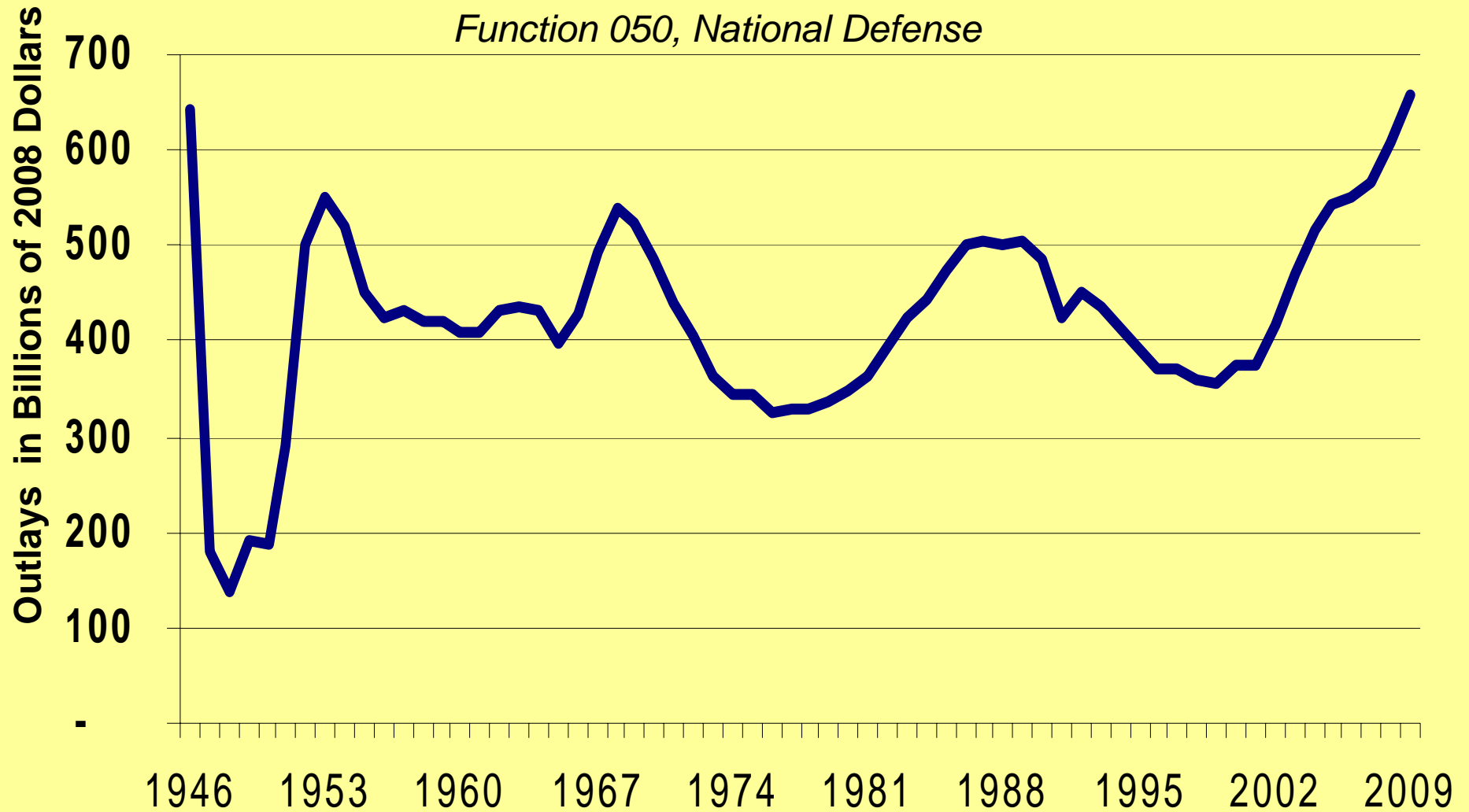
Interest Payments on Debt Dwarf Other Priorities

2009 Budget Authority in Billions



Education, Veterans and Homeland Security are Discretionary Budget Authority Only

2009 Defense Spending Highest Since WWII Even Without Full War Funding



(2009 Includes Only \$70 Billion in Budget Authority for War)

Gross Federal Debt

Debt When Bush Took Office	\$5.7 Trillion
Debt Today	\$9.2 Trillion
Debt Added So Far	\$3.5 Trillion
Debt Projected At The End of Bush Presidency	\$9.7 Trillion
Total Bush Increases To The Debt	\$3.9 Trillion

Deficits Without Social Security Surplus

On-Budget Deficit, 2008	\$602 Billion
On-Budget Deficit, 2009	\$611 Billion

Cost of Debt Service

Net Interest, 2002	\$171 Billion
Net Interest, 2009	\$260 Billion

The President's 2009 Budget

Billions of Dollars

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Total</u> <u>2009-2013</u>
Current Law Baseline	-238	-231	-200	-50	136	136	-210
Remove Emergencies	---	52	96	104	108	111	470
Extend Tax Cuts /1	-*	-2	-13	-158	-237	-255	-666
Debt Service and Other Items	<u>-*</u>	<u>3</u>	<u>7</u>	<u>8</u>	<u>5</u>	<u>-1</u>	<u>22</u>
<i>Total Adjustments</i>	<i>-*</i>	<i>53</i>	<i>89</i>	<i>-47</i>	<i>-124</i>	<i>-145</i>	<i>-173</i>
OMB's Adjusted Baseline	-239	-178	-111	-97	12	-10	-383
The President's Budget							
Economic Stimulus	-125	-20	10	8	6	4	8
Other Tax Policies /1	-15	-95	-36	-44	-39	-31	-245
Entitlement Program Changes	*	17	38	48	53	61	217
Security Appropriations Increase	-28	-117	-66	-30	-21	-16	-251
Non-Security Appropriations Cut	-*	-2	22	40	56	68	183
Social Security Reform	---	---	---	---	---	-30	-30
Debt Service	<u>-3</u>	<u>-11</u>	<u>-18</u>	<u>-19</u>	<u>-19</u>	<u>-17</u>	<u>-84</u>
<i>Total Changes</i>	<i>-171</i>	<i>-229</i>	<i>-49</i>	<i>2</i>	<i>36</i>	<i>39</i>	<i>-202</i>
Resulting Deficits	-410	-407	-160	-95	48	29	-585
Omitted Items							
Alternative Minimum Tax Reform	---	-8	-90	-89	-103	-118	-408
Ongoing Military Operations	---	-24	-119	-126	-117	-103	-489
Debt Service (CBO model)	---	<u>-1</u>	<u>-7</u>	<u>-17</u>	<u>-29</u>	<u>-41</u>	<u>-94</u>
<i>Total Adjustments</i>	<i>---</i>	<i>-32</i>	<i>-215</i>	<i>-233</i>	<i>-248</i>	<i>-262</i>	<i>-991</i>
Resulting Deficits	-410	-440	-375	-327	-200	-233	-1,576

Negative items make deficits worse

/1 Includes outlay effects

* = less than \$500 million