January 23, 2008

CBO Forecasts Continued Fiscal Deterioration

Today's new Budget and Economic Outlook from the Congressional Budget Office (CBO) offers sobering news on both the short-term and long-term fronts. CBO's economic forecast has grown noticeably more pessimistic since its last report in August, and a number of new troubling economic signs have emerged since CBO locked its forecast last month. This new economic forecast from CBO thus adds to the growing evidence that the economy has weakened.

Meanwhile, CBO now estimates the deficit for fiscal year 2008 will be greater than the deficit for fiscal year 2007. Over the longer-term, CBO's budget forecast has worsened by about $850 billion on an apples-to-apples basis relative to its August forecast – and, as a baseline forecast it does not include the deficit impact of costly Administration policies such as making the tax cuts permanent. Under Administration policies, the $5.6 trillion projected ten-year surplus anticipated in 2001 has been converted into deficits for as far as the eye can see, making more complicated our response to the current economic slowdown. In all, on this Administration's watch, the budget and the economy have deteriorated dramatically.

Today's report provides the latest evidence that we must act quickly to strengthen the economy, and that we must do so in a way that does not magnify the long-term budget challenges that we face. Democrats are committed to working in a bipartisan manner to develop an effective economic stimulus package that is timely, targeted, and temporary.

Key Points

Economy Slumps; Bush Legacy of Fiscal Mismanagement — One of the consequences of this Administration's economic legacy, in addition to huge deficits and mounting debt, is the current weakened economy. Net job creation during December equaled a meager 18,000 jobs; as a result, unemployment spiked, rising from 4.7 percent to 5.0 percent, a substantial increase for one month. Consumer spending seems to be losing steam, as indicated by the all-important holiday season. Retail sales in December were expected to be flat, but instead actually fell 0.4 percent below the prior month. Foreclosures are being filed at a rate not seen in years, home values are falling, and the price of gasoline is above $3.00 a gallon. American households are getting squeezed on all sides, and some major corporations are booking record losses. Meanwhile, wholesale prices rose 6.3 percent in 2007, their largest increase in 26 years.

Deficits Worsen; Bush Legacy of Deficits — Today's estimates from CBO project a 2008 deficit of $219 billion, $56 billion worse than the 2007 deficit of $163 billion.

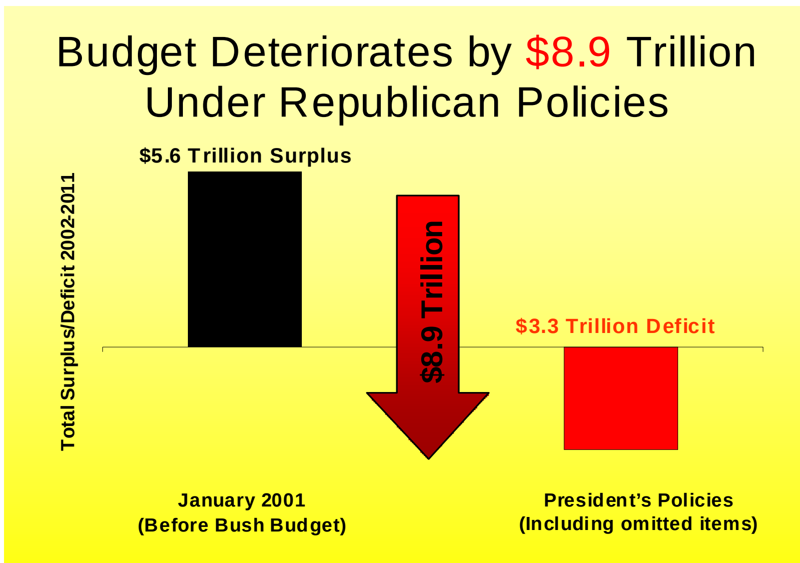
CBO Baseline Deficits	
2007	2008
- $163 billion	- $219 billion

The Administration has presided over the largest budget deterioration in American history. When the Administration took office in 2001, surpluses of $5.6 trillion were projected for the next ten-year period (2002-2011). Deficits of over $2 trillion are now anticipated for the same period, climbing to $3.3 trillion when Administration policies are included. Yet the Administration continues to promote policies such as making its tax cuts permanent and the long-term cost of the war, which make the deficit worse. Once the Administration's proposals are factored in deficits soar, never dropping below $379 billion for any year.

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2009-2018
CBO Baseline Deficits/Surpluses	-219	-198	-241	-117	87	61	96	117	95	151	223	274
Deficits Under Administration Policies	**-379**	**-382**	**-415**	**-457**	**-377**	**-458**	**-463**	**-489**	**-573**	**-588**	**-595**	**-4,796**

See "Administration Policies Worsen Deficit" on page 5 of this report for further details.

Debt Climbs; Bush Legacy of Debt — The gross federal debt reached $9.0 trillion at the end of 2007, according to CBO estimates. CBO projects that the debt will rise by a total of $3.8 trillion under the President's tenure, from $5.6 trillion when the President took office to $9.4 trillion at the end of 2008. The unprecedented rise in debt means that future generations will be forced to pay the price for the Administration's fiscally irresponsible policies.



Outlook Opposite of Administration Predictions — When the President took office in 2001, CBO projected budget surpluses from 2002-2011 of $5.6 trillion. The Administration could have chosen to safeguard projected surpluses; instead, Republicans chose to enact large tax cuts that wiped out the surplus. The President promised we could have it all: huge tax cuts and funding for important programs, while deficits stayed away. Democrats urged caution, supporting tax reductions within a fiscally responsible framework. Those calls for moderation were ignored. Rather than preparing our country for the fiscal challenges ahead, Republican policies have placed our nation in a fiscal hole, weakened the economy, and risk the living standard of future generations.

Revenue Still Lags Far Behind Projected Level — Revenues remain far below the levels projected when the Administration first proposed its tax cuts. As evidence that the tax cuts have fallen far short of paying for themselves, actual revenues over the past six fiscal years (2002-2007) have turned out to be $2.4 trillion below what the Administration forecast back in 2001 as the level of revenues that would be achieved before the tax cuts. Indeed, today's figures do not support the supply-side notion that tax cuts increase revenues and in time pay for themselves.

The Economy

Slumping Economy, Stimulus Necessary — The economy is slowing; worrisome indicators are all around us. A compelling case has emerged for some form of fiscal stimulus, and Congressional Democrats are working in a bipartisan, bicameral way to come up with a fiscal stimulus package.

Stimulus Must Be Timely, Targeted, and Temporary — Fiscal stimulus needs to arrive during, not after, the downturn. It needs to be directed at those most likely to spend it quickly. And it needs to be temporary; otherwise, it will be counterproductive because it runs the risk of driving up structural deficits and interest rates, and undermining confidence in our commitment to fiscal discipline. Extending the 2001 and 2003 tax cuts without offsetting their cost meets none of these criteria.

Stimulus Should Avoid Worsening Long-Term Fiscal Situation — Any package must address the cyclical downturn in the economy, without making the structural deficit worse. In response to specific questions from Budget Committee Members regarding the advisability of extending the 2001 and 2003 Bush tax cuts, Chairman Bernanke indicated that it would be more effective to immediately and directly put cash in the hands of households that would spend it in the near term. He added that any permanent tax cuts that are deficit-financed could have a counterproductive effect on the U.S. economy in the short run as well as the long run.

Federal Reserve Chairman Ben Bernanke Agrees — At last week's Budget Committee Hearing, Chairman Bernanke affirmed the value of a stimulus that is timely, targeted, and temporary.

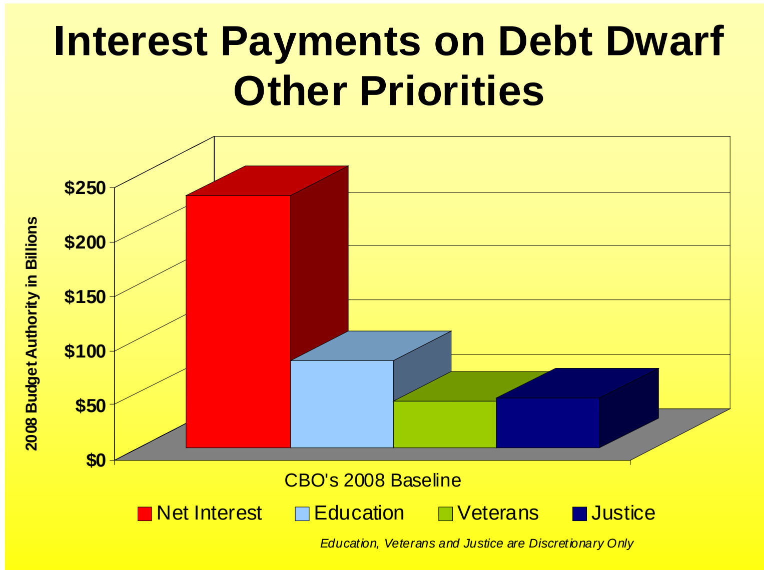
Bernanke on Timely:
"To be useful, a fiscal stimulus package should be implemented quickly and structured so that its effects on aggregate spending are felt as much as possible within the next twelve months or so. Stimulus that comes too late will not help support economic activity in the near term, and it could be actively destabilizing if it comes at a time when growth is already improving."

Bernanke on Targeted:
"Any fiscal package should also be efficient, in the sense of maximizing the amount of near-term stimulus per dollar of increased federal expenditure or lost revenue."

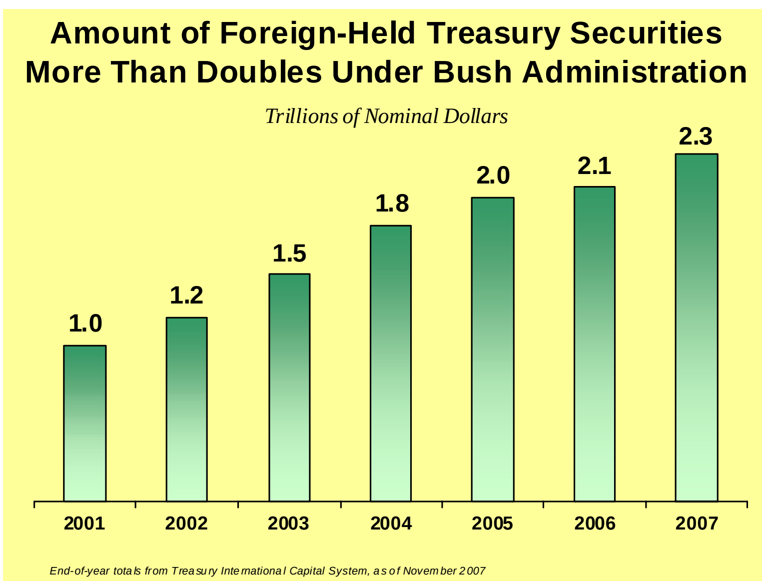
Bernanke on Temporary:
"Finally, any program should be explicitly temporary, both to avoid unwanted stimulus beyond the near-term horizon and, importantly, to preclude an increase in the federal government's structural budget deficit."

Deficits, Interest, and Debt

Future Deficit Picture Remains Grim — Gross debt has exploded since the start of this Administration, rising from $5.6 trillion at the end of 2000 to an estimated $9.0 trillion at the end of 2007 – an increase of more than $3 trillion. This debt is accumulating at the worst possible time, just before the retirement of the baby boom generation. That period will bring renewed fiscal challenges as changes in our population will mean fewer workers to support each retiree. It is essential to get our fiscal house in order now to meet these future challenges.



Net Interest Squeezes Out Other Needed Investments — According to CBO's latest estimates, the government's net interest payments will total $234 billion in 2008. By 2012, net interest payments are estimated to increase to $286 billion, far higher than the $171 billion for 2002. These payments are just like interest payments on a family's credit card – they are obligatory, while providing no services or goods – no education for a child, no new roads, and no additional national security. Interest payments over the next five years dwarf spending on most national priorities including homeland security, education, and veterans' health care. Interest on the debt is one of the fastest growing components of mandatory spending in the federal budget.



Foreign Debt Rising, Poses a Threat to Economy — Foreign-held debt has skyrocketed under the current Administration, rising to $2.3 trillion in November 2007 – an increase of $1.3 trillion since January 2001. In fact, America is relying on foreign investors to purchase most of its debt – about 80 cents of every dollar of new debt since 2001 is owed to foreign investors, including foreign governments. The high level of indebtedness to foreign investors heightens the economy's exposure to potential instability from abroad or even financial threat from unfriendly foreign governments, and places additional burdens on our children and grandchildren.

Administration Policies Worsen the Deficit

Omitted Costs Worsen the Forecast— CBO's budget baseline includes only "current law" costs, and omits the budget effects of Administration policy proposals. Once the costs of Administration proposals are included, the deficit for 2008 deteriorates further to $379 billion, and ten-year (2009-2018) deficits reach $4.8 trillion. The costs omitted from the CBO baseline include:

- Extension of tax cuts: The Administration continues to advocate the extension of the President's tax cuts, most of which expire after 2010. Extending the 2001 and 2003 tax cuts and all other expiring tax provisions will add $2.7 trillion to the deficit over the next ten years, if their costs are not offset.

- AMT Reform: Under current tax law, an estimated 26 million taxpayers will be subject to the alternative minimum tax in 2008, making its reform nearly inevitable. CBO estimates that reforming the AMT will add $724 billion over the next ten years. Since the AMT "takes back" much of the cost of the President's tax cuts, the cost of its reform is made even higher – rising to $1.3 trillion in all – if the President's tax policies are extended without being offset.

- Spending for wars in Iraq and Afghanistan: CBO's baseline repeats every year the $88 billion of war funding that Congress has enacted for 2008. Once that funding is removed and adjustments are made to account for a projected CBO scenario of likely war costs, ongoing military operations will require $120 billion more than included in the baseline over the next ten years.

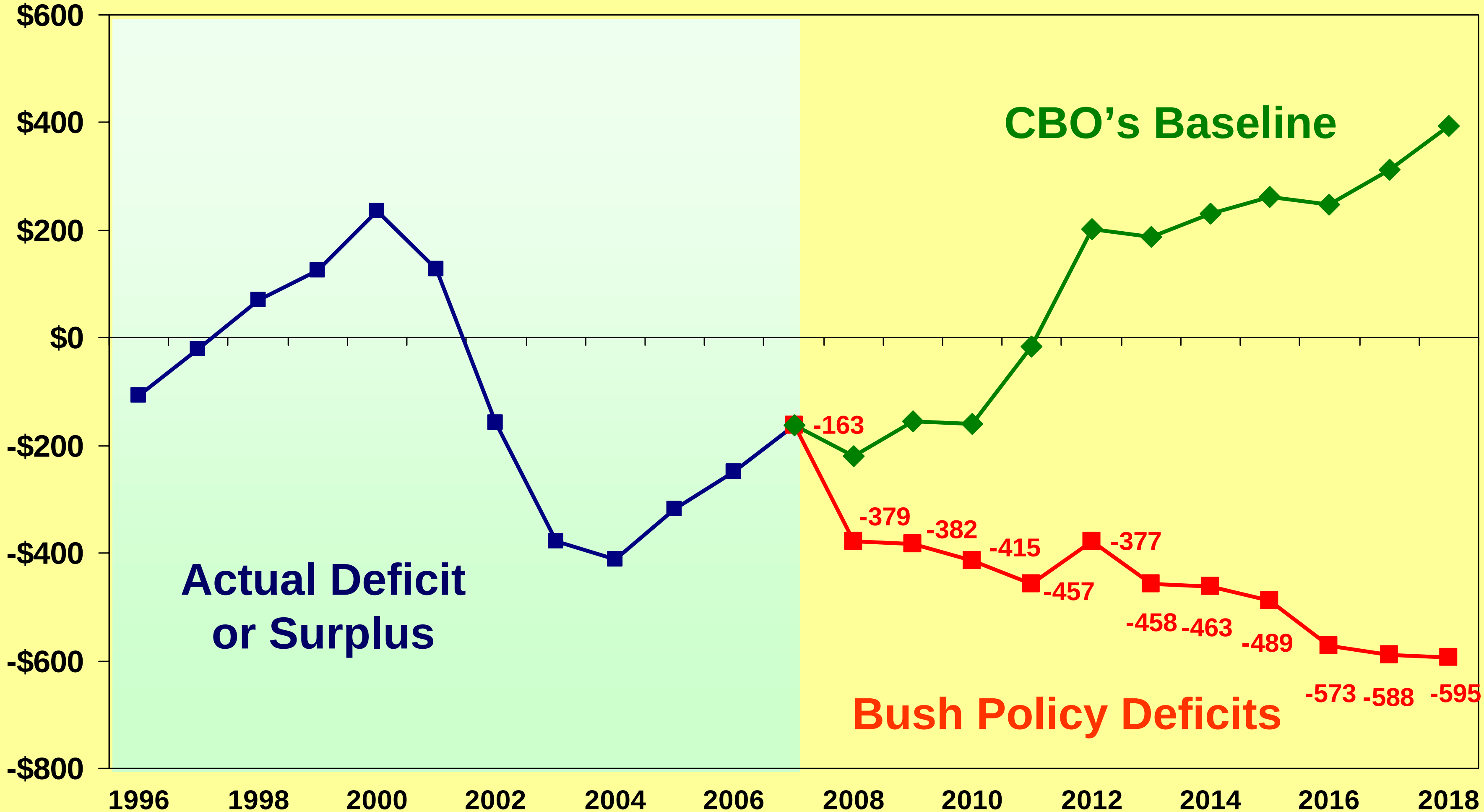
- Interest on all these costs: interest on the costs noted above will total $1.2 trillion over ten years (using the CBO interest model).

Administration's Policy Would Make the Deficit Much Worse

- Extension of Tax Cuts
- Full Repair of the Alternative Minimum Tax
- Realistic Estimate of War Costs
- Additional Debt Service

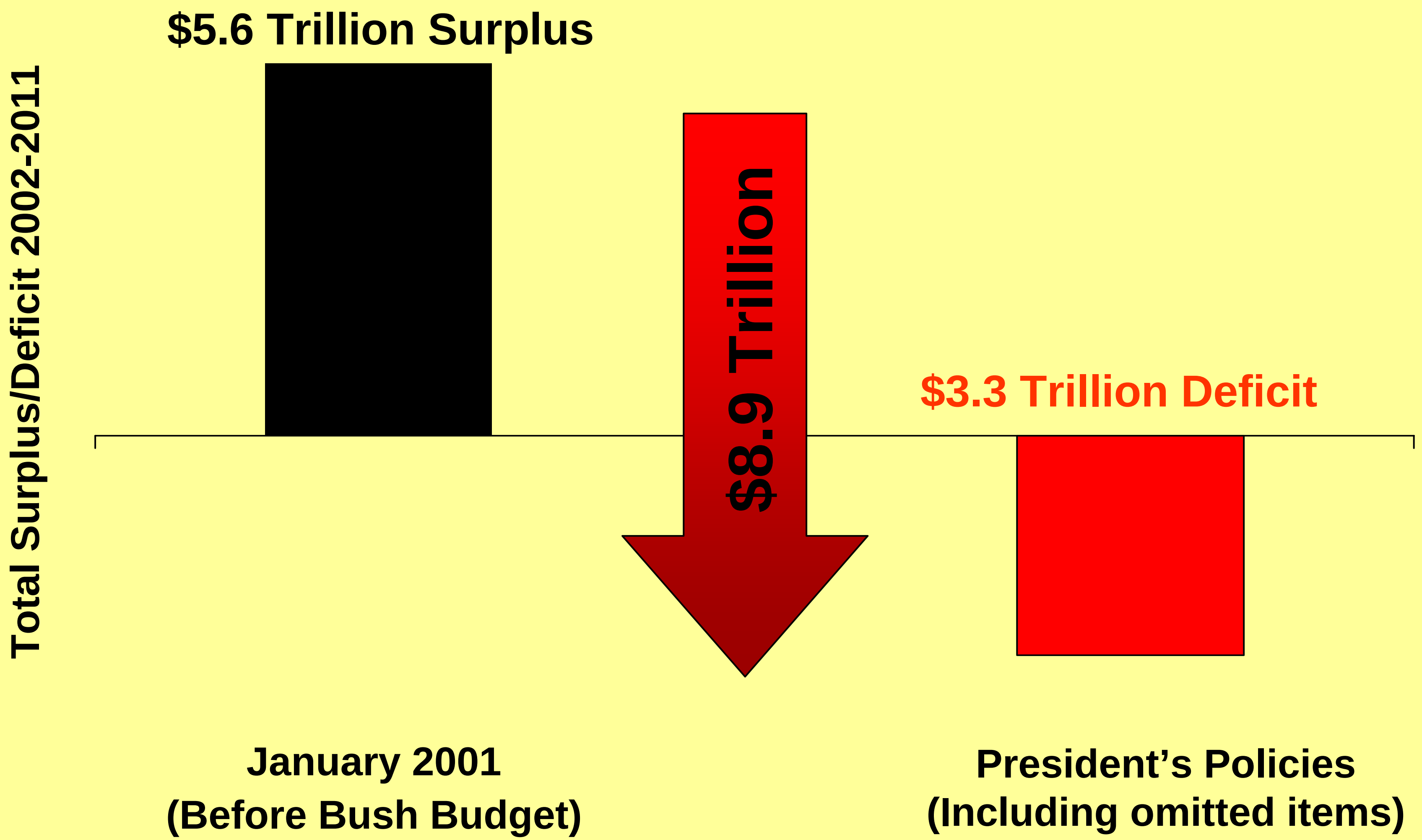
Bleak Deficit Outlook under Bush Policies

Deficits in Billions of Dollars

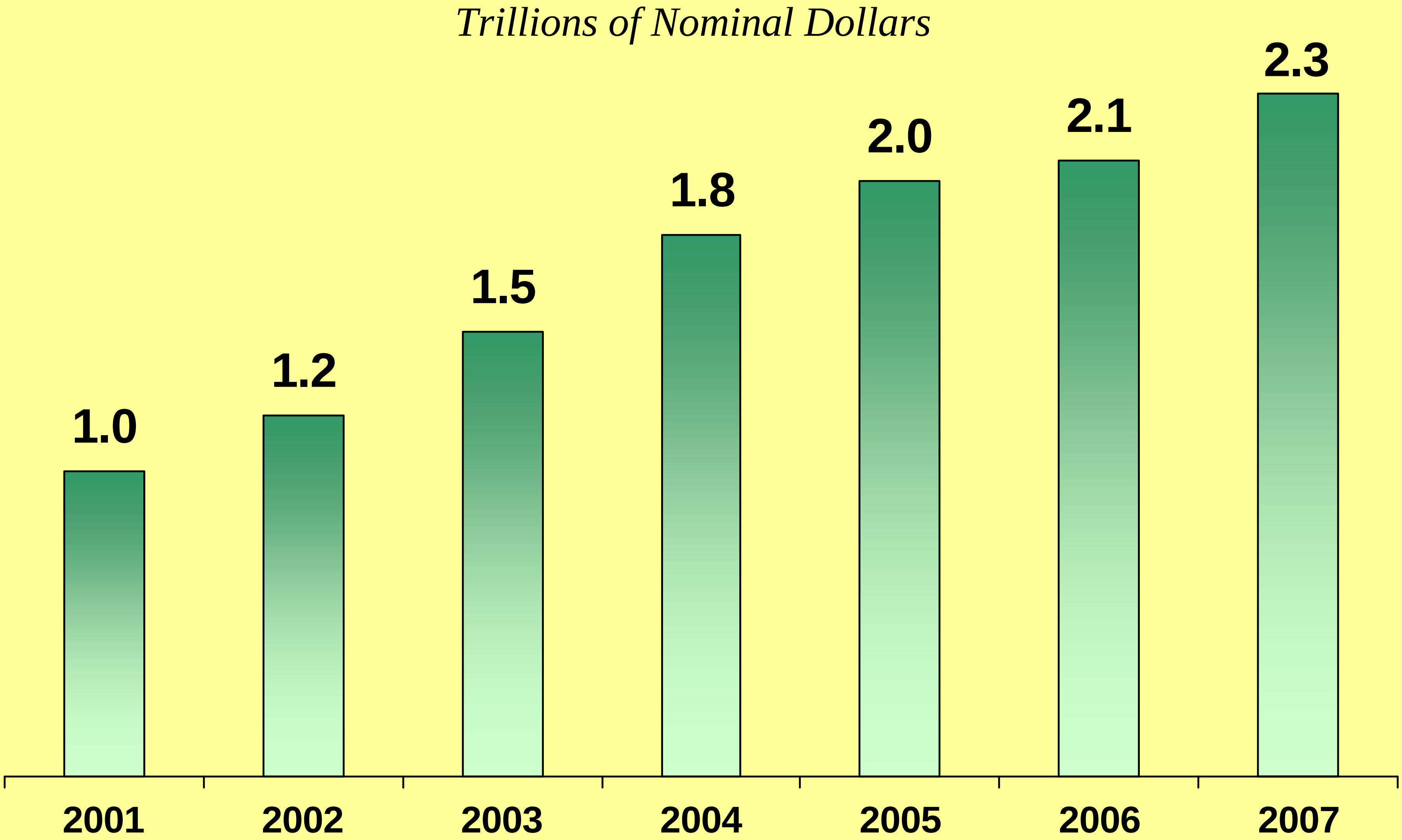


The CBO baseline figures noted here assume supplemental appropriations do not repeat each year

Budget Deteriorates by $8.9 Trillion Under Republican Policies



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



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

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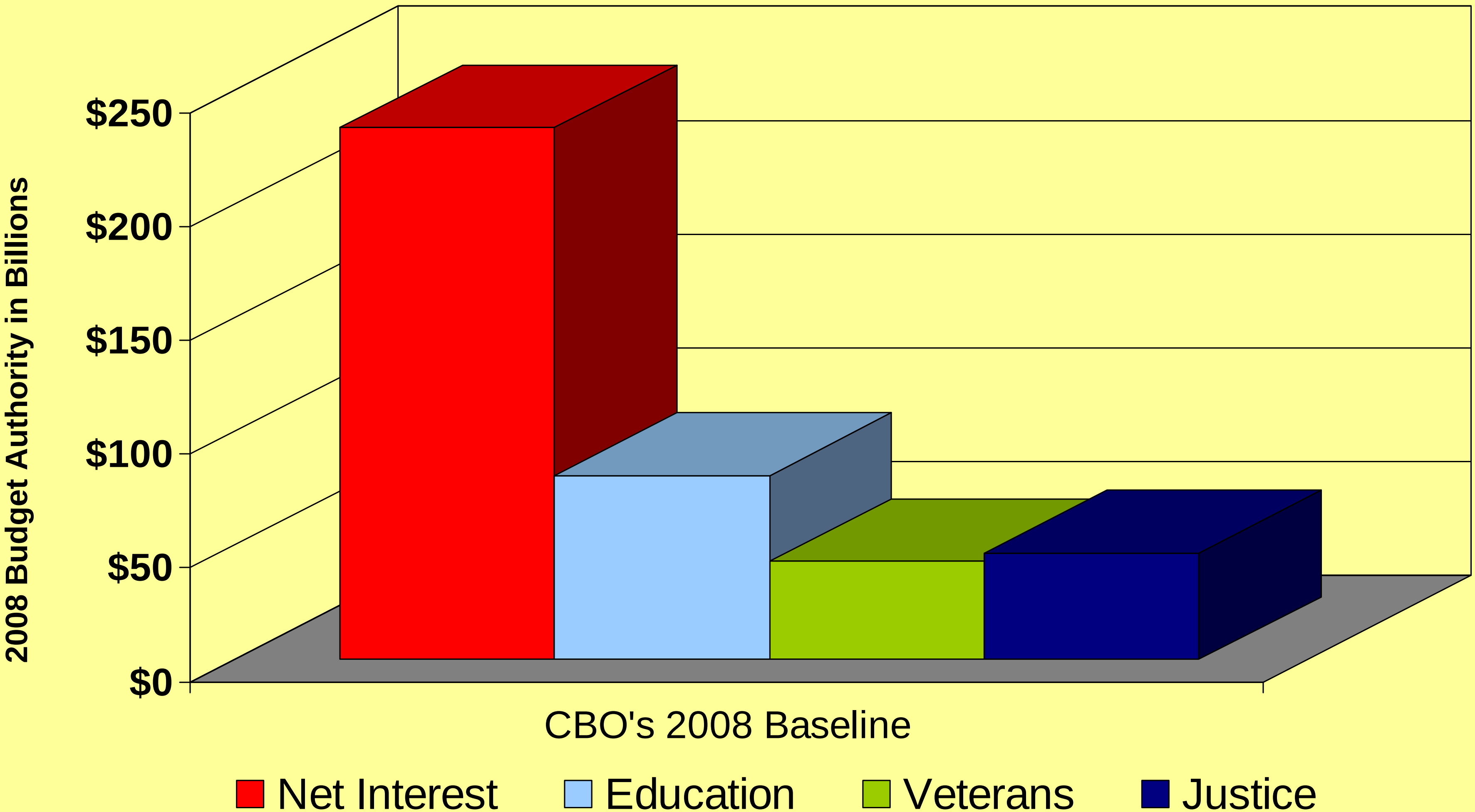
Interest Payments on Debt Dwarf Other Priorities



Education, Veterans and Justice are Discretionary Only

CBO's Budget and Economic Outlook, January 2008

Billions of Dollars	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total 2009-2018
CBO Baseline	-219	-198	-241	-117	87	61	96	117	95	151	223	274
Remove Repeating Supplemental	---	43	80	102	116	126	135	144	153	163	173	1,234
CBO Baseline w/o repeating supp	-219	-155	-161	-15	203	187	231	261	248	313	395	1,507
Bush Agenda												
Fiscal Stimulus	-116	-29										-29
Extend EGTRRA and JGTRRA	-0	-3	-6	-147	-254	-281	-292	-304	-316	-329	-344	-2,277
Extend Other Expiring Tax Provisions	-6	-14	-22	-31	-38	-44	-49	-53	-58	-63	-67	-438
Repair AMT*	-6	-75	-76	-89	-103	-118	-134	-151	-170	-191	-215	-1,322
Ongoing Military Operations	-30	-96	-128	-135	-120	-107	-93	-81	-79	-79	-79	-996
Debt Service	*-2*	*-10*	*-23*	*-40*	*-65*	*-94*	*-126*	*-161*	*-198*	*-239*	*-284*	*-1,240*
Total Changes	-160	-227	-254	-443	-580	-644	-694	-750	-820	-901	-990	-6,304
Resulting Deficits	**-379**	**-382**	**-415**	**-457**	**-377**	**-458**	**-463**	**-489**	**-573**	**-588**	**-595**	**-4,796**
ADDENDUM:												
CBO non-social security baseline deficit w/o repeating supps	-416	-354	-371	-241	-35	-58	-19	7	-7	61	146	-870
Non-social security deficit with additional items	197	199	210	226	238	244	250	253	254	253	249	2,378

Negative items make deficits worse

Baseline estimates assume tax cuts expire as written in law and emergency supplemental funding repeats every year and grows with inflation

*Includes interactive effect with EGTRRA/JGTRRA extension