# HOUSE BUDGET COMMITTEE

## Democratic Caucus

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# Reality Bites:
# Why Younger Generations
# Should Be Concerned About the Deficit

A Report by the Minority Staff of the House Budget Committee

September 13, 2004

*This document has not been reviewed and approved by the Democratic Caucus of the Budget Committee and may not necessarily reflect the views of all members.*

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# Executive Summary

## What's the Problem? — The Deficit and How It Got So Bad

The Congressional Budget Office (CBO) estimates that the federal deficit will reach $422 billion in fiscal year 2004 — that's 132,000 times what the average 30-year-old will earn in his or her lifetime.[1] And the federal debt, the accumulation of all previous deficits, topped $6.7 trillion at the end of fiscal year 2003, and is projected to reach $13.3 trillion by the end of 2014.

It was not always so. In January of 2001, CBO projected a cumulative surplus of $5.6 trillion for the ten-year period of 2002 through 2011. Under the Bush Administration, CBO's budget projections for that period have seen a negative swing of $8.6 trillion, wiping out the surplus and pushing the government's finances $3.0 trillion into the red. What was a main cause of this turn in our nation's fiscal condition? While the global war on terror and changing economic tides each played a role, a major factor was the Administration's decision to embark on an agenda of tax cuts, without offsets, heavily tilted toward the wealthiest Americans.

## The Financial Problems Already Facing 18- to 35-Year-Olds

Many younger Americans may view the federal deficit and debt as far removed from issues they face in their daily lives. College graduates are leaving school with an average of $18,900 in student loan debt.[2] Young adults, ages 20 to 24, face an unemployment rate of 9.0 percent,[3] and 32 percent lack health insurance.[4] So, there are more immediate problems.

## Why Young Adults Should Be Concerned About the Deficit

But the government's deficits and growing debt are important to young adults because today's fiscal mismanagement will directly affect the quality of their lives in years to come.

***A Growing Debt and Debt Tax Require Tradeoffs*** **—** Ultimately, the federal budget is a collection of trade-offs. A dollar forgone to tax cuts is a dollar that cannot be spent on something that younger people may consider a priority, such as reducing college tuition costs, without increasing the deficit. Likewise, dollars spent for interest on the debt ($159 billion in 2004) are dollars unavailable for investment in a better future, better education, a better environment, or scientific research. In fiscal 2004, government interest payments were more than two times the amount the government provided in financial aid for college students (much of which students will have to pay back with interest). By 2014, the interest alone on the public debt will reach $348 billion under current law (that's $1,081 per person), and will reach $418 billion[5] under the President's policies. At some point, the debt will need to be paid down. Doing so will require tough choices, either higher taxes or less services.

Young people were not big benefactors of the tax cuts. In fact, the average tax cut in 2004 will be $317 for a young person earning $20,000 — less than one percent of the tax cut enjoyed by millionaires.[6] *But when the time comes to pay the piper, today's 20-somethings and 30-somethings will be the ones doing the paying.*

***Structural Deficits Undermine the Economy by Raising Interest Rates*** — Many of the dreams of young people — a successful and challenging career, a comfortable lifestyle — depend upon a thriving economy. But chronic deficits are a drag on the economy, draining down saving and driving up interest rates. Chronic deficits may seem abstract to many people, but their effect on young persons is very real. Higher interest rates mean higher mortgage payments and a slower-growing economy, affecting one's ability to earn and save for retirement.

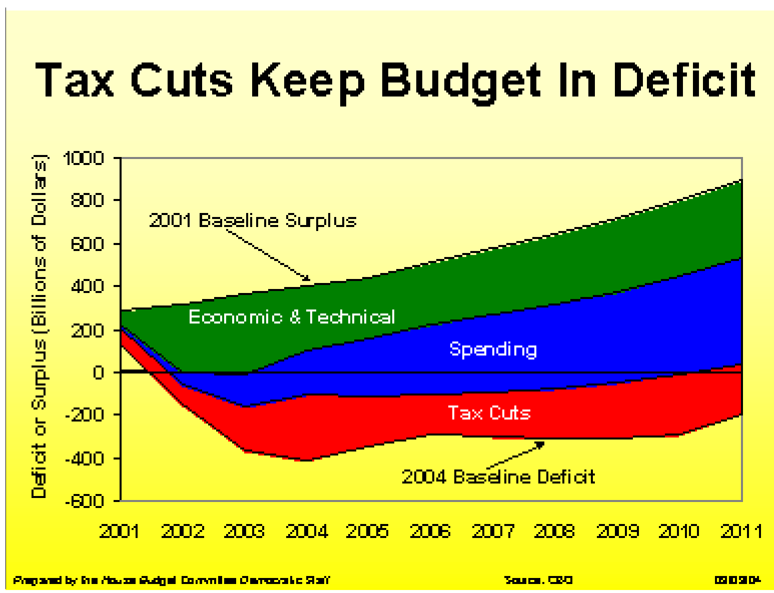
***Chronic Deficits Weaken the Future of Social Security and Medicare*** — While it will be many years before younger generations become eligible for Medicare and Social Security, the fact remains that 20- and 30-somethings benefit from strong social insurance programs. It is in their interest to ensure these programs remain strong for their own retirements, and for the more pressing matter of their parents' retirements. But chronic budget deficits undermine the ability of the government to keep these programs strong for current and future generations. Social Security and Medicare will face growing costs when the baby-boom generation starts retiring just a few short years from now. Chronic deficits will reduce the ability of Congress to address the long-term needs of Social Security and Medicare in a way that is equitable across generations.

# What's the Problem? — The Deficit and How It Got So Bad

The Congressional Budget Office estimates that the federal deficit will reach $422 billion in fiscal 2004. Excluding the Social Security surplus, the deficit is even bigger — $574 billion. And the federal debt, the accumulation of all previous deficits, topped $6.7 trillion at the end of fiscal year 2003, and is projected to reach $13.3 trillion by the end of 2014.

## The Big Fiscal Reversal

It was not always so. When President Bush took office in January 2001, CBO projected a cumulative surplus of $5.6 trillion for the ten-year period of 2002 through 2011. Under the current Administration, CBO's budget projections for that time period have seen a negative swing of $8.6 trillion. The surplus is gone, and the government's finances are $3.0 trillion in the red. What was a main cause of this turn in our nation's fiscal condition? While the global war on terror and changing economic tides each played a role, a major factor was the Bush Administration's decision to embark on an agenda of deficit-financed tax cuts.




This Administration's first budget, which Congress enacted largely intact, bet on blue-sky forecasts and left no margin for error. It spent virtually every dime of projected budget surplus for the first seven years of the budget window. So if anything at all went wrong, the budget had nowhere to go but into the red. And that is precisely what happened.

## Tax Cuts and Spending Increases Account for Most of Fiscal Reversal

Approximately 64 percent of the $8.6 trillion deterioration in the budget outlook is due to policy decisions over the last four years to cut taxes repeatedly while paying huge bills for the war in Iraq and spending large sums in other areas, such as homeland security and international affairs. For 2004, the tax cuts are responsible for 60 percent of the fiscal deterioration caused by policy decisions.

## A Changing Economy Also Played A Role

The economy experienced a recession in 2001, and the recovery has been lackluster — notably in the area of job creation — despite three rounds of tax cuts that the President touted as medicine for the ailing economy. Economic slumps depress tax revenues and drive up spending for certain government programs that are sensitive to economic conditions, such as unemployment compensation and food stamps. Changes in economic projections and related technical factors account for 36 percent of the $8.6 trillion deterioration in the budget outlook.

# The Financial Problems Already Facing 18- to 35-Year-Olds

Younger generations will inherit the multi-trillion-dollar debt left behind by the Bush Administration, and they will face the consequences of paying it down in the form of higher taxes or reduced government services. Paying off this debt will be a bitter pill to swallow given the fact that recent tax cuts were a key contributor to the growing federal debt that young people will have to pay off, but young people were not big benefactors of the tax cut. In fact, the average tax cut in 2004 will be $317 for a young person earning $20,000.[7]

The debt burden is mind-boggling, coming on top of financial burdens already facing young people. Consider the following:

## Tight Labor Markets

***Young Adults Face High Unemployment*** — Young adults ages 20 to 24 face an unemployment rate of 9.0 percent. This rate of unemployment is substantially higher than that experienced by the population at large, which is 5.4 percent.[8]

***Young Adults Are Competing In a Tight Job Market*** **—** The U.S. economy has lost nearly one million jobs since President Bush entered office.[9] There are 3.7 million adults over age 35 who are currently unemployed,[10] so young adults are competing against more seasoned workers for the same jobs. In fact, a recent survey of workers who lost jobs they held for at least three years found that almost two-thirds of them took another job at lower pay (30 percent) or remained jobless (35 percent).[11] And the overall employment picture is shifting toward jobs in retail and services, which often offer lower wages and benefits than those jobs that were lost.

## Lack of Health Coverage

***Eighteen Million Young Adults Lack Health Insurance*** — Of the 45 million individuals without health insurance in 2003, nearly 19 million were between the ages of 19 and 35. In fact, 28 percent of young adults ages 19 to 35 lack health insurance, a rate of uninsurance that is more than 80 percent higher than the rest of the non-elderly population (15.4 percent).[12] The rate of uninsurance for young adults under age 25 is even worse — 32 percent.

## Growing Personal Debt

***Young Adults Leave College With Nearly $19,000 in Debt*** — College graduates leave school with an average of $18,900 in student loan debt, an increase of 66 percent since 1997.[13] For graduate students, the average amount of additional student loan debt (on top of their undergraduate debt) is $31,700, an increase of 51 percent since 1997.

***Credit Card Debt Adds to the Burden*** **—** Nearly 30 percent of college graduates also use their credit cards to help pay for school, racking up an additional $3,400 in debt on top of their student loans. And of this group, almost 40 percent had credit card balances exceeding $5,000 when they left school.[14]

Young adults' reliance on credit cards is growing, contrary to the national trend. For all adults, the average amount of credit card debt dropped 29.4 percent from 2002 to 2003, while the average debt for adults ages 18 to 24 increased 42 percent over the same time period.[15]

***All Debts Are Not Created Equal* —** Older adults usually have the option of relying on home equity as a source of credit – an option not available to many young adults. Since the interest on home equity loans is tax deductible, taking on that kind of debt has a distinct financial advantage over the use of credit cards. Simply put, a young person typically has fewer, and more expensive, options for credit.

***Debt Burdens Make It Difficult to Get The Best Car Loan and Mortgage Rates*** — Young adults who are already burdened by debt will pay more when buying a home or a car since carrying a high debt burden, whether it is from student loans or credit cards, makes it difficult to get the best interest rates when applying for a car loan or mortgage. In fact, for each additional $5,000 in debt, the probability of owning a home decreases by 1 percent.[16]

## Low Incomes

***Young Adults More Likely to Be Poor* —** The percentage of Americans of all ages living in poverty increased from 11.3 percent in 2000 to 12.5 percent in 2003. For young adults, the situation is even worse. An estimated 16.5 percent of individuals ages 18 to 24 lived in poverty in 2003, up from 14.4 percent in 2000.

# Why Young Adults Should Be Concerned About the Deficit

The federal deficit and growing debt are important to young adults because today's fiscal mismanagement will directly affect the quality of their lives for years to come. For one thing, the growing burden of interest payments will squeeze out funding for investments in a better future, such as education, protecting the environment, and scientific research. Large chronic deficits also weaken the economy by driving up interest rates. Many of the dreams of young people — a successful and challenging career, a comfortable lifestyle — depend upon a thriving economy. Finally, deficits threaten the viability of Medicare and Social Security. While it will be many years before most of today's young people become eligible for Medicare and Social Security, they still benefit from strong social insurance programs. While the problem of chronic deficits may seem abstract to many, their effect on a young person's prospects is very real.

## A Growing Debt and Debt Tax Require Tradeoffs

Ultimately, the federal budget sets spending priorities. A dollar spent on tax cuts, for example, cannot be spent on something that younger people may consider a higher priority, such as student loans, without increasing the deficit. The federal government spent $159 billion in 2004 and will spend a projected $178 billion in 2005 to pay interest on the publicly held debt. The 2004 interest bill was more than twice the amount the government provided in financial aid for college students (much of which students will have to pay back with interest).[17] At some point, the debt will need to be paid down. Doing so will require tough choices, either in the form of higher taxes or dramatically cut services. When the time comes to pay the piper, today's 20- and 30-somethings will be the ones paying.

Deficits and their associated interest payments may be appropriate in certain temporary circumstances, such as during economic recessions, war, or other temporary challenges. But today's chronic, fast-growing deficits are not temporary in nature. Even excluding the future costs of the Iraq war, the President's policies would generate large deficits for the foreseeable future. These deficits are a result of a basic mismatch between tax policy and spending policy. The growing interest burden, or "debt tax," thereby forces ever-larger policy tradeoffs.

### What Individuals Could Have Bought in 2004

The $159 billion in interest paid on publicly held debt in 2004, combined with $163 billion in interest paid to the Social Security Trust Fund and other government trust accounts,[18] averages out to a staggering $1,100 "debt tax" for each American. For young Americans facing lower-paying jobs, higher housing costs, and mounting student loan and credit card debt, federal fiscal mismanagement just adds to their burdens. Consider just some of the things a young American could do with an extra $1,100 per year:

- Pay off 69 percent of the median credit card balance of $1,600 accumulated while in school[19];

- Make a down payment on a car;[20]
- Pay a rental security deposit equal to the first and last month's rent;[21]
- Purchase or make a significant contribution towards health insurance;[22]
- Purchase two or three business suits and one pair of shoes for a job or job interviews;
- Pay an annual car insurance premium;[23]
- Pay one-half of a typical annual student loan payment;[24] or
- Purchase a home computer.

**What Government Could Have Bought in 2005**

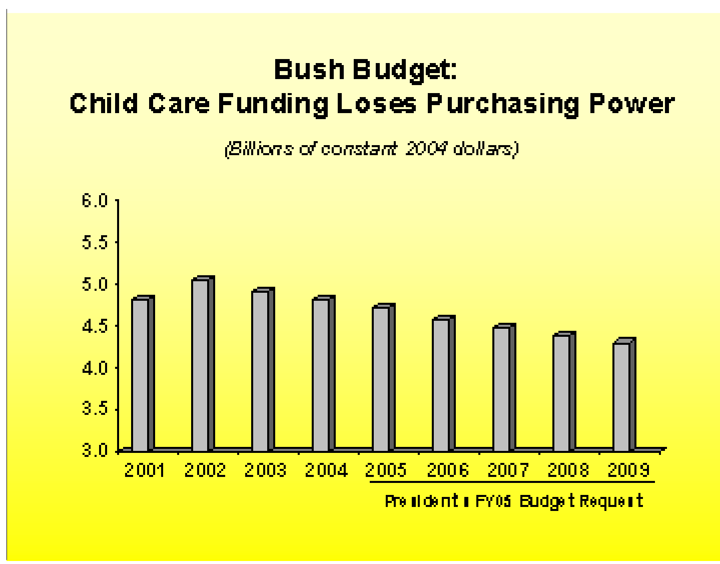
The $178 billion price tag for interest just on publicly held debt for 2005 represents money not available to provide college financial aid, help families secure affordable child care, or address an array of other issues important to Americans of all ages, such as homeland security or environmental protection. And it will get worse. The price tag for this Administration's huge deficits will more than double over the next decade, reaching a projected $418 billion in 2014 under the President's policies.[25] The Administration's policy of pursuing massive, deficit-financed tax cuts that mainly benefit the well-off is a major contributor to the growing burden of interest payments. The President's 2005 budget reflects the Administration's priorities and provides numerous examples of the tradeoffs affecting Americans' daily lives that arise when interest burdens grow. These tradeoffs illustrate the extent to which the Administration's priorities may not match those of young adults. The accompanying table provides illustrative examples of these tradeoffs.

| Which Would Help Young People More in 2005? | | |
|---|---|---|
| $178 billion for one year of interest payments, or... | ✓ | $325 million to protect vocational education funding levels, and... |
| | ✓ | $1.9 billion to raise the maximum Pell Grant award to $4,500, and... |
| | ✓ | $455 million to protect college students from the President's proposed new student loan fee, and... |
| | ✓ | $40 million to allow funding for child care subsidies for low-wage workers to keep pace with inflation, and... |
| | ✓ | $704 million to maintain the purchasing power of funding for homeland security first responders, and... |
| | ✓ | $38 billion to provide health insurance to all uninsured 18- to 35-year-olds,[26] and... |
| | ✓ | *still have $142 billion left over.* |

***Budget Restricts College Financial Aid and Increases Costs to Students*** — The President's budget raises costs on students who finance their educations with federal loans by requiring students to pay a one-percent insurance premium. This is estimated to increase total costs to students by $455 million in 2005, and by $1.1 billion over five years. The budget also cuts $99 million from the Perkins Loan program, and it fails to keep the maximum Pell Grant award even with inflation. Instead, the President's budget freezes the maximum Pell Grant at $4,050 for the third straight year, even though college costs have risen dramatically. Increasing the maximum Pell Grant to $4,500 for 2005 would help defray these inflationary effects, at a cost of $1.9 billion for 2005 and a total of $13.1 billion more than the President proposes over the next five years.

***Budget Cuts Vocational Education*** — The President's budget cuts vocational education grants by $325 million below what is needed to maintain the 2004 level of services. Over five years, the budget cuts vocational education by nearly $2 billion below what is needed to keep pace with inflation.[27] This cut occurs despite the President's emphasis on a "Jobs for the 21st Century" initiative to ensure that all students are ready to succeed in the workforce and in education after high school.

***Budget Reduces Availability of Quality, Affordable Child Care*** — The President's budget essentially freezes child care funding at the 2004 level through 2009, despite the higher demand for affordable child care that is expected to result from proposals to increase work requirements for welfare recipients. CBO estimates the new work requirements would increase state child care costs by $300 million in 2005 and $2.9 billion through 2009. The budget fails to accommodate these new costs. It projects the number of children served will decline by 300,000 by 2009, as a result of the declining purchasing power of frozen funding. Many states already have long waiting lists of working families who need help to afford quality child care. Maintaining the purchasing power of child care funding, and thereby preserving the current level of services, would cost roughly $40 million in 2005 and $1.2 billion over five years.




***Budget Fails to Improve Access to Health Care*** — The number of uninsured in this country grew by 1.4 million individuals in 2003, to a total of 45 million uninsured. Nearly 19 million of the uninsured are between the ages of 19 and 35. However, the President's budget does little to expand health coverage. The "uninsured" proposals advanced by the Administration spend $95 billion over ten years, but do little to decrease the ranks of the uninsured (perhaps covering two million new individuals) and may destabilize existing health insurance markets.[28] In comparison, providing health care to all 19 million uninsured young adults between the ages of 19 to 35 would cost approximately $38 billion in 2005.[29]

### Federal Budget Tradeoffs Affect State and Local Governments As Well

The federal government provides billions of dollars to state and local governments through a variety of programs for a vast array of services: education, child care, health, environmental protection, transit, and revitalization of blighted neighborhoods, to name just a few. The growing burden of federal interest payments puts pressure on the federal government to reduce spending on such activities, in which case state and local governments must take up the slack. Numerous state and local governments have already raised taxes and cut services in recent years to balance their books in the aftermath of budget deficits that emerged when the economy slowed down. These tax increases and service cuts in some instances may fully offset any benefit that young families have received from federal tax cuts. That is because state and local taxes tend to be more regressive than federal taxes, and because young families tend to be less well-off and therefore more likely to be affected by service cuts in areas such as child care and health.

## Structural Deficits Undermine the Economy by Raising Interest Rates

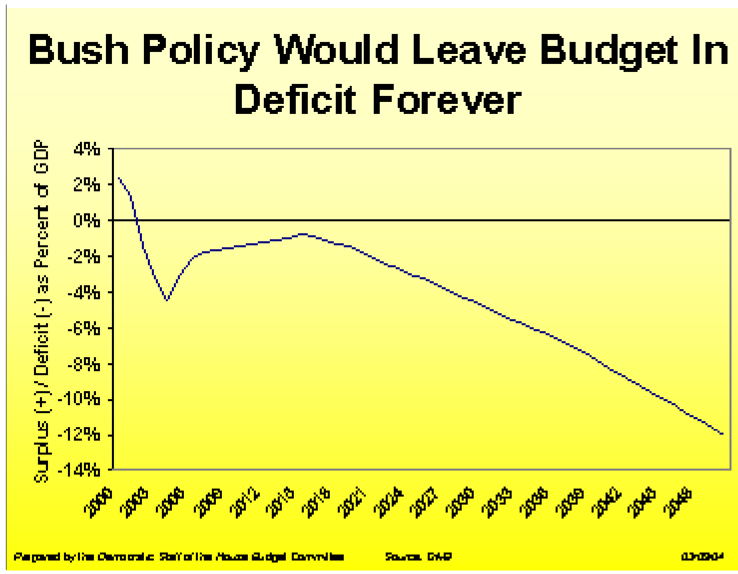
CBO currently projects an annual deficit of $422 billion in 2004, the largest deficit in U.S. history. While it is important to recognize that short-term deficits can be necessary and even desirable, such as to help the economy recover from a recession, that is not the situation today. Our current deficits are not short-term in nature. Deficits cause trouble when they occur year after year, in amounts large enough to cause the public debt to continually grow faster than the economy. Such structural deficits occur when there is a fundamental mismatch between the government's tax policy and its spending policies. *That* is the situation the United States is in today. These spiraling budget deficits and the resulting increase in the public debt are likely to drive up interest rates. Higher interest rates affect the economy and by extension the lives of all Americans.

***High Public Debt Results in High Interest Rates* —** When the public debt (that is, the accumulated total of all previous annual deficits and surpluses) grows at a faster rate than the economy, at some point interest rates start to rise. The federal government is by far the largest player in the credit markets, so when the federal government increases its borrowing, there is less credit available to everyone else. Interest rates — the price of borrowing money — rise for everyone. It is the law of supply and demand.

***High Interest Rates Are a Drag on the Economy* —** When it becomes more expensive to borrow money, businesses are less likely to undertake expansion projects or other investments that generate jobs and opportunities. While the public debt is not the only factor that determines interest rates — what's going on in the worldwide economy and Federal Reserve actions also play a role — the role of the public debt is significant. The International Monetary Fund warned earlier this year that a projected 15 percentage point increase in the U.S. public debt relative to the size of the American economy over the next ten years would lead to higher interest rates and may prove to be a long-term barrier to economic growth not just in the United States, but in other countries as well.[30]

***President's Policies Put U.S. on Path Toward Higher Debt and Interest Rates*** — Under the President's tax and spending policies, and accounting for hidden costs that are likely to occur,[31] the House Budget Committee Democratic staff projects the size of the debt relative to the economy will grow from 36 percent in 2003 to 45 percent in 2014.[32]

***High Interest Rates Affect Young Adults*** — What do the economic effects of chronic federal deficits mean for young Americans? To put it in perspective, look at how a large and growing federal debt affects young adults at the major points in their lives.




**Graduation**

There are many new responsibilities to face after graduation. Unfortunately, the effect on interest rates of an ever-growing public debt can leave recent graduates with fewer resources to make this transition successfully.

- ***Interest Payments on Student Loans*** — Many student loans come with variable rates of interest. As interest rates rise, graduates will find that they need to devote more of their take-home pay to meet their obligations. Students graduate with an average of $18,900 in debt. If current interest rates were to rise by one percentage point, the average graduate would have to pay an extra $108 per year.

**Starting That First Full-Time Job**

Starting a first job and getting out on one's own for the first time can be daunting, and along with new responsibilities come new expenses. Rising interest rates caused by chronic large deficits can affect these, too.

- ***Credit Card Rates***— A new job may require new clothes, particularly for someone starting their first office job. Getting out on one's own for the first time may mean renting and furnishing an apartment or a house with friends. These costs add up, and usually require large upfront expenditures, so it may make sense to charge it to a credit card. In fact, the median college graduate has $1,600[33] in credit card debt. Furthermore, 27 percent of graduates reported using credit cards to finance part of their undergraduate study. Their median debt was $3,400.[34] However, the interest payments on this credit card debt are based on variable rates. Because credit card interest rates are closely tied to various market interest rates, paying off this debt could take longer than expected when interest rates increase.

- ***Car Loans*** — A new job may be miles from home, or not easily accessible by public transportation, so it may be necessary to buy a car. However, financing depends on income and credit history, so it seems unlikely that a young person with an entry-level salary and a short credit history would qualify for the cheapest financing. Rising interest rates will make financing a new or used car a more expensive proposition. If car loan rates rise to 10 percent from 7 percent today, the payments on an entry-level car, such as a Saturn Ion Sedan with a list price of $10,995, will increase by $180 per year.[35]

- ***Wage Growth*** — Pay raises, promotions, and bonuses depend on how well one's employer is doing. When an employer expands its business, there is more opportunity. However, just as chronic deficits raise the cost of borrowing for individuals, they also impose additional costs of borrowing on businesses. Expansion projects that might have made sense with lower interest rates under a balanced federal budget or manageable deficits may be canceled when federal borrowing pushes interest rates too high. Many economists fear that a rising federal debt may be felt throughout the economy in the form of reduced job opportunities.

### Purchasing a Home

After getting on sound financial footing and saving for a down payment, it may be time to enter the world of real estate investment by buying a house or condominium.

- ***Mortgage Interest Rates*** —One of the most beneficial legacies of the fiscal prudence displayed in the 1990s was a continued decline in the interest charged on mortgages. These low rates made home ownership a reality for many young workers and simultaneously helped fuel a boom in housing values. But prolonged deficits threaten to return mortgage rates to their levels in the 1980s. If interest rates rise by one percent by the end of the year, that's about $1,200 in extra interest payments annually for a $150,000 30-year fixed rate mortgage.

### Children and Community

No matter the income level, starting a family is a challenge. The challenge grows as higher interest rates drain resources away from investments that benefit families. The rising cost of debt forces tradeoffs not only at the federal level, but at the state and local level as well.

- ***Interest Rates Affect State and Local Government Services and Taxes*** — State and local governments usually pay for major projects – such as building schools, hospitals, transit improvements, or college campuses – by selling bonds and using tax revenues to pay them off over time, with interest. A deficit-driven increase in interest rates would raise the costs of these public projects. State and local governments would respond either by raising taxes or forsaking projects that bear directly on improving local quality of life for current and future generations. For example, as interest rates rise, fast-growing towns may find it impossible to build new schools quickly enough to handle growing enrollments unless they raise taxes.

## Chronic Deficits Weaken Future of Social Security and Medicare

Do you think young adults won't get anything from Social Security or Medicare? Or for that matter, that they aren't getting anything from Social Security or Medicare now? Think again. Social Security and Medicare are time-tested programs that not only shield senior citizens from financial ruin, but protect young people as well. These programs probably benefit many more people indirectly than they do through direct delivery of benefits. But chronic structural budget deficits undermine the ability of the government to keep these programs strong for current and future generations. Social Security and Medicare will face growing costs when the baby-boom generation starts retiring just a few short years from now. Chronic federal deficits will reduce the ability of Congress to address the long-term needs of Social Security and Medicare in a constructive and equitable way across generations.

### Benefits for Grandparents Help Their Children and Grandchildren, Too

Social Security and Medicare benefits for our elders help entire families. Some people talk about going back to the "good old days" when there was no Social Security, and people took care of themselves. What did that mean? Usually, that grandma and grandpa lived with their children, and counted on them for food and other support. In fact, most older people used to be afraid of "outliving their money." When that happened, the burden spread to their children and grandchildren.

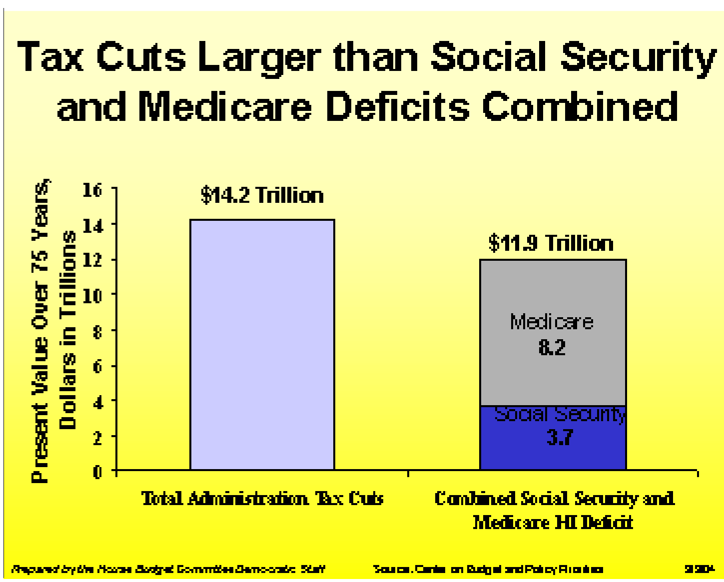
Social Security protects retirees from that risk. Guaranteed benefits with protection against inflation for a long period of time require an agreement among the entire society. Social Security is just such an agreement. Building on that secure foundation, people can save for themselves to achieve a higher income for the future. But without that kind of foundation, it is always possible for things to go badly wrong — leaving individuals and entire families to fend for themselves. What would happen today if Social Security disappeared? Most likely, a lot of younger people would have to scale back investments in their own future to pick up the slack for their elders. And without Medicare, many seniors would have no health insurance — after all, Medicare was created to respond to the lack of private insurance available to seniors. Without Medicare, the cost of health care would be a large financial burden for seniors and their families.

### Young Families Benefit from Social Security's Insurance Against Death or Disability

Social Security provides direct help for young families as well as for senior citizens. Its survivor benefits are like a life insurance policy, providing vital support to a stay-at-home parent and children after the death of a family's primary earner. Social Security and Medicare also help families when earners become unable to work due to disability. In fact, 10 percent of Medicare benefits go to the disabled,[36] and one-third of Social Security benefit dollars go to survivors and disabled workers, not to retirees.

### Social Security and Medicare Face Challenges Ahead, and Today's Deficits Do Not Help

The aging of the baby-boom generation will pose a challenge to Social Security and Medicare. A responsible government would begin preparing now for the challenge that we know lies ahead, just as a responsible family saves up to meet future expected expenses. A middle-income parent planning to send a child to college, for example, will try to put away a little money every year for those future tuition bills, even if that means giving up some other desirable things, such as a vacation or a new car. The Bush Administration and the Republican Congress, however, have instead pursued a trillion-dollar agenda of deficit-financed tax cuts that has weakened the government's long-term fiscal position and will make it more difficult to address the financial challenge posed by the impending retirement of the baby-boom generation. The Administration and the Republican Congress are behaving like two parents of a teenaged child who decide to quit their jobs, cash out their child's college fund, and spend a year traveling around the world.



# Conclusion

Budgets are not just dull collections of numbers. Budget are about values, and deficits are not just an accounting problem, they are a moral problem. Deficits represent the failure of the current generation to confront the real choices facing our society. As a result of this failure, today's young adults in their 20s and 30s, as well as their children and grandchildren, will be forced to repay the record amounts of debt the government is borrowing today. The Administration dismisses these deficits as "manageable," but large chronic deficits threaten our economic strength, crowding out private investment, driving up interest rates, raising federal interest payments, slowing economic growth, and reducing the resources available for programs and activities — such as education, health, and Social Security — that are crucial to the future prospects of today's young people.

**Endnotes**

1. Assumes a 30-year-old who began working upon college graduation at age 22 in 1996 and earns the Social Security Administration's average wage up until retirement (1996 through 2041). SSA average wage in 2014 and on extrapolated using SSA's long-term expected wage growth of 3.9 percent annually. Total lifetime earnings in nominal dollars equals $3.2 million.

2. *College on Credit: How Borrowers Perceive their Education Debt,* Results of the 2002 National Student Loan Survey, Nellie Mae, 2003.

3. "The Employment Situation: August 2004," U.S. Department of Labor, Bureau of Labor Statistics, September 3, 2004.

4. *Health Insurance Coverage in America, 2002 Data Update*, The Kaiser Commission on Medicaid and the Uninsured, December 2003. Analysis of 2002 CPS data, uninsured rate for adults ages 19 to 24.

5. House Budget Committee Democratic Staff projection. Includes costs that are likely to occur but are excluded from the President's budget, such as the cost of ongoing operations in Iraq, reforming the Alternative Minimum Tax, and realistic amounts necessary to maintain services provided by domestic discretionary programs.

6. *Distribution of Individual Income, Corporate, and Estate Tax Change by Cash Income Percentiles, 2004* (Table T04-0052), Urban-Brookings Tax Policy Center, April 15, 2004. The average tax cut for the second lowest income quintile (median annual income of approximately $20,000) of $317. As a point of comparison, the mean earnings of a full-time worker between the ages of 18 and 24 is $23,199 (Census Bureau, Current Population Survey, 2003).

7. *Ibid*.

8. U.S. Department of Labor, Bureau of Labor Statistics, op. cit.

9. Based on monthly employment data released by the U.S. Department of Labor, Bureau of Labor Statistics.

10. U.S. Department of Labor, Bureau of Labor Statistics, September 3, op. cit.

11. "Jobwatch," Economic Policy Institute, August 6, 2004.

12. 2003 Current Population Survey, as analyzed by the Congressional Research Service. Also, *Health Insurance Coverage in America, 2002 Data Update*, December 2003, Kaiser Family Foundation.

13. Nellie Mae, op. cit.

14. *Ibid*.

15. Credit Card Survey by Myvesta.org, December 2003.

16. Nellie Mae, op. cit.

17. *Trends in Student Aid*, The College Board, October 7, 2003, p. 4.

18. For more information about the components of the federal debt, see *Federal Debt: Answers to Frequently Asked Questions,* GAO-04-485SP, United States Government Accountability Office, August 2004.

19. Nellie Mae, op. cit.

20. Constitutes a 4 percent down payment on the average new car price of $28,000 in 2004 according to the National Association of Automobile Dealers, Motor Trend, and JD Power and Associates.

21. Based on rental information from the U.S. Bureau of the Census, “Housing Cost of Renters: 2000,” Census 2000 Brief, May 2003.

22. Based on average annual premium cost for single worker for employer-sponsored insurance of $508 and annual premium cost for individual health insurance for 18- to 24-year-old of $1,380. *Kaiser/HRET Employer Health Benefits 2003 Survey,* September 2003, Kaiser Family Foundation and *Update on Individual Health Insurance*, August 2004, Kaiser Family Foundation/ehealth Insurance.

23. Based on an average insurance premium of $871 for 2004 from the Insurance Information Institute. Costs for a “young American” would be higher.

24. Based on a monthly education loan payment of $185 and an average debt load of $19,800 at a 3.37 percent interest rate paid over 10 years.

25. House Budget Committee Democratic Staff projection. Includes costs that are likely to occur but are excluded from the President’s budget, such as the cost of ongoing operations in Iraq, reforming the Alternative Minimum Tax, and realistic amounts necessary to maintain services provided by domestic discretionary programs.

26. Based on 20 million uninsured (2002 CPS data) trended forward and per capita health spending for 19- to 35-year-olds (2001 MEPS data), trended forward to 2005 at 30.4 percent for the 2001-2005 period (based on HHS per capita health spending projections).

27. Assuming a proportional cut to vocational and adult education programs.

28. See *Unfair and Unbalanced: Summary and Analysis of the Fiscal Year 2005 Bush Budget*, House Budget Committee Democratic Staff, February 2004, p. 86.

29. See Endnote 26.

30. *U.S. Fiscal Policies and Priorities for Long-Run Sustainability,* Occasional Paper 227, International Monetary Fund, January 7, 2004.

31. These hidden costs include the likely cost of ongoing operations in Iraq and the cost of long-term reform of the Alternative Minimum Tax (AMT). Without such reform, millions of middle-class taxpayers eventually will be forced to pay higher taxes, even though the original intent of the AMT was to limit the extent to which the wealthiest households could avoid tax liability through the use of numerous deductions and credits in the tax code.

32. House Budget Committee Democratic staff projection.

33. Nellie Mae, op. cit.

34. *Ibid.*

35. Chase Automotive Finance available rates, August 12, 2004, for borrower with "Good" credit.

36. *Healthcare Spending and the Medicare Program, A Data Book,* Medicare Payment Advisory Commission, June 2004.