

# HOUSE BUDGET COMMITTEE

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August 26, 2003

## Republicans Oversee Largest Deficits in History: Summary and Analysis of CBO's Updated Budget and Economic Outlook

### Summary

Today the Congressional Budget Office (CBO) released its *Update* of the Budget and Economic Outlook, which shows that the budget has deteriorated substantially since its last forecast, in March. CBO projects that the 2003 deficit will be the largest in American history, \$401 billion, and that the 2004 deficit will set another record, \$480 billion. As bad as this picture is, the true extent of the deficits will be even worse, because CBO's estimates cannot include the cost of policies likely to be passed but not yet enacted.

The Bush Administration and Congressional Republicans have played a major role in producing the dramatic fiscal reversal that has occurred since January 2001. The time is long overdue for them to take responsibility for their actions and to begin to address the problem.

- ***Largest Deficits in History*** — CBO's projections show the largest deficits in American history. The *Update* shows a 2003 unified deficit of \$401 billion and an on-budget deficit of \$562 billion. For 2004, CBO projects mounting deficits — a \$480 billion unified deficit and a \$644 billion on-budget deficit — even if the economy recovers.
- ***Budget Continues to Deteriorate*** — The CBO projections show substantial worsening relative to its most recent report. The 2003 deficit is \$155 billion larger than anticipated by CBO in March. Since May 2001, every successive CBO forecast has projected lower surpluses and higher deficits than the previous forecast. The budget problem continues to worsen, and the Administration still offers no plan to return the budget to balance. Instead, the President's *Mid-Session Review* calls for \$878 billion in additional tax cuts over the next decade.
- ***True Extent of Deficit Problem Even Worse Than CBO Numbers*** — It is important to recognize that CBO's estimates understate the size of the deficit

problem. Its projections are “baseline” estimates which do not reflect the cost of the enactment of additional policies — either those openly advocated by the Administration (like a Medicare prescription drug plan), or those almost certain to occur but which the Administration refuses to acknowledge (like fixing the Alternative Minimum Tax.)

- ***More Realistic Estimates Show Stunning Fiscal Reversal*** — Taking account of the cost of items that CBO cannot include in its baseline estimates yields an even more discouraging picture. On a year-by-year basis, the unified budget remains in deficit by at least \$295 billion in perpetuity. Excluding Social Security, annual deficits exceed \$495 billion in perpetuity. The cumulative budget over 2002-2011, which was a \$5.6 trillion surplus when President Bush took office, has deteriorated to a \$3.3 trillion deficit — a swing of nearly \$9 trillion. Excluding Social Security from the computations, the deficit for 2004 is 5.6 percent of Gross Domestic Product (GDP), a level exceeded only once since World War II.

## **Detailed Analysis**

### **1. Budget Picture Continues to Worsen**

The CBO forecast shows that the deficit problem continues to grow more severe. The CBO forecast projects a 2003 deficit of \$401 billion, which is \$155 billion worse than CBO’s most recent projection, issued in March. In fact, since May 2001 every successive CBO forecast has projected a worse budget picture relative to the previous forecast. In 2001, CBO projected a unified surplus for 2003 of \$359 billion. Today’s estimate of a \$401 billion unified deficit for 2003 thus represents a deterioration since the current Administration took office of \$760 billion for 2003 alone.

### **2. Magnitude of Deficits Is Understated**

As bad as the CBO projections look, the unfortunate fact is that the true picture is even worse. The Budget Act requires CBO to make a baseline projection — that is, one that assumes that current policy remains essentially unchanged. In particular, the CBO baseline does not include the following likely costs (*See attached chart “CBO’s Baseline Does Not Include”*):

- Medicare prescription drug coverage,
- Repeal of sunsets of various expiring tax cuts (*See attached chart “Extending Expiring Tax Provisions”*),
- Fixing the growing problem of the Alternative Minimum Tax (AMT), and
- Administration plans to increase defense spending above baseline (*See attached chart “Potential Defense Spending Excluding Future Costs of War on Terrorism”*).

### 3. More Realistic View Shows Deficit Problem To Be Even Worse

The House Budget Committee Democratic staff has constructed an alternative estimate, which includes likely additional costs that CBO cannot include in its baseline projections. The estimate takes as its starting point CBO’s new August baseline (including the assumed levels of strong economic growth built into the baseline), and then adjusts to account for the enactment of a prescription drug bill and the enactment of the remaining Republican agenda, including the President’s defense buildup and proposed tax cuts. The alternative estimate makes an adjustment to remove the assumption contained in the CBO baseline that the full amount of the Iraq war supplemental passed earlier this year will be an annual, rather than a one-time, cost. Finally, the estimate includes the cost of the repair of the ballooning individual alternative minimum tax (AMT), which according to Administration estimates will extend its reach from about 1.5 million taxpayers in 2001 to about 39 million taxpayers in 2012.

The attached table “August Update Budget Outlook With Limited Republican Agenda” shows the results:

- ***Large Annual Deficits As Far As the Eye Can See*** — The unified budget remains in deficit of at least \$295 billion in perpetuity.
- ***Deficits Rising At the End of the Decade*** — After deficits of \$401 billion in 2003 and \$465 billion in 2004, the budget improves only to a \$295 billion deficit in 2007, and then rises to a \$363 billion deficit in 2013.
- ***Largest Fiscal Reversal in History*** — The cumulative budget over 2002-2011, which was a \$5.6 trillion surplus when President Bush took office, has deteriorated to a \$3.3 trillion deficit — an adverse swing of nearly \$9 trillion. (See chart “*Surplus Declines \$8.9 Trillion Under Administration Policies.*”)
- ***Excessive Deficits As a Percentage of Gross Domestic Product*** — Unified deficits remain at a level of at least 2.0 percent of GDP through the end of the budget window.
- ***Growing Ratio of Public Debt to GDP*** — The ratio of debt held by the public to GDP increases steadily, reaching 42 percent in 2013.

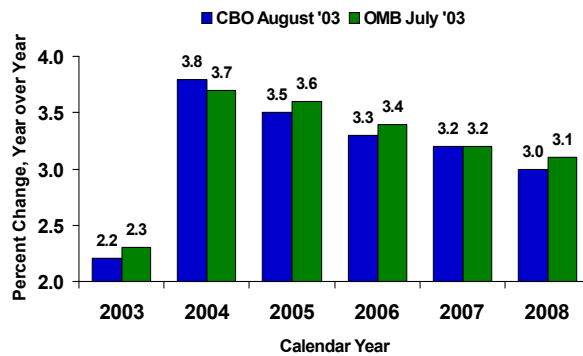
### Surplus Declines \$8.9 Trillion Under Administration Policies

Unified Budget Surplus, Trillions of Dollars

	2002-2011
January 2001	5.610
August 2001	3.397
January 2002	1.601
August 2002	0.336
March 2003	-0.377
August 2003	-2.327
Republican Agenda	-3.277

- ***On-Budget Deficits Exceed More Than Half a Trillion Dollars Per Year*** — Omitting Social Security from the computations, the deficit is \$562 billion in 2003, never falls below \$496 billion in subsequent years, and rises to \$680 billion in 2013.
- ***Ten-Year On-Budget Deficit Exceeds \$5 Trillion*** — The cumulative non-Social Security deficit over 2002 through 2011 is \$5.4 trillion.
- ***Strong Economic Growth Already Assumed*** — These projections already assume the solid and sustained economic recovery that CBO includes in its forecast. The economy must outperform that comparatively optimistic forecast for the budget to improve upon these projections. (See chart “Budget Projections Already Assume Strong Growth.”)

### Budget Projections Already Assume Strong Growth



Should the Administration and Congressional Republicans also pursue the full elimination of taxation of dividend income and a permanent bonus depreciation benefit — or should there be any equivalent additional pressure on the budget, whether from policy or bad news — then the outlook would be even worse:

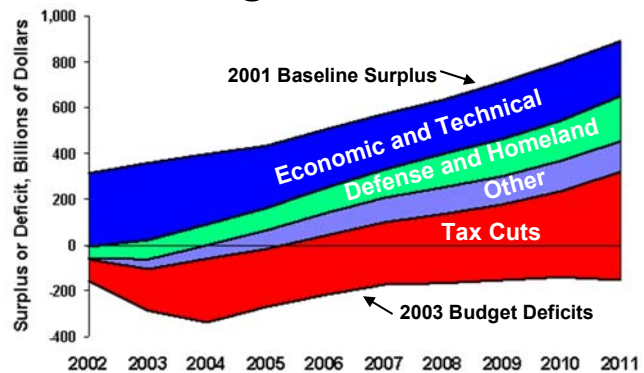
- ***Larger Unified Deficits*** — The unified budget remains in deficit of more than \$379 billion in perpetuity, and rises to \$509 billion in 2013.
- ***Larger Fiscal Reversal*** — The cumulative budget over 2002-2011 deteriorates to a \$3.9 trillion deficit — an adverse swing of almost \$10 trillion.
- ***Worse Deficits as Percentage of GDP*** — Unified deficits fall below 2.9 percent of GDP in only one year (2012, at 2.8 percent).

- **Worse Ratio of Debt Held By the Public to GDP** — The ratio of debt held by the public to the GDP increases in every year, reaching 47 percent in 2013. This is just below the peak of 49.5 percent reached at the end of the first Bush Administration.
- **Worse Ratio of On-Budget Deficits to GDP** — Omitting Social Security from the computations, the deficit for 2004, at 5.8 percent of GDP, is the second largest since World War II. (The largest was 6.0 percent, in 1983.) It rises to \$825 billion in 2013. The cumulative non-Social Security deficit over 2002 through 2011 is \$6.1 trillion.

#### 4. Republican Tax Cuts Have Driven the Budget Into Deficit

- **No Tax Cuts, No Long-Term Deficits** — The Bush Administration and Congressional Republicans have sought to minimize the role that their own policies have played in producing this massive fiscal reversal. Yet, as the chart “Republican Tax Cuts Keep Budget In Deficit” shows, we would not be facing the long-term deficits that we now confront were it not for the Administration’s tax cuts.

#### Republican Tax Cuts Keep Budget in Deficit



Sources: CBO 2001 Budget and Economic Outlook, 2003 Re-Estimate of the President's Budget  
 Prepared by the Democratic Staff of the House Budget Committee 07/23/03

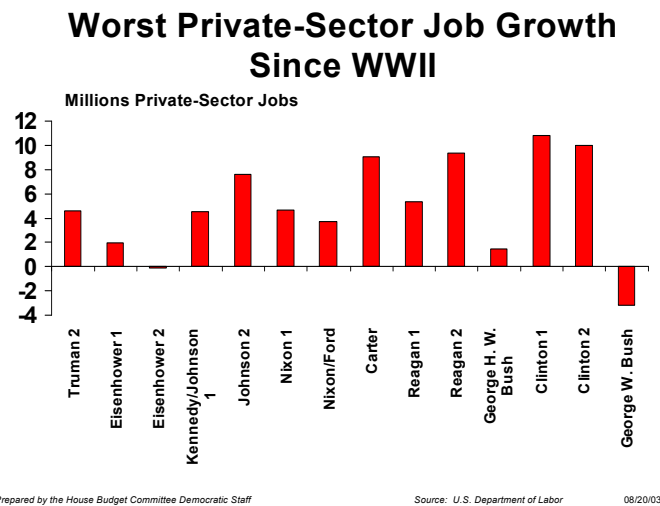
- **Administration Said That Economic Slowdown Had Been Factored In** — To be sure, costs associated with the war on terrorism and responding to September 11 have reduced the bottom line, as have the effects of a weak economy. But when promoting his 2001 tax cuts, the President assured us that the tax cuts would not create deficits, *even in the event of an economic slowdown*. During his March 2001 speech at Western Michigan University, President Bush stated:

**Tax relief is central to my plan to encourage economic growth, and we can proceed with tax relief without fear of budget deficits, even if the economy softens. Projections for the surplus in my budget are cautious and conservative. They already assume an economic slowdown in the year 2001.**

## 5. Republican Tax Cuts Have Failed to Improve Worst Economic Record in Decades

Republicans have passed a series of tax cuts that have driven the budget into deficit while failing to improve the economy. As suggested in the attached charts “The Bush Economic Record” and “Worst Private-Sector Job Growth Since WWII,” since the current Administration took office in January 2001, the economy has experienced:

- ***Declining Employment*** — The economy has lost 3.2 million private-sector jobs — the worst record for any President since Herbert Hoover — while long-term unemployment has tripled;



- ***Sluggish Growth*** — Real GDP growth has averaged a mere 1.6 percent, the worst record for any President since World War II; and
- ***Falling Investment*** — Real business investment has fallen 10.4 percent, also the worst record for any President since World War II.

By contrast, Democrats have proposed fiscally responsible tax cuts that would boost the economy.

## 6. Republican Deficits Mean Trillions in Wasted Interest Payments

- ***Dramatic Reversal*** — When this Administration took office, it projected that it could fund its full defense buildup, provide a Medicare prescription drug benefit, strengthen the solvency of Social Security, pay off the public debt by 2011, and, with the money still left over, implement its entire tax cutting program. Now, House Budget Committee Democratic staff estimates payments on the debt will be \$359 billion in that year.

Interest payments on the national debt — while necessary — waste precious resources that could otherwise be used to strengthen Social Security, fund other national priorities, or provide tax relief for working families.

- ***Average Americans Will Have to Pay “Debt Tax”*** — The costs of these interest payments will be paid by American taxpayers — burdening them with a “debt tax.” Under current projections, every family of four will have to pay, on average, \$4,579 in 2011 to fund the interest costs on the public debt. This contrasts sharply with the picture the Administration painted in February 2001, when it claimed that by 2011 there would be no debt held by the public left that would require interest payments. The \$4,579 debt tax on the average family of four in 2011 is roughly double the figure for 2002.

## **7. Republicans Offer No Solutions, Only More of the Same Failed Policies**

The Administration has offered nothing in the way of solutions to the deficit problem that its policies have created.

- ***Strong Economic Growth Already Assumed*** — While the Administration claims that strong economic growth is the solution to the budget deficit problems, CBO’s projections already build in an assumption of strong economic growth. CBO’s projections assume economic growth in the neighborhood of three percent annually over the next several years. The Administration’s estimates also assume a robust recovery. (See attached chart “Budget Projections Already Assume Strong Growth.”)
- ***Digging the Hole Deeper*** — In fact, the Administration proposes to dig the deficit hole still deeper, proposing more fiscally irresponsible tax cuts. The Administration has already proposed to make permanent most of the tax cuts passed in 2001 and 2003, to the tune of \$878 billion in additional tax cuts. Just last week, the President indicated that additional tax cuts for business were still a possibility, contradicting previous statements from OMB Director Joshua Bolten.

## **8. CBO 2003 Deficit Number of \$401 Billion Represents No Improvement From Earlier OMB Number**

While at first glance CBO’s 2003 unified deficit estimate of \$401 billion may appear to be an improvement over OMB’s July estimate of \$455 billion, in fact that appearance is misleading. Except for a \$15 billion downward revenue estimate made by OMB “in the interest of cautious and prudent forecasting,” there is little difference between OMB’s estimate of 2003 revenues and the estimate made by CBO. On the spending side, CBO anticipates that some spending that OMB assumed would take place in 2003 (mainly for defense purchases) will instead take place in 2004. This difference reflects a differing view of *when* certain outlays will occur, but both estimates assume that the funds — which have already been appropriated — will be spent. So, despite these surface differences, CBO’s 2003 deficit number is essentially consistent with the number OMB released in July.

**AUGUST UPDATE BUDGET OUTLOOK WITH LIMITED REPUBLICAN AGENDA**

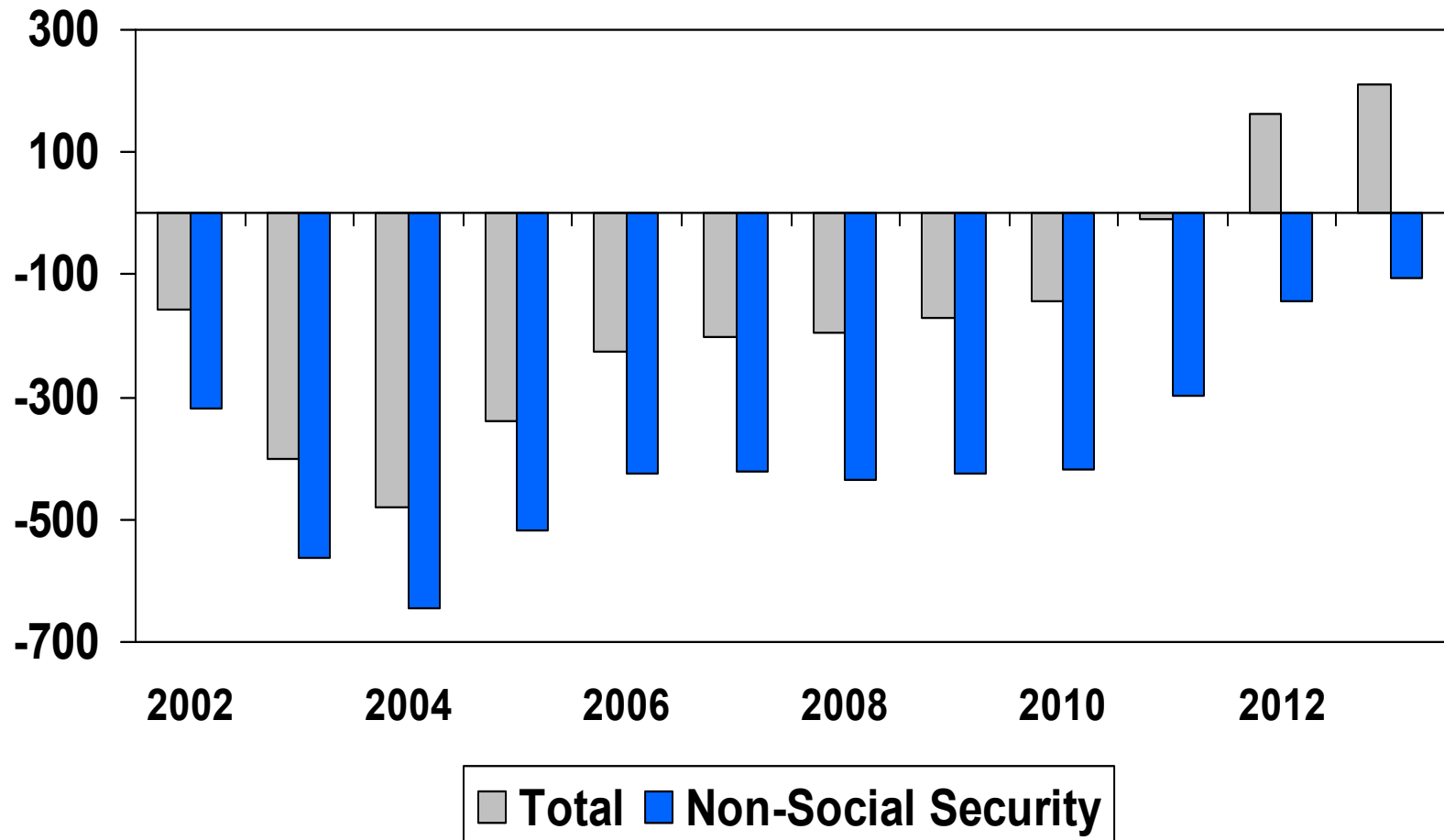
CBO Assumptions, Fiscal Years, Billions of Dollars; Surplus Is Positive

<b>CBO August Baseline</b>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2004-2013</u>	<u>2002-2011</u>
Unified Surplus	-158	-401	-480	-341	-225	-203	-197	-170	-145	-9	161	211	-1,397	-2,327
On-Budget Surplus	-317	-562	-644	-520	-425	-421	-434	-426	-417	-298	-143	-105	-3,833	-4,464
Off-Budget Surplus	160	162	164	179	199	219	237	255	273	289	304	317	2,436	2,137
<b>Omitted Costs</b>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2004-2013</u>	<u>2002-2011</u>
<b>DISCRETIONARY</b>														
Bush Defense Increase	--	0	0	-2	-8	-13	-22	-28	-32	-34	-36	-38	-212	-139
Remove Permanent Iraq Supp	--	0	37	68	79	83	86	88	91	94	95	98	818	626
Further Cost of War	--	0	-32	-48	-45	-36	-27	-22	-22	-22	-23	-23	-300	-254
<b>REVENUES</b>														
Extend 2003 Tax Cuts	--	0	-1	-15	-28	-29	-23	-25	-37	-41	-44	-48	-290	-198
Other Bush MSR Tax Cuts	--	0	13	4	2	1	-1	-7	-2	-132	-231	-238	-592	-124
AMT Repair	--	0	0	-14	-38	-48	-60	-75	-91	-109	-128	-149	-712	-435
<b>MANDATORY</b>														
Medicare Rx	--	0	-3	-9	-32	-44	-49	-56	-62	-69	-77	-85	-484	-322
<b>Total Change</b>	0	0	15	-16	-70	-86	-97	-125	-154	-314	-443	-482	-1,772	-847
Debt Service on Above	0	0	0	0	-2	-6	-11	-18	-27	-41	-64	-92	-260	-104
<b>Resulting Deficit</b>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2004-2013</u>	<u>2002-2011</u>
Unified Surplus	-158	-401	-465	-356	-297	-295	-305	-313	-325	-364	-346	-363	-3,429	-3,278
On-Budget Surplus	-317	-562	-629	-535	-496	-514	-542	-568	-598	-653	-650	-680	-5,865	-5,415
Deficit With Policy, % of GDP	-1.5%	-3.7%	-4.1%	-3.0%	-2.4%	-2.2%	-2.2%	-2.1%	-2.1%	-2.3%	-2.0%	-2.0%	N.A.	N.A.
On-Budget	-3.1%	-5.2%	-5.6%	-4.5%	-4.0%	-3.9%	-3.9%	-3.9%	-3.9%	-4.1%	-3.8%	-3.8%	N.A.	N.A.
<b>Debt Held By The Public</b>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2004-2013</u>	<u>2002-2011</u>
CBO 2001 Baseline Debt	2,870	2,537	2,157	1,738	1,246	682	54	-651	-1,444	-2,314	N.A.	N.A.	N.A.	N.A.
CBO Current Baseline Debt	3,540	3,986	4,443	4,790	5,027	5,242	5,450	5,631	5,784	5,800	5,645	5,438	N.A.	N.A.
Debt With Policy	3,540	3,941	4,406	4,762	5,059	5,354	5,659	5,972	6,297	6,661	7,007	7,370	N.A.	N.A.
Difference	670	1,404	2,249	3,024	3,813	4,672	5,605	6,623	7,741	8,975	N.A.	N.A.	N.A.	N.A.
Debt With Policy, % of GDP	34%	37%	39%	40%	40%	41%	41%	41%	41%	41%	41%	42%	N.A.	N.A.



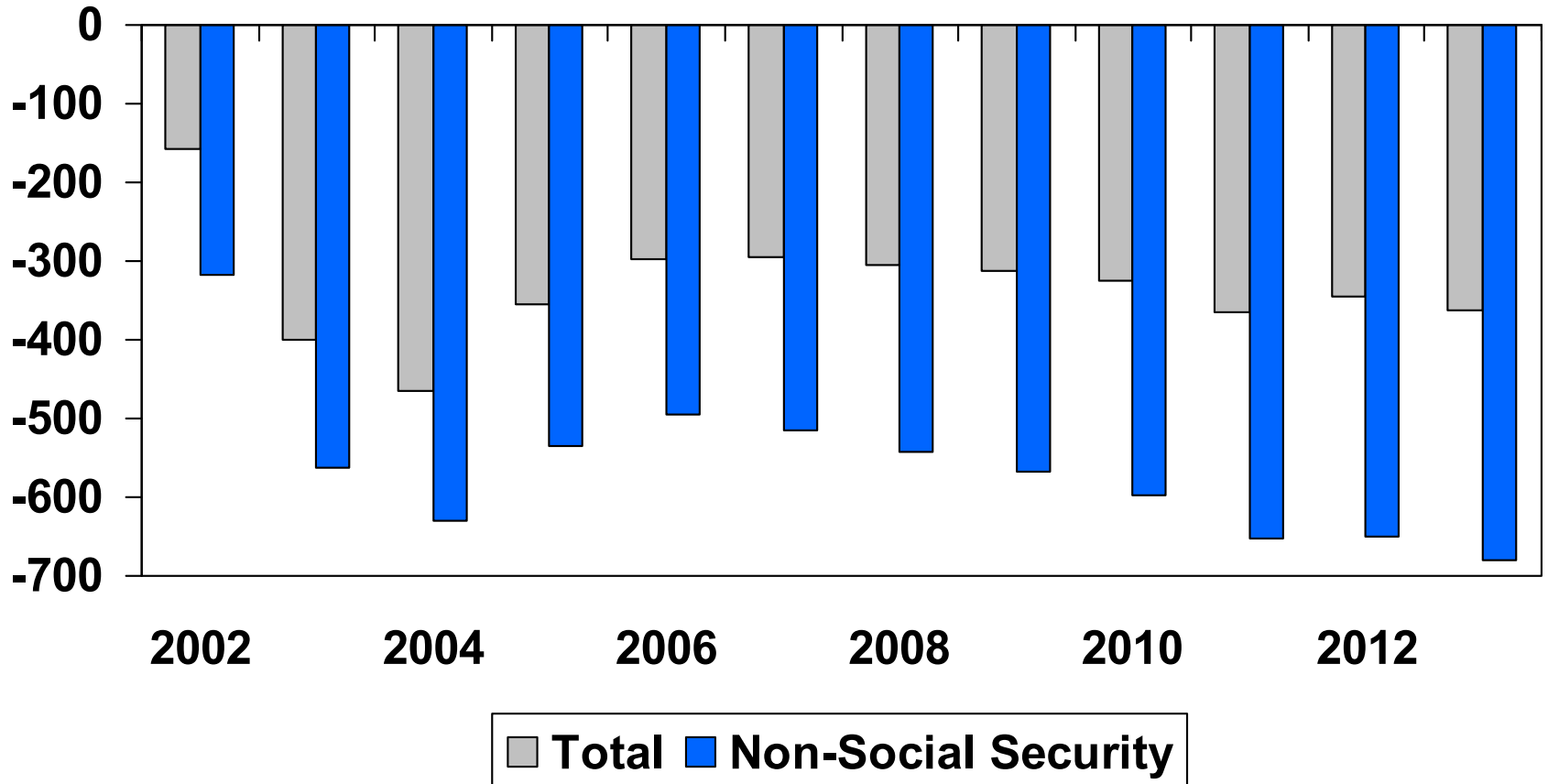
# New CBO Budget Outlook

Baseline Deficit or Surplus, Billions of Dollars



# Grim Budget Outlook Under Republican Policies

Federal Deficit or Surplus, Billions of Dollars



# Surplus Declines \$8.9 Trillion Under Administration Policies

Unified Budget Surplus, Trillions of Dollars

	<b>2002-2011</b>
January 2001	5.610
August 2001	3.397
January 2002	1.601
August 2002	0.336
March 2003	-0.377
August 2003	-2.327
Republican Agenda	-3.277

# **CBO's Baseline Does Not Include:**

- **Repealing tax cut sunsets & renewing tax extenders**
- **Protecting middle-class families from alternative minimum tax**
- **Providing a Medicare prescription drug benefit**
- **Enacting President's existing proposals to increase defense spending**
- **Addressing natural disasters like hurricanes, wildfires, tornadoes, floods, and earthquakes**

# Extending Expiring Tax Provisions Would Lower Revenues By \$1.6 Trillion over 2004-2013

**Table 3-11.**  
**Effect of Extending Tax Provisions That Will Expire Before 2013**  
(In billions of dollars)

Tax Provision	Expiration Date	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total, 2004-2008	Total, 2004-2013
<b>Provisions Expiring in 2003</b>														
IRS User Fees	9/30/2003	n.a.	**	**	**	**	**	**	**	**	**	**	0.2	0.4
Archer Medical Savings Accounts	12/31/2003	n.a.	*	*	*	*	*	*	*	*	*	*	*	-0.1
Brownfields Remediation	12/31/2003	**	-0.1	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-1.3	-1.9
Credit for Electric Vehicles	12/31/2003	n.a.	*	*	*	*	*	*	*	*	*	*	*	-0.1
Credit for Electricity Production From Renewable Sources	12/31/2003	n.a.	*	*	*	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.6
Corporate Contribution of Computers to Schools	12/31/2003	n.a.	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.6	-1.5
Deductions for Gas-Fuel Vehicles and Refueling Property	12/31/2003	n.a.	-0.1	-0.1	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2	-1.1	-1.4
Deduction for Teachers' Classroom Expenses	12/31/2003	n.a.	-0.1	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-1.1	-1.6
Interest Rate for Pension Calculations	12/31/2003	n.a.	1.7	2.5	1.4	1.8	1.9	1.3	0.9	0.4	0.2	0.2	9.3	12.3
Net Income Limitation for Marginal Oil and Gas Wells	12/31/2003	n.a.	*	*	*	*	*	*	*	*	*	*	*	-0.2
Qualified Zone Academy Bonds	12/31/2003	n.a.	*	*	*	*	*	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.4
Reduction in Policyholder Dividends for Insurance Companies	12/31/2003	n.a.	*	*	*	*	*	*	*	*	*	*	*	-0.2
Tax Incentives for Investment in the District of Columbia	12/31/2003	n.a.	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.3	-0.3	-0.4	-0.4	-0.5	-1.2
Treatment of Nonrefundable Personal Credits Under the AMT	12/31/2003	n.a.	-0.1	-1.0	-2.4	-3.5	-4.1	-4.7	-5.2	-6.0	-7.9	-8.8	-11.1	-43.8
Welfare-to-Work Tax Credit	12/31/2003	n.a.	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.4	-1.0
Work Opportunity Tax Credit	12/31/2003	n.a.	-0.1	-0.2	-0.3	-0.3	-0.3	-0.3	-0.4	-0.4	-0.4	-0.4	-1.2	-3.0
Tax Incentives for Areas Damaged on Sept. 11	Various <sup>a</sup>	n.a.	-0.1	-0.3	-0.3	-0.7	-0.9	-0.8	-0.8	-0.8	-0.8	-0.7	-2.1	-6.2

Sources: Joint Committee on Taxation, Congressional Budget Office.

Note: \* = between \$50 million and zero; \*\* = between zero and \$50 million; n.a. = not applicable; IRS = Internal Revenue Service; AMT = alternative minimum tax; IRM = individual retirement account; PUTA = Federal Unemployment Tax Act; BCTBGA = Economic Growth and Tax Relief Reconciliation Act of 2001.

These estimates assume that the expiring provisions are extended immediately rather than when they are about to expire. The provisions are assumed to be extended at the rates or levels existing at the time of expiration. These estimates do not include effects on debt-service costs.

When this report went to press, JCT's estimates were not available for several expiring tax provisions—most significantly, for BCTBGA's major individual income tax provisions that expire in 2010 and for the AMT provisions that expire in earlier years. CBO estimated the effects of extending those provisions, as well as the interaction from extending all expiring tax provisions stated separately. As a result, cost estimates by JCT for legislative proposals to extend the BCTBGA and AMT provisions might not match the figures shown here.

(Continued)

**Table 3-11.**

**Continued**

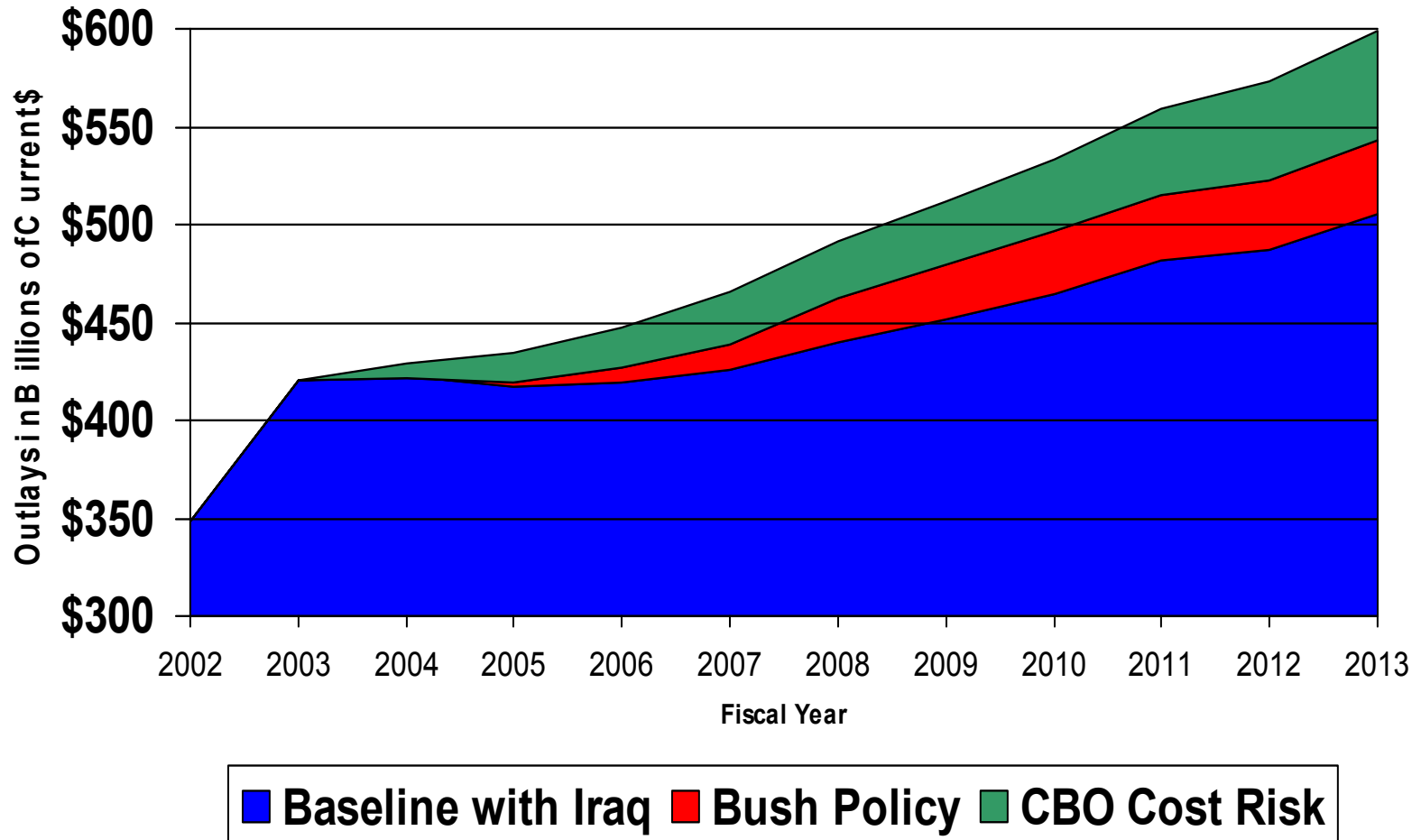
(In billions of dollars)

Tax Provision	Expiration Date	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total, 2004-2008	Total, 2004-2013
<b>Provisions Expiring Between 2004 and 2013</b>														
Credit for Research and Experimentation	6/30/2004	n.a.	-0.5	-3.3	-4.3	-5.2	-6.0	-6.6	-7.0	-7.5	-7.9	-8.3	-49.1	-56.4
Special Depreciation Allowance for Certain Property	9/30/2004	n.a.	n.a.	-27.7	-41.7	-38.9	-34.4	-29.4	-24.9	-21.5	-19.0	-18.3	-142.6	-255.7
Abandoned-Mine Reclamation Fees	9/30/2004	n.a.	n.a.	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	1.0	2.1
Depreciation for Business Property on Indian Reservations	12/31/2004	n.a.	**	-0.2	-0.4	-0.5	-0.5	-0.5	-0.4	-0.3	-0.3	-0.3	-1.7	-3.3
Depreciation of Clean-Fuel Automobiles	12/31/2004	n.a.	n.a.	*	*	*	*	*	*	*	*	*	*	-0.1
Increased AMT Exemption Amount	12/31/2004	n.a.	n.a.	-3.3	-10.2	-14.4	-18.2	-22.4	-25.3	-21.5	-14.8	-17.2	-46.1	-147.3
Indian Employment Tax Credit	12/31/2004	n.a.	n.a.	*	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.5
Authority for Undercover IRS Operations	12/31/2005	n.a.	n.a.	n.a.	**	**	**	**	**	**	**	**	**	**
Deduction for Qualified Education Expenses	12/31/2005	n.a.	n.a.	n.a.	-1.7	-2.4	-2.6	-2.8	-2.9	-2.6	-2.6	-2.6	-6.8	-20.3
Puerto Rico Business Credits	12/31/2005	n.a.	n.a.	n.a.	-0.7	-1.6	-1.8	-1.9	-2.1	-2.3	-2.6	-3.0	-4.0	-16.0
Transfer of Excess Assets in Defined-Benefit Plans	12/31/2005	n.a.	n.a.	n.a.	**	**	**	**	**	**	**	**	**	0.1
Andean Trade Preference Initiative	12/31/2006	n.a.	n.a.	n.a.	n.a.	*	*	*	*	*	*	*	*	-0.1
Credit for R&D and 401(k)-Type Plans	12/31/2006	n.a.	n.a.	n.a.	n.a.	-0.7	-1.4	-1.2	-1.1	-1.0	-1.0	-1.0	-0.9	-7.3
Generalized System of Preferences	12/31/2006	n.a.	n.a.	n.a.	n.a.	-0.4	-0.6	-0.6	-0.7	-0.7	-0.8	-0.8	-1.0	-4.7
Subpart F for Active Financing Income	12/31/2006	n.a.	n.a.	n.a.	n.a.	-0.9	-2.7	-3.1	-3.5	-4.0	-4.4	-4.8	-3.6	-23.3
Alcohol Fuel Income Credit	12/31/2007	n.a.	n.a.	n.a.	n.a.	n.a.	*	*	*	*	*	*	*	*
PUTA Status of 0.2 Percentage Points	12/31/2007	n.a.	n.a.	n.a.	n.a.	n.a.	1.0	1.5	1.5	1.5	1.5	1.5	1.0	8.5
New Markets Tax Credit Improvement and Renewal Bonus	12/31/2007	n.a.	n.a.	n.a.	n.a.	n.a.	-0.1	-0.3	-0.4	-0.6	-0.8	-1.0	-0.1	-3.3
General Expiration of BCTBGA Provisions	12/31/2010	-0.1	-0.5	-0.8	-1.0	-1.3	-1.7	-1.6	-2.4	-131.0	-230.2	-239.7	-5.3	-600.1
<b>All Expiring Provisions<sup>b</sup></b>														
Total		-0.1	-0.1	-33.9	-61.4	-69.2	-72.7	-73.9	-76.1	-106.1	-107.6	-121.0	-237.4	-1,212.0

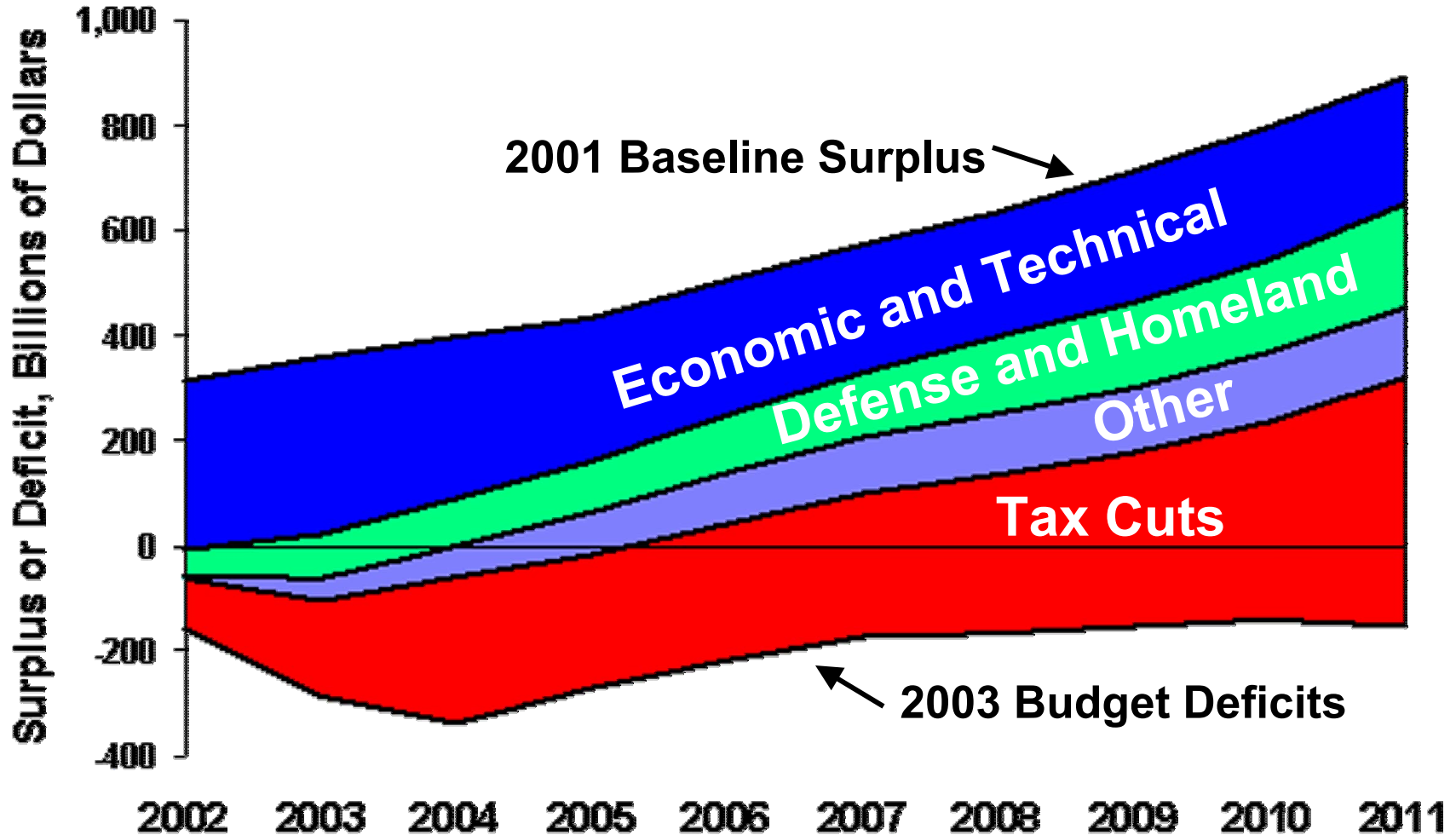
a. The provision that equidates the work opportunity tax credit in New York City expires on 12/31/2003. The provisions that increase expensing under section 179 and allow a five-year lifetime for leasehold improvements expire on 12/31/2006. The provisions related to 50 percent bonus depreciation for property placed in service expire on 12/31/2006 and 12/31/2009.

b. The overall total does not equal the sums of the separate provisions because it includes estimated interactions among provisions, which are especially important from 2001 through 2003. These interactions, which would occur if all of the provisions were extended together, would reduce revenues by \$234 billion in the 2006-2013 period.

# Potential Defense Spending Excluding Future Costs of War on Terrorism

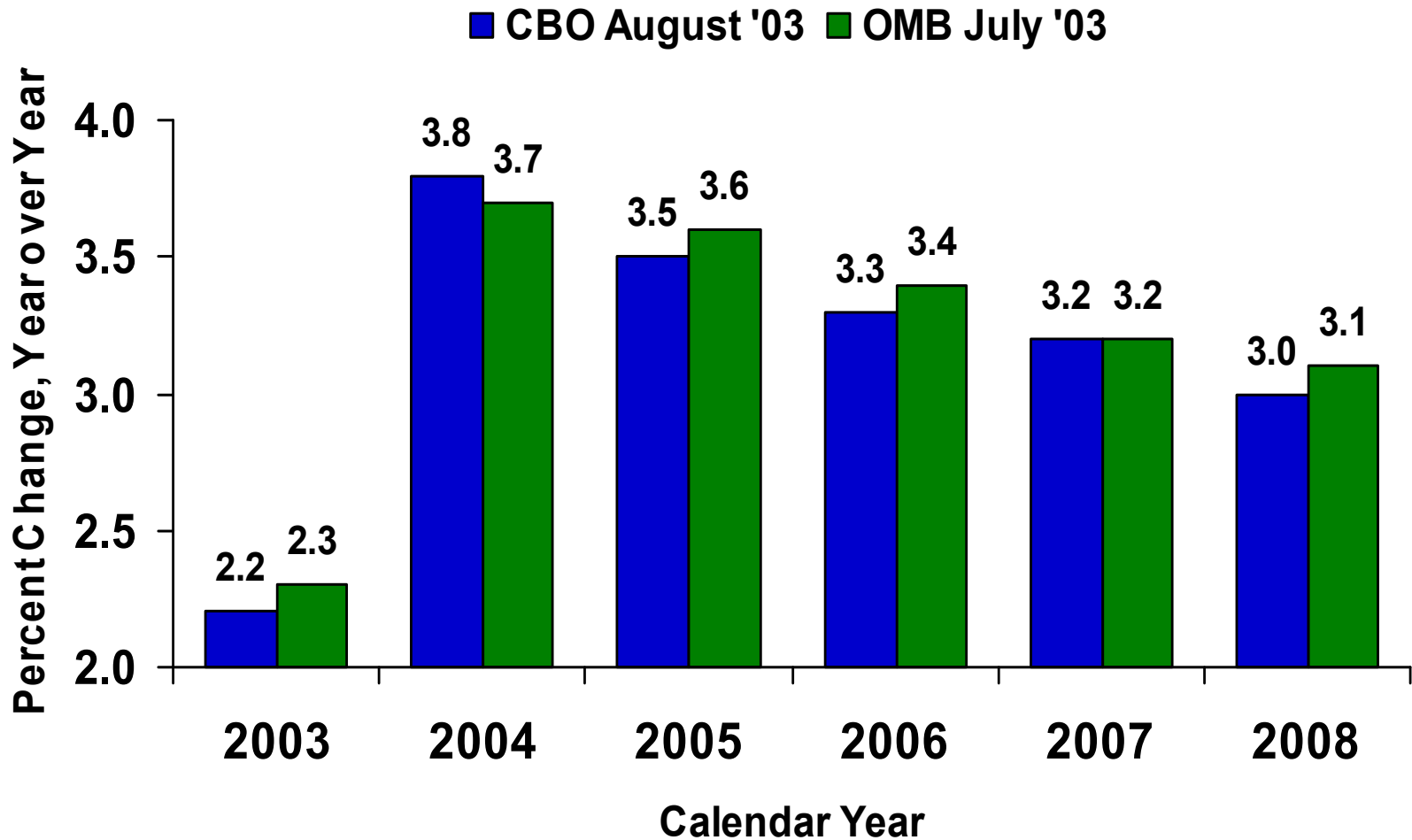


# Republican Tax Cuts Keep Budget in Deficit



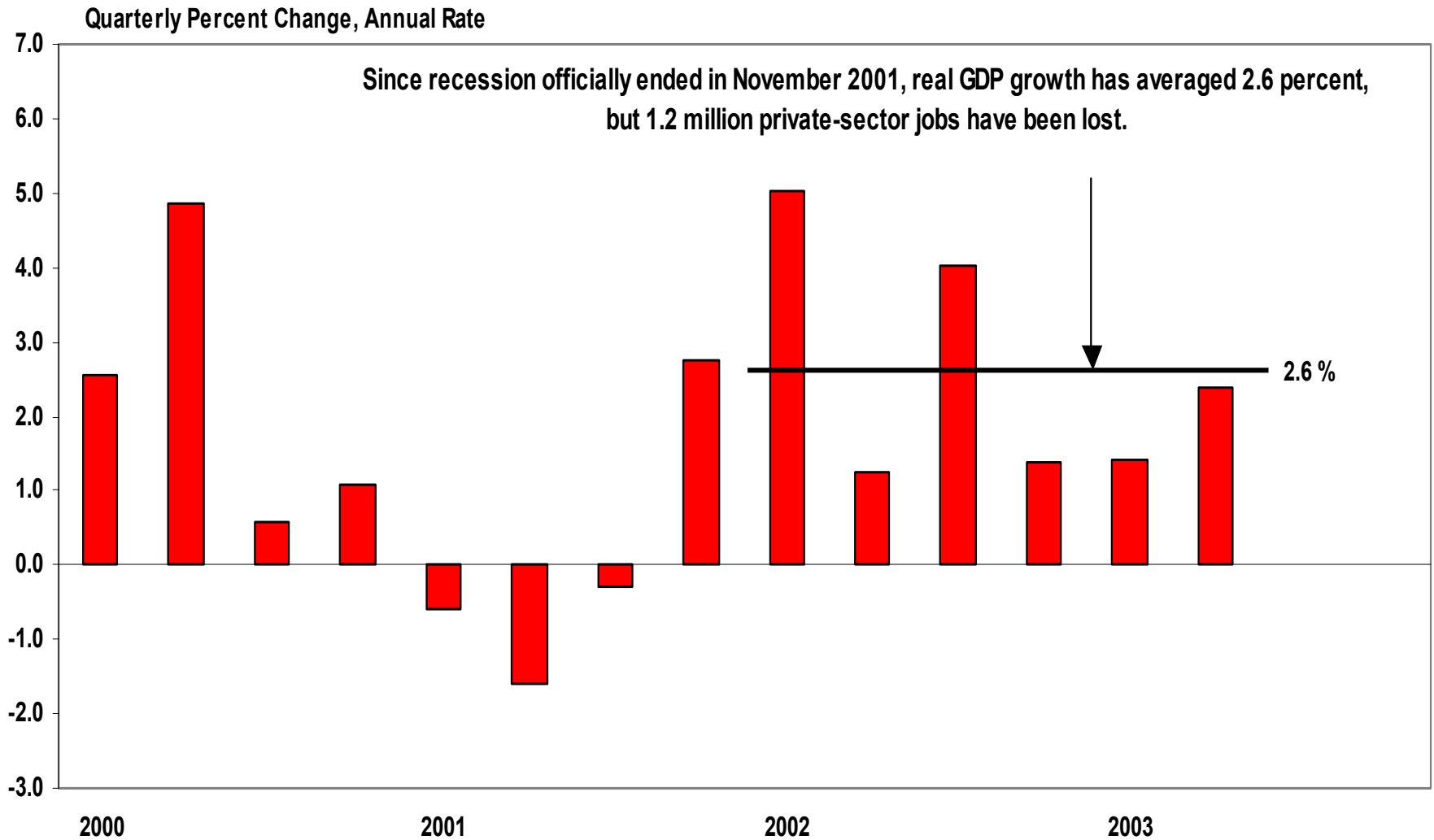
Sources: CBO 2001 Budget and Economic Outlook, 2003 Re-Estimate of the President's Budget

# Budget Projections Already Assume Strong Growth





# Real Recovery Requires Growth That Is Both Strong and Sustained

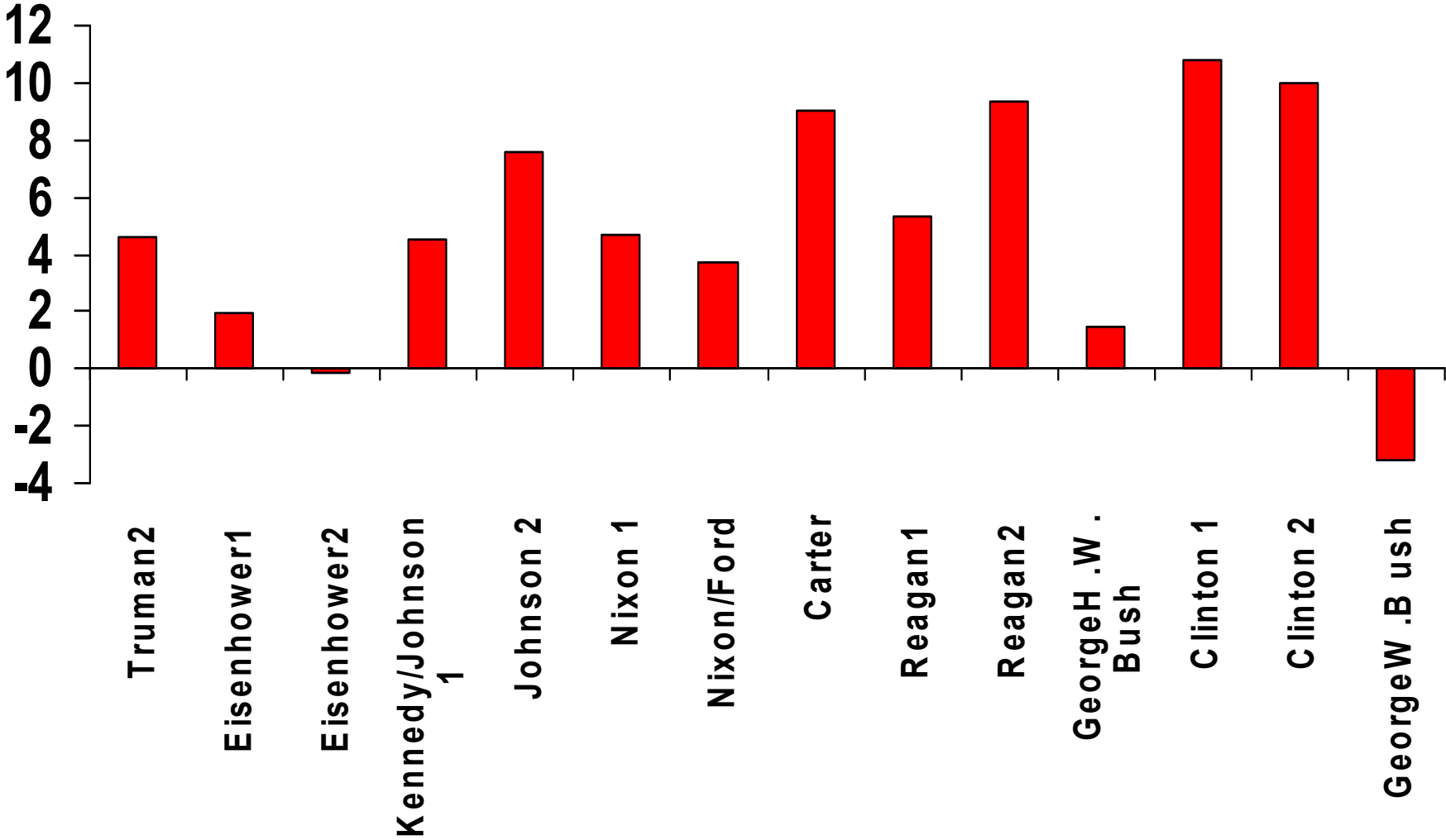


# The Bush Economic Record

- **The private sector has shed 3.2 million jobs since January 2001, the worst record for any President since the Great Depression.**
- **Long-term unemployment has tripled.**
- **Real GDP growth has averaged 1.6 percent, the worst record for any President since World War II.**
- **Real business investment has fallen 10.4 percent since the President was inaugurated, the worst record for any President since World War II.**
- **The trade gap has increased by almost \$100 billion.**

# Worst Private-Sector Job Growth Since WWII

Millions Private-Sector Jobs



## **RHETORIC:**

**"See, I ran for office to solve problems, not to pass them on to future Presidents and future generations."**

*President Bush at a Fundraiser  
in Oregon, August 21, 2003*

## **REALITY:**

**Instead of paying off the public debt by 2011 as President Bush projected, this Administration will leave to future generations a debt of \$6.7 trillion as of 2011.**