

THE REPUBLICAN LEGACY:

BAD BUDGETING CREATES BURDENS
FOR YEARS TO COME



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INTRODUCTION

When the 110th Congress convenes in January 2007, it will face a fiscal challenge of historic proportions. The cost of the Iraq war, coupled with the growing price tag of tax cuts passed over the previous six years, have left the nation deeper in debt than ever before and with one of the largest budget deficits in the nation's history.

Even as the nation sank deeper into the red, policymakers failed to meet pressing defense and homeland security needs and ignored critical domestic priorities. The Department of Defense's readiness system recently revealed that two-thirds of the U.S. Army was not combat ready. Significant homeland security gaps remain on our borders, in air travel, and at our ports. Domestic investments have been cut or squeezed, denying college aid to families, undermining healthcare access, and preventing needed investments in energy independence.

The new Congress faces a Herculean task: to restore the nation's fiscal health; to better provide for its defense; and to restore the American Dream by expanding opportunity to all of its citizens. While all of this might not be achieved within the life of the 110th Congress, the new majority is committed to charting a New Direction. This report briefly outlines the difficulties policymakers in the 110th Congress will face.

DEFICITS, DEBT, AND INTEREST PAYMENTS

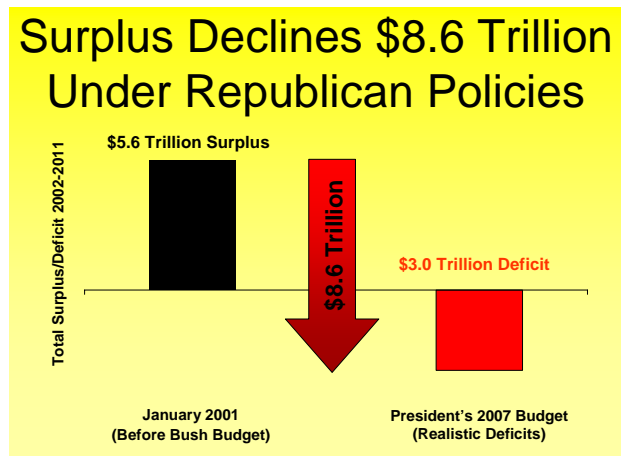
When President Bush took office in 2001, he inherited a federal budget with record surpluses and a federal debt and associated interest payments that had been shrinking for four straight years. In the following six years, the Bush Administration, in conjunction with a Republican Congress, transformed that very positive budget picture into a pool of red ink: record annual deficits, rising debt, and steeply growing interest payments on the debt.

In the last six years, Republicans charted a fiscal course that created the largest deficits in history and a growing mountain of debt. These burdens cannot be overcome quickly.

A Legacy of Budget Deficits

In 2001, the Republican Congress and Administration inherited a projected ten-year (2002-2011) budget surplus of \$5.6 trillion. They could have used this surplus wisely: paying down more debt, shoring up Social Security and Medicare in advance of the upcoming baby boom retirement, and ensuring that we had sufficient funds to invest in national priorities. Instead, Republicans squandered the surplus – prioritizing expensive tax cuts primarily targeted to those who least needed the help – and left nothing in reserve to respond to economic shifts and changing needs.

Today that projected surplus is long gone, replaced by a \$3 trillion deficit projected over the same period after accounting for Administration policies – a swing of \$8.6 trillion to the red. The Congressional Budget Office forecasts continued



annual deficits as far as the eye can see, even if there is no new spending or changes to tax policy.

Republicans Post Record Deficits — The three largest deficits in history occurred in fiscal years 2003, 2004, and 2005. Republicans closed 2006 with a deficit of \$248 billion – over half a trillion worse than the large surplus forecast for 2006 in the Bush Administration’s first budget.

Deficit Forecast Is Grim — Republicans will depart their congressional majority with no plan in place to wipe out the long-term deficits they created. Indeed, the budget forecast for the future remains grim. Even the Administration’s own numbers show the deficit getting worse again in 2007, and never returning to balance. Once the cost of policies that are part of the Administration’s agenda but not included in its budget – such as the full cost of the war in Iraq and Afghanistan, and repair of the Alternative Minimum Tax – are factored in, the forecast is even bleaker.

A MOUNTAIN OF DEBT AND INTEREST

Record Republican deficits have required four increases in the debt limit in five years. The dramatically larger public debt has led not only to rapidly rising interest payments on that debt, it is also jeopardizing the United State’s global competitiveness. It is worsening our trade deficit, increasing the share of our debt held by foreign investors, and making our economy more vulnerable to potential political or economic instability from abroad.

Debt Limit Nearly Doubles — The Bush Administration’s first budget forecast that the debt limit would stand untouched until 2008. Instead, Republican fiscal policies led to four increases in the debt limit in the last five years – for a total debt ceiling increase of \$3 trillion – with a fifth increase endorsed by the House as part of the 2007 budget resolution. Even those increases will not be sufficient; by 2011, the debt ceiling will almost double under the Administration’s plan, to a total of more than \$11 trillion.

U.S. Pays More Interest on Debt — The government’s rising debt has correspondingly increased the interest payments on the debt: we spent \$220 billion on interest in 2006. In fact, in the President’s most recent budget, the federal government’s interest payment on the debt is the fastest growing category of federal spending over the next five years. If Republicans had chosen responsible policies over the last six years, we would have reduced the obligatory interest payments and freed up resources that could be used to bolster Social Security solvency, educate our children, or make the nation more secure. Instead, Republicans wasted hundreds of billions on interest on the debt.

Foreign-Held Debt is Rising — As our public debt has grown, the United States has relied more on foreign investors to purchase our debt, who have more than doubled their holdings of U.S. debt since the Bush Administration began. Today, foreign investors hold over \$2.1 trillion in U.S. Treasury debt – nearly 45 percent of all public debt outstanding – which increases our economy’s vulnerability to potential political or economic instability from abroad. In addition, all the interest payments on foreign-held debt are U.S. taxpayer dollars being sent overseas; local, state, and federal government interest payments to foreign investors totaled \$114 billion in 2005 alone.

U.S. Competitiveness Slips — Deep deficits and growing debt have weakened U.S. competitiveness. Two months ago, the World Economic Forum concluded that the United States economy has slipped from first to sixth in global competitiveness, in part because of the large deficits and mounting debt the federal government is accruing. Higher interest payments to foreign holders of our national debt send American resources overseas.

INSIDE THE NUMBERS: MAKING SMARTER CHOICES

Despite the disastrous fiscal policies of the past several years, it remains possible to restore fiscal discipline without sacrificing critical domestic investments. During the 1990s, the Clinton Administration proved that balancing the budget and investing in the future are not mutually exclusive. It is just a matter of making smarter choices, eschewing tax cuts that benefit only those who are most fortunate, and making investments that pay dividends for all Americans.

Domestic Investments Not Responsible for Deficits

Despite misleading Republican charges, the nation's fiscal difficulties cannot be blamed on a marked increase of domestic spending.

At 3.5 percent of the Gross Domestic Product in FY 2006, domestic discretionary spending is on par with historical averages. In fact, it was lower than the average during the Nixon (3.7 percent), Ford (4.6 percent), and Carter (4.6 percent) administrations. It is also comparable to the average during the Reagan administration (3.4 percent).

It is important to note that the FY 2006 figure includes homeland security spending, which did not even exist as a category of funding before 2002. Last year alone, Homeland Security Department funding totaled nearly \$34 billion. According to the Center on Budget and Policy Priorities, if homeland security and emergency appropriations are excluded, domestic discretionary spending for FY 2006 actually fell to only 3.15 percent of GDP.

Tax Cuts and Iraq Spending

The two principal reasons for the current \$248 billion deficit are the tax cuts enacted since 2001 and the cost of the Iraq war.

In FY 2006 alone, the Bush tax cuts, including debt service, cost more than \$200 billion.

Since FY 2002, Congress has appropriated about \$379 billion for the war in Iraq. The Administration is expected to submit an additional request early next year that will total roughly \$100 billion. At least three-quarters of this request will support operations in Iraq.

Domestic Priorities Ignored

Since 2001, a wide range of domestic priorities have been shortchanged to make room for the President's tax cuts. For example:

College Affordability — Since 2001, the cost of attending a four-year public college increased \$3,095 – a whopping 34 percent – while the share of these costs paid by Pell Grants has dropped from 42 percent to only 30 percent. Meanwhile, House Republicans froze the maximum Pell Grant for four straight years.

Healthcare Access — More than 46 million Americans are without health insurance – nearly seven million more than in 2000. Efforts to expand healthcare access through the Health Resources and Services Administration (HRSA) have lost 8 percent of their purchasing power compared to two years ago. Health professionals programs aimed at bringing more doctors and dentists to underserved communities were cut by 45 percent in actual dollars compared to 2005. Maternal and child healthcare grants lost 24 percent of their purchasing power compared to 2002.

Energy Independence — In 2002, we imported 58 percent of our oil. Last year, we imported 65 percent. Yet we invest only 1/5 of what we did 30 years ago under President Carter in the energy research that can help us break our dangerous addiction to foreign oil. Instead of making a substantial new investment in this research, Republicans handed billions of dollars of subsidies to big energy companies.

Worker Training — Seven million Americans remain unemployed — one million or 17 percent more than in 2001 – and more than 1.3 million Americans have been jobless for more than 26 weeks – nearly double the number in 2001. Yet, in real terms, Republicans have cut job training and employment service efforts by \$1.3 billion in just two years.

Educational Opportunity — Record public school enrollments, stringent No Child Left Behind mandates, and continuing fiscal pressures are making it difficult for states to invest in schools. Yet, federal funding for No Child Left Behind fell almost \$16.4 billion short of what was promised for 2007. For 2007, Republicans cut No Child Left Behind for the second year in a row – nearly \$500 million below last year and \$1.5 billion below two years ago.

Law Enforcement — September 11th showed that first responders, and particularly our nation's law enforcement officers, are the first line of defense in case of a terrorist attack. Yet House Republicans have cut state and local law enforcement funding by 47 percent since 2001 – from roughly \$4.5 billion to about \$2.4 billion for 2007.

Veterans' Healthcare — The VA has been unable to keep up with the increasing demand for veterans' healthcare. In 1995, VA treated 2.6 million veterans and their families. In fiscal year 2006, the Department expects to treat more than twice that number – 5.4 million. In addition, many VA hospitals and facilities are old and in need of repair – improvements that could cost billions over the next five to ten years. Yet, House Republicans fell short by \$1.2 billion in 2004 and \$1 billion in 2005 of providing enough funding to maintain current services in the VA healthcare system.

Homeland Security Shortchanged

Despite substantial increases since September 11, 2001, America's borders, ports and transit systems remain vulnerable to attack. Yet, inexplicably, Republicans have been underfunding – and even cutting – critical homeland security investments.

For example, President Bush and the Republican Congress have cut funding for our nation's first responders. This year, House Republicans cut funding for our nation's first responders by 32 percent compared to 2003 – from \$5.97 billion to just \$4.08 billion.

Republicans have cut first responder funding even as a recent report – previously withheld from public view by the Bush administration – reveals that America's firefighters still do not have the tools they need to respond to a terrorist attack. For example, this report shows that:

- Fire departments only have enough portable radios for 36 percent of emergency responders per shift.
- 28 percent of firefighters per shift do not have self-contained breathing apparatus and 34 percent of all self-contained breathing apparatus is at least 10 years old.
- Only 1/4 of all fire departments can communicate with all of their partners who may respond to catastrophes, such as other nearby fire department, state emergency responders and Federal agencies with response duties.

Now is not the time to be shortchanging homeland security investments. Yet that is exactly what has happened under President Bush and the Republican Congress.

Army Readiness at Lowest Levels in Decades

Despite significant increases in the Defense Department's budget, the war in Iraq has left the U.S. Army's readiness at its lowest level in decades. The degradation of Army readiness is directly due to the sustained troop deployments to Iraq and the pace of operations that has worn out equipment at an unusually fast rate. Unfortunately, the Administration's use of supplemental appropriations to fund war operations has made the situation worse. The Administration often does not submit supplemental requests until well after the Army needs the funding to pay for ongoing operations. As a result, the Army is forced to delay certain activities, such as maintenance of equipment, until supplemental appropriations are approved.

DEMOCRATS WILL ADDRESS THE BUDGET PROBLEMS

Congressional Republicans have ended their stewardship by failing to finish their work on a budget for this year, flawed as that budget may have been. As a result, the next Congress is being forced to pass a long-term joint funding resolution. Certainly, a Republican majority that walks away from this obligation forfeits its right to complain about any action that Democrats are forced to take on budget and appropriations bills next year to clean up their chaotic mess.

Democrats have pledged to try to curb Republican fiscal mismanagement and to begin making some of the key investments that will keep America strong, but it will take time to overcome the Republican legacy.