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INDEPENDENCE DAY

Recess Package on the Budget

Democratic Progress in Turning Around

the Republican Budget Legacy

John Spratt, Chairman, House Budget Committee

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Recess Package on the Budget

Table of Contents

Overview	1
Republican Record on the Budget	
Surplus Declines \$8.1 Trillion under President's Policies	2
Foreign-Held Debt Has Ballooned since 2001	3
Net Interest Payment Is \$237 Billion this Year, or \$649 Million per Day	4
President's Budget Cuts Community Development Block Grant Program	5
Average Monthly Job Gains Under Recent Administrations	6
Democratic Progress	
Return Budget to Balance	7
Expand Health Insurance Coverage for Millions of Uninsured Children	8
Provide Highest Ever Veterans Funding	9
Increase Funds for Education	10
Revenues Virtually Identical to President's Budget	11

Overview

A New Direction for America — The 110th Congress made a commitment to the American people to restore fiscal responsibility to the federal budget while also addressing longstanding needs that had been ignored in recent years. In response, after six years of irresponsible fiscal policy that yielded record deficits, in May we passed a budget resolution that brings the budget back to balance without raising taxes – reaching a surplus of \$41 billion in 2012 – and that invests in key priorities such as children’s health care, education, and veterans’ services.

A Legacy of Republican Deficits and Debt — President Bush inherited a record \$5.6 trillion ten-year projected surplus when he took office in 2001. Six years later, that surplus has been transformed into a deficit of \$2.5 trillion over the same period (see chart on page 2), according to the Congressional Budget Office’s estimate of the cost of the President’s 2008 budget. The huge annual deficits have caused dramatic increases in our gross debt – up more than \$3 trillion – and the amount of debt held by the public that is foreign-owned – now 50 percent (see chart on page 3). The high level of foreign-held debt makes our economy beholden to foreign creditors and represents another financial burden passed on to future generations. Already this year we are paying \$237 billion in net interest on our debt, taxpayer dollars that represent wasted resources (see chart on page 4).

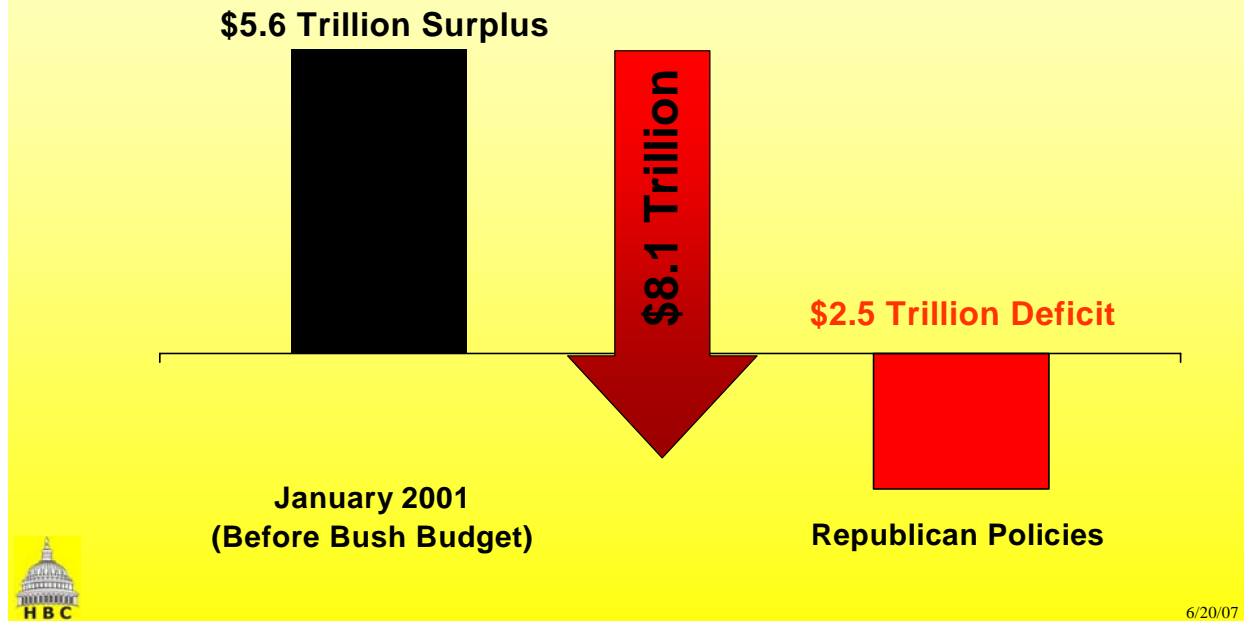
Families and Communities Were Ignored — The last six years have been hard on middle-income families in our communities. The economy has created far fewer jobs than is needed to keep pace with the labor force (see chart on page 6). Median family income is now lower than it was in 2000 in real terms, yet previous Congresses regularly underfunded investments in our families and communities. The President’s budget continues this practice, cutting Community Development Block Grant funding by \$1.1 billion (see chart on page 5).

Democratic Budget Restores Balance and Priorities — The new majority in Congress took immediate steps to reverse the budget’s downward trend while making responsible investments where they are needed. Our budget for next year is fiscally responsible – reaching balance in 2012 without raising taxes – and contains enforcement procedures to crack down on wasteful spending and strengthen the pay-as-you-go rule (see chart on page 7). Within tight overall spending limits, our budget focuses resources where our priorities are by:

- **Children’s health** — accommodating \$50 billion for children’s health care to help the nine million children – 11 percent of all children in the country – who currently lack health insurance (see chart on page 8).
- **Veterans** — providing the highest ever level of funding for veterans’ health care – \$32 billion more than the President’s budget over five years (see chart on page 9).
- **Education** — increasing funds for education, social services, and job training programs by \$5.6 billion over the current level and by \$9.5 billion over what the President proposed for next year. This substantial increase is intended in part to improve achievement in K-12 education programs under the No Child Left Behind Act and to help millions of graduates afford college (see chart on page 10).

Surplus Declines \$8.1 Trillion Under President's Policies

Total Surplus/Deficit 2002-2011



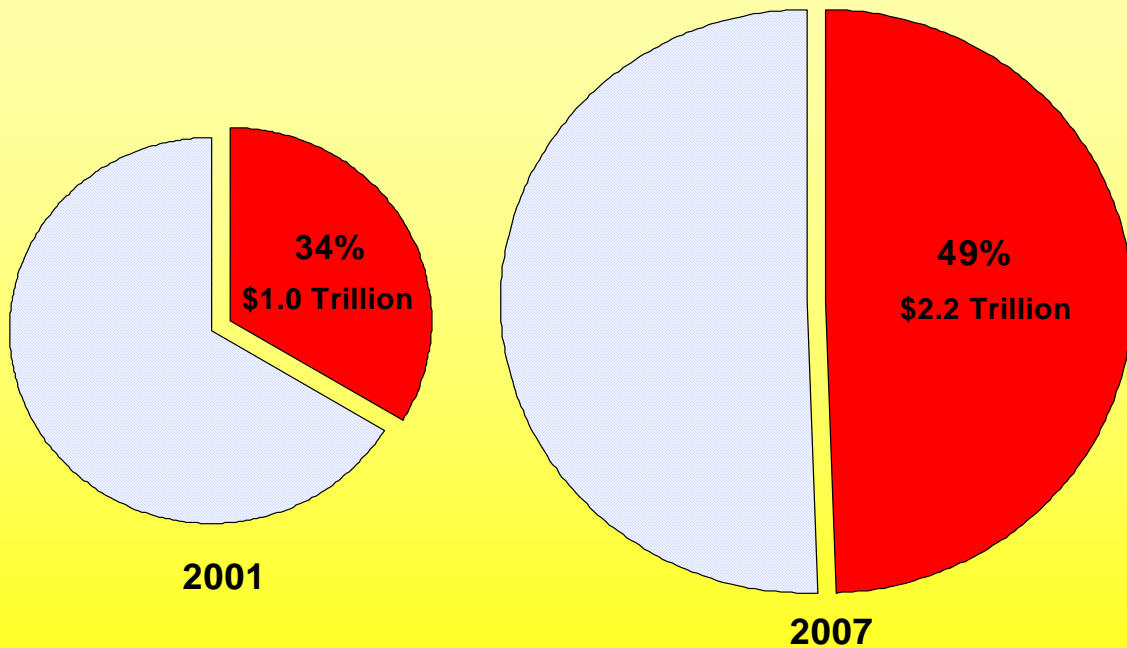
Republicans Squandered Budget Surplus — When President Bush took office in 2001, we enjoyed a record \$5.6 trillion ten-year projected surplus. That surplus has been squandered, and has now turned into a deficit of \$2.5 trillion over the same period, according to the Congressional Budget Office's estimate of the cost of the President's 2008 budget. That is a swing of \$8.1 trillion to the red, and that number is conservative because it includes no costs for the war after 2009. Gross debt has exploded, rising from \$5.8 trillion in 2001 to an estimated \$9 trillion by the end of this year – 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. But instead of addressing the deficit, the President's 2008 budget continues the same fiscal approach that has brought these large deficits and growing debt.

Democratic Budget Provides New Direction for Country — In contrast, the budget resolution Democrats passed this spring puts the nation back on a sound fiscal path. After six years of reckless fiscal policy that yielded record deficits, our 2008 budget restores fiscal responsibility and brings the budget back to balance, reaching a surplus of \$41 billion in 2012. The budget resolution:

- returns the budget to balance without raising taxes;
- begins to reverse six years of fiscal mismanagement and harmful cuts in key areas;
- reinforces and strengthens the House pay-as-you-go rule and expands it to the Senate; and
- sets us on a course to build the future we want for our children and grandchildren.

Foreign-Held Debt Has Ballooned Since 2001

Foreign Holdings as Percentage of Marketable U.S. Public Debt



Source: U.S. Treasury Department, 6/13/2007

Administration's Policies Have Increased Economic Vulnerability — Foreign-held debt has skyrocketed under the Bush Administration, rising to \$2.2 trillion in March 2007 – an increase of \$1.2 trillion since January 2001. The high level of indebtedness to foreign investors heightens the economy's exposure to potential instability from abroad. If foreign investors' willingness to purchase American debt drops, it could trigger a series of potentially very serious economic consequences, including higher interest rates and a weaker dollar.

Almost Half of Public Debt is Foreign-Held — The country's debt has grown by 50 percent since 2001, and most of it was purchased by foreign investors. Annual deficits have increased so much under this Administration that America is now 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. In 2001, foreign investors owned 34 percent of our debt, but now almost half of marketable U.S. public debt – \$2.2 trillion in all – is foreign-owned.

Interest on Foreign-Held Debt Does Not Help Our Economy — Meanwhile, the interest payments on debt held by foreign investors flow overseas, rather than being channeled back into our economy here at home – in 2005 alone, local, state, and federal government interest payments to foreign investors totaled \$114 billion. In addition, the interest payments represent a financial burden that will be passed on to future generations of Americans.

Federal government's net interest payment is \$237 billion, or \$649 million per day. One **day of interest could pay for one **year** of:**



▪ Health care for 90,000 more veterans



▪ The cost of 3,300 new border patrol agents

▪ 90,000 more children in Head Start



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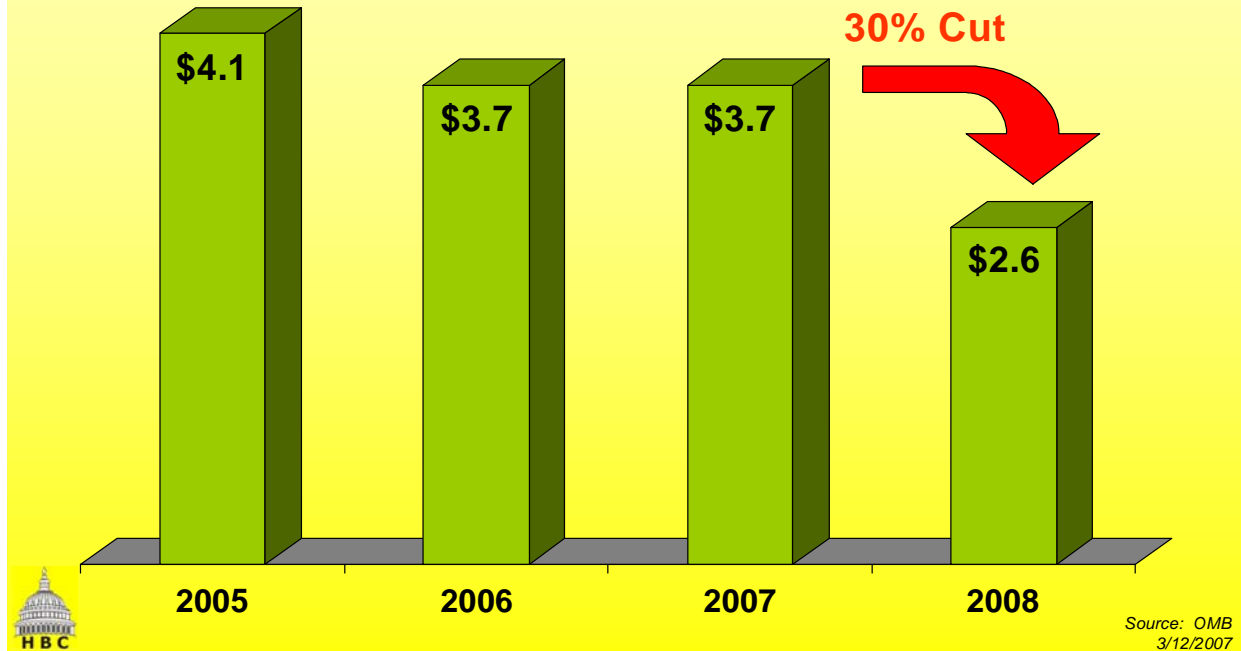
Interest Payments on National Debt Due to Huge Republican Deficits — In 2007, the federal government will pay \$237 billion of taxpayer dollars in net interest payments on the national debt. That comes out to \$649 million per day. This is money that does not provide a single new service – it does not educate a child, or safeguard our country, or provide health care. We would not be making such huge interest payments if Republicans had not squandered the federal budget surplus they inherited in 2001.

Better Uses for \$649 Million — Just one day's payment on the national debt – \$649 million – could instead pay for a year's worth of high-priority services. For example, \$649 million could:

- **Veterans' Health** — treat more than 90,000 veterans for an entire year. According to the Department of Veterans Affairs, 209,000 Iraq/Afghanistan war veterans will use the VA health care system in 2007.
- **Head Start** — provide Head Start services to another 90,000 low-income children for a whole year. Head Start now serves only 43 percent of eligible three- and four-year-olds.
- **Border Patrol** — finance the salaries, training, and equipping of more than 3,300 border patrol agents for an entire year. The Intelligence Reform and Terrorism Prevention Act of 2004 called for hiring 10,000 new border patrol agents from 2006 through 2010.

President's Budget Cuts Community Development Block Grant in Addition to Recent Decline

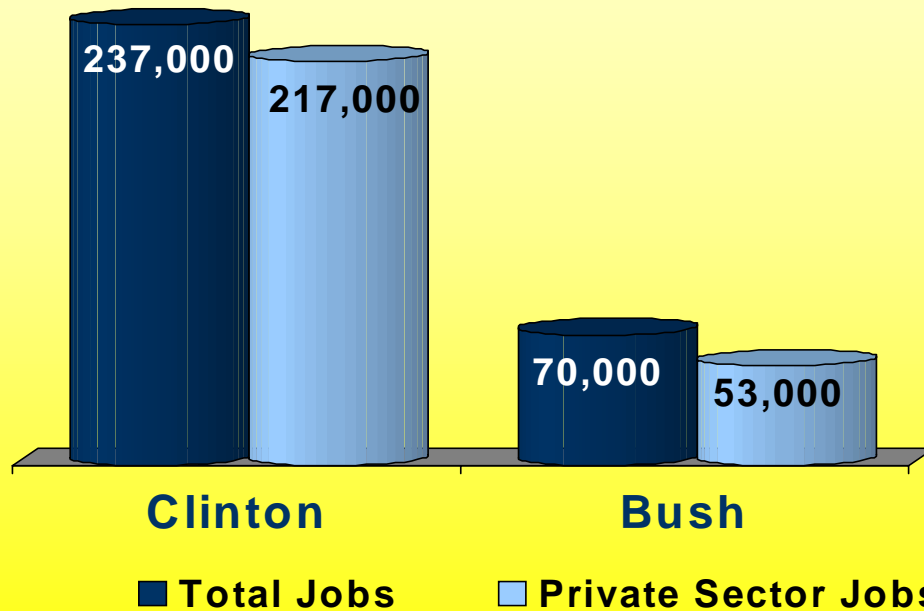
Billions of Dollars



Republicans Underfunded Our Communities — The previous Congress made investments in our communities a low priority: funding for child care, community development, and other assistance to families was cut or allowed to erode with inflation. The President's budget continues those upside-down priorities, including a \$1.1 billion cut to the Community Development Block Grant (CDBG) program.

Democratic Budget Invests in Communities — The budget we enacted puts families first, not last. It provides for the first CDBG increase since 2005. The increase will help advance job creation, economic development, and affordable housing efforts by nearly 1,200 state and local governments that currently receive CDBGs. The budget resolution also provides for other critical investments in our communities, including an affordable housing fund, an increase in Low-Income Home Energy Assistance Program (LIHEAP) funding instead of the 18 percent cut proposed by the President, and an increase in child care assistance.

Average Monthly Job Gains Under Clinton and Bush Administrations



Source: Bureau of Labor Statistics

6/25/2007

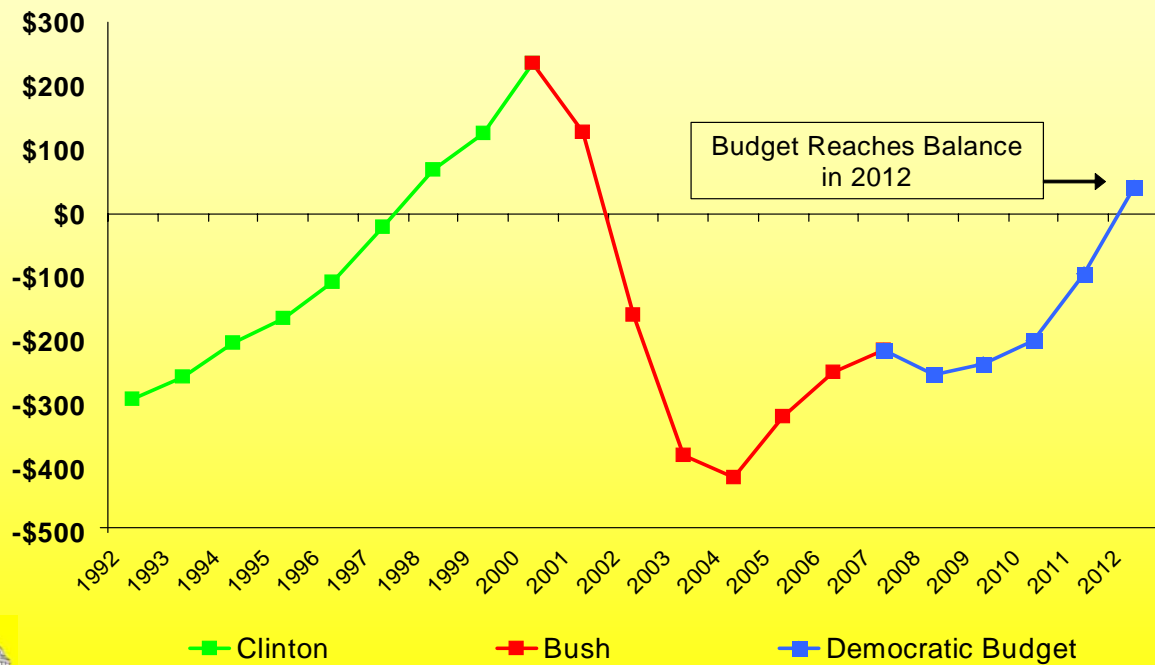
Middle-Income Families Have Struggled — Under the policies of this Administration and the Republican Congress, middle-income families have struggled while only the most fortunate benefitted.

- The U.S. economy, which created more than 200,000 jobs per month between 1993 and 2000, has averaged fewer than 53,000 new jobs a month since 2001 – far less than the amount needed to keep pace with the growth of the labor force.
- Since 2001, the economy has lost nearly 3 million manufacturing jobs.
- Adjusted for inflation, median family income is now lower than it was in 2000.
- More than 5 million Americans have fallen below the poverty line since the end of 2000.

Democratic Budget Puts Children and Families First, Not Last — The budget we passed in May promotes economic growth by balancing the budget, promoting national savings, and by making needed investments. Our budget funds education and training that will help people get better jobs, and the innovative research that will help create those jobs. The budget also protects some 20 million families from a tax increase under the Alternative Minimum Tax and accommodates additional middle-income tax relief. And, as promised, Democrats have already enacted the first increase in the minimum wage in over a decade.

Democratic Budget Returns to Balance

(Deficits and Surpluses, in Billions of Dollars)



5/15/2007

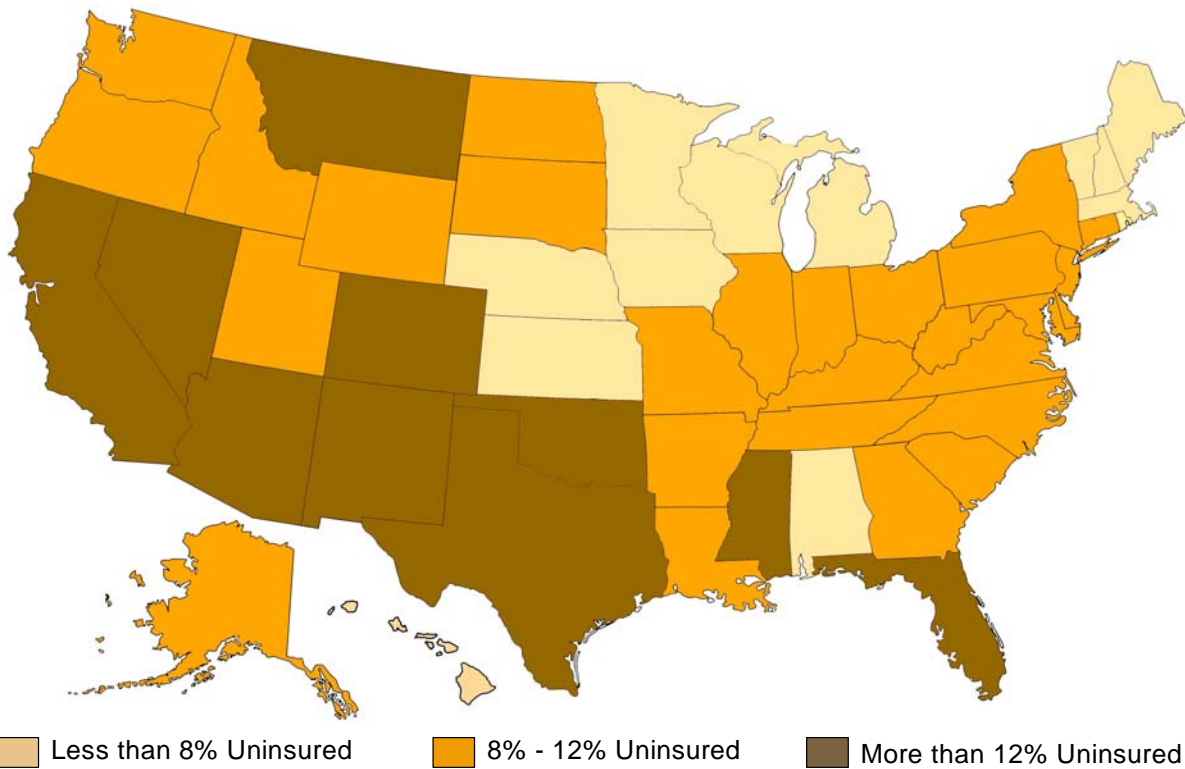
Digging Out of the Deficit Ditch — After six years of reckless fiscal policy that yielded record deficits, our 2008 budget resolution restores fiscal responsibility and brings the budget back to balance, reaching a surplus of \$41 billion in 2012.

Provides New Direction for Country — Our budget takes important steps, returning the budget to balance without raising taxes, beginning to reverse six years of fiscal mismanagement, and starting to build the future we want for our children and grandchildren.

Contains Tough New Enforcement Procedures — Our budget includes a pay-as-you-go rule for the Senate that complements the rule adopted earlier this year in the House. The plan also requires that reconciliation bills reduce the deficit, not increase it. Since 2001, the Republican-controlled Congress abused reconciliation by using the procedure to pass tax cuts that have increased the deficit by more than \$1.7 trillion.

Federal Dollars Must Be Spent Effectively — The budget institutes tough initiatives to crack down on wasteful or fraudulent spending and to ensure that taxes owed are properly collected. It focuses on areas that account for the majority of the federal government's improper payments, including the Social Security Administration's disability insurance and supplemental security income programs, Medicare, and unemployment compensation.

Percent of Children Without Health Insurance Coverage



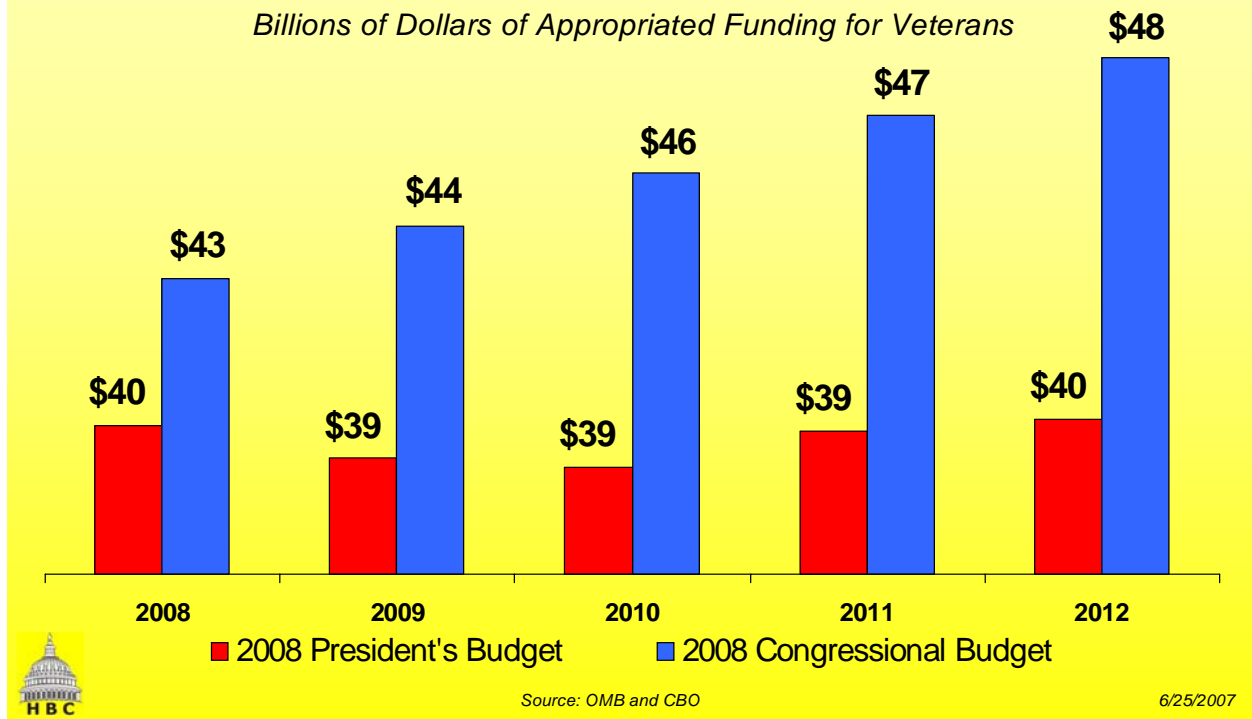
Nine Million Children Are Without Health Insurance — There are nine million children – 11 percent of all children in the United States – without health insurance even though roughly six million of them are eligible for Medicaid or the State Children’s Health Insurance Program (SCHIP). The chart above illustrates the percentage of uninsured children within each state.

More than One Million Children Will Lose Coverage Under the President’s Budget — The President’s budget provides inadequate resources for SCHIP. Rather than increasing coverage of uninsured children, the President’s budget would actually result in *fewer* children and pregnant women receiving coverage than currently do. Under the President’s budget, more than one million children will lose coverage.

Democratic Budget Allows Congress to Expand Health Insurance Coverage for Millions of Uninsured Children — The budget that Democrats passed this spring includes a reserve fund to provide up to \$50 billion in additional resources to improve children’s health – enough to insure millions of eligible children and reduce the number of uninsured children over the next five years. Our budget is a striking contrast to the President’s proposals, which the Congressional Budget Office estimates would result in fewer children and pregnant women receiving this health care coverage.

Democrats Provide Highest Ever Veterans Funding

Billions of Dollars of Appropriated Funding for Veterans



Democrats Provide Largest Ever Increase for Veterans — The 2008 budget provides the funding needed to honor our commitments to veterans – most importantly, to provide them with excellent health care. It provides more than \$43 billion in appropriated veterans funding for 2008 – the largest increase in history and \$6.7 billion more than the current funding level.

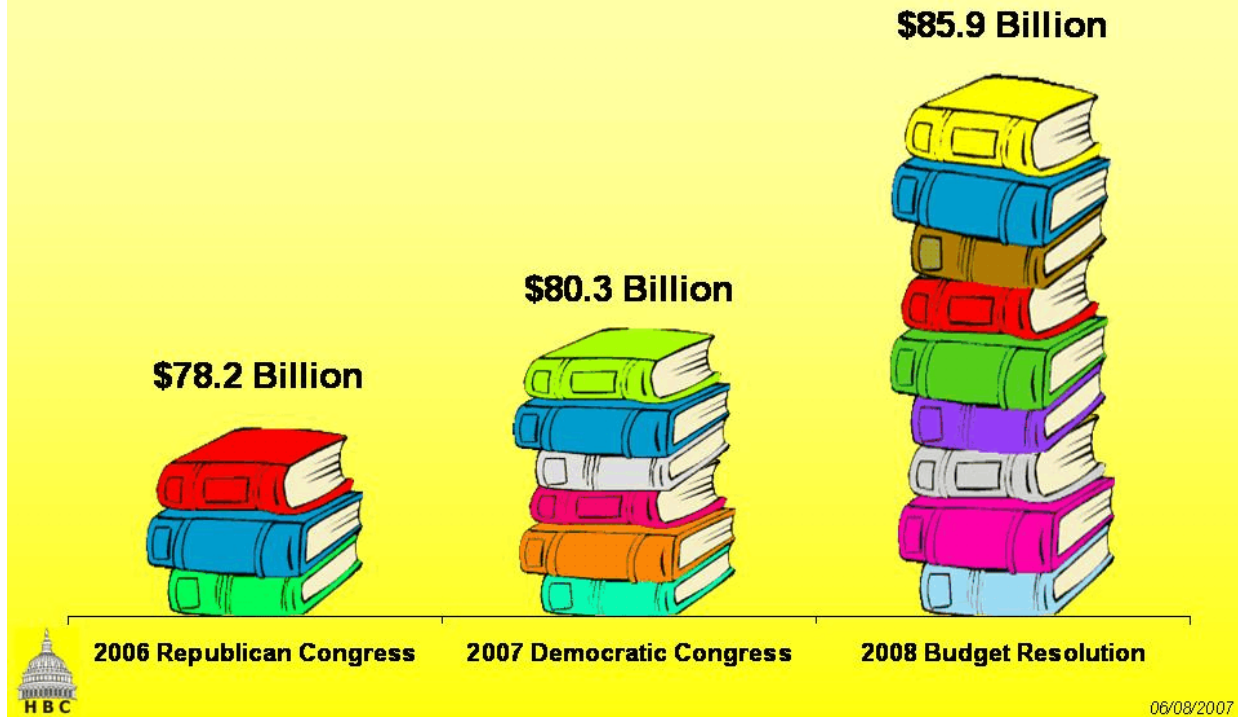
President's Budget Does Not Adequately Support Veterans — In contrast, the President's budget does not adequately fund veterans' health care for 2008. And after 2008, the President's budget starts to cut below even the 2008 level. Over five years, the President's budget provides \$32 billion less than our budget for veterans.

Veterans Service Organizations Commend our 2008 Budget — “[W]e applaud the . . . funding for Veterans . . . Members of the Armed Services serving in Iraq and Afghanistan have answered the call to serve our nation. Now it is time to ensure that they are properly taken care of once they have returned from the battlefield.” — **Iraq and Afghanistan Veterans of America**

“As a nation at war, these funds will help cover the ongoing cost of war to care for the men and women of the U.S. military and their families.” — **The American Legion**

Democrats Increase Funds for Education

Function 500 Discretionary Program Level



We Need to Do More to Help Our Children Learn — We need to do more to help ensure that all children learn and succeed.

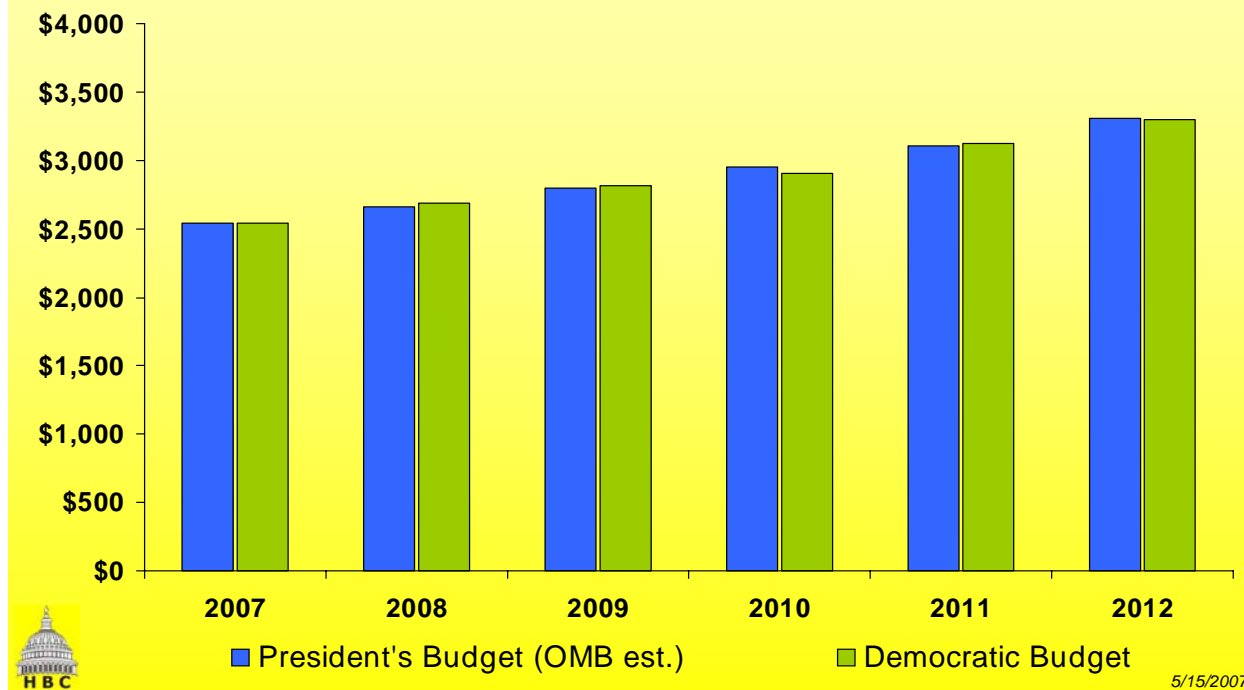
- 15-year-olds in the U.S. have lower math skills than 80 percent of the other industrialized nations.
- More than 10 percent of high school students drop out before graduating.
- The President's budget request for next year cuts funding for the Department of Education by \$1.5 billion and outright eliminates 44 education programs.

How We Are Helping Students — One of the first actions of the new Congress was to increase funds for education in the 2007 appropriations bills that the previous Congress had left unfinished. We are staking out our support for education even more firmly for 2008.

- We passed a 2008 budget resolution – without any Republican support in the House – that provides a \$5.6 billion increase for education, social services, and job training programs. The new funding is \$9.5 billion more than the President included in his budget.
- The 2008 funding bill would give the Department of Education an additional \$4.2 billion, including a \$2 billion increase for key “No Child Left Behind Act” K-12 education programs that improve teacher quality and provide reading and math instruction to low-income students in about 55,000 schools.
- That appropriations bill would raise the maximum Pell grant to \$4,700 – a \$390 increase. Over 5.5 million college students will benefit from this increased assistance.

Revenues In Democratic Budget Are Virtually Identical To President's Budget

Total Revenues in Billions of Dollars, FY2008 – FY2012



Budget Resolution Does Not Contain a Single Penny of Tax Increases — Our budget calls for no tax increases and instead accommodates middle-income tax cuts consistent with the pay-as-you-go principle. Republicans have been inaccurately claiming that the 2008 budget includes a tax increase – a charge that is simply not true. In fact, as shown in the chart above, the revenues in our budget are virtually identical to those in the President's budget.

Accommodates Extension of the Middle-Income Tax Cuts — Our budget supports tax relief that benefits middle-income taxpayers – including extension of the child tax credit, 10 percent individual income bracket, and marriage penalty relief – and provides for estate tax reform. It also supports extending the R&D tax credit and the deduction for state and local sales taxes.

Accommodates Immediate Relief for Middle-Income Taxpayers from the Alternative Minimum Tax — Our budget resolution accommodates deficit-neutral reform of the AMT to protect middle-income taxpayers against the looming threat of the Alternative Minimum Tax. Unless the AMT is reformed, tens of millions of additional families will have to pay higher taxes in 2007.

Leaves Current Tax Cuts in Place Now, and Provides for Their Responsible Extension in the Future — Nothing in this budget resolution will change the tax cuts that are currently on the books through December 31, 2010, and which could then be extended under the budget resolution consistent with the pay-as-you-go rule.