

HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Member

B-71 Cannon HOB ■ Washington, DC 20515 ■ 202-226-7200

July 30, 2004

The *Mid-Session Review*: Deficits Are Back, and They're Worse Than Before

After missing the statutory deadline of July 15 by two weeks, the Administration announced today that the deficit for 2004 will be \$445 billion — the largest deficit in history. This record-setting figure is 3.8 percent of the GDP, and is \$70 billion worse than the 2003 deficit and \$707 billion worse than the 2004 projection (including tax cuts) made in 2001, when the Bush Administration inherited a projected \$5.6 trillion ten-year surplus.

Republican budget failures keep mounting. For the first time in history, Congress has failed to pass a budget resolution when one party controls both houses.

Largest Deficit in History — The \$445 billion deficit is an all-time high, but the full story is even worse. Once the Social Security Trust Fund is removed from the figures, the 2004 deficit number is actually \$600 billion, or 5.2 percent of GDP. The budget never reaches balance within the five-year window, and the long-term outlook is even more bleak. With deficits of this size, the nation's debt is growing faster than its income (that is, the debt is rising as a percent of the GDP).

Omitted Costs Drive Deficits Even Higher — Even while showing record deficits, the new figures omit key items, such as the full costs of alternative minimum tax relief, the war in Iraq and Afghanistan, expiring tax provisions, the continuing defense buildup, and realistic discretionary funding amounts. For example, in late July, the Government Accountability Office released a report documenting that funding in certain Defense Department accounts is expected to fall short this year by \$12.3 billion. If all of these costs are incorporated, the projected national debt rises every year into the indefinite future.

The Result of the Omitted Costs and Steep Deficits: Mounting Debt — Thus, for the third time in three years, Republicans need to increase the debt limit. Last year, they enacted the largest debt limit increase in history — \$984 billion. In 2002, they raised the debt limit by \$450 billion. Now, they need another \$690 billion increase to keep the federal government solvent for just one more year, and time is running out. In his July 2 letter to Ranking Democratic Member John Spratt, Treasury Secretary John Snow wrote, “We currently estimate that the federal government will likely brush up against the debt limit in September or October. Accordingly, it is imperative that the Congress pass legislation to increase the debt limit as soon as possible.”

Cutting the Deficit in Half? — When the President released his budget earlier this year, he said he would “cut the deficit in half” over five years, but only because the budget omitted large future costs. Furthermore, the Administration left the public to assume that because the deficit would be cut in half over five years, the budget was on a path to balance in ten years. In fact, the deficit would worsen after the five years the Administration disclosed. Buried in the budget volumes was the acknowledgment that the Administration was not choosing a course for fiscal improvement, but rather heading down a path of chronic, long-term deficits through the year 2050.

Why are the Numbers Different than in February? — The deficit has improved largely because revenues have finally bottomed out after three years of decline. Corporate receipts are higher than anticipated, though workers have not yet enjoyed higher wages. Tax refunds were lower than expected in April, though there has been no continuing improvement in individual income tax receipts to give confidence for the future.

February White House Estimate Overstated Size of Deficit — The Administration’s February projections were overly pessimistic, compared with CBO’s and those of other mainstream economists. At the time, CBO said the likely 2004 deficit under the President’s budget would be \$478.5 billion, not the \$520.7 billion the Administration projected. Now the Administration’s estimates are more in line with outside forecasters, and Administration officials are claiming the correction as progress. Some even portray this new record deficit, \$70 billion worse than the previous record set last year, as a fiscal improvement.

Economy Slow to Rebound — Middle-class Americans and the economy still struggle after three rounds of tax cuts and three years of Republican control in Washington. The Bush Administration has failed to generate a meaningful recovery for an economy that slumped on its watch: nearly two million private-sector jobs have been lost since President Bush took office, and the typical person losing a job is out of work about twice as long as he or she was four years ago. The number of “discouraged workers” (people who want jobs but have given up looking for work because they believe no jobs are available) is more than double what it was four years ago, and the number of people who are working part-time because they cannot find full-time work is up by almost half. For those who are employed, wages remain flat; inflation-adjusted weekly wages have barely budged over the last four years.

Failed Budget Process Reform — With no budget in place to enforce, House Republicans still brought several ill-conceived budget process reform measures to the floor for consideration last month. Their lopsided proposal to restrain spending without limiting tax cuts was a bad idea, and the draconian entitlement cap procedure included in some of their amendments was even worse. Because they were unwilling to compromise, they squandered the opportunity to enact meaningful, bipartisan budget process reform; instead, every major proposal was rejected, including a return to the budget rules that worked throughout the 1990s.

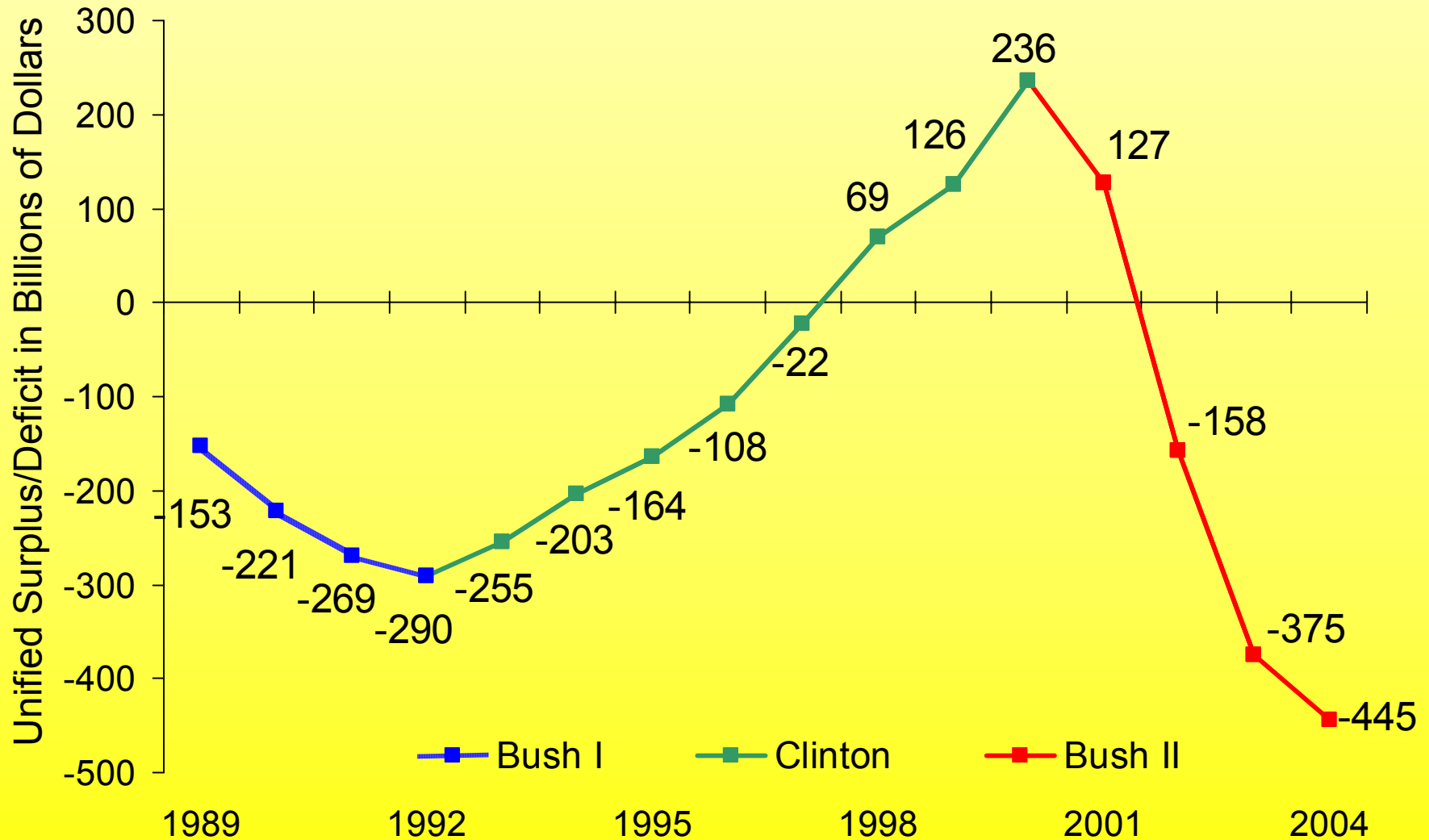
Solved! The Mystery of the Missing Mid-Session Review



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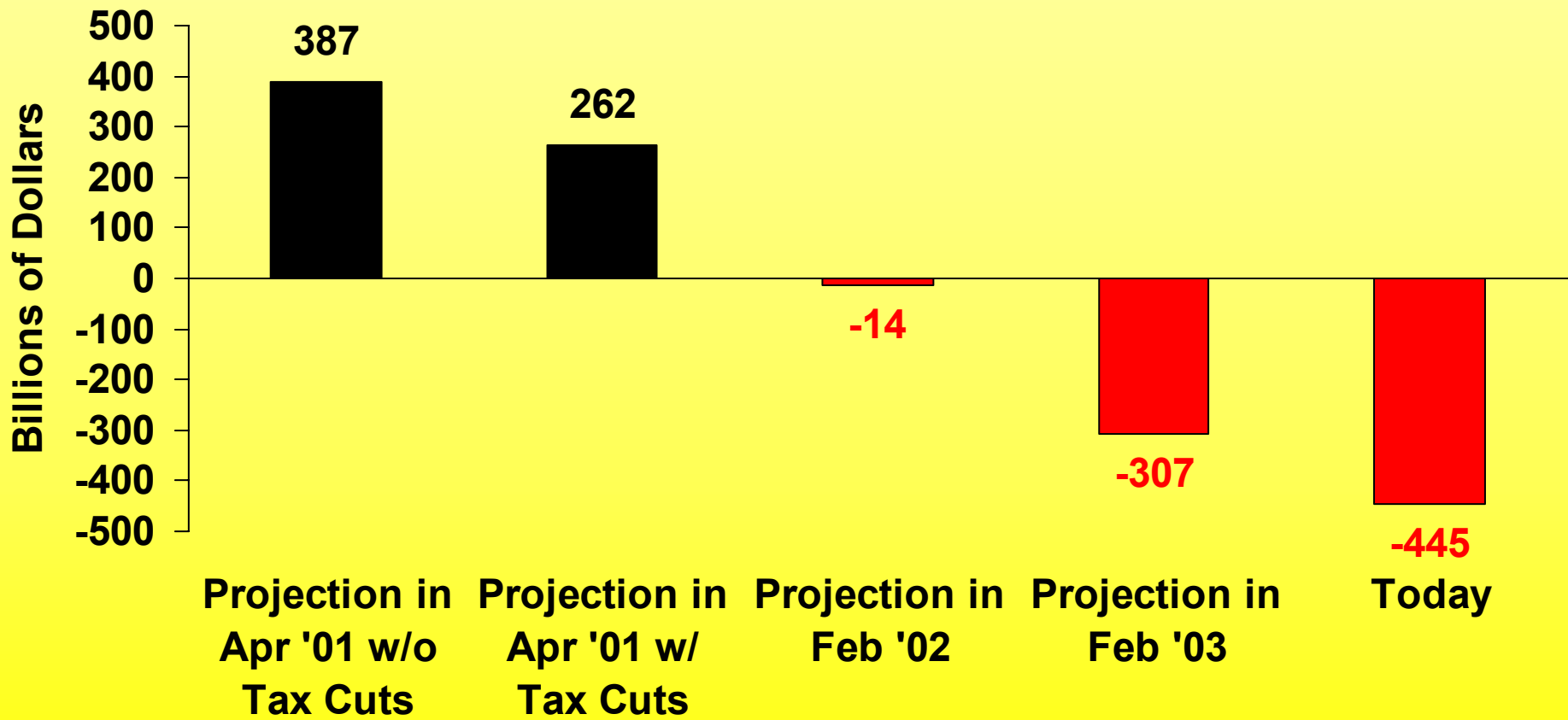
Backsliding Into the Deficit Ditch

From Deficit to Surplus to Deficit Again

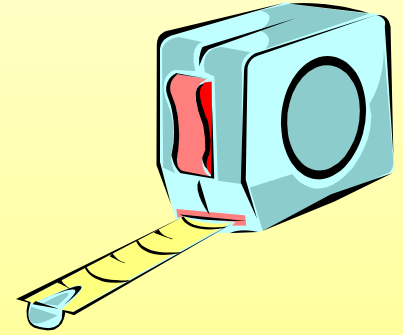


With New OMB Estimates, 2004 Budget Gets Worse

Surplus or Deficit Estimates for Fiscal Year 2004



2004 Deficit: **\$445 Billion**



- **The largest deficit in American history**
- \$70 billion worse than last year's \$375 billion
- \$707 billion worse than the Administration projected in 2001 with the tax cuts, and \$832 billion without
- \$600 billion if the Social Security surplus is not counted
- 3.8% of the GDP, or 5.2% not counting the Social Security surplus
- \$58 billion greater than all non-homeland security domestic discretionary spending
- \$11 billion greater than all defense spending
- 54% as large as all individual income taxes
- 91% as large as all Social Security benefits
- 66% more than all Medicare spending

OMB Estimates Don't Tell the Whole Story About the Deficit



OMB's estimates omit:

- Exploding tax cuts after 2010;
- Needed middle-income AMT relief;
- Realistic costs of military operations in Iraq and Afghanistan; and
- Resulting debt-service costs.