



John Spratt,
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U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON THE BUDGET

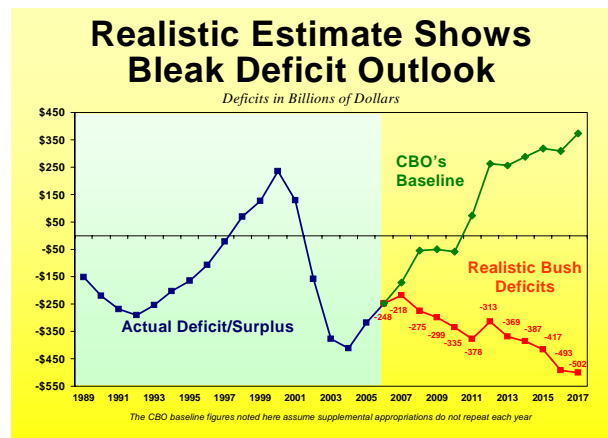
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January 24, 2007

CBO Forecasts Continued Fiscal Deterioration

Key Points

Deep Budget Deficits Continue — Today's Congressional Budget Office (CBO) report shows continued budget shortfalls, with the deficit for 2007 estimated to be \$172 billion. CBO's *Budget and Economic Update: Fiscal Years 2008 to 2017* does not include the full costs associated with significant likely policies such as reforming the Alternative Minimum Tax (AMT) and ongoing military operations in Iraq and Afghanistan. When these realistic budget costs are included, the 2007 budget deficit rises to \$218 billion.



CBO's estimates show that the Bush Administration continues to lead the country down a dangerous fiscal path. Meanwhile, the long-term outlook remains bleak.

Social Security Surplus Masks True Size of the Deficit — The estimate of a \$172 billion deficit for 2007 includes the Social Security surplus of \$190 billion. Once the Social Security surplus is removed from the deficit calculations – as it should be, since it represents resources dedicated to paying Social Security benefits and is legally off-budget – the remaining 2007 deficit is \$362 billion, which is nothing to celebrate.

2007 Deficit Far Worse than the Administration's Forecast in 2002 — The Administration's first budget projected that, after enactment of all its policies, 2007 would run a surplus of \$340 billion. CBO's new estimate thus shows a swing of \$512 billion to the red for 2007 alone.

National Debt Continues its Climb under the Administration's Policies — The gross federal debt will reach \$8.9 trillion at the end of this year, according to CBO estimates. CBO projects that the debt will rise by \$3.7 trillion during the President's tenure, from \$5.6 trillion when President Bush took office to \$9.3 trillion at the end of 2008. The unprecedented rise in debt means that future generations will be forced to bear the burden of the Administration's fiscally irresponsible policies.

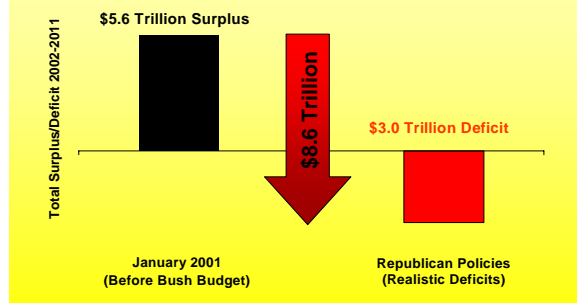
Economic Growth Alone Will Not Solve Our Nation's Fiscal Mess — CBO's estimates show that we cannot grow our way out of this fiscal mess. While some conservatives claim that the recent increase in revenues is an indication that the current revenue stream is sufficient, CBO's estimates – which do not include the costs of inevitable AMT reform – show a continued budget shortfall through 2011. When other likely costs (shown on pages 3-4) are included, the budget never reaches balance under Republican policies.

Tax Cuts Have Not Paid for Themselves — As N. Gregory Mankiw, former Chairman of President Bush’s Council of Economic Advisers, has emphasized, there is “no credible evidence” that “tax revenues ... rise in the face of lower tax rates,” and any economist who says that tax cuts can pay for themselves is like a “snake oil salesman trying to sell a miracle cure.” The recent trend in revenue growth does not refute the fact that compared with the revenue outlook the President inherited in 2001 (as projected in the President’s first budget), 2007 revenues are \$294 billion lower and revenues over 2002-2011 are nearly \$3.8 trillion lower.

Large Deficits Under Administration’s Fiscally Irresponsible Policies

Administration’s Policies Reversed Once-Bright Budget Outlook — The budget outlook used to be bright. When the President took office in 2001, CBO projected a ten-year budget surplus of \$5.6 trillion from 2002-2011. Today, more than halfway through that budget window, that \$5.6 trillion surplus will instead amount to a \$3.0 trillion deficit once likely costs are added to CBO’s baseline – a turnaround of \$8.6 trillion. Rather than preparing our country for the fiscal challenges ahead, the Administration’s policies have placed our nation in an even greater fiscal hole and now risk the living standard of future generations.

Surplus Declines \$8.6 Trillion Under Republican Policies

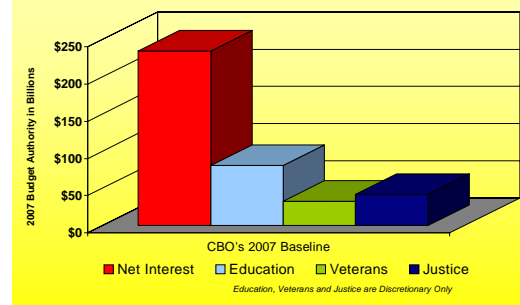


Cost of Tax Cuts Exceed 2007 Deficit — Joint Committee on Taxation estimates show the total cost of the Administration’s tax cuts in 2007 to be over \$200 billion, indicating that the cost of the tax cuts is higher than this year’s budget deficit. Through 2006, tax cuts passed during their Administration have already cost the Treasury \$1.0 trillion; extending these tax cuts through 2017 is expected to cost an additional \$2.3 trillion.

Continued Deficits Pose Threat to Economic Well-Being

The Debt Burden Will be Passed to Future Generations — Higher debt is leading to huge growth in the federal government’s interest payments. CBO’s estimates show that service on the debt – net interest paid – is one of the fastest growing items in the budget. In fact, CBO estimates that net interest will amount to \$235 billion in 2007. After including the cost of other likely policies, net interest will rise to \$462 billion in 2017. Such large interest payments squeeze out funding for national priorities and lower the standard of living for future generations who will be forced to forgo other spending (or pay higher taxes) to reduce the debt incurred by this Administration.

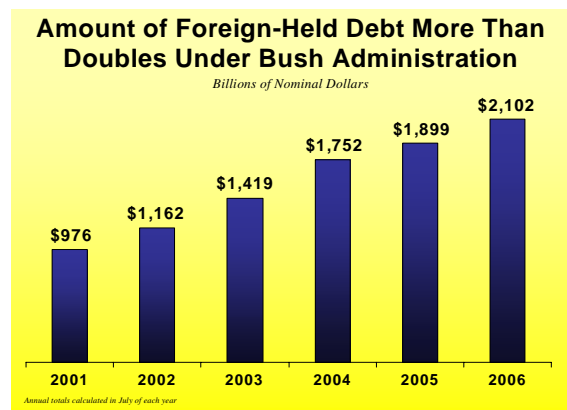
Interest Payments on Debt Dwarf Other Priorities



Budget Policies Increase Economic Vulnerability —

The level of foreign-held debt has skyrocketed under the Bush Administration, rising to \$2.2 trillion in November 2006 – an increase of \$1.2 trillion since January 2001.

In fact, America is relying on foreign investors to purchase most of its debt – about 75 cents of every dollar of new debt since 2001 is owed to foreign investors, including foreign governments. The high level of indebtedness to foreign investors heightens the economy’s exposure to potential instability from abroad.



Higher Budget Deficits Mean Less National Saving —

National saving is the sum of public saving (by the government) and private saving (by households and businesses). The government’s deficit counts against public saving, lowering national saving if there is not a comparable rise in private saving. National savings is now at its lowest level since the Great Depression. A lower rate of national saving means less national investment and a lower standard of living in the future.

Long-Term Outlook Worsens When Omitted Costs are Included

Budget Outlook Is Worse than it Appears — CBO’s budget baseline includes only “current law” costs, and omits the budget effects of other legislation, no matter how likely those future changes are. Once likely costs are included, the deficit for 2007 deteriorates further to \$218 billion, and never improves. The costs omitted from the CBO baseline include:

- ▶ **Extension of tax cuts:** The Administration continues to advocate the extension of the President’s tax cuts, most of which expire after 2010. Extending the President’s tax policies and other expiring tax provisions will add \$2.3 trillion to the deficit over the next ten years.
- ▶ **AMT Reform:** If the AMT is not reformed, an estimated 23 million taxpayers will be subject to the tax in 2007, making its reform nearly inevitable. CBO estimates that reforming the AMT will add \$9 billion to the deficit in 2007 and \$569 billion over the next ten years. Since the AMT “takes back” much of the cost of the President’s tax cuts, the cost of its reform is made even higher – rising to \$1.0 trillion in all – if the President’s tax policies are extended.
- ▶ **Spending for wars in Iraq and Afghanistan:** CBO’s baseline repeats every year the \$70 billion of war funding that Congress has already enacted for 2007. Once that funding is removed and adjustments are made to account for likely war costs this year and future costs based on a projected CBO scenario, war operations will require an additional \$100 billion in 2007 funding, and \$824 billion over the next ten years.
- ▶ **Realistic defense spending:** CBO assumes that all discretionary spending simply increases by the rate of inflation each year. Adjusting the rate of growth in discretionary spending to reflect the President’s planned defense increases will add \$267 billion to the deficit over the next ten years.

- ▶ Interest on all these costs: interest on the costs noted above will total \$986 billion over ten years (using the CBO interest model).

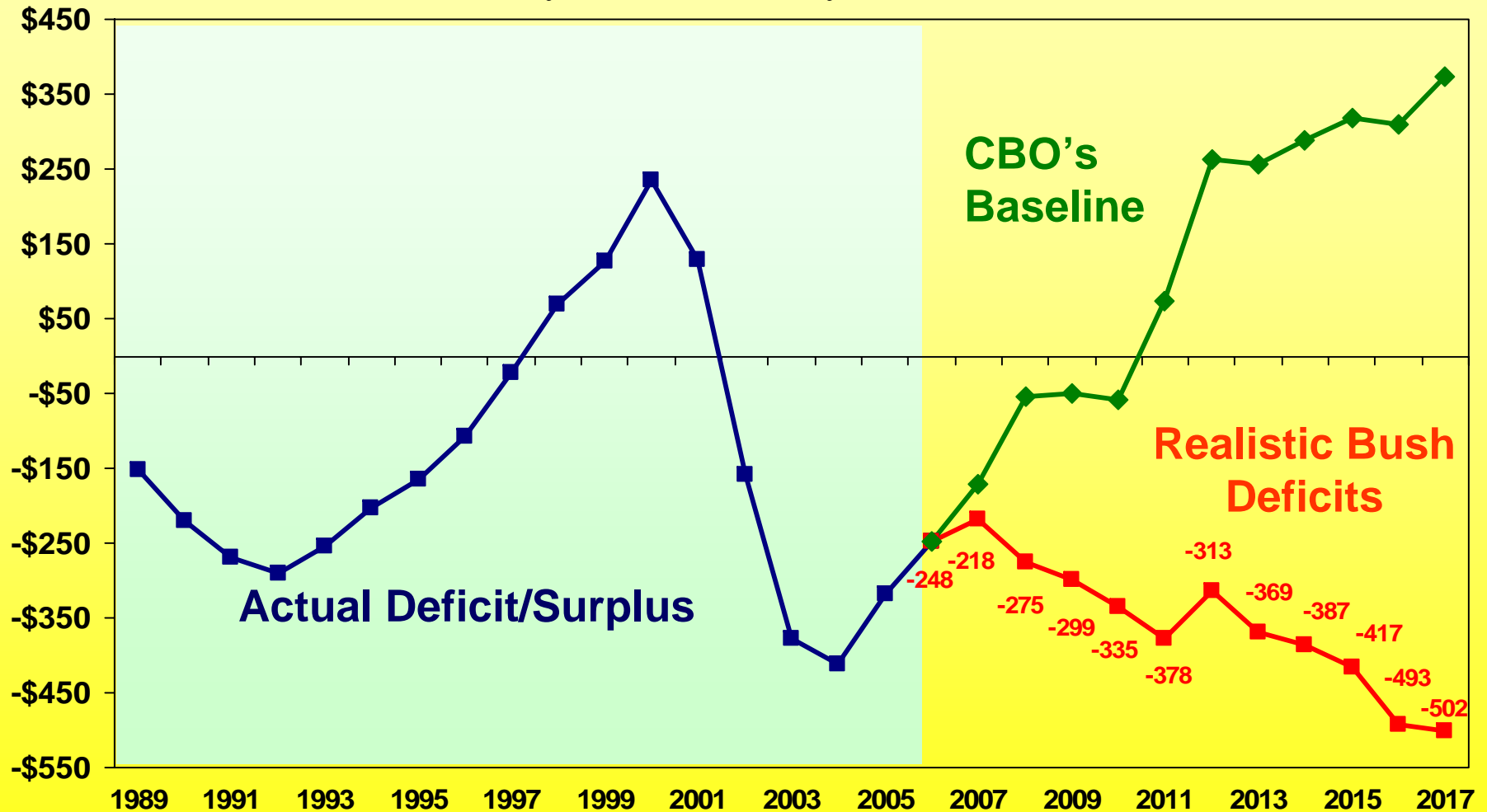
Restoring Fiscal Responsibility

New Budget Rules Mean More Budget Discipline — House Democrats recently passed a Pay-As-You-Go rule to enforce budget discipline. The rule will force all legislation in the House that increases mandatory spending or decreases tax receipts to be offset. PAYGO rules were partially responsible for the budget discipline exercised during the Clinton Administration, and will assist this Congress in reversing the fiscal deterioration caused by Republican policies. The House also adopted a new rule designed to end the practice of using fast-track reconciliation procedures to make the deficit worse.

Balancing the Budget — As we have in the past, Democrats will offer a fiscally responsible budget resolution that returns to balance while protecting important American priorities. We have repeatedly offered budgets that had lower deficits and accumulated less debt than Republican budgets, while containing tough rules to encourage a return to fiscal responsibility.

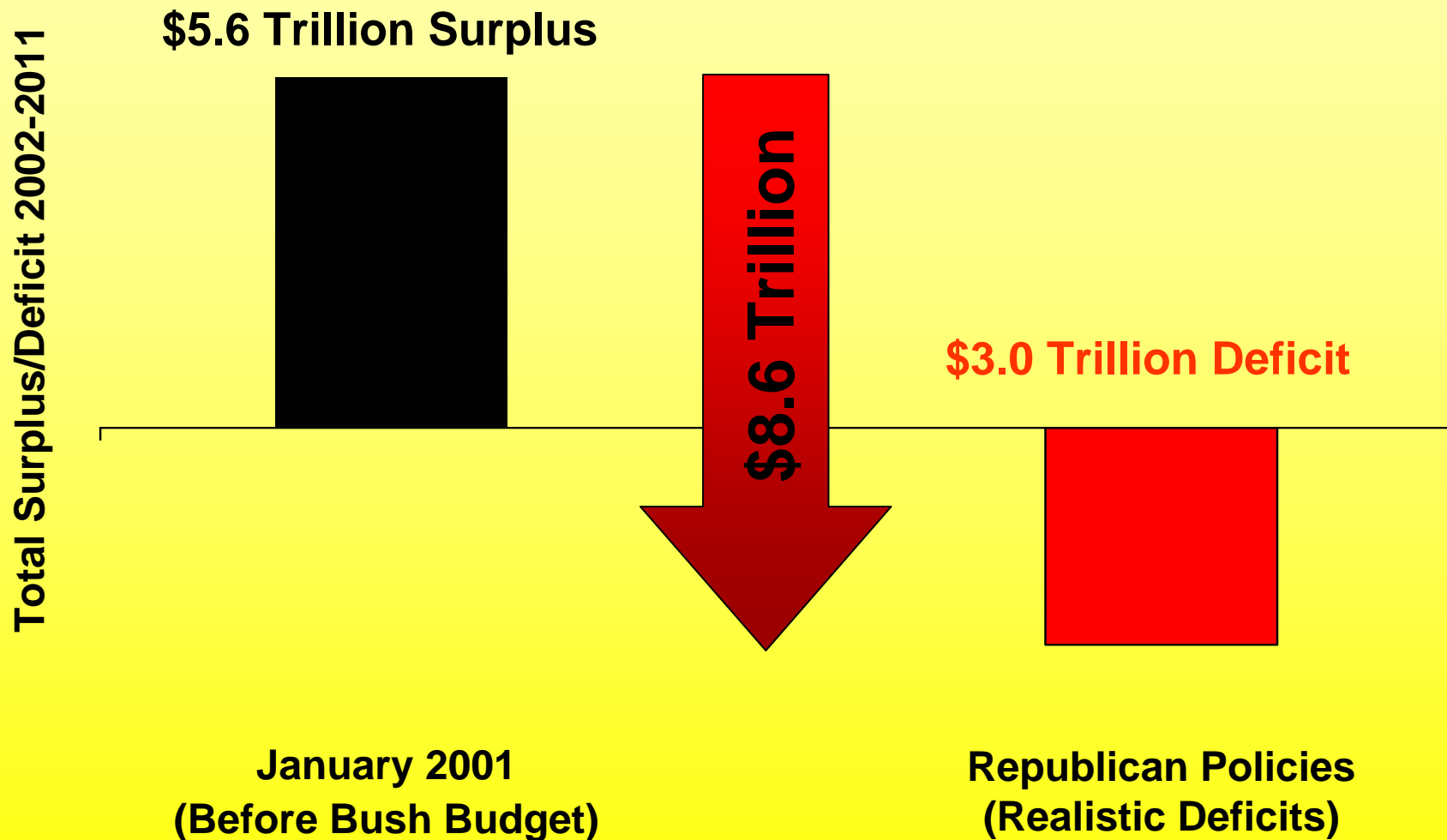
Realistic Estimate Shows Bleak Deficit Outlook

Deficits in Billions of Dollars



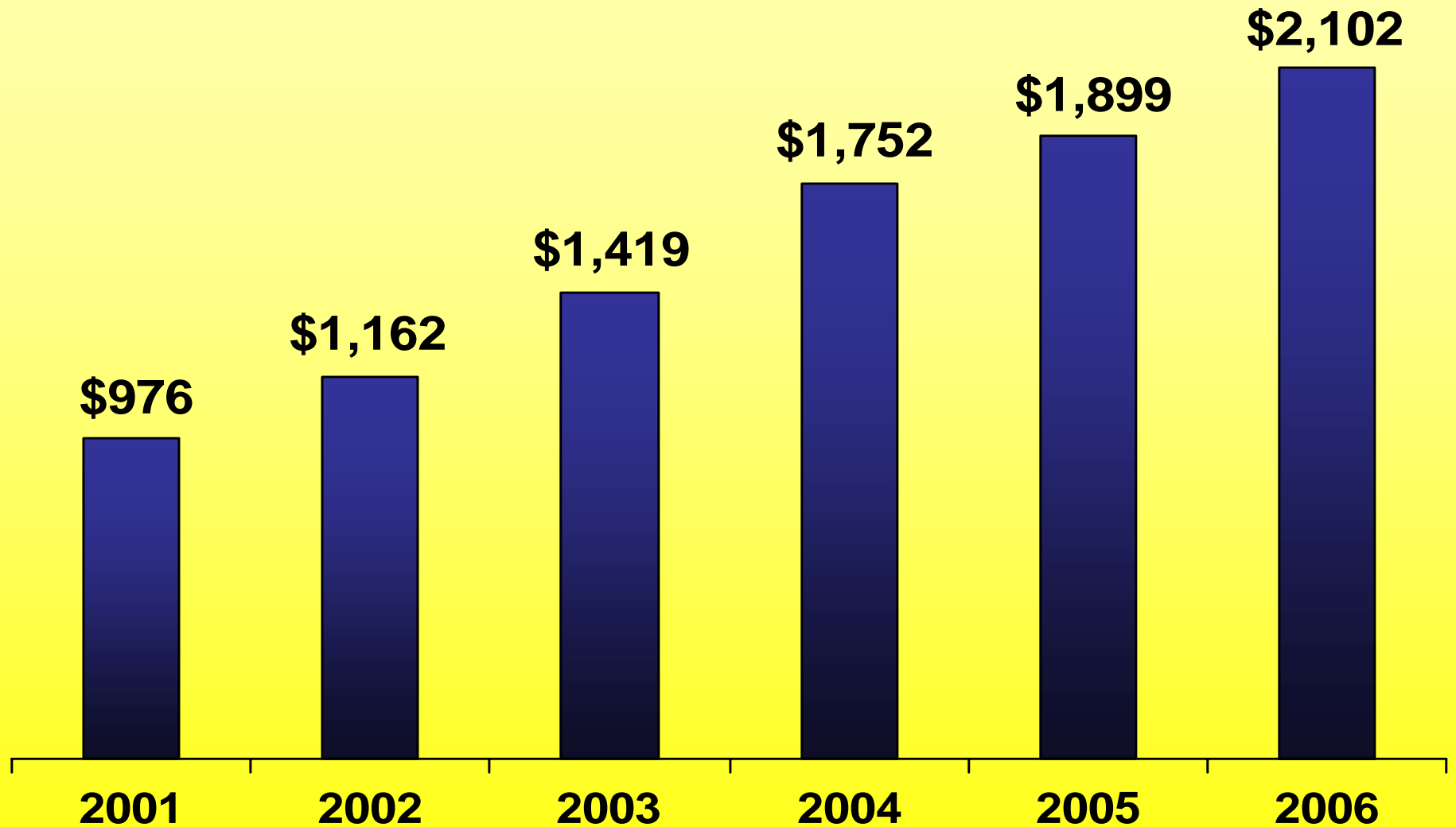
The CBO baseline figures noted here assume supplemental appropriations do not repeat each year

Surplus Declines \$8.6 Trillion Under Republican Policies



Amount of Foreign-Held Debt More Than Doubles Under Bush Administration

Billions of Nominal Dollars

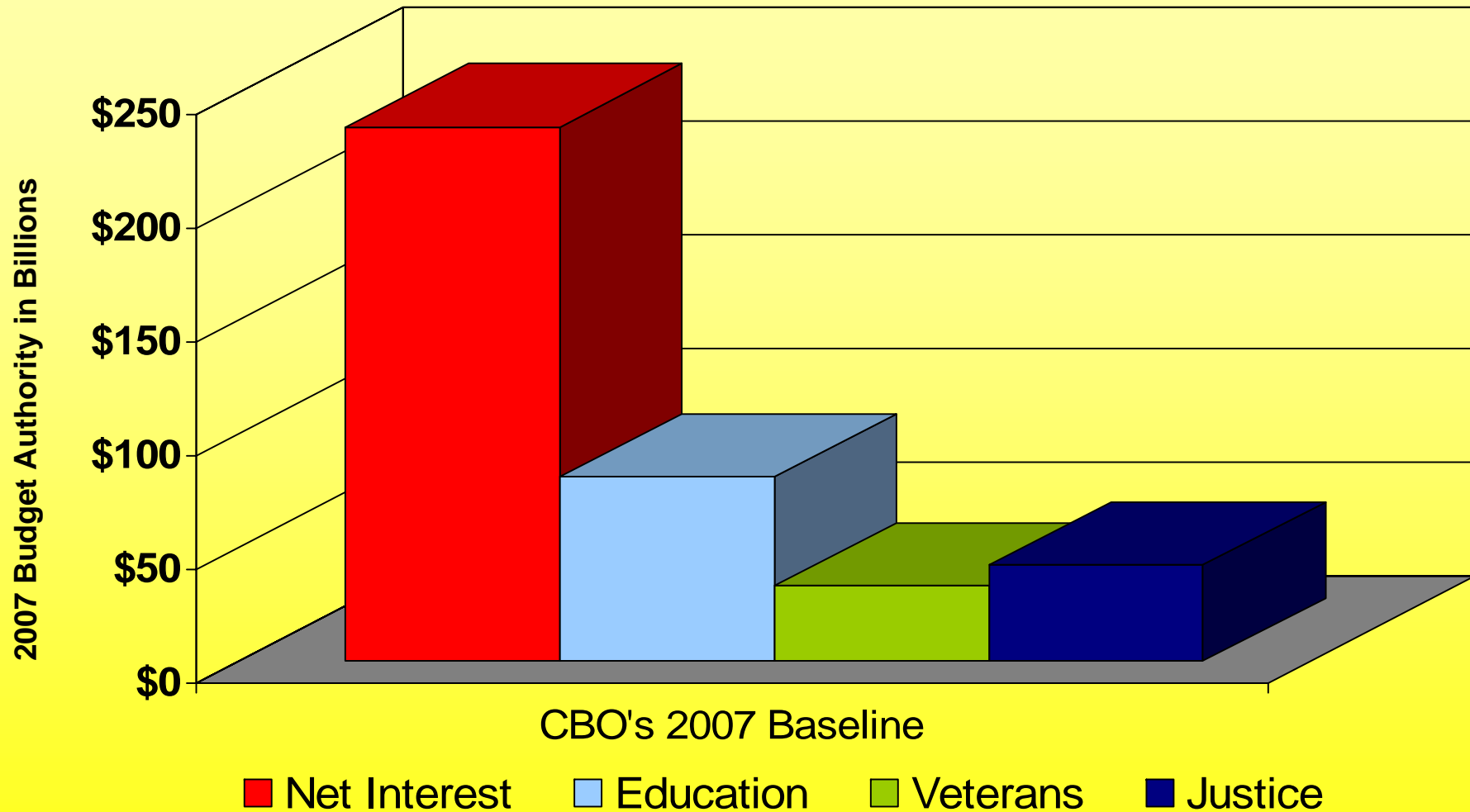


*Annual totals calculated in July of each year
House Budget Committee*

Source: U.S. Treasury International Capital System

9/19/06

Interest Payments on Debt Dwarf Other Priorities



Education, Veterans and Justice are Discretionary Only

CBO's Budget and Economic Outlook, January 2007

Billions of Dollars

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	Total <u>2008-2017</u>
CBO Baseline	-172	-98	-116	-137	-12	170	159	185	208	192	249	800
Remove Repeating Supplemental		43	65	78	86	92	98	104	111	118	125	920
CBO Baseline w/o repeating supp	-172	-55	-51	-59	73	262	257	289	319	309	374	1720
Additional Items												
Extend Expiring Tax Provisions	-3	-13	-20	-35	-188	-296	-326	-341	-356	-372	-389	-2337
Repair AMT	-9	-59	-58	-69	-80	-93	-106	-120	-135	-151	-168	-1040
Ongoing Military Operations	-33	-113	-128	-116	-110	-90	-70	-60	-58	-56	-57	-857
Bush Defense Increase	0	-29	-24	-26	-25	-26	-27	-27	-28	-28	-27	-267
<i>Debt Service</i>	-1	-7	-18	-30	-47	-70	-98	-128	-160	-195	-234	-986
Total Changes	-46	-220	-248	-276	-451	-575	-627	-676	-737	-803	-876	-5488
Resulting Deficits	-218	-275	-299	-335	-378	-313	-369	-387	-417	-493	-502	-3768
ADDENDUM:												
CBO non-social security baseline deficit w/o repeating supps	-362	-258	-269	-290	-172	7	-3	25	54	46	115	-744
Non-social security deficit with additional items	-408	-478	-517	-566	-623	-568	-630	-651	-683	-757	-761	-6232

negative items make deficits worse

Baseline estimates assume tax cuts expire as written in law and emergency supplemental funding repeats every year and grows with inflation