

HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

B-71 Cannon HOB ■ Washington, DC 20515 ■ 202-226-7200 ■ www.house.gov/budget_democrats

September 28, 2004 (REVISED)

Fact Sheets for September 21, 2004 Special Order

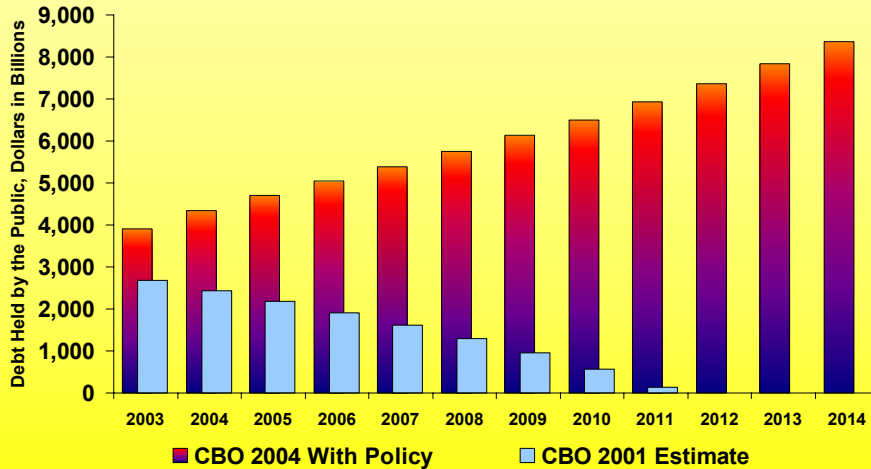
	Page
Alarm on the Debt Limit	1
Republican Deficits Climb to Record Levels	2
Clinton Budgets vs. Bush Budgets	4
Consequences of Debt and Deficits	5
The Economy Slumps Under this Administration	7

Compendium of Charts Included

Alarm on the Debt Limit

- ***Debt Ceiling Must be Increased*** — The Secretary of Treasury, John W. Snow, has warned Congress that the national debt will breach its reach its statutory limit “between late September 2004 and early October 2004” unless the ceiling is raised.
- ***Debt Increasing at Historic Levels*** — When President Bush took office, his Administration forecast that the debt ceiling would not be reached until 2008. Consider:
 - ▶ ***Democrats Paid Down the Debt*** — From 1998 through 2000, with President Clinton in office, the government reduced debt held by the public, paying off \$363 billion. In 2001, under the last Clinton Administration budget, the debt came down by another \$90 billion, taking the total to \$453 billion.
 - ▶ ***Third Time’s a Charm*** — From 2002 through 2004, to accommodate the Bush Administration budgets, the debt ceiling will be raised three times: by \$450 billion in 2002, by \$984 billion in 2003 (the largest debt ceiling increase in history), and by an expected \$690 billion in 2004. In four years, the Bush Administration will raise the debt ceiling by an unprecedented \$2.1 trillion.
 - ▶ ***Debt Will Continue to Rise*** — The debt ceiling increase sought by the Bush Administration is the tip of an iceberg, one in a series of increases that will continue as far as the eye can see. According to the House Budget Committee Democratic staff, if President Bush’s 2005 budget is implemented, the government will incur \$6.471 trillion in additional debt between now and 2014, raising the national debt to \$14.545 trillion.
- ***Social Security and Medicare at Risk*** — In 2008, the first of the 77 million baby boomers will begin drawing Social Security benefits. By 2011, the first of the baby boomers will become eligible for Medicare. At this crucial point, when we should be preparing for a demographic tidal wave by saving more, President Bush and the Republican Congress have chosen to save less by running the biggest deficits in history.
- ***Administration Does Not Acknowledge Severity of Mounting Debt*** — When the debt ceiling is breached three times in four years, it should be an urgent alarm, a call to action before still more precious time slips through our hands. Instead, the worst that OMB can say of the deficit in its *Mid-Session Review* is that it is “unwelcome.” There is no shock, no shame, and no solution.
- ***Stenholm Debt Limit Proposal*** — Rep. Stenholm supports a proposal that would prohibit the Secretary of the Treasury from dipping into federal trust funds in order to circumvent the statutory debt limit. These extraordinary actions should be a last resort to avoid a default during a crisis, not a routine action used for convenience. If the Republicans believe that tax cuts with borrowed money is good economic policy, they should vote to increase the national debt to pay for their tax cuts.

Contrary to 2001 Estimates, Republican Policies *Increase* National Debt



Prepared by the House Budget Committee Democratic Staff

Source: CBO

updated 9/7/04

Republicans Increase the Debt Limit

Debt Limit Increases, Billions of Dollars

2002	450
2003	984
2004	690
2014*	6,471

*CBO projection of increase required under President's policies

Prepared by the House Budget Committee Democratic Staff

09/23/04

Debt Limit Soars Under Republican Policies

Trillions of Dollars

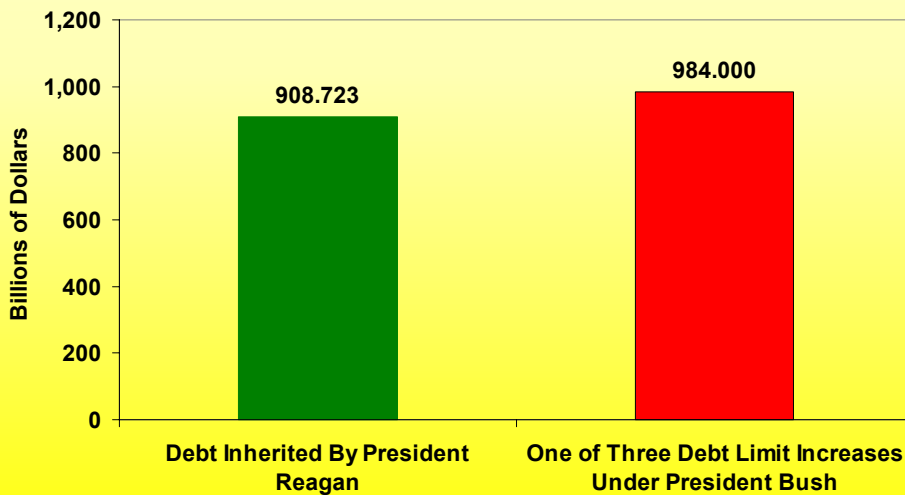
2001	5.950
2002	6.400
2003	7.384
2004	8.074
2014*	14.545

*CBO projection of amount required under President's policies

Prepared by the House Budget Committee Democratic Staff

9/23/04

One Bush Debt Limit Increase Exceeds Debt Reagan Inherited



Prepared by the House Budget Committee Democratic Staff

Source: OMB

9/15/04



DEPARTMENT OF THE TREASURY

WASHINGTON, D.C.

SECRETARY OF THE TREASURY

August 2, 2004

The Honorable John Spratt
Ranking Member
Committee on Budget
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Spratt:

The Administration now projects that the statutory debt limit, currently \$7,384 billion, will be reached between late September 2004 and early October 2004. At that time, unless the debt limit is lifted or the Treasury takes authorized extraordinary actions, we will be unable to invest or roll over maturing investments of government trust funds and other government accounts, including the Civil Service Retirement and Disability Fund and the Government Securities Investment Fund of the Federal Employees' Retirement System Thrift Savings Fund.

I am writing you to provide the notice required by 5 U.S.C. § 8348(1)(2) and 5 U.S.C. § 8438(i)(2) of the Treasury Department's prospective inability to invest those funds. Also, you should note that even if the Treasury were to take all previously utilized prudent and legal actions to avoid breaching the statutory debt limit, we can finance government operations no longer than mid-to-late November 2004. Accordingly, I am also writing to request that Congress raise the statutory debt limit as soon as possible.

The level of outstanding debt subject to limit is a function of past decisions made by previous Congresses and Administrations over decades as well as current and past levels of economic activity. Further, the federal government's debt subject to limit continues to be significantly driven by required investments of government trust fund balances.

As you know, the "Full Faith and Credit" of the United States is a unique asset that underlies the leadership position of our nation in world capital markets. A failure to increase the debt limit in a timely manner would threaten this position as well as the ability to meet the obligation to pay Social Security benefits, make Medicare payments, protect our homeland and prosecute the war on terrorism, and maintain the long-term growth of the American economy.

I urge you to pass this essential legislation quickly.

Sincerely,

John W. Snow

Republican Deficits Climb to Record Levels

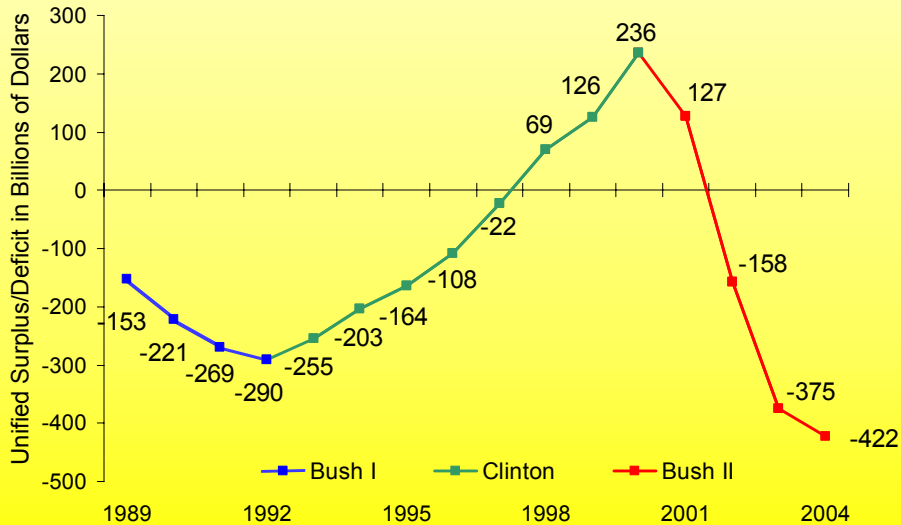
- ***CBO Confirms Republican Mismanagement*** — In the September 7th Budget and Economic Outlook *Update*, CBO confirmed that the 2004 deficit will be the largest in history — \$422 billion. CBO’s report also confirms that the long-term budget outlook is bleak, with no prospects for bringing the budget back to balance under Republican policies.
- ***Largest Deficit in History*** — The \$422 billion deficit is the largest deficit in history — shattering last year’s record by \$47 billion. Excluding the Social Security Trust Fund, the 2004 deficit number is actually \$574 billion, or 5.0 percent of GDP. The 2004 deficit figure marks an \$818 billion deterioration from the \$397 billion *surplus* for 2004 that CBO projected in January 2001, when the Bush Administration took office.
- ***Omitted Costs Drive Deficits Even Higher*** — Even while showing record deficits, the new CBO estimate omits key items, such as extending the President’s tax cuts, providing relief from the alternative minimum tax, and the continuing defense buildup. Adding just these costs to CBO’s baseline estimate reveals a long-term outlook in which the budget not only fails to return to balance within the ten-year window, but in fact annual deficits never drop below \$312 billion.¹ Adding in the costs of other Administration proposals — such as Social Security privatization and other policies mentioned by President Bush during his convention acceptance speech — drives the deficit numbers higher still.
- ***\$8.9 Trillion Reversal Under Current Administration*** — Under these adjusted figures, the \$5.6 trillion ten-year projected surplus inherited by the Bush Administration has become a \$3.3 trillion deficit — an \$8.9 trillion deterioration. According to these figures, the nation’s debt is projected to rise every year without limit, growing faster than its income (that is, the debt is rising as a percent of the GDP).
- ***Republicans Spend the Social Security Surplus*** — By these calculations, Republican policies call for spending the entire Social Security Trust Fund surplus every year for the next ten years and beyond. In all, \$2.4 trillion of the Social Security Trust Fund surplus would be diverted to fund the general operations of government over the next decade. Just a few short weeks ago, Federal Reserve Chairman Alan Greenspan raised the possible need to “recalibrate” the nation’s retirement security programs in the face of daunting budget deficits — confirmation of the dire but unacknowledged consequences of the Republican tax cuts.

¹On September 23rd, CBO released a supplement to its Budget and Economic Outlook Update, made in response to a request from House Budget Committee Ranking Member John M. Spratt, Jr., to reflect the cost of the President’s policies and other unavoidable costs. For more information, please see the report entitled *New CBO Analysis Shows Administration Policies Create Large and Sustained Deficits* on the Committee’s website located at: http://www.house.gov/budget_democrats/analyses/CBO_Report_September.pdf.

- ***Republican Tax Cuts Are Major Controllable Cause of Budget 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, in the absence of the Administration’s tax cuts, the budget would have returned to surplus within the ten-year budget window. For 2004, tax cuts are responsible for 60 percent of the budget deterioration caused by policy changes.
- ***The 75-year Cost of Republicans’ New Tax Cuts Is Triple the Projected Social Security Trust Fund Shortfall*** — The Center on Budget and Policy Priorities — using the same estimating techniques as the CBO, OMB, and GAO — calculates that the 75-year cost of the new tax cuts Republicans propose is between \$12.1 trillion and \$14.2 trillion in present value. This is more than three times the \$3.7 trillion Social Security shortfall estimated by the program’s trustees. In fact, the 75-year cost of Republicans’ new tax cuts exceeds the combined long-run unfunded obligations of both Social Security and Medicare.
- ***Pursuing Another \$1.3 Trillion in Tax Cuts When the Budget Is in Deficit Is Fiscal Irresponsibility*** — The single-minded pursuit of top-heavy, back-loaded, fiscally irresponsible tax cuts even larger than those passed three years ago drives all the Republican budgets — in the Senate and House, as well as the President’s. The cost of this unbalanced approach is both chronic, triple-digit deficits and the shortchanging of America’s priorities.
- ***Cutting the Deficit in Half?*** — When the President released his 2005 budget, he said he would “cut the deficit in half” over five years, but only because the budget omitted large future costs. In fact, the deficit would worsen after the five years the Administration disclosed. Furthermore, 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 and beyond.
- ***Republicans Lack Credibility*** — Republicans cannot get their story straight on deficits and they still won’t admit their tax cuts have ballooned the deficit. In 2001, they confidently predicted tax cuts would not throw the budget into deficit. Later they explained that even though massive tax cuts did indeed pull the budget into deficit, more tax cuts were needed to counteract the effects of the Bush recession. Now with a \$422 billion deficit predicted for 2004 and 1.7 million private sector jobs lost on their watch, they implausibly maintain they will cut the deficit in half in five years.
- ***Failed Budget Process Reform*** — For the first time ever when the same party controls the White House, the Senate, and the House of Representatives, Republicans are unable to agree on a budget resolution. They have rejected returning to the budget rules that worked throughout the 1990s and produced record surpluses and the longest economic expansion since World War II.

Backsliding Into the Deficit Ditch

From Deficit to Surplus to Deficit Again

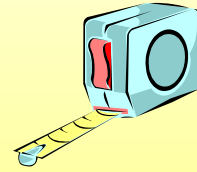


Prepared by the House Budget Committee Democratic Staff

Source: CBO

updated 9/7/04

2004 Deficit: \$422 Billion



- **The largest deficit in American history**
- \$47 billion worse than last year's \$375 billion
- \$623 billion worse than CBO projected in 2001 with the tax cuts, and \$818 billion without
- \$574 billion if the Social Security surplus is not counted
- 3.6% of the GDP, or 5.0% not counting the Social Security surplus
- \$40 billion greater than all non-homeland security domestic discretionary spending
- Only \$31 billion less than all defense spending
- 52% as large as all individual income taxes
- 86% as large as all Social Security benefits
- 42% more than all Medicare spending

Prepared by the House Budget Committee Democratic Staff

updated 9/7/04

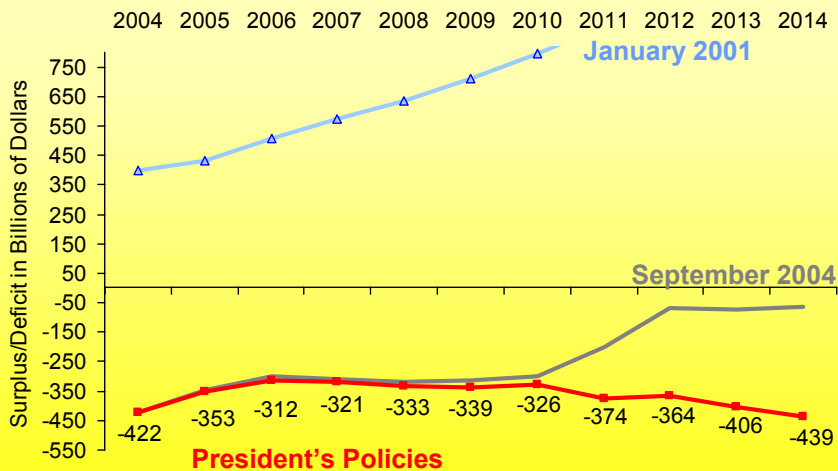
Baseline Deficits Don't Tell the Whole Story



Baseline estimates omit:

- Exploding tax cuts after 2010;
- Needed middle-income AMT relief;
- Continuing defense build-up;
- Social Security privatization transition costs;
- Natural disasters, such as hurricanes; and
- Resulting debt-service costs.

CBO Estimate Shows Bleaker Budget Outlook Than Before



Surplus Declines \$8.9 Trillion Under President's 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
January 2003	0.020
September 2004	-3.037
<i>plus President's policies</i>	-3.313

Prepared by the House Budget Committee Democratic Staff

Source: CBO

9/23/04

Projected 2004 Surplus Becomes Largest Deficit in History

Forecast of 2004 Surplus or Deficit, Billions of Dollars

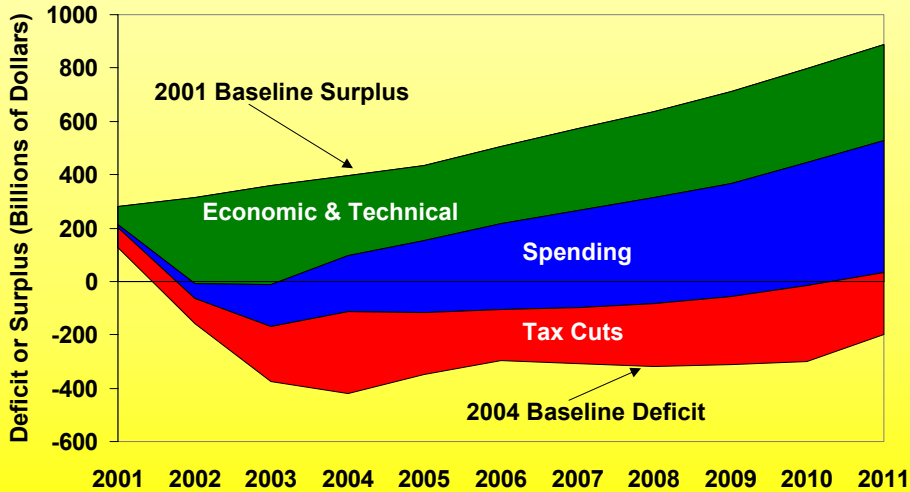
	Unified	On-Budget
January 2001	397	196
August 2001	201	-3
January 2002	54	-141
August 2002	-111	-299
January 2003	-145	-319
September 2004	-422	-574

Prepared by the House Budget Committee Democratic Staff

Source: CBO

9/7/04

Tax Cuts Keep Budget In Deficit

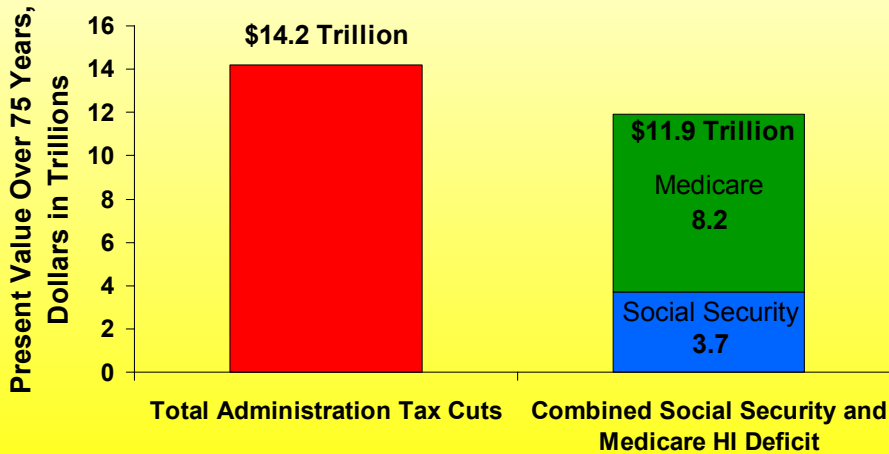


Prepared by the House Budget Committee Democratic Staff

Source: CBO

09/09/04

Tax Cuts Larger than Social Security and Medicare Deficit Combined



Prepared by the House Budget Committee Democratic Staff

Source: Center on Budget and Policy Priorities

3/9/04

“I'm sitting here, and I'm upset about the deficit, and I'm upset about spending. There's no way I can pin that on the Democrats. Republicans own the town now.”

*- Former Majority Leader Dick Armey
Wall Street Journal, January 30, 2004*

“Republicans own the town now.”

*- Former Majority Leader Dick Armey
Wall Street Journal, January 30, 2004*

Clinton Budgets vs. Bush Budgets

Under President Clinton

Eight straight years of budget improvement.

From record deficit to record surplus in six years; then two more years of new record surpluses.

The first budget ever to protect both Social Security and Medicare.

Eight straight years of spending decline as a percentage of GDP.

Paid down the national debt.

Under President Bush

Four straight years of budget worsening.

From record surplus to record deficit in three years; then one more new record deficit.

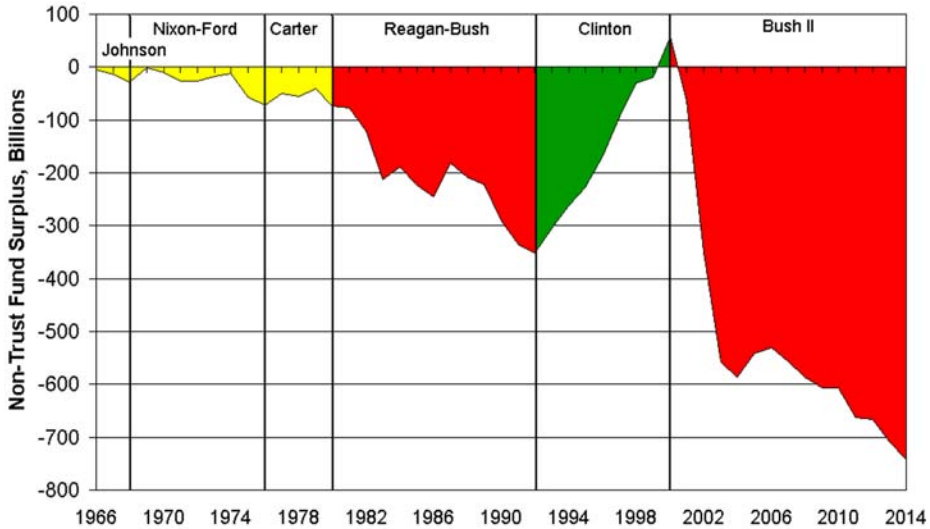
The entire Social Security and Medicare surpluses are squandered.

Three straight years of spending increases.

The national debt is not only growing, but growing faster than the national income.

A Fiscal Opportunity Lost

Total Surplus or Deficit without Social Security or Medicare Trust Fund Surpluses



Prepared by the House Budget Committee Democratic Staff

Source: CBO

9/27/04

President Clinton Paid Down the Public Debt

Debt Held By the Public, Billions of Dollars

FY 1997	3,772.3
FY 2000	3,409.8
Reduction	362.5

Prepared by the House Budget Committee Democratic Staff

06/21/04

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 about \$8.4 trillion as of 2014.

Prepared by the House Budget Committee Democratic Staff

Source: CBO, Committee Staff

updated 9/16/04

Question from Matt Lauer:

"Let me ask you about deficits. This year, \$445 billion. Ballpark, do you think that's pretty good?"

Response from President Bush:

"Yes, I do. I do."

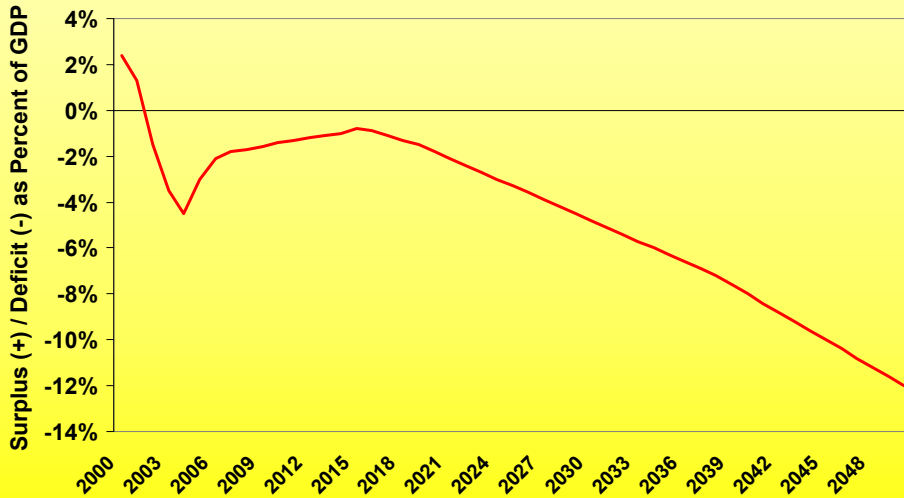
*- Transcript of interview with President Bush
on NBC's 'Today Show,' August 30, 2004*

Consequences of Debt and Deficits

- ***Promises Unfulfilled*** — President Bush and Congressional Republicans said that they would pay off the national debt, expand the military, extend the solvency of Social Security and Medicare, and then, with the budget surplus left over, provide a large tax cut. In fact, the oversized tax cuts have come at the expense of a higher national debt and the soundness of Social Security and Medicare.
- ***Republicans Spend the Social Security Surplus*** — Republican policies call for spending the entire Social Security Trust Fund surplus every year for the next ten years and beyond. In all, \$2.4 trillion of the Social Security Trust Fund surplus would be diverted to fund the general operations of government over the next decade.
- ***Economy Slow to Rebound*** — Middle-class Americans and the economy still struggle after three rounds of tax cuts and almost four 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 1.7 million private-sector jobs have been lost since President Bush took office, and the typical person losing a job is out of work almost twice as long as he or she was four years ago. For those who are employed, wages remain flat; inflation-adjusted weekly wages have barely budged over the last four years.
- ***Misplaced Priorities Lead to Sharp Cuts*** — Republican budgets make room for tax cuts and continue to waste taxpayer dollars through higher interest payments on the federal debt. However, Republican budgets fail to adequately fund important domestic programs and homeland security needs.
- ***Administration Plans to Make Cuts in 2006*** — The Office of Management and Budget memorandum of May 19, 2004, confirmed that, despite previous denials, the Administration plans to make deep cuts in many key government services after 2005. Included are cuts to education, veterans' health care, environmental protection, job training, and child care.
- ***Budget Process Broken*** — For the first time in history, when one party is in control of both houses of Congress and the White House, Republicans cannot approve a budget resolution. Congressional Republicans abandoned a long-term budget outlook when it became clear their policies were failing: a ten-year window shrank to five, and this year to only one. Republicans considered a misguided budget enforcement measure on the House floor — even though they have no budget to enforce.
- ***Republicans Create More Debt*** — The Republican House budget resolution will increase the publicly held debt to \$5.8 trillion by 2009. The level of publicly held debt rises steadily from \$4.4 trillion in 2004, even as Republicans try to take credit for reducing the deficits that their policies created.

- ***Steep Deficits Produce Mounting Debt*** — As a result of their policies, 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.
- ***\$2.3 Trillion in “Debt Taxes”*** — The government incurs interest on its accumulated debt — a “debt tax” that Americans must pay. Over five years, the Republican budget charges Americans a total of \$2.3 trillion in gross debt taxes. Taxpayers receive no new services for these taxes — no public education, no homeland security, no military forces. The \$2.3 trillion just covers the interest on bills run up years ago.
- ***Over \$7,100 in Annual Debt Taxes for a Family of Four*** — An average American family of four now pays almost \$4,400 per year to service the nation’s gross debt. Under the Republican budget, that debt tax will grow to over \$7,100 in 2009.
- ***Impact on Young Americans*** — The federal deficit and growing debt are important to young adults because today’s fiscal mismanagement will directly affect the quality of their lives for years to come. Younger generations will inherit the multi-trillion-dollar debt left behind by the Bush Administration, and they will face the consequences of paying it down in the form of higher taxes or reduced funding for investments in a better future, *e.g.*, education, protecting the environment, and scientific research.
- ***Democrats Have a Successful Track Record on Fiscal Discipline; Republicans Do Not*** — President Bush inherited a fiscal legacy no previous president enjoyed — a \$5.6 trillion ten-year surplus. The budget under Democratic leadership had shown improvement for eight straight years, culminating in the first surplus ever without using either the Social Security or the Medicare Trust Fund surpluses. Republicans claimed that this confronted us with the grave “danger” of paying off too much public debt. In just three short years, Republicans have solved that “problem” and replaced it with one far worse — chronic, triple-digit deficits and mounting public debt.

Bush Policy Would Leave Budget In Deficit Forever



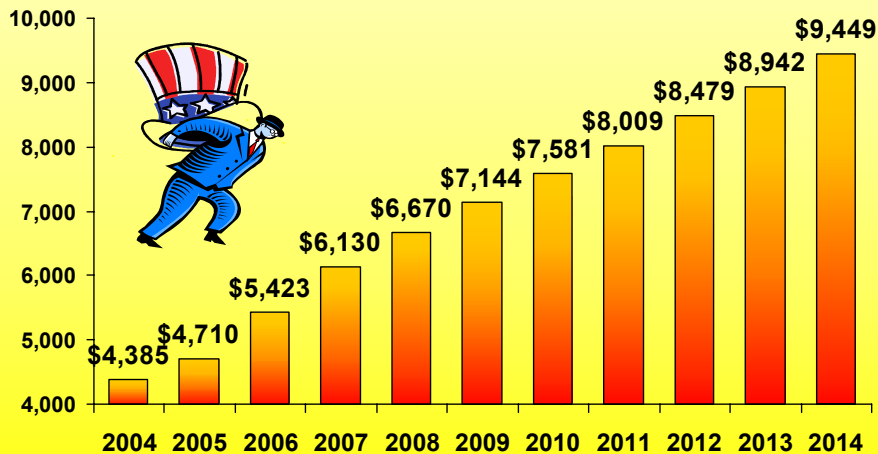
Prepared by the House Budget Committee Democratic Staff

Source: OMB

03/09/04

Bush Budget Raises the Debt Tax

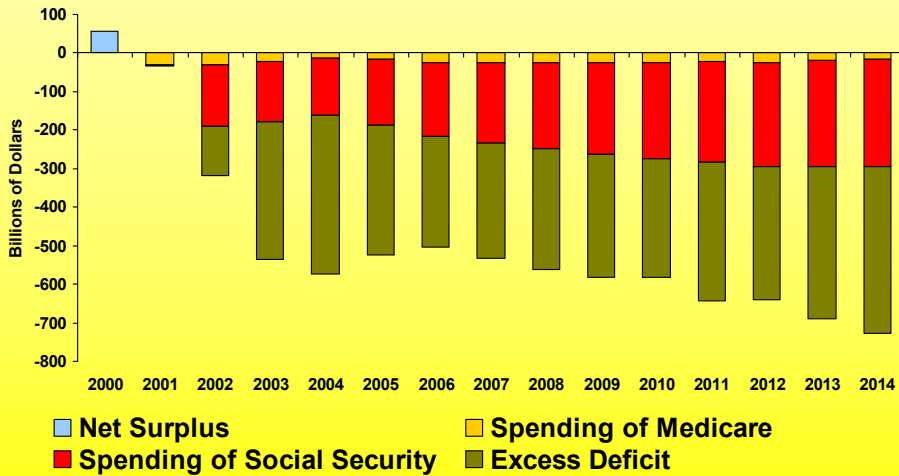
Federal Gross Interest per Family of Four



Prepared by the House Budget Committee Democratic Staff

updated 9/7/04

President's Policies Spend Social Security and Medicare



Prepared by the House Budget Committee Democratic Staff

Source: CBO

9/23/04

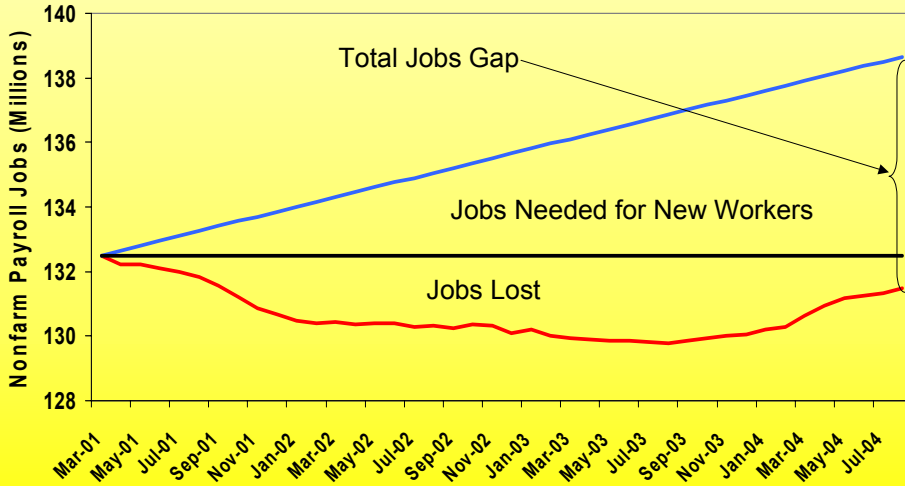
The Bush Economic Record

- **Jobs Gone** – Nearly 1.7 million private-sector jobs lost
- **More Bad News on Jobs and Wages** – Out of work longer, wages flat
- **Record Deficits** – \$422 billion, \$47 billion worse than previous record
- **Mounting Debt** – Debt limit increase needed for the 3rd time in 3 years

Prepared by the House Budget Committee Democratic Staff

09/07/04

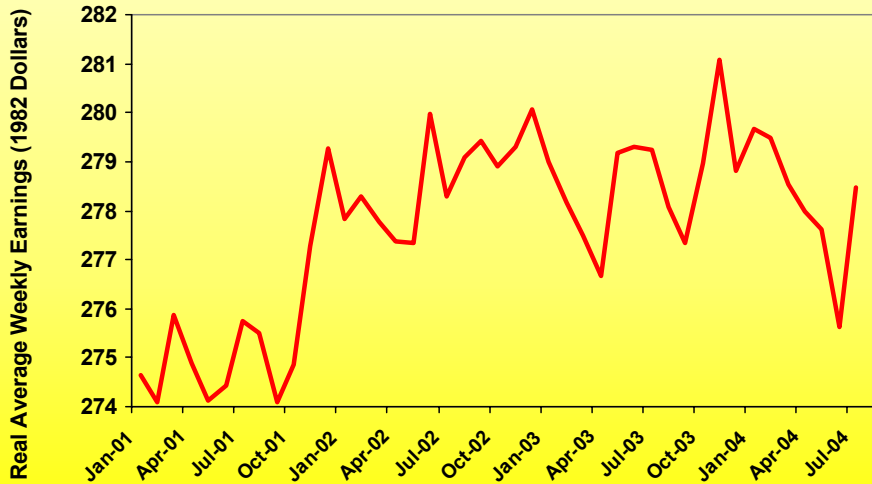
Seven Million Jobs Short of Democratic Track Record



Prepared by the House Budget Committee Democratic Staff

9/7/04

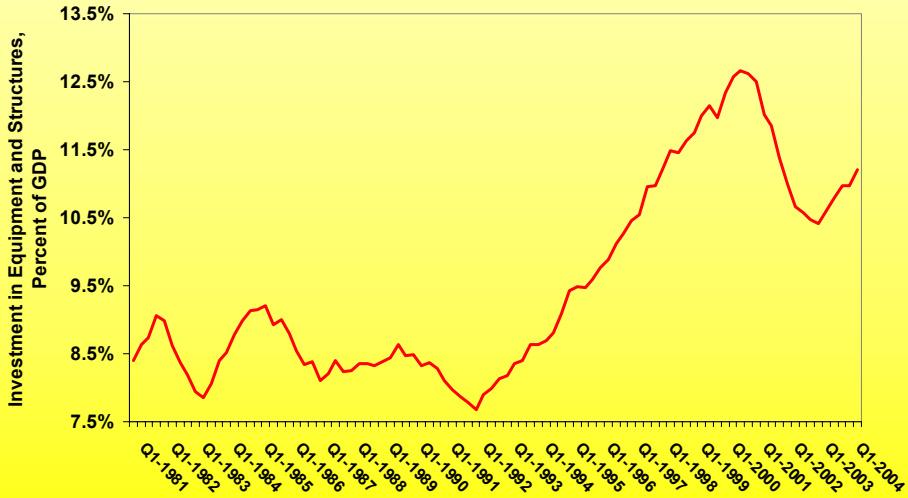
Real Wages Have Been Stalled For Three Years



Prepared by the House Budget Committee Democratic Staff

9/16/04

Business Investment Has Not Regained the Level of the 1990s

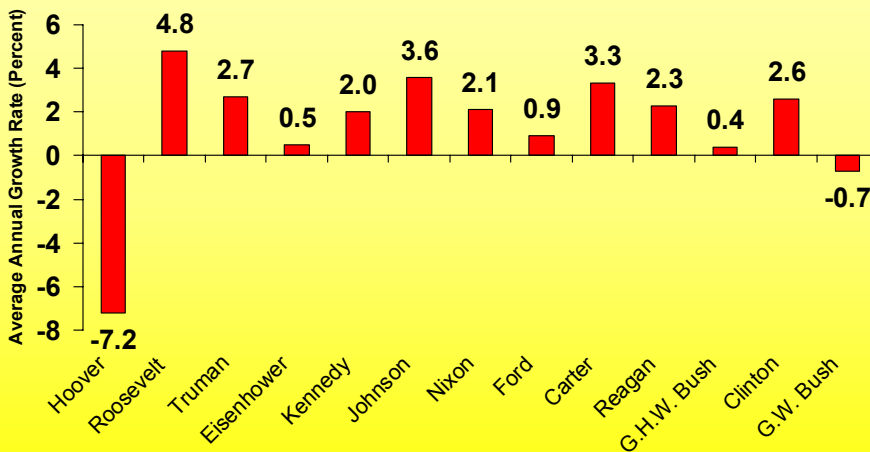


Prepared by the House Budget Committee Democratic Staff

09/16/04

Worst Private-Sector Job Growth Since the Hoover Administration

Change in Private Nonfarm Employment



Prepared by the House Budget Committee Democratic Staff

Source: Department of Labor, Bureau of Labor Statistics

9/3/04

The Economy Slumps Under This Administration

Then

21 million private-sector jobs *created* between January 1993 and January 2001.

5.6 million unemployed in December 2000.

0.6 million Americans unemployed for 27 weeks or longer in December 2000.

64.4 percent of adult Americans employed in December 2000.

67.0 percent of adult Americans in the labor force in December 2000.

287,000 discouraged workers (who believe no jobs available) in February 2001.

Budget *surplus* of \$86 billion outside of Social Security in FY 2000.

At beginning of Bush Administration, federal debt to be almost eliminated by 2008.

Industrial production grew 43 percent between January 1993 and January 2001.

Real GDP increased at an average rate of 3.6 percent from 1993 through 2000.

Real business investment *increased* at a 9.3 percent annual rate from 1993 through 2000.

Consumer Confidence index averaged 139 in 2000, *the highest yearly average on record*.

39.7 million Americans lacked health insurance in 1993; 39.8 million lacked insurance in 2000.

Now

1.7 million private-sector jobs *lost* between January 2001 and August 2004.

8.0 million unemployed in August 2004.

1.7 million Americans unemployed for 27 weeks or longer in August 2004.

62.4 percent of adult Americans employed in August 2004.

66.0 percent of adult Americans in the labor force in August 2004.

534,000 discouraged workers in August 2004.

Budget *deficit* of \$574 billion outside of Social Security in FY 2004.

In House Republican budget, federal debt projected at \$5.6 trillion for 2008.

Industrial production grew 2.1 percent between January 2001 and August 2004.

Real GDP increased at an average rate of 2.5 percent from 2001 through the second quarter of 2004.

Real business investment *fell* at a 0.7 percent annual rate from 2001 through the second quarter of 2004.

Consumer Confidence index dropped to 98.2 in August 2004.

45.0 million Americans lacked health insurance in 2003.