HOUSE BUDGET COMMITTEE

Democratic Caucus

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

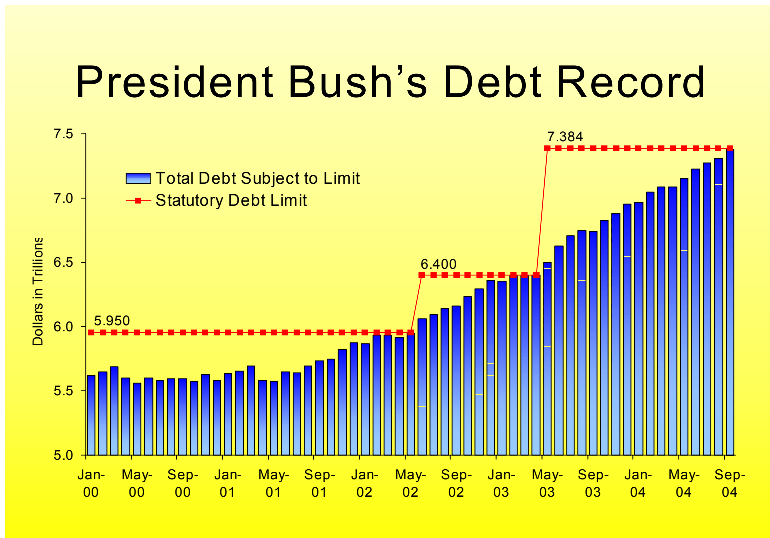
B-71 Cannon HOB ■ Washington, DC 20515 ■ 202-226-7200 ■ www.house.gov/budget_democrats

October 7, 2004

Adjournment Package

Dear Democratic Colleague,

As we prepare to leave Washington for our districts, I hope you will join me in reflecting on the unfinished business the Republican leadership has left behind. The national debt threatens to breach the statutory limit, deficits soar to record levels, appropriations bills languish, budget enforcement mechanisms have expired, yet congressional Republicans fail to remedy their misplaced priorities or plot a course toward improvement.



Attached you will find several documents prepared recently by the House Budget Committee Democratic staff. I hope you will find them useful in your discussions with your constituents back home. All of the documents are also available on the committee website: www.house.gov/budget_democrats. As always, please feel free to contact me or the Committee staff if you have questions.

Sincerely,
/s
John M. Spratt, Jr.
Ranking Member

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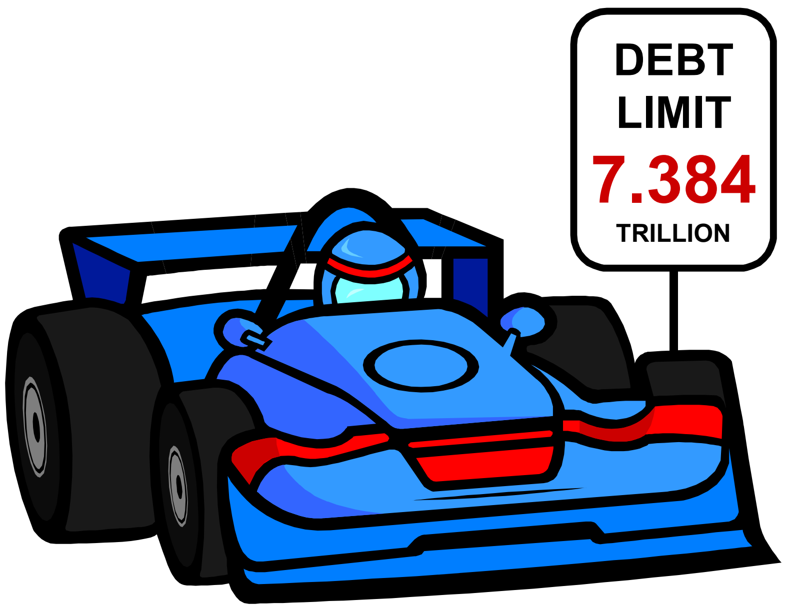

Adjournment Package

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October 1, 2004

No Happy Fiscal New Year: Republicans' Complete Budget Breakdown

The Republican Congress has failed to do its job, failing to pass virtually every key budget bill in time for the new fiscal year, which begins today. During the final week of fiscal year 2004, the House leadership scheduled votes on several bills that the Senate has already defeated or is unlikely to consider – and therefore have no chance of becoming law – instead of completing work on a host of vital funding bills. This neglect of its budget responsibilities reflects the pattern Republicans began this spring, when they could not pass a conference report on the 2005 budget resolution.

Republican Budget Report Card

Assignment	Grade
▪Approve budget resolution	F
▪Raise debt limit	F
▪Pass appropriations bills	F
▪Renew budget enforcement	F
▪Pass highway bill	F
▪Finish other budget business	F

With the arrival of the new fiscal year, the deficiencies in the Republican budget record become more glaring. Congress not only lacks a budget resolution, but it also has approved only one of thirteen appropriations bills needed to keep the government running. In addition, Republicans failed to renew the budget enforcement laws that brought us from annual deficits to surpluses in the 1990s. The Republican leadership also has failed to address other crucial budget issues such as the need to raise the debt limit, or pass key measures relating to highways, energy, higher education, or trade penalties. Some of the Republican budget failures are outlined below in detail.

No Budget Resolution

For the first time in history when the same party controls the White House, the Senate, and the House of Representatives, Republicans this year failed to pass a final budget resolution. The lack of a conference report on the budget resolution confirms that Republicans have no plan to wipe out the record deficits their policies have created. The deficits are producing a mounting national debt and growing interest payments on that debt, a so-called "debt tax" that will average $4,710 for a family of four in fiscal year 2005.

No Increase in the Debt Limit

Treasury Secretary John Snow has warned Congress that the national debt will breach its statutory limit "between late September 2004 and early October 2004" unless the ceiling is raised, yet the Republicans have not scheduled a vote to do so. This will be the third time under the Bush Administration that the debt ceiling is breached. The need to increase the debt ceiling should be a call to action to implement a plan to address our mounting national debt. Instead, the White House merely declares in its *Mid-Session Review* that the deficit is "unwelcome," the Republican Congress pretends the issue will go away, and the Republican deficits only worsen.

Only One-for-Thirteen on Appropriations Bills
Although fiscal year 2005 began today, Republicans have enacted annual appropriations only for the Department of Defense; every other government service is funded at last year's level through November 20, when the current short-term funding bill expires. Neither the House nor the Senate has even approved all the remaining 12 appropriations bills. This leaves every government agency except for Defense unable to plan its budget, undertake new activities, or sign new contracts to provide services.

No Extension of Budget Enforcement Laws
In the 1990s, budget enforcement laws helped transform deficits into surpluses by setting annual caps on appropriations and requiring any new entitlement spending and tax cuts to be offset on a pay-as-you-go basis. But the budget constraints expired in 2002, and the Republican Congress failed to renew them. Instead, this June the House debated several ill-conceived budget process reform measures. Because Republicans 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.

Republicans Ignore Other Budget Items
In addition to the budget issues above, the Republican Congress has ignored other costly items, including:

- **Children's Health** — The Republicans let expire $1.1 billion of funds for the State Children's Health Insurance Program (SCHIP). As a result, the number of children insured through SCHIP is expected to fall by more than 200,000 by 2007.

- **Highway Bill —** The current surface transportation bill (TEA-21) expired in 2003; instead of enacting a comprehensive reauthorization, the Republican Congress has provided six short-term extensions, the latest of which expires on May 31, 2005. Republicans have been unable to agree on a final price tag for the bill, and it is likely that the 108th Congress will recess without passing a full reauthorization.

- **Higher Education Act** — This week Congress extended the Higher Education Act until November 20, but many costly provisions desperately need an update. One item in particular needs to change immediately: the federal government subsidizes lenders of certain loans up to a guaranteed 9.5 percent rate of return (compared with the usual 3.6 percent rate of return), which has cost the government more than $600 million so far in 2004.

- **Foreign Sales Corporation/Extraterritorial Income (FSC/ETI)** — Congress has known since 2002 that it needed to repeal the FSC/ETI export tax regime, or else the European Union could raise tariffs on U.S. exports. Republicans did not act. In March, the EU levied a 5 percent tariff on goods from selected U.S. industries, and the tariff has already risen to 11 percent. Instead of quickly repealing the FSC/ETI, Republicans loaded this must-pass legislation with unrelated corporate tax breaks, and have yet to produce a conference report.

- **Welfare Reform** — Republican failure to enact a comprehensive reauthorization of the Temporary Assistance for Needy Families program has left federal policy on welfare reform and child care in limbo for the past two years. The latest short-term extension expires on March 31, 2005. Republicans' inability to move forward on welfare reform has left states in a holding pattern, unable to plan for the future.

- **Energy Bill** — The Republican Congress failed to enact a comprehensive energy bill, leaving future Congresses to renew the debate about the cost and scope of national energy policy.

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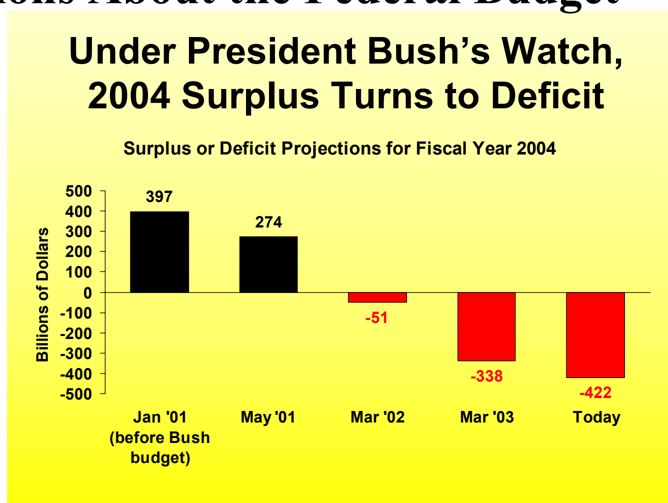
September 28, 2004

Frequently Asked Questions About the Federal Budget

1. What is the expected deficit for 2004?

CBO projects that the federal deficit for 2004 will be a record $422 billion, up $47 billion from the previous record: $375 billion in 2003. In 2001, before President Bush submitted his first budget plan, CBO projected a 2004 surplus of $397 billion. Since then, there has been a deterioration of nearly $820 billion under Republican leadership.



2. What comprises federal spending and revenues?

The federal government will collect $1.871 trillion in revenues in 2004. Individual income taxes make up $811 billion of the amount, or 43.3 percent.

Total federal government spending (including Social Security) for 2004 will be $2.293 trillion. "On-budget" spending, which excludes Social Security and net spending of the Postal Service, will be $1.912 trillion. "Off-budget" spending will be $381 billion.[1]

2004 Revenues By Source

	$ in Billions	*% of Total*
Individual Income	811	*43.3*
Corporate Income	182	*9.7*
Social Insurance	732	*39.1*
Excise	71	*3.8*
Estate and Gift	24	*1.3*
Customs Duties	21	*1.1*
Miscellaneous	31	*1.7*

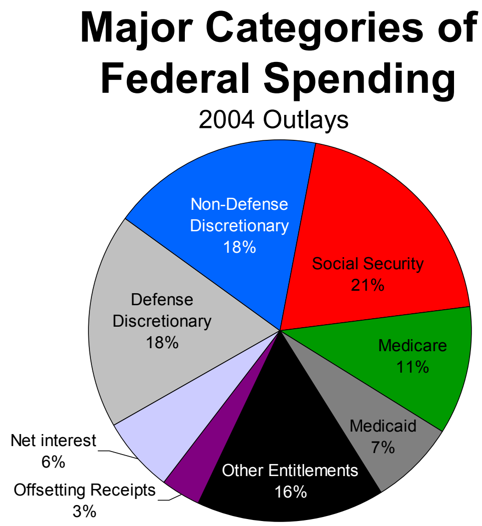
2004 Federal Budget Summary (Amounts Include Social Security)

Revenues: $1.871 trillion Spending: $2.293 trillion Deficit: $422 billion

[1]Net off-budget spending consists primarily of spending for Social Security ($496 billion) minus offsetting receipts to the Social Security Trust Fund.

Major Categories of Spending - 2004 Outlays	
Discretionary spending:	
Defense	$452 billion
Non-Defense	$436 billion
Entitlements:	
Social Security	$492 billion
Medicare (net of premiums)	$266 billion
Medicaid	$176 billion
Other Mandatory /a	$392 billion
Miscellaneous receipts that offset spending: /b	$-78 billion
Net interest	$159 billion

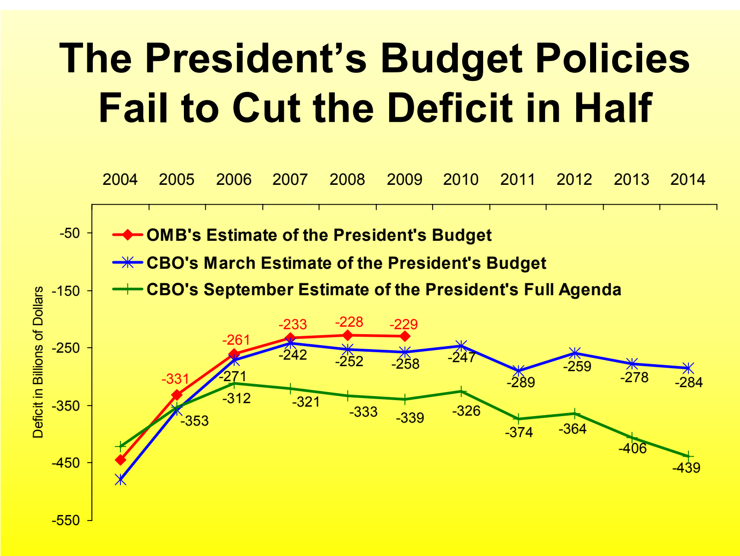
/a Civil Service and Military Retirement, SSI, EITC, Veterans' Benefits, etc.
/b Not including Medicare premiums



3. What is the budget outlook for the future?

CBO projects budget deficits for the entire ten-year window of its estimate. The 2005 deficit will be $348 billion, and over the ten-year period (2005-2014) the deficit will total $2.3 trillion. When Social Security is removed from the figures, the 2005 deficit grows to $521 billion, with a ten-year total of $4.7 trillion. These structural deficits increase the national debt and interest on that debt, thereby reducing the amount available for other important government services.

4. The President claims he will cut the deficit in half over five years. Will that happen? Does that mean his plan will bring the budget back to balance in ten years?



No. The Administration will not halve the deficit in five years. The President's budget never reaches balance, even though the President's numbers omit several key items of his agenda. While the Administration will not release its own estimates of its budget policies after the first five years, in March CBO estimated that deficits continue under the President's budget submission, never improving above a deficit of $247 billion in 2010.

However, after making realistic adjustments to include CBO's estimates of additional, declining expenditures for operations in Iraq, Afghanistan, and the global war on terrorism, as well as reform of the Alternative Minimum Tax (AMT) – which the Administration has not yet proposed but which is likely to become law – the deficit picture grows worse. The President's full agenda does not meet even the meager goal of halving the deficit in five years, and large deficits continue throughout the ten-year period.

5. What is the status of the congressional budget resolution?

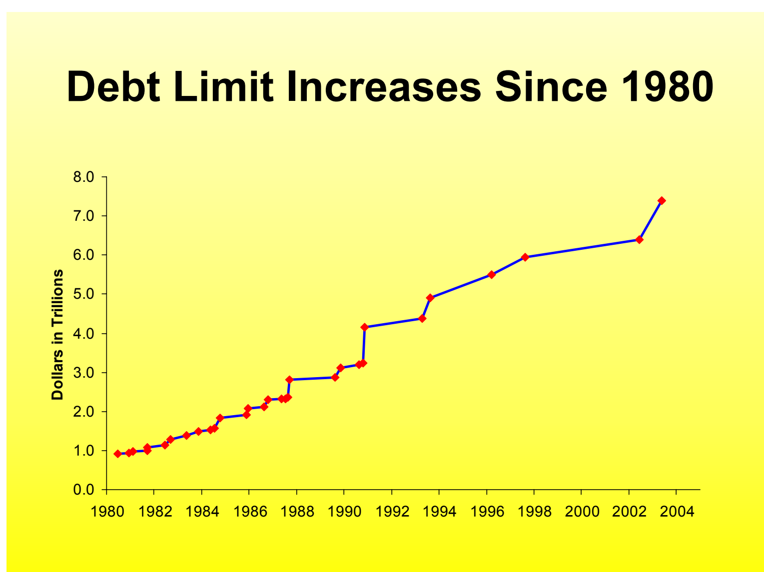
For the first time in history when the same party controls the White House, the Senate, and the House of Representatives, Republicans this year failed to pass a budget resolution. Congress did not adopt a conference report on the budget resolution, and without this blueprint for funding and revenue priorities, Congress cannot consider spending and tax cut measures within the context of an overall fiscal framework.

6. Congress failed to pass a budget resolution. What are the consequences of this failure?

Aside from neglecting to complete one of its most important responsibilities, Congress makes many of its other tasks more difficult by failing to agree on a final budget resolution. When there is no budget resolution, the law requires Congress to remain subject to the totals set forth in the most recently passed budget resolution conference report. This year, however, the House and Senate circumvented that requirement by using other legislation to "deem" the adoption of new budget levels. But without an official budget resolution, the House must take a separate vote to raise the debt limit and the Senate loses its ability to put tax and entitlement legislation on a fast track.

7. What is the debt limit, and when will it have to be increased?

The federal debt limit is $7.384 trillion. 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.



Republicans are unwilling to recognize the fiscal consequences of their actions. First, Republicans tried to use the "Hastert Rule" to produce an increase in the debt limit through their budget resolution without having to take a separate vote. Then, House Republicans tried to cloak the urgently needed debt limit increase in an unrelated must-pass bill. Because both attempts were unsuccessful, the federal government is now running up against the debt ceiling limit. This means the Treasury will be forced to take certain extraordinary actions, such as transferring funds from the federal employee retirement system and the civil service retirement system, to avoid government insolvency.

8. What happened to the budget process?

All of the budget rules in effect in the 1990s, including the pay-as-you go rule (PAYGO) and spending caps, have expired. The PAYGO rule required tax cuts and spending increases to be offset with other tax increases or spending reductions, so new policies would have no net effect on the deficit. Statutory caps on appropriations placed a strong limit on the funding amount Congress could provide in a given year. These budget rules were instrumental in providing the discipline that helped turn large structural deficits into surpluses. House Republicans brought several ill-conceived budget process reform measures to the floor for consideration in June. The lopsided Republican proposal to restrain spending without limiting tax cuts was a bad idea, and the draconian entitlement cap procedure included in some Republican amendments was even worse. Because Republicans 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.

9. What is the status of the Social Security Trust Fund?

According to the 2004 *Trustees' Report*, the Social Security program took in $632 billion in income and paid out $471 billion in benefits in 2003. The trust fund balance on December 31 was $1.531 trillion. Under the most likely scenario, Social Security will remain in surplus on a cash basis until 2018. Beginning that year, Social Security will need to draw down the trust fund to pay benefits. In 2042, the trust fund will be exhausted, and either benefits will need to be cut 27 percent or payroll taxes raised from 12.4 percent under current law to roughly 17 percent. The present value of the shortfall between promised benefits and expected revenues of the program through calendar year 2078 is $3.7 trillion. These figures represent the actuaries' best guess at the demographic and economic variables affecting the program's finances. Under the pessimistic scenario in the *Trustees' Report*, the trust fund will be exhausted in 2031. Under its optimistic scenario, however, the trust funds will not be depleted within the 75-year window.

10. What is the cost of Medicare and how much does the Medicare Modernization Act and the new prescription drug benefit cost?

Overall Medicare Spending
CBO estimates gross federal mandatory spending for Medicare at $297 billion in 2004. However, once premiums paid by Medicare beneficiaries are taken into account, net federal mandatory spending is estimated at $265 billion in 2004.

Medicare consists of the Hospital Insurance Trust Fund (HI or Part A), which pays for hospital benefits and post-acute care, and the Supplementary Medical Insurance Trust Fund (SMI or Part B), which pays for physician visits and other outpatient care. HI spending accounts for approximately 56 percent of Medicare benefits and SMI accounts for 44 percent.

According to the 2004 Medicare *Trustees' Report*, Medicare spending from the HI Trust Fund will begin to exceed Medicare revenues (excluding interest income) in 2004. In 2010, the HI Trust Fund will begin to run an annual deficit as the cost of benefits will exceed both Medicare revenues and the interest earned on the bonds in the HI Trust Fund. The trustees estimate that the HI Trust Fund will be insolvent by 2019, seven years earlier than the projection in the 2003 *Trustees' Report*. The SMI Trust Fund is financed by transfers from the general fund and beneficiary premiums, and is by definition solvent.

Cost of Medicare Modernization Act

The Medicare Prescription Drug, Improvement, and Modernization Act (P.L. 108-173, referred to as MMA) creates a prescription drug benefit in 2006, increases payments to managed care plans starting in 2004, and changes Medicare provider payments and other parts of the program. Overall, the MMA costs less than projected Medicare spending for the prescription drug benefit because: (1) the law includes provisions affecting providers that yield Medicare savings; and (2) the cost to Medicare of the prescription drug benefit is partially offset by Medicaid savings. CBO estimates the overall cost of MMA at $395 billion from 2004 to 2013.

The Administration estimates the MMA will cost $534 billion over ten years. This estimate is $139 billion higher than CBO's for several reasons. First, the Administration forecasts higher prescription drug spending due to higher beneficiary participation, greater per capita costs, and greater spending on low-income subsidies. Second, the Administration predicts many more seniors will move into private plans under the new law, as compared to CBO's assumptions.

On September 19, the *Washington Post* reported that an internal Administration estimate indicates the ten-year cost of MMA could increase by up to $42 billion. The Administration asserts that it has not done a full re-estimate of MMA and that it is incorrect to add the existing score with this new number to reach a new MMA score of $576 billion. While there are some technical concerns with the $42 billion estimate, it appears that the Administration's estimates of spending "related to MMA" are on an upward trend and the increase is tens of billions of dollars over the ten-year period.

- ***Cost of Prescription Drug Benefit*** — CBO estimates the cost of the MMA prescription drug benefit at $551 billion over the ten-year period of 2004 to 2013. This cost is offset by savings to Medicaid and other federal programs, resulting in a net cost for the prescription drug benefit of $407 billion over the ten-year period.

  The President's budget estimates the cost to Medicare of the prescription drug benefit at $649 billion. This cost is offset by savings to Medicaid and other federal programs, resulting in a net cost for the prescription drug benefit of $510 billion.

October 5, 2004

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. On October 4, the debt subject to limit stood at $7.368 trillion, less than $16 billion ($0.016 trillion) from the limit.

- ***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 have raised 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*** — Representative Charles Stenholm (D-TX) 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.

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(l)(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

John W. Snow

Congress of the United States
Washington, DC 20515

October 4, 2004

The Honorable John Snow
Secretary of the Treasury
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Dear Mr. Secretary:

We are writing to request a meeting with you to discuss the urgent matter of the debt ceiling. On September 10, 2004, Representatives Rangel and Spratt sent you a letter about the debt ceiling, to which you have not yet responded; because of the exigent circumstances involving the debt limit, we are writing to follow up.

In an August 2 letter to Members of Congress, you urged the Congress to increase the statutory debt limit "as soon as possible" and stated that the statutory debt limit would be reached "between late September 2004 and early October 2004." The September 10 letter to you requested an updated estimate of the date on which the federal debt is expected to reach its statutory limit. Congress still has not acted on your request, and it is now October 4th. The September 10 letter also requested a full explanation of what "authorized extraordinary actions" you would envision to avoid breaching the statutory debt limit in the absence of Congressional action. Our request for information has been made more urgent by the passage of the time and by continued Congressional inaction on your request.

We ask that, at our meeting, you provide us with a detailed explanation of when the federal debt is likely to reach its statutory limit, what specific steps Treasury plans to take to avoid a breach, their approximate sequence, and the approximate dates you would expect to take each step given your current estimates of the debt.

The impending breach of the statutory debt ceiling is the latest in a series of warnings about the federal government's fiscal situation. Our debt has been growing markedly faster than our economy's ability to repay it, thanks in large measure to tax cuts proposed and enacted into law by the Administration and Congressional Republicans. And now, with the retirement of the baby-boom generation beginning in just four years, we must address this problem.

Your August 2 letter underscored the high stakes involved in this issue, noting that "failure to increase the debt limit in a timely manner" would undermine the "Full Faith and Credit" of the United States and would threaten "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." The September 10 letter to you requested basic information that we as policymakers need in order to respond to your request for an increase in the debt ceiling. Now — three weeks later — we still do not have this information, and we cannot afford to waste time. Given the seriousness and time-sensitive nature of the situation, we consider a meeting to be an urgent necessity.

Sincerely,

John M. Spratt, Jr.
Ranking Democratic Member
Committee on the Budget

Charles B. Rangel
Ranking Democratic Member
Committee on Ways and Means

Charles W. Stenholm
Ranking Democratic Member
Committee on Agriculture

HOUSE BUDGET COMMITTEE

Democratic Caucus

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

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September 28, 2004

Republican Deficits Climb to Record Levels

- ***CBO Confirms Republican Mismanagement*** — In its September 7th Budget and Economic Outlook *Update*, the Congressional Budget Office (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.

- ***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.

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[1] On 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.

- ***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.

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

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*** — An 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 projected $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.

The Economy Slumps Under This Administration

Then	Now
21 million private-sector jobs ***created*** between January 1993 and January 2001.	1.7 million private-sector jobs ***lost*** between January 2001 and August 2004.
5.6 million unemployed in December 2000.	8.0 million unemployed in August 2004.
0.6 million Americans unemployed for 27 weeks or longer in December 2000.	1.7 million Americans unemployed for 27 weeks or longer in August 2004.
64.4 percent of adult Americans employed in December 2000.	62.4 percent of adult Americans employed in August 2004.
67.0 percent of adult Americans in the labor force in December 2000.	66.0 percent of adult Americans in the labor force in August 2004.
287,000 discouraged workers (who believe no jobs available) in February 2001.	534,000 discouraged workers in August 2004.
Budget ***surplus*** of $86 billion outside of Social Security in FY 2000.	Budget ***deficit*** of $574 billion outside of Social Security in FY 2004.
At beginning of Bush Administration, federal debt to be almost eliminated by 2008.	In House Republican budget, federal debt projected at $5.6 trillion for 2008.
Industrial production grew 43 percent between January 1993 and January 2001.	Industrial production grew 2.1 percent between January 2001 and August 2004.
Real GDP increased at an average rate of 3.6 percent from 1993 through 2000.	Real GDP increased at an average rate of 2.5 percent from 2001 through the second quarter of 2004.
Real business investment ***increased*** at a 9.3 percent annual rate from 1993 through 2000.	Real business investment ***fell*** at a 0.7 percent annual rate from 2001 through the second quarter of 2004.
Consumer Confidence index averaged 139 in 2000, ***the highest yearly average on record.***	Consumer Confidence index dropped to 98.2 in August 2004.
39.7 million Americans lacked health insurance in 1993; 39.8 million lacked insurance in 2000.	45.0 million Americans lacked health insurance in 2003.

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Young Adults Should Be Concerned About the Deficit

Dear Democratic Colleague:

Yesterday, House Budget Committee Democrats, along with other Members of our caucus, hosted a forum entitled "Reality Bites: Why Younger Generations Should Be Concerned About the Deficit." This issue merited a forum because young adults are, and will continue to be, particularly burdened by the growing deficit. This burden comes in the form of spending cuts to programs they care about, threats to Medicare and Social Security, and the deficit's drag on the economy.

The attached report from the Democratic staff of the House Budget Committee sets forth the facts by explaining why young adults need to be concerned about the burgeoning federal deficit. Stated simply, the issue of the federal deficit and growing debt is important to young adults because today's fiscal mismanagement will directly affect the quality of their lives in years to come.

- ***A Growing Debt and Debt Tax Require Tradeoffs*** — Ultimately, the federal budget is a statement of priorities. A dollar of tax cuts cannot be spent on something that younger people may consider a higher priority, such as student loans, without increasing the deficit. Dollars spent to pay interest on the debt ($159 billion in 2004) are dollars not available for investment in a better future, such as education, protecting the environment, and scientific research. By 2014, the interest alone on the public debt will reach $348 billion, or $1,081 per person. And, at some point, the debt will need to be paid down. Doing so will require tough choices, either in the form of higher taxes or dramatically cut services. *When the time comes to pay the piper, today's 20- and 30-somethings will be the ones doing the paying.*

- ***Chronic Deficits Weaken the Future of Medicare and Social Security*** — While it will be many years before younger generations become eligible for Medicare and Social Security, the fact remains that young adults benefit from strong social insurance programs. It is in their interest to ensure these programs remain strong for their own retirements, and for the more pressing matter of their parents' retirement. But chronic structural budget deficits undermine the ability of the government to keep these programs strong for current and future generations. Social Security and Medicare will face growing costs when the baby-boom generation starts retiring just a few short years from now. Chronic federal deficits will reduce the ability of Congress to address the long-term needs of Social Security and Medicare in a way that is constructive and equitable across generations.

- ***Chronic Deficits Undermine the Economy* —** Many of the dreams of young people — a successful and challenging career, a comfortable lifestyle — depend upon a thriving economy. However, large chronic deficits put a drag on the economy by driving up interest rates. While chronic deficits may seem abstract to many people, their effect on a young person's current situation and future prospects is very real. Higher interest rates mean higher mortgage payments or credit card bills, a slow-growing economy, and the subsequent effect on one's ability to earn and save for retirement.

I hope you find this report helpful as you talk to young people back home. Please feel free to contact me or my staff if you have questions.

Sincerely,

John Spratt

John M. Spratt, Jr.
Ranking Democratic Member

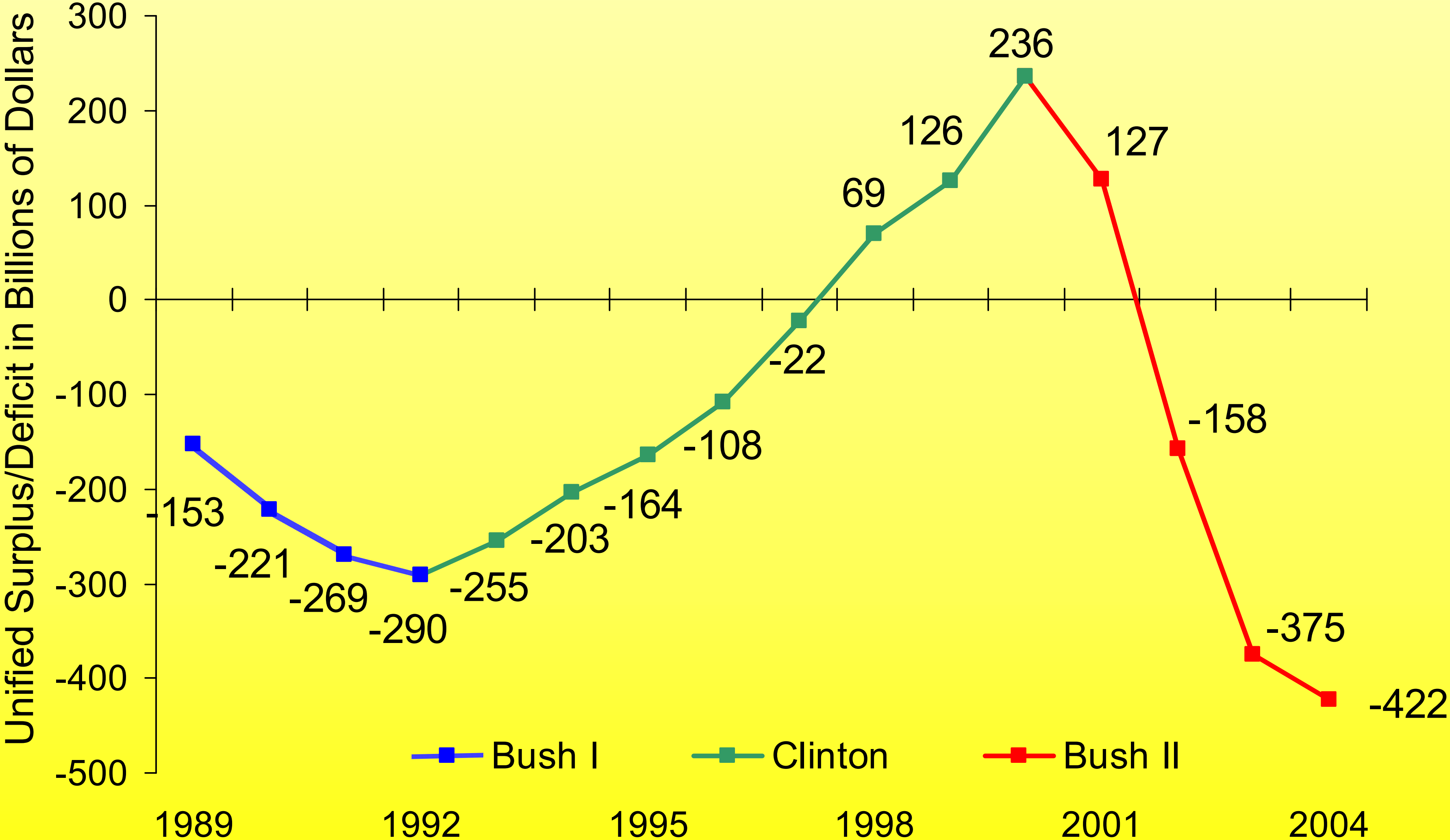
To read the full report, see the committee website at www.house.gov/budget_democrats.

Republican To Do List

- ☑ Set a new deficit record
- ☐ Agree on a budget resolution
- ☐ Raise the debt limit
- ☐ Renew budget enforcement procedures
- ☐ Finish appropriations bills
- ☐ Pass a highway bill
- ☐ Pass an energy bill
- ☐ Reauthorize welfare reform
- ☐ Reauthorize higher ed. law
- ☐ Prevent SCHIP money from expiring
- ☐ Complete markup on Balanced Budget Amendment

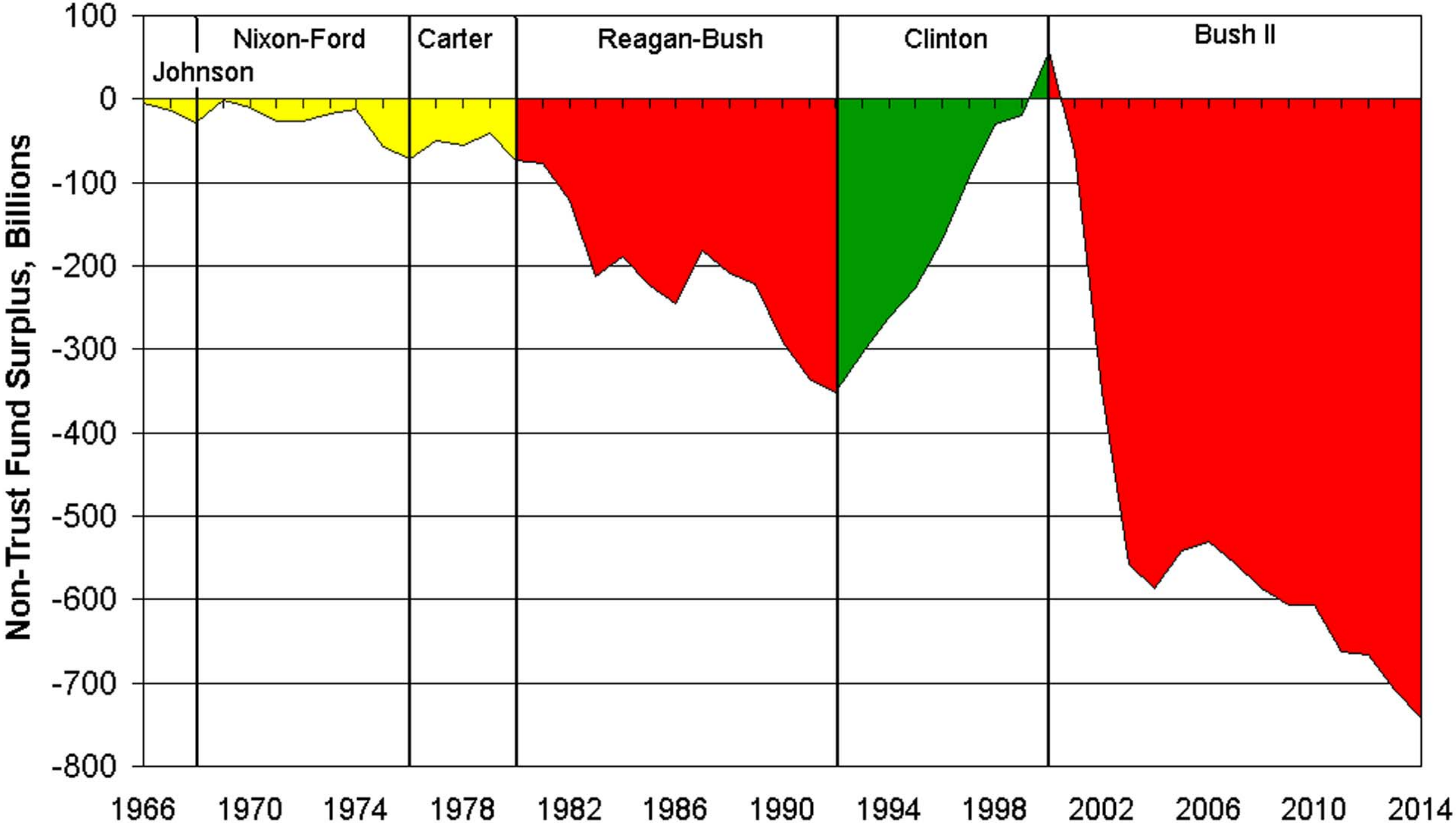
Backsliding Into the Deficit Ditch

From Deficit to Surplus to Deficit Again



A Fiscal Opportunity Lost

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

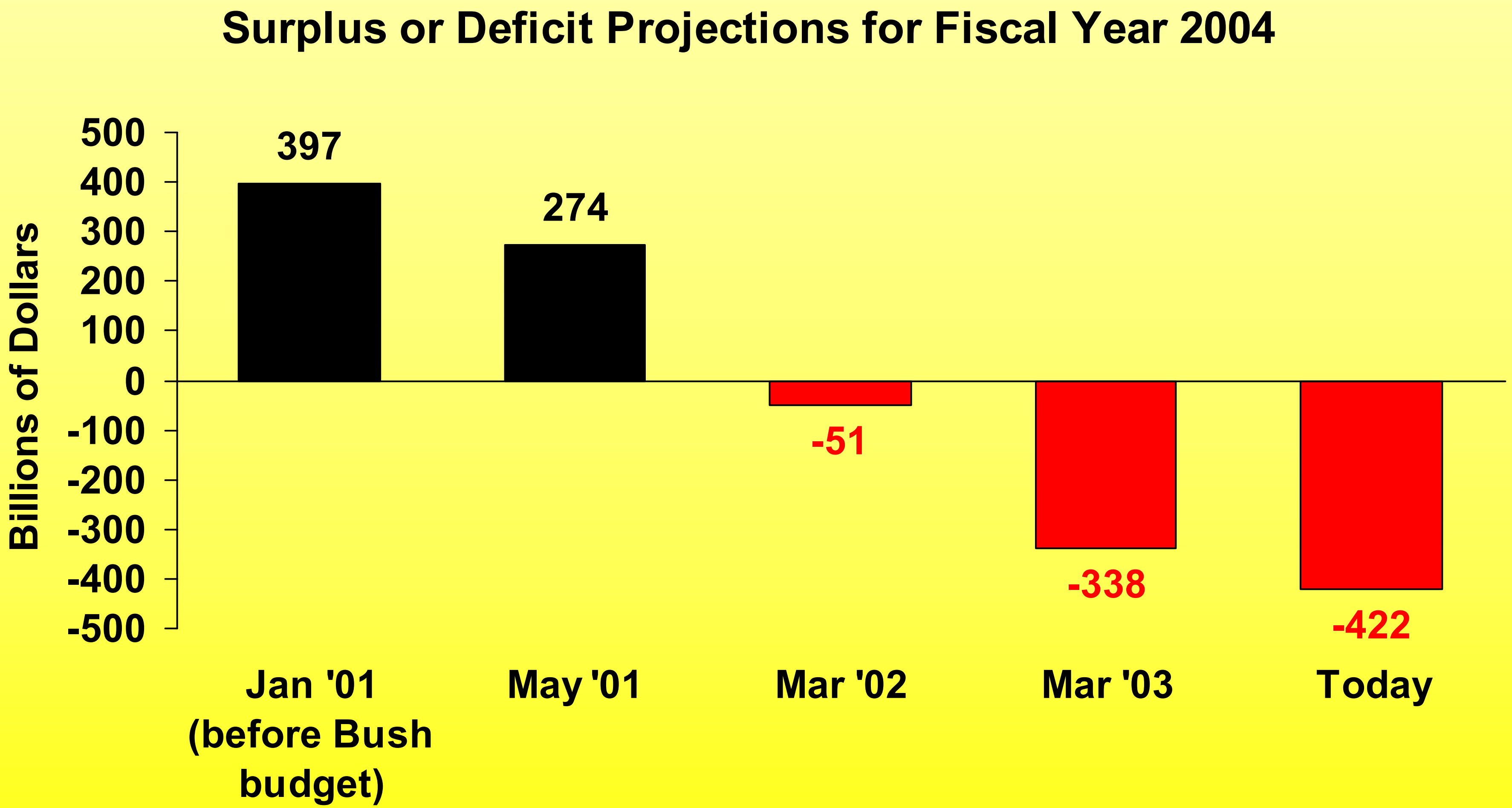


Prepared by the House Budget Committee Democratic Staff

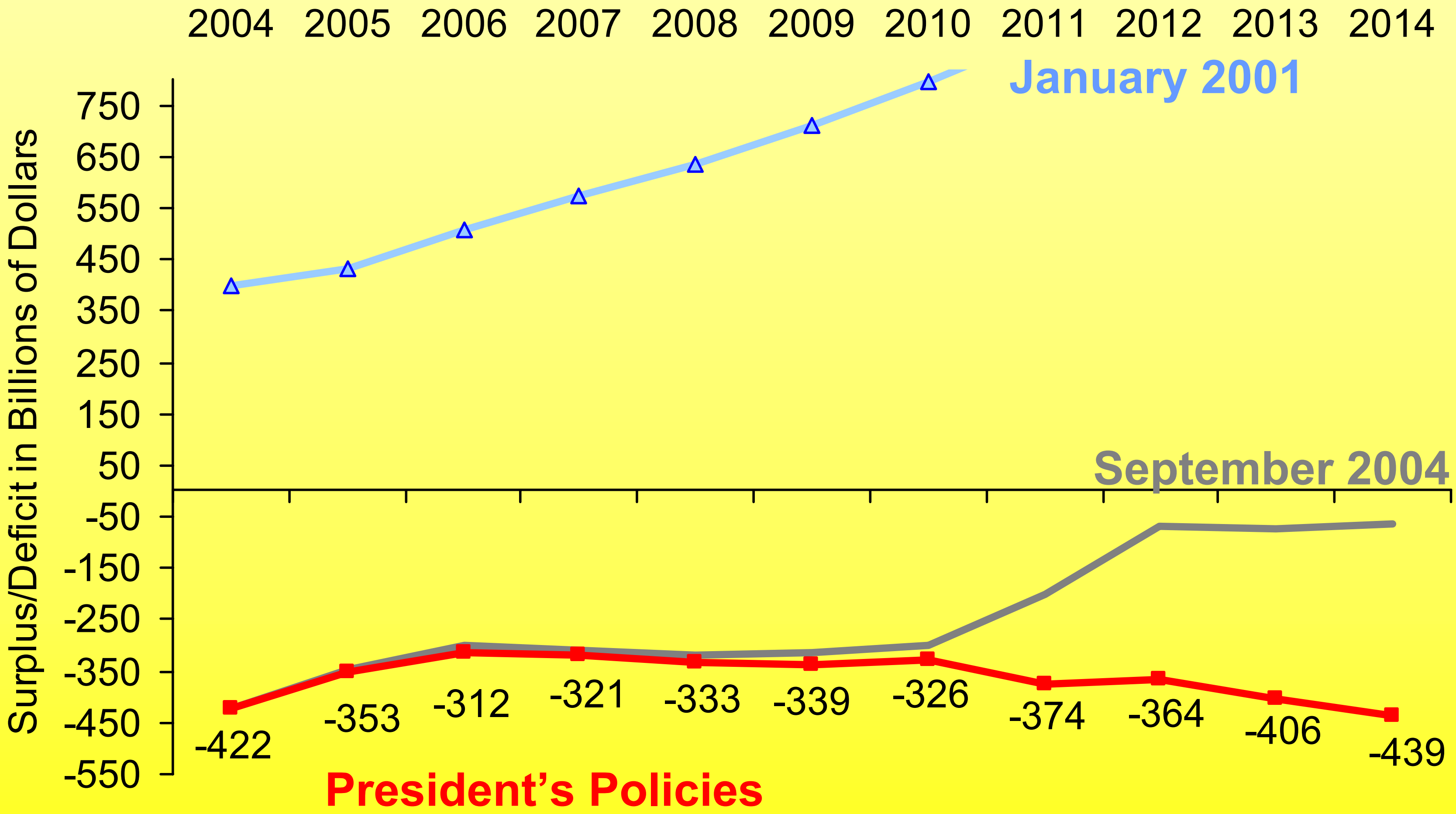
Source: CBO

9/27/04

Under President Bush's Watch, 2004 Surplus Turns to Deficit

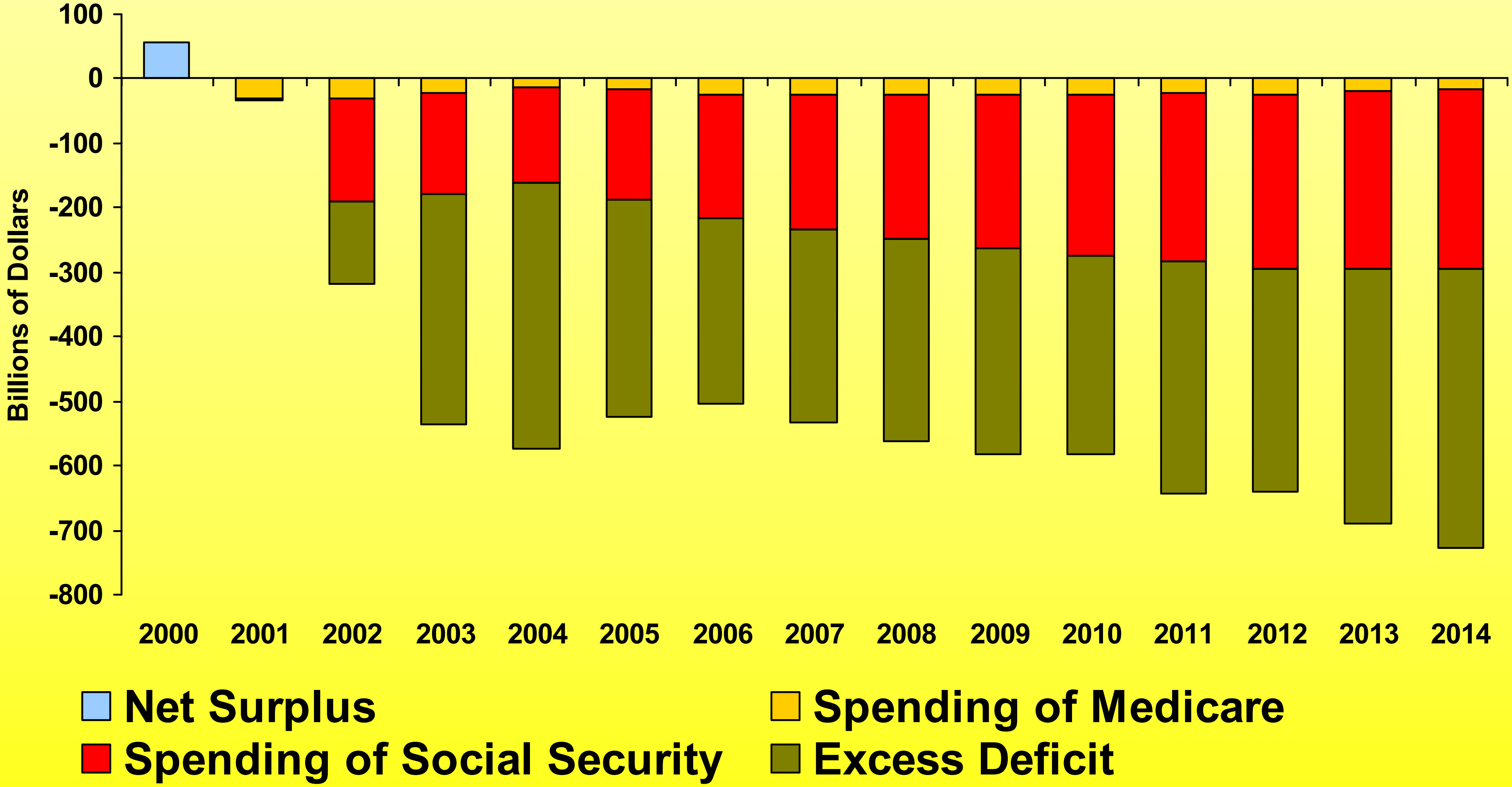


CBO Estimate Shows Bleaker Budget Outlook Than Before

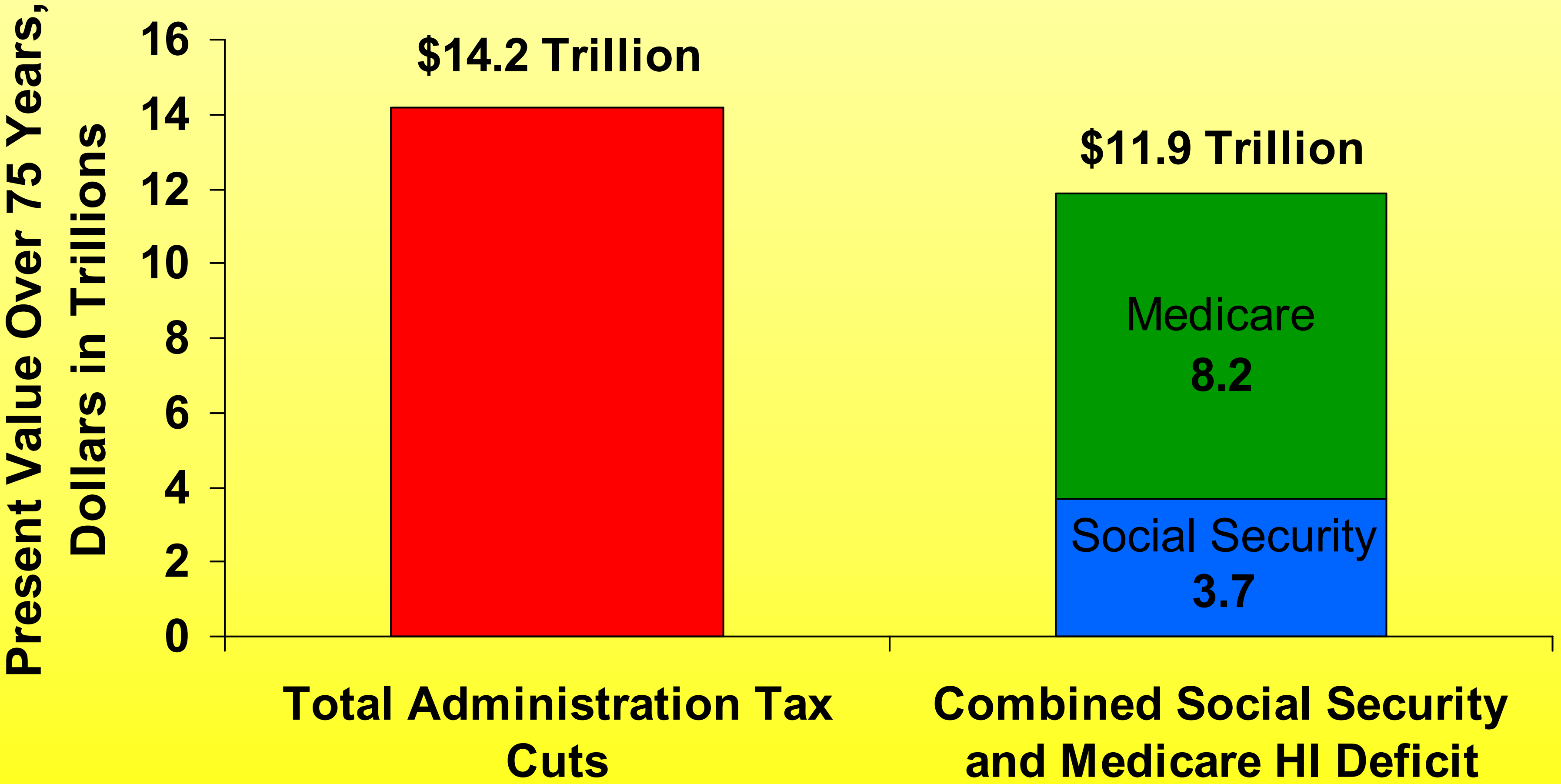


Prepared by the House Budget Committee Democratic Staff Source: CBO 9/23/04

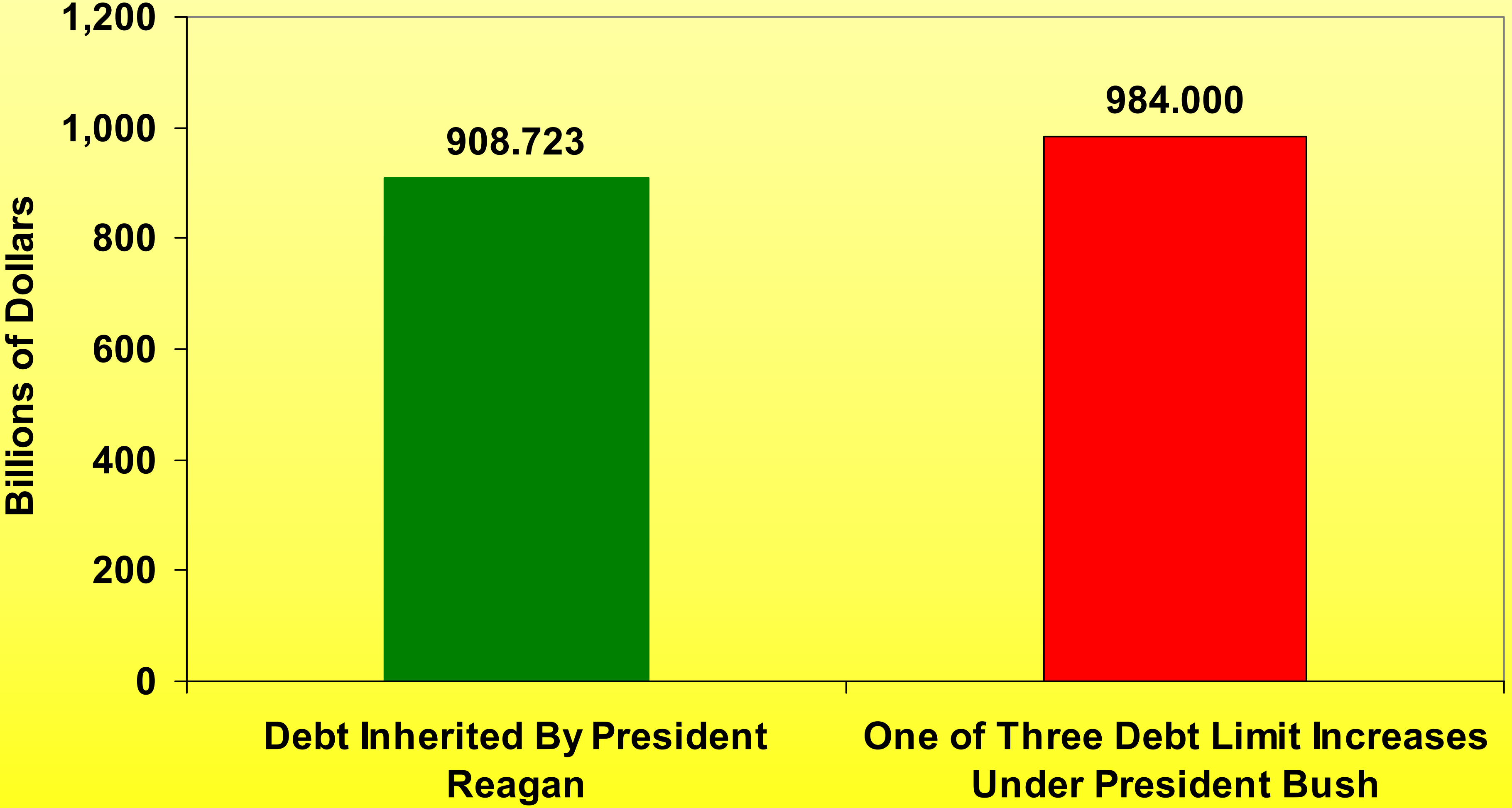
President’s Policies Spend Social Security and Medicare



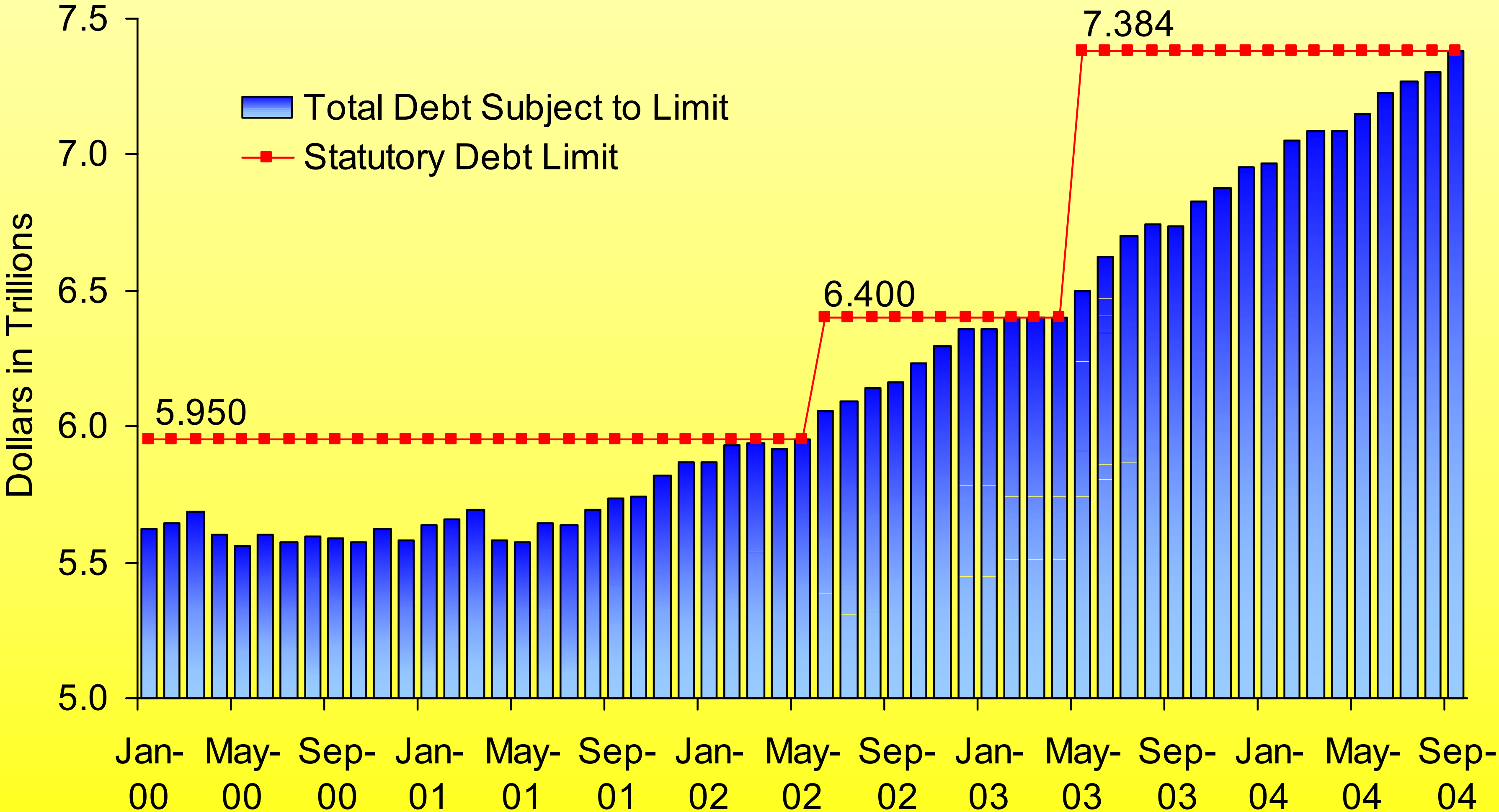
Tax Cuts Larger than Social Security and Medicare Deficit Combined



One Bush Debt Limit Increase Exceeds Debt Reagan Inherited



President Bush's Debt Record



Prepared by the House Budget Committee Democratic Staff 10/7/04