

HOUSE BUDGET COMMITTEE

Democratic Caucus

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

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September 23, 2004

New CBO Analysis Shows Administration Policies Create Large and Sustained Deficits

Today the Congressional Budget Office (CBO) released a new analysis with numbers confirming that the Administration's policies call for a record deficit this year and large deficits for as far as the eye can see. The new analysis, made in response to a request from Budget Committee Ranking Member John Spratt, suggests that under realistic assumptions the Administration's policies would produce annual deficits that never fall below \$312 billion during the budget window. In all, the numbers show an \$8.9 trillion deterioration from the \$5.6 trillion ten-year (2002-2011) surplus that this Administration inherited.

CBO Analysis Adjusts "Baseline" Projections — Today's report modifies CBO's annual *Update of the Budget and Economic Outlook*, issued earlier this month. That report included projections that by law are required to be "baseline" estimates that do not reflect any changes in policy. Today's report adjusts these baseline estimates to reflect the cost of: the President's discretionary funding request; the revenue policies proposed in his fiscal year 2005 budget; CBO's own estimates of additional, declining expenditures for operations in Iraq, Afghanistan, and the global war on terrorism; and the reform of the Alternative Minimum Tax (AMT), which the Administration has not yet proposed but which is highly likely to become law. Further details of the study's methodology are provided in the attached letter from CBO. (*See attached charts, "CBO Adjusted the September Baseline for President's Policies" and "President's Policies Produce Worse Deficits Than CBO Baseline."*)

Largest Deficit in History Followed by Large Deficits for As Far As the Eye Can See — CBO's analysis confirms that the 2004 deficit will be an all-time high of \$422 billion — breaking last year's record by \$47 billion. Moreover, CBO's report suggests that, under the Administration's policies and assuming that the looming AMT problem is addressed, the deficit is never cut in half, the budget never returns to balance, and annual deficits never drop below \$312 billion. These figures do not even include the costs of other Administration proposals (such as Social Security privatization) that drive the deficit numbers higher still — nor do they adjust for realistic non-defense discretionary spending figures. (*See attached chart, "CBO Estimate Shows Bleaker Budget Outlook Than Before."*)

\$8.9 Trillion Reversal Under Administration Policies — According to the figures in today’s report, 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). (See attached chart, “*Surplus Declines \$8.9 Trillion Under President’s Policies.*”)

Administration Policies Spend the Social Security Surplus — By these figures, Administration 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 day-to-day operations of government over the next decade. Just last month, Federal Reserve Chairman Alan Greenspan raised the possible need to “recalibrate” the nation’s retirement security programs in the face of large budget deficits. (See attached chart, “*President’s Policies Spend Social Security and Medicare.*”)

Large Deficits Result In 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. In his August 2 letter to Ranking Democratic Member John Spratt, Treasury Secretary John Snow wrote that the Administration estimates that the debt limit “will be reached between late September 2004 and early October 2004 . . . Accordingly, I am also writing to request that Congress raise the statutory debt limit as soon as possible.”

Republican Tax Cuts Are Largest Controllable Cause of 2004 Budget Deficit — 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.

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 — and ten years of Republican control in the Congress. After \$2.25 trillion of tax cuts targeted to those who need the help the least, 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 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.

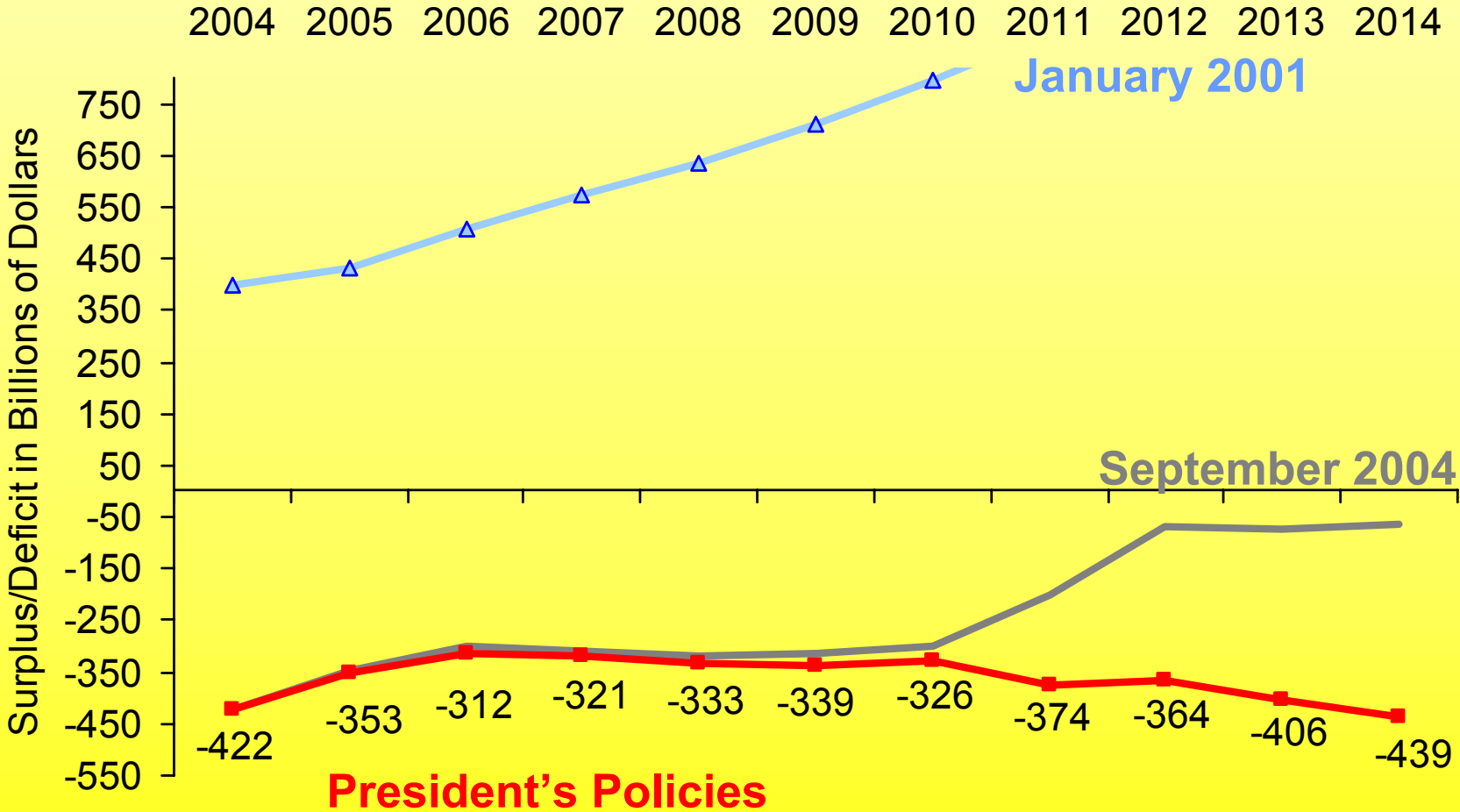
Contrast With Fiscal Progress Under Previous Administration — Under the previous Administration, the budget showed improvement for eight years in a row, culminating in the first ever surplus without using either the Social Security or the Medicare Trust Fund surpluses. From 1998 through 2000, with President Clinton in office, the government reduced debt held by the public, paying off \$363 billion. This record of improvement provides a sharp contrast with the fiscal deterioration that has occurred under the current Administration. (*See attached chart, “A Fiscal Opportunity Lost.”*)

CBO Report Is Latest In A Series of Similar Analyses — CBO’s analysis is the latest in a series of similar analyses made over the years in response to requests from both sides of the aisle. The request for this analysis — made by Budget Committee Ranking Member John Spratt — is a routine and responsible effort to gather the most accurate, most up-to-date information about the fiscal context of Congress’s consideration of the Administration’s policy proposals.

CBO's Estimate of the President's Budget Policies

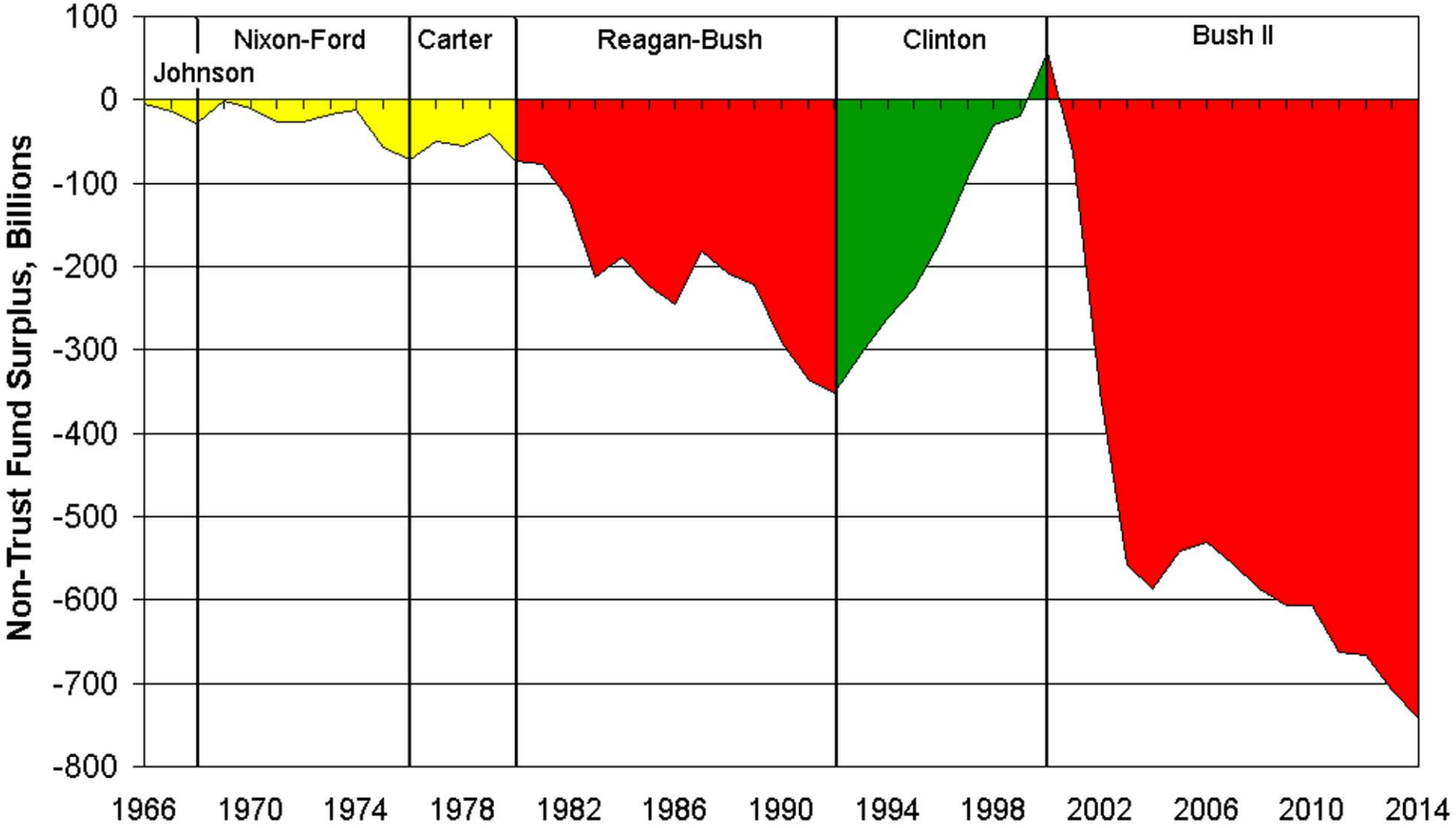
September 23, 2004

CBO Estimate Shows Bleaker Budget Outlook Than Before



A Fiscal Opportunity Lost

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

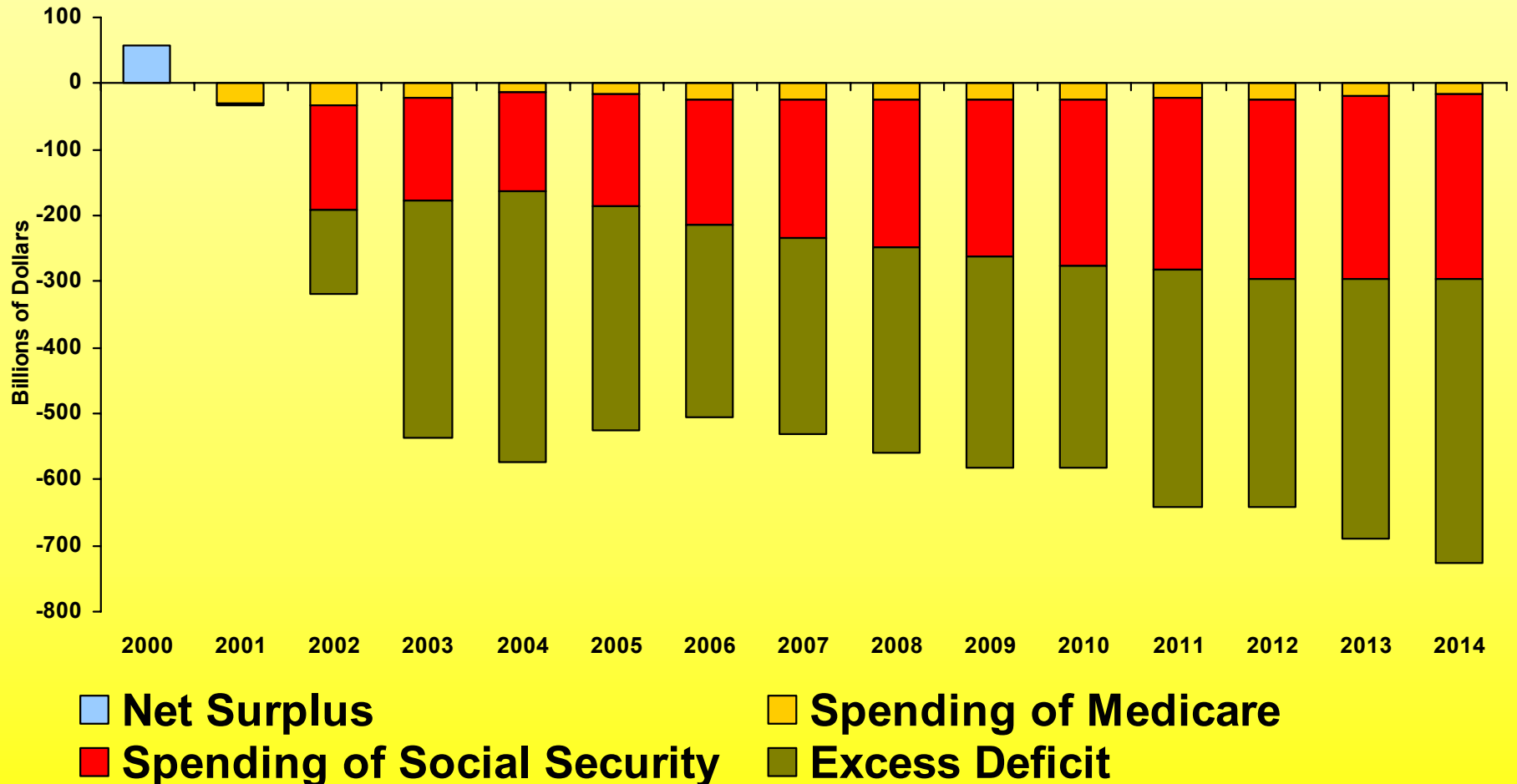


Surplus Declines \$8.9 Trillion Under President's Policies

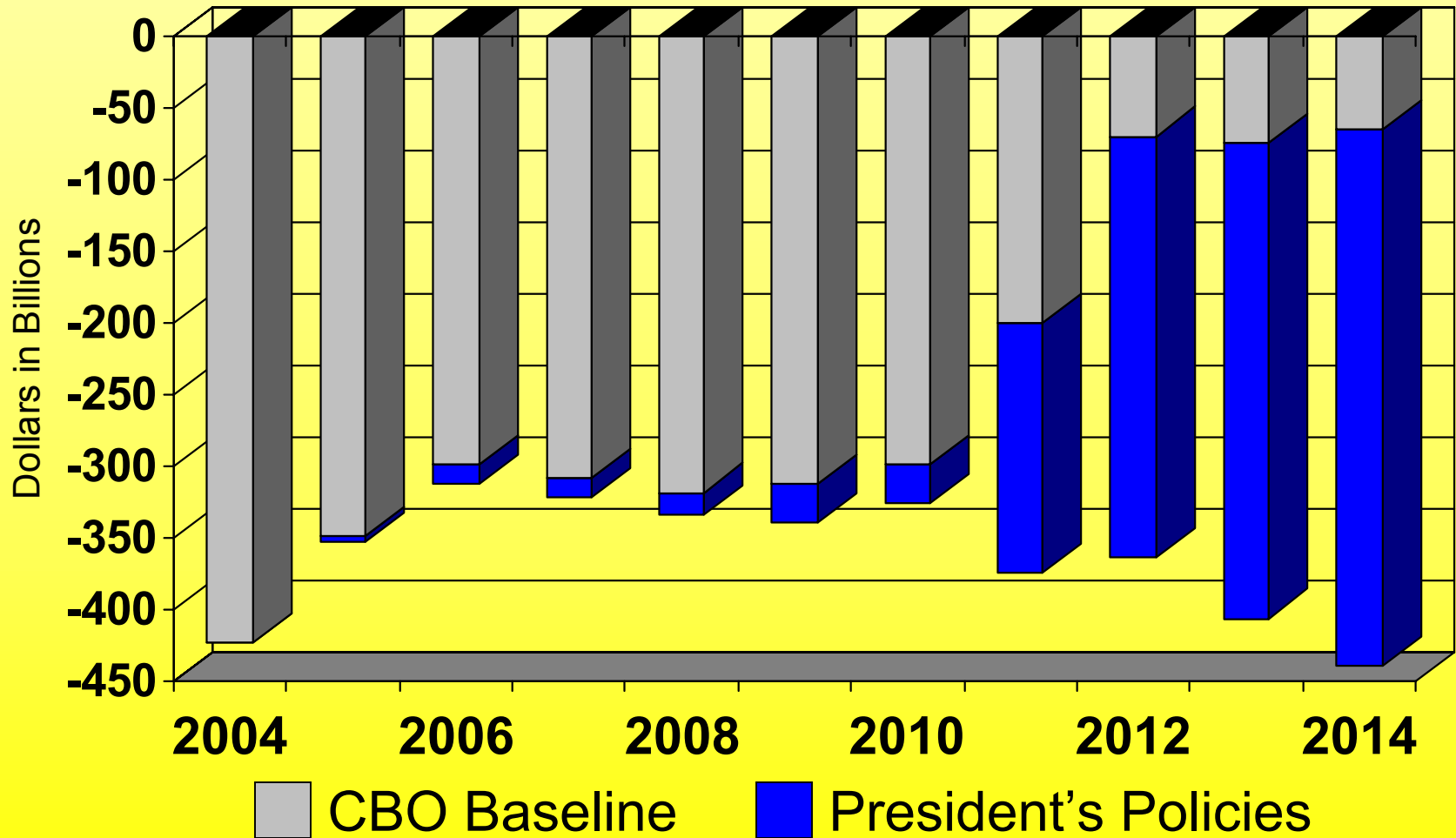
Unified Budget Surplus, Trillions of Dollars

	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

President's Policies Spend Social Security and Medicare



President's Policies Produce Worse Deficits than CBO Baseline



CBO Adjusted the September Baseline for President's Policies

- Permanent Extension of the 2001 and 2003 Tax Cuts
- Complete Alternative Minimum Tax Repair
- Discretionary Spending at President's Requested Levels
- CBO Cost Estimate for Ongoing Operations in Iraq and Afghanistan

Components of the President's Agenda Still Not Included in These CBO Estimates

- President's Plan to Privatize Social Security
- Realistic Non-Defense Discretionary Spending Levels



September 23, 2004

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

Dear Congressman:

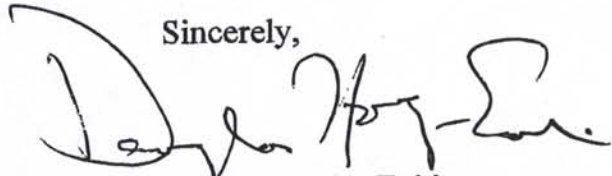
As requested in your letter of September 14, 2004, the Congressional Budget Office has estimated the effect on its most recent baseline projections of the policy alternatives that you specified. The attached table shows CBO's estimate of revenues, outlays, the total budget deficit, and debt held by the public incorporating the following adjustments to its September 2004 baseline:

- Assume enactment of the revenue policies proposed in the President's budget for fiscal year 2005;
- Assume that the exemption amount for the alternative minimum tax (AMT) is extended at the level in effect for 2004 and, together with the AMT tax brackets, is indexed for inflation after 2004;
- For discretionary programs other than those under the jurisdiction of the Defense Appropriations Subcommittee, adopt the levels of budget authority proposed in the President's budget for 2005 through 2009 and the extrapolation of that budget authority through 2014 as presented in CBO's *Analysis of the President's Budgetary Proposals for Fiscal Year 2005* (March 2004); and

- For defense appropriations, incorporate the 2005 funding enacted in August (Public Law 108-287) and assume the levels of budget authority proposed by the President for 2006 through 2009 (extrapolated through 2014). In addition, incorporate the estimate from Table 1-6 of *The Budget and Economic Outlook: An Update* (September 2004) regarding a slowdown in spending for military activities in Iraq and Afghanistan.¹

If you would like further details on the information provided with this letter, we would be pleased to provide them. The staff contact is Jeff Holland, who can be reached at 226-2880.

Sincerely,



Douglas Holtz-Eakin
Director

Attachment

cc: Honorable Jim Nussle
Chairman

Honorable Don Nickles
Chairman
Senate Committee on the Budget

Honorable Kent Conrad
Ranking Member

1. The figures for spending related to military activities in Iraq and Afghanistan assume that such activities slow gradually instead of continuing over the next 10 years at the level funded for 2004 adjusted for inflation, as assumed in the baseline. See pages 14-15 of *The Budget and Economic Outlook: An Update* (September 2004) for more details on that assumption.

**Budgetary Projections Incorporating the Assumptions Specified by Congressman Spratt
in his Letter of September 14, 2004**

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total, 2005- 2009	Total, 2005- 2014
In Billions of Dollars													
Revenues ^a	1,871	2,065	2,222	2,344	2,461	2,582	2,718	2,823	2,958	3,097	3,244	11,673	26,514
Outlays													
Discretionary spending ^b	888	940	946	958	977	991	1,004	1,027	1,042	1,070	1,096	4,812	10,052
Mandatory spending ^b	1,247	1,299	1,370	1,451	1,533	1,625	1,717	1,828	1,919	2,053	2,186	7,278	16,981
Net interest	159	178	218	257	283	305	324	341	361	380	402	1,241	3,049
Total	2,293	2,418	2,534	2,665	2,793	2,922	3,044	3,197	3,322	3,503	3,684	13,332	30,081
Deficit	-422	-353	-312	-321	-333	-339	-326	-374	-364	-406	-439	-1,658	-3,567
Debt Held by the Public	4,334	4,699	5,027	5,361	5,706	6,058	6,397	6,782	7,157	7,575	8,027	n.a.	n.a.
As a Percentage of GDP													
Revenues ^a	16.2	16.8	17.2	17.3	17.4	17.4	17.5	17.4	17.5	17.5	17.6	17.2	17.4
Outlays													
Discretionary spending ^b	7.7	7.6	7.3	7.1	6.9	6.7	6.5	6.3	6.2	6.1	5.9	7.1	6.6
Mandatory spending ^b	10.8	10.6	10.6	10.7	10.8	10.9	11.1	11.3	11.3	11.6	11.9	10.7	11.1
Net interest	1.4	1.4	1.7	1.9	2.0	2.1	2.1	2.1	2.1	2.1	2.2	1.8	2.0
Total	19.8	19.6	19.6	19.7	19.7	19.7	19.6	19.7	19.6	19.8	20.0	19.7	19.7
Deficit	-3.6	-2.9	-2.4	-2.4	-2.3	-2.3	-2.1	-2.3	-2.1	-2.3	-2.4	-2.4	-2.3
Debt Held by the Public	37.5	38.2	38.9	39.6	40.3	40.8	41.2	41.8	42.3	42.9	43.5	n.a.	n.a.
Memorandum:													
Deficit in CBO's Baseline													
In billions of dollars	-422	-348	-298	-308	-318	-312	-298	-200	-70	-75	-65	-1,584	-2,294
As a percentage of GDP	-3.6	-2.8	-2.3	-2.3	-2.2	-2.1	-1.9	-1.2	-0.4	-0.4	-0.4	-2.3	-1.5
Debt Held by the Public													
In CBO's Baseline													
In billions of dollars	4,334	4,694	5,009	5,329	5,660	5,984	6,295	6,506	6,588	6,675	6,753	n.a.	n.a.
As a percentage of GDP	37.5	38.2	38.8	39.4	39.9	40.3	40.5	40.1	38.9	37.8	36.6	n.a.	n.a.

SOURCE: Congressional Budget Office.

- a. Assumes enactment of revenue proposals contained in the President's budget for fiscal year 2005 and that the current exemption amount for the Alternative Minimum Tax is extended and, together with the AMT tax brackets, is indexed for inflation after 2004. Several of the proposals affect estimates of refundable tax credits, which are incorporated into the projections for mandatory spending.
- b. Reflects all discretionary budget authority enacted to date for fiscal years 2004 and 2005. Future funding is assumed at the levels proposed in the President's budget for 2005. (Since the Administration's budget only extended through 2009, CBO extrapolated such levels through 2014.) Discretionary outlays also include spending to reflect potential costs of military operations in Iraq and Afghanistan (see Table 1-6 in *The Budget and Economic Outlook: An Update, September 2004*).