

# HOUSE BUDGET COMMITTEE

## Democratic Caucus

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

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September 7, 2004

### **Republican Deficits Climb to Record Levels: Summary and Analysis of CBO's Updated Budget and Economic Outlook**

Today the Congressional Budget Office (CBO) released its *Update* of the Budget and Economic Outlook, which confirms that the 2004 deficit will be the largest in history, \$422 billion, breaking last year's record of \$375 billion by \$47 billion. This deficit is 3.6 percent of the GDP. 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 an all-time high — shattering last year's record by \$47 billion — but the full story is even more disquieting. Once the Social Security Trust Fund is removed from the figures, the 2004 deficit number is actually \$574 billion, or 5.0 percent of the GDP. The 2004 deficit figure marks a \$818 billion deterioration from the \$397 billion *surplus* for 2004 that CBO projected in January 2001, when the current Administration took office. (See attached charts, “Backsliding Into the Deficit Ditch,” “Under President Bush's Watch, 2004 Budget Steadily Declines,” and “Projected 2004 Surplus Becomes Largest Deficit in History.”)

***Long-Term Outlook Under Republican Policies Is Bleak*** — By law, CBO must produce “baseline” estimates that do not reflect any changes in policy. As a result, CBO's baseline estimates cannot include costs such as those associated with extending the President's tax cuts, providing relief from the alternative minimum tax, and funding the continuing defense buildup. Adding just these costs to the baseline estimates — and making an additional adjustment to reflect a realistic estimate of the cost of ongoing operations in Iraq and Afghanistan — 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 \$320 billion. Adding in the costs of other Administration proposals — such as Social Security privatization and other policies mentioned by President Bush during his speech last week to the Republican National Convention — drives the deficit numbers higher still. (See attached charts, “Baseline Deficits Don't Tell the Whole Story” and “More Accurate Estimate Shows Even Bleaker Budget Outlook.”)

***\$9.1 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 \$3.5

trillion deficit — a \$9.1 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 \$9.1 Trillion Under Republican Policies.*”)

***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. Less than two 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.

***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. 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 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 return to surplus shortly after the 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. 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. (See attached chart, “*Worst Private-Sector Job Growth Since the Hoover Administration.*”)

***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. With no budget in place to enforce, House Republicans still brought several ill-conceived budget process reform measures to the floor 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.

***CBO Numbers Show No Meaningful Improvement Over OMB Summer Numbers*** — The difference between CBO's new \$422 billion deficit estimate and OMB's earlier \$445 billion figure is not the result of new, favorable information. Rather, most of the difference arises because CBO believes that the various federal agencies will spend less of their current funding before the start of the next fiscal year on October 1<sup>st</sup>. Thus, the 2004 deficit looks lower, but the 2005 deficit is higher, dollar for dollar, as a result of this adjustment. Other minor estimating differences contribute modestly.

***Why Are Today's Numbers Different From CBO's January Estimates?*** — The deficit has improved largely because revenues have finally hit bottom after three years of decline. Corporate receipts are higher than anticipated, though workers have not yet enjoyed higher wages. Tax refunds were lower than expected in April, though there has been no continuing improvement in individual income tax receipts to give confidence for the future. And payroll tax receipts are higher than expected, though those funds are immediately borrowed from the Social Security Trust Fund to finance the day-to-day operations of government.

# CBO Summer Update

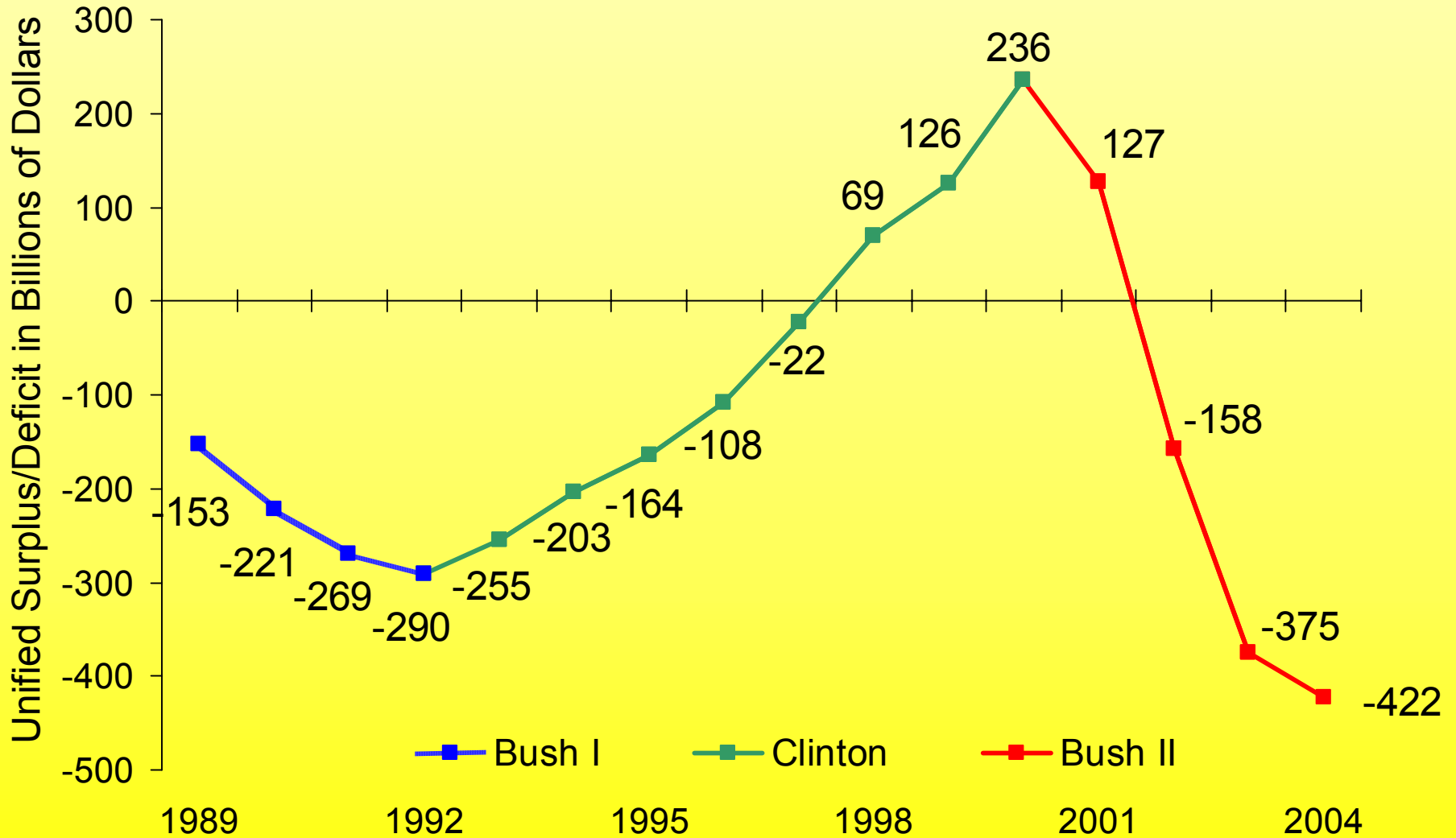


Republicans Create  
Record Deficits,  
Continue Fiscal  
Mismanagement

September 7, 2004

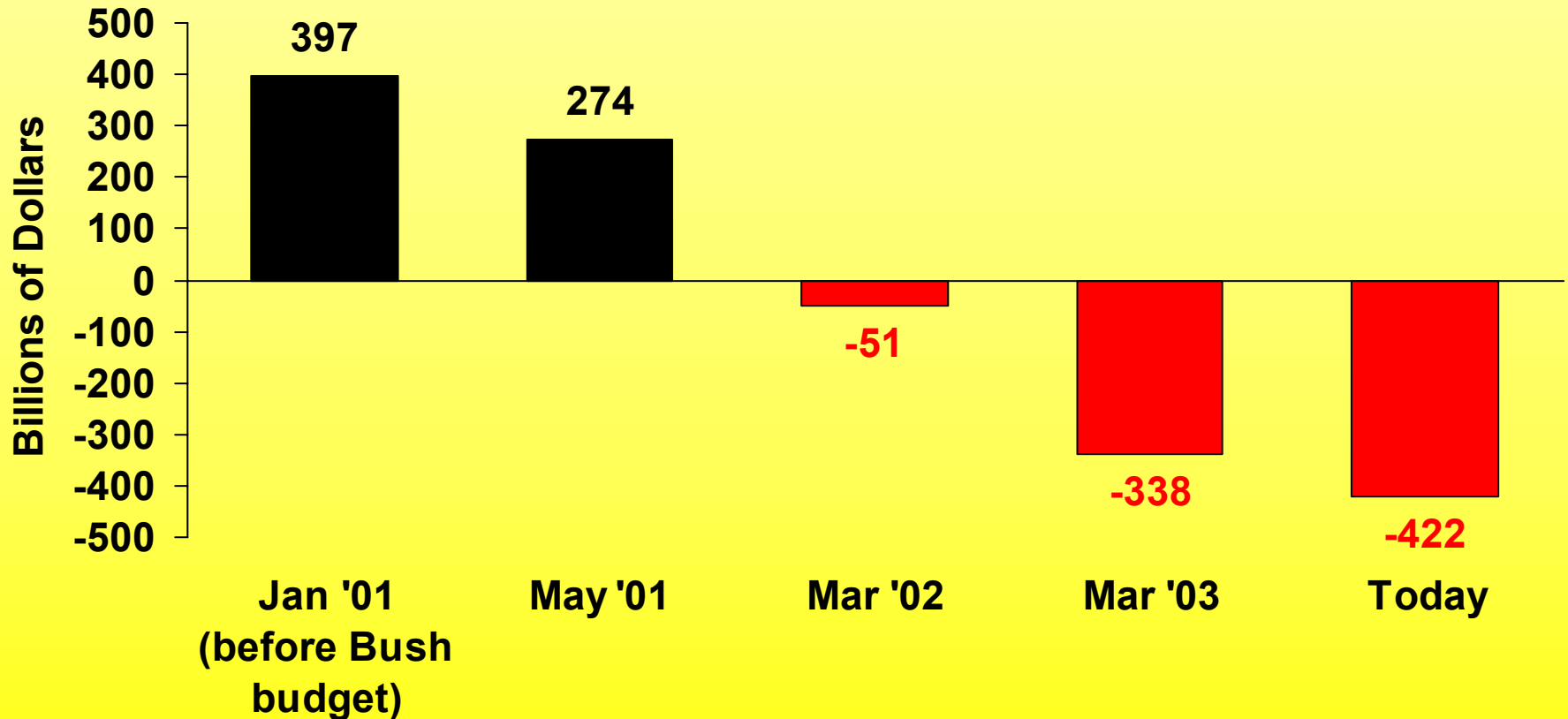
# Backsliding Into the Deficit Ditch

## From Deficit to Surplus to Deficit Again

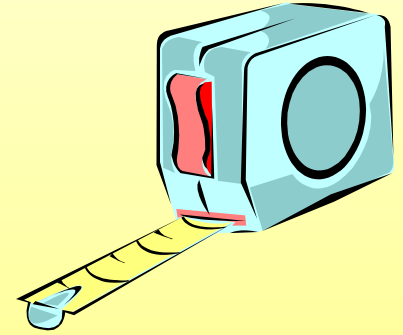


# Under President Bush's Watch, 2004 Budget Steadily Declines

## Surplus or Deficit Projections for Fiscal Year 2004



# 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

# Baseline Deficits Don't Tell the Whole Story



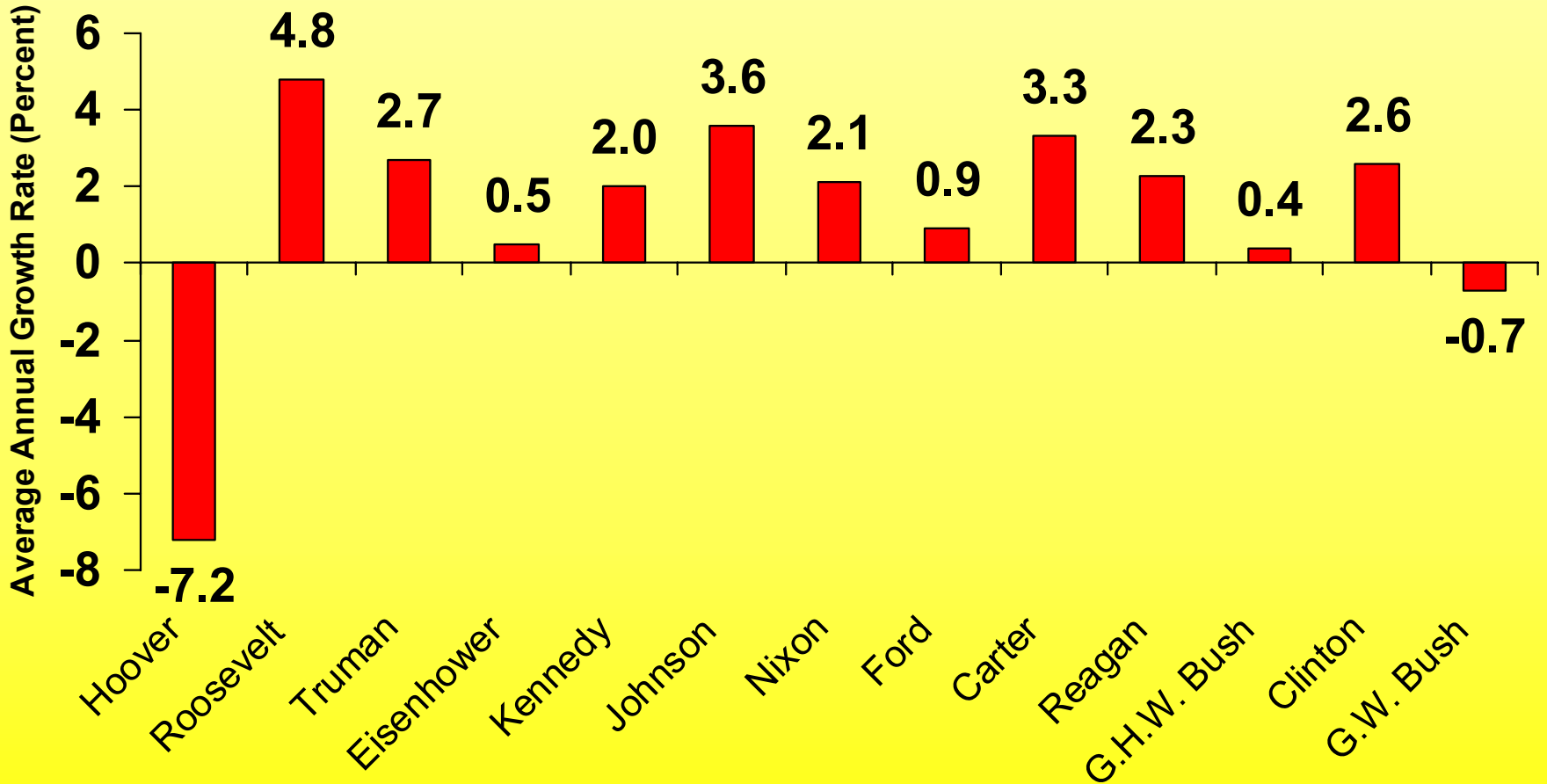
Baseline estimates omit:

- 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.



# Worst Private-Sector Job Growth Since the Hoover Administration

Change in Private Nonfarm Employment

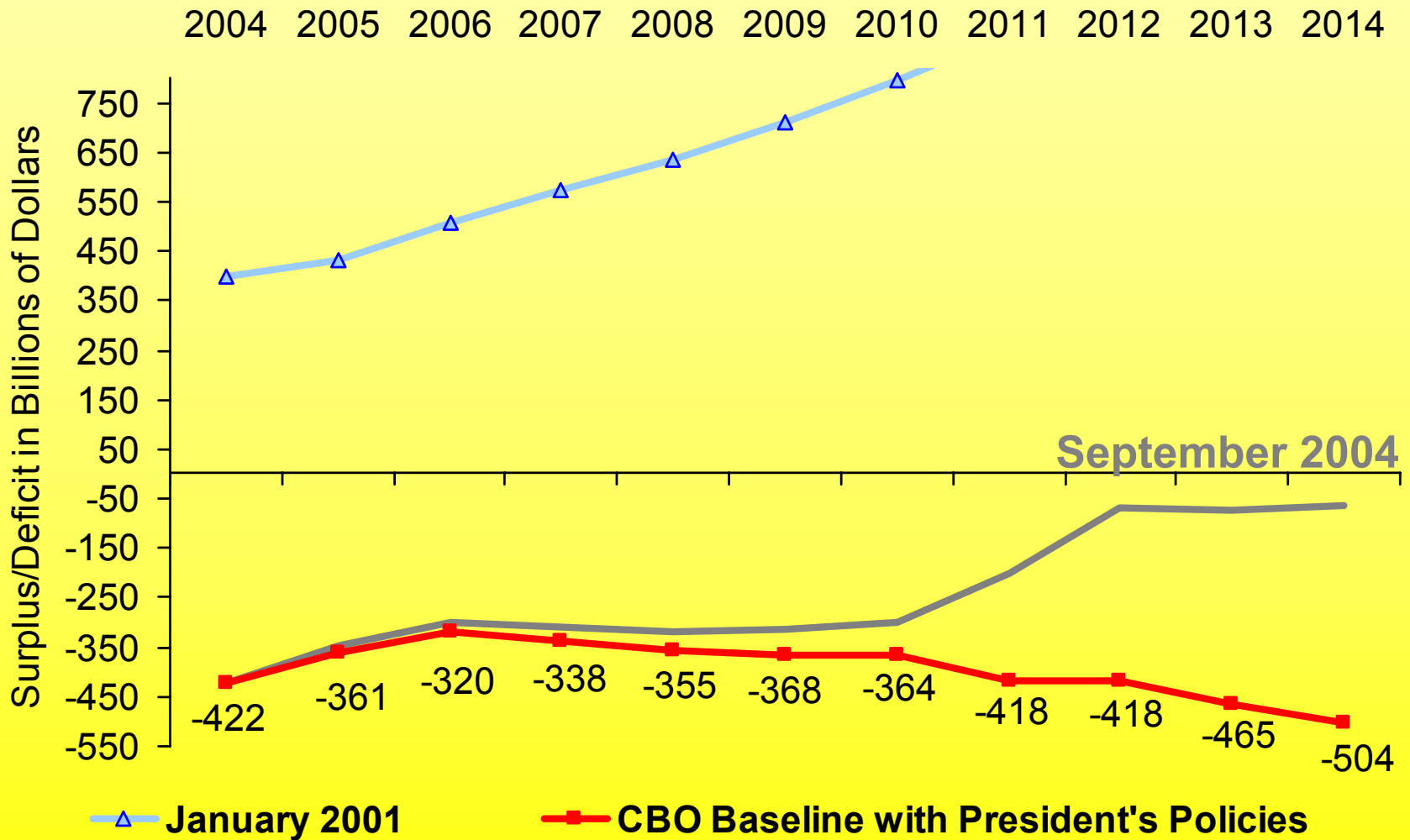


# Surplus Declines \$9.1 Trillion Under Republican Policies

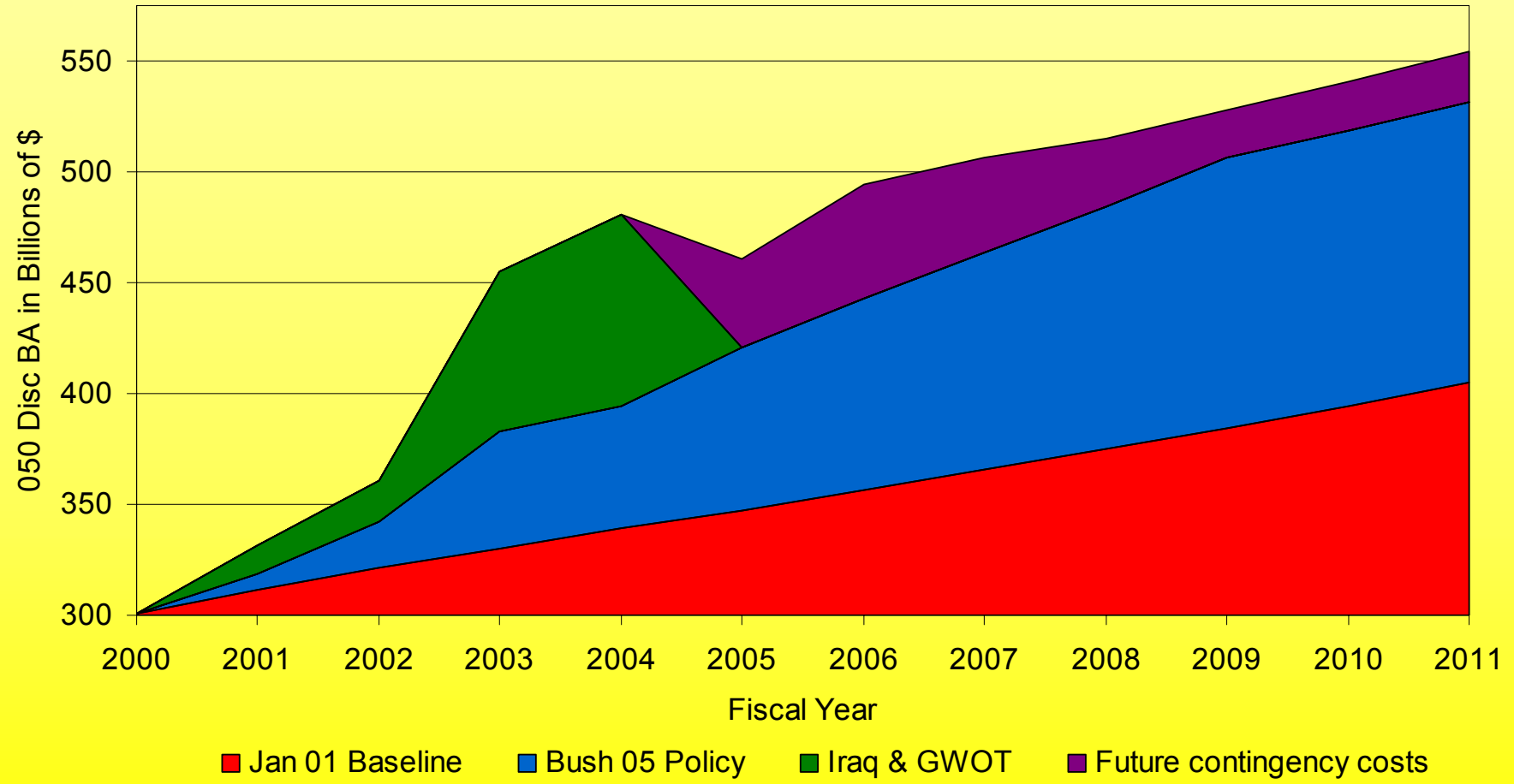
Unified Budget Surplus, Trillions of Dollars

	<b>2002-2011</b>
January 2001	5.610
August 2001	3.397
January 2002	1.601
August 2002	0.336
January 2003	0.020
September 2004	<b>-3.037</b>
<i>plus President's policies</i>	<b>-3.478</b>

# More Accurate Estimate Shows Even Bleaker Budget Outlook



# Increased Cost of Defense Under Bush Administration Plus Estimate of Future Contingency Costs

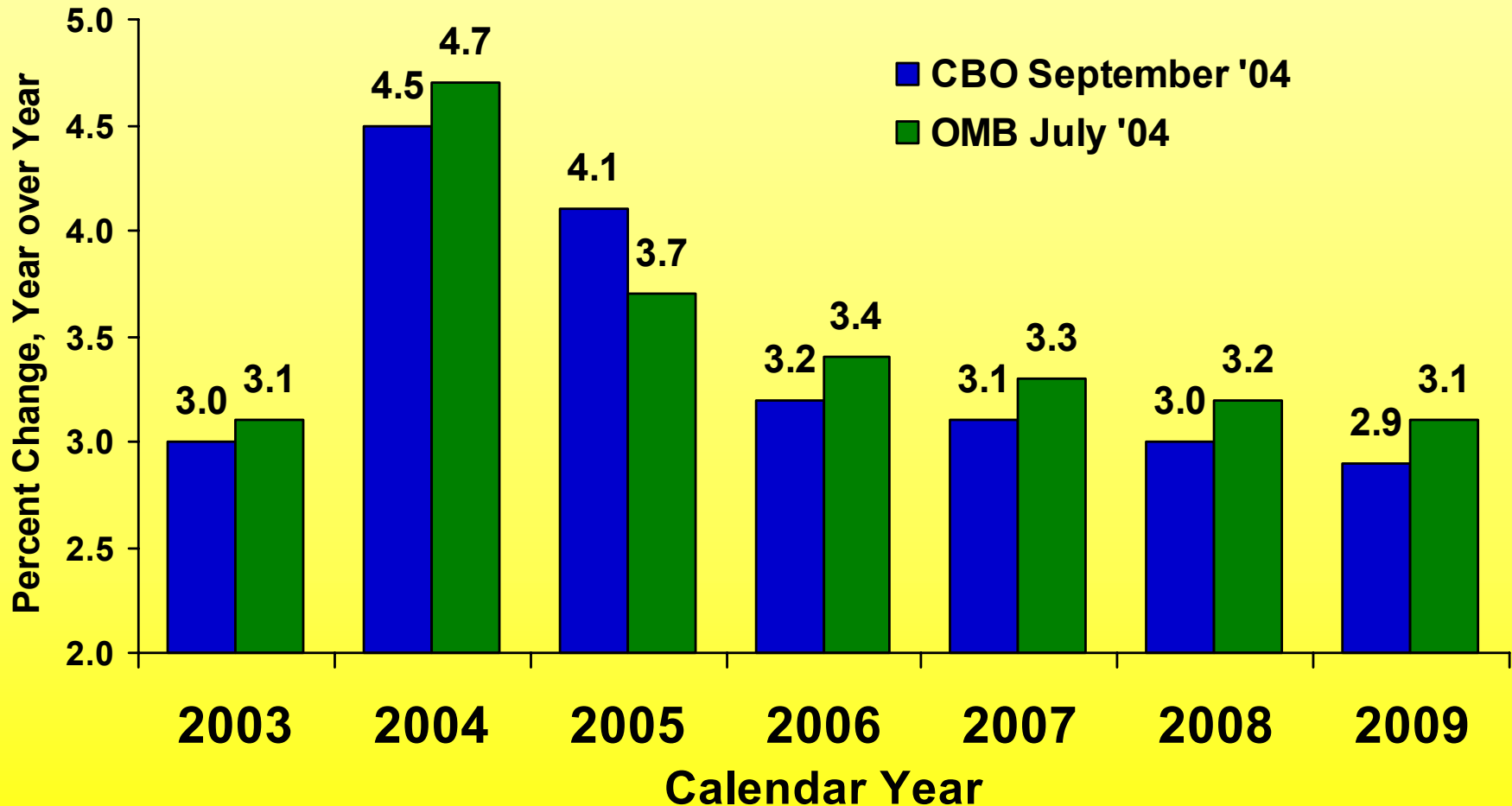


# Projected 2004 Surplus Becomes Largest Deficit in History

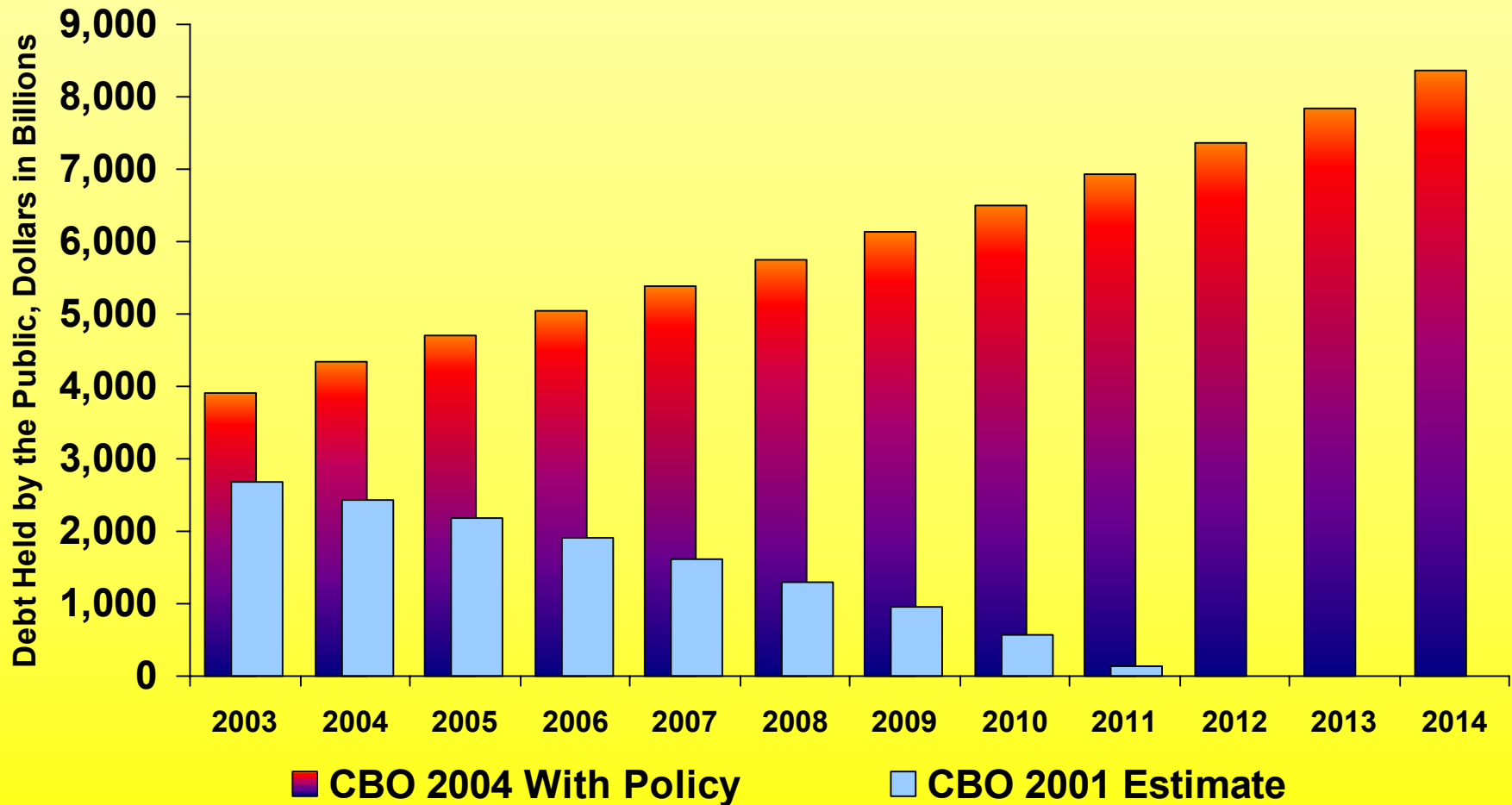
Forecast of 2004 Surplus or Deficit, Billions of Dollars

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

# Budget Projections Already Assume Strong Growth



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



# Bush Budget Raises the Debt Tax

Federal Gross Interest per Family of Four

