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U.S. HOUSE OF REPRESENTATIVES

# COMMITTEE ON THE BUDGET

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February 5, 2007

## Analysis of the President's Fiscal Year 2008 Budget

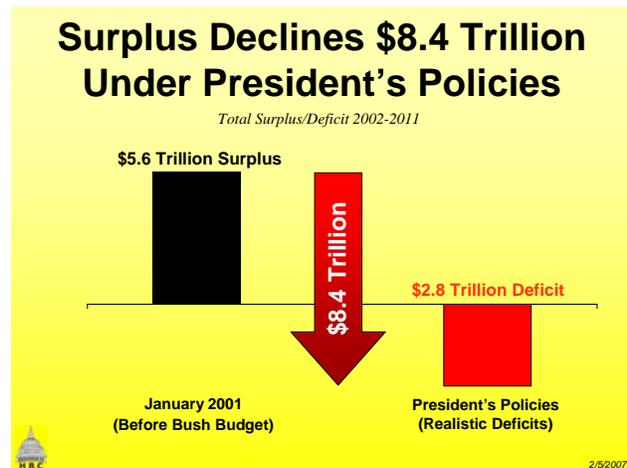
### Overview

The budget submitted today continues the same policies that helped create the fiscal mess now facing the federal government. While the Administration's budget claims to reach balance in 2012, unfortunately this budget is in deficit every year under realistic Bush policy assumptions. Meanwhile, the budget continues to make the wrong choices for the American people. It

2008 Budget Summary	
Total Revenues	\$2.662 trillion
Total Expenditures	\$2.902 trillion
Total Deficit	\$239 billion

proposes substantial cuts to Medicare (without reinvesting the savings in program improvement) and Medicaid and cuts other critical priorities like education and the environment – all to help pay for an expensive tax agenda that heavily benefits those who need the help the least.

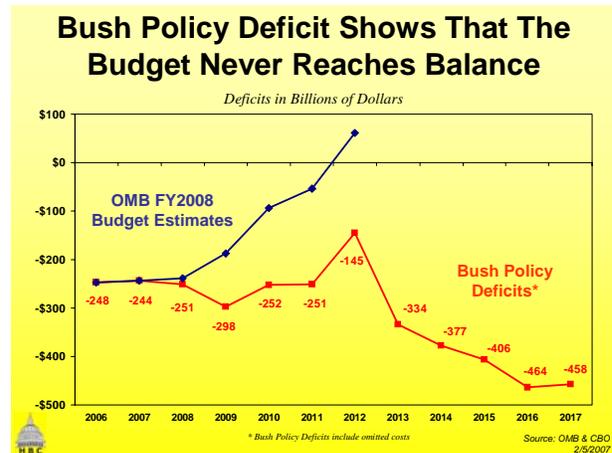
**Administration Has Worst Fiscal Record in History** — In the six years of the Bush Administration, the government has posted the highest deficits in the nation's history. The Administration has squandered the budget surplus it inherited, transforming a \$5.6 trillion projected ten-year surplus (2002-2011) into a deficit of \$2.8 trillion over the same period, a swing of \$8.4 trillion based on realistic estimates of the costs of the President's policies. The President's new budget calls for a deficit of \$244 billion for 2007 and \$239 billion for 2008, marking six years in a row of deficits of more than \$200 billion. Meanwhile, this budget continues the climb of our nation's debt, which has already grown by \$3 trillion during this Administration.



**Budget Never Reaches Balance Under Realistic Assumptions** — Rather than taking a new direction, the President's 2008 budget continues the same policies that have worsened the country's fiscal situation. As in previous years, it relies on omissions and optimistic assumptions that have the effect of understating the size of the fiscal problems it creates. Adjusting the Administration's numbers simply to reflect realistic costs of Alternative Minimum Tax (AMT)

reform and the Administration's Iraq policy shows that the Administration's budget never reaches balance, and under its policies the deficit totals \$3.2 trillion over the next ten years.

- ***Excludes Cost of AMT Reform Beyond 2008*** — To date, the Administration's budgets have not lived up to its stated goal of repairing the AMT in a deficit-neutral way, and today's budget again fails to include any costs for more than a one-year repair of the AMT. If the President's tax policies are extended, the Administration's budget omits \$1 trillion from the cost of a full repair of the AMT, based on CBO figures.



- ***Omits Full Cost of the Administration's Policy in Iraq and Afghanistan***— Although for the first time the Administration's budget includes full-year funding for the wars in the coming year, it discontinues the funding after just a down-payment for 2009, even though the Administration is increasing troop strength and has no current plans to withdraw from Iraq or Afghanistan. A recent CBO scenario estimated war costs for Iraq, Afghanistan, and the Global War on Terrorism could be as much as \$603 billion higher over ten years than what is included in the Administration's budget.
- ***Uses Rosy Assumptions that Boost the Bottom Line*** — The President's 2008 budget relies on unrealistically rosy assumptions that the economy will grow its way back to a budget surplus. For example, in 2012 it assumes revenues that are \$155 billion higher than comparable projections made by CBO. Without these optimistic assumptions, a claimed 2012 surplus of \$61 billion becomes a \$94 billion deficit.

***Budget Makes Wrong Choices for Average Americans*** – The President's 2008 budget continues to make choices that are wrong for the American people. It cuts vital investments and services for children and working families, yet includes a costly tax agenda that heavily benefits those who least need the help.

- ***Imposes Misguided Spending Cuts While Cutting Taxes Yet Again*** — To help pay for nearly \$2 trillion in tax cuts over the next ten years, the budget cuts Medicare by \$252 billion over ten years without reinvesting those savings in Medicare or other health program improvements, and imposes net legislative cuts of \$28 billion over ten years to Medicaid. Meanwhile, appropriated funding for the Department of Education is cut by \$1.5 billion below the 2007 level, the budget for the Environmental Protection Agency is cut by \$509 million, and the budget imposes \$4.9 billion over ten years in new fees on veterans.

*Need to Put the Budget on the Right Track* — Congressional Democrats have repeatedly stated the desire to work constructively with the Administration to restore fiscal responsibility to the federal budget in a manner consistent with the nation's priorities. But this budget is marked by a disappointing tendency to continue the failed policies of the past rather than to chart a new course.

## **Other Noteworthy Items**

*Budget Includes \$787 Billion for 2008 Defense Funding and Military Operations in Iraq and Afghanistan* — This budget includes more than three quarters of a trillion dollars just for 2008 defense funding and military operations in Iraq and Afghanistan. It provides \$502 billion in non-emergency defense funding for 2008, an increase of \$49 billion over the 2007 level. It also includes another \$285 billion for military operations in Iraq and Afghanistan: \$94 billion for 2007 (in addition to the \$70 billion Congress has already provided); \$142 billion for 2008; and \$50 billion as a down-payment on war costs for 2009. The budget provides no funding for the wars in Iraq and Afghanistan beyond 2009. The 2008 total defense funding of \$644 billion is the largest since World War II, measured in constant dollars.

# President's Budget Omits Major Costs

*The President's Budget Understates the True Costs of His Policies*

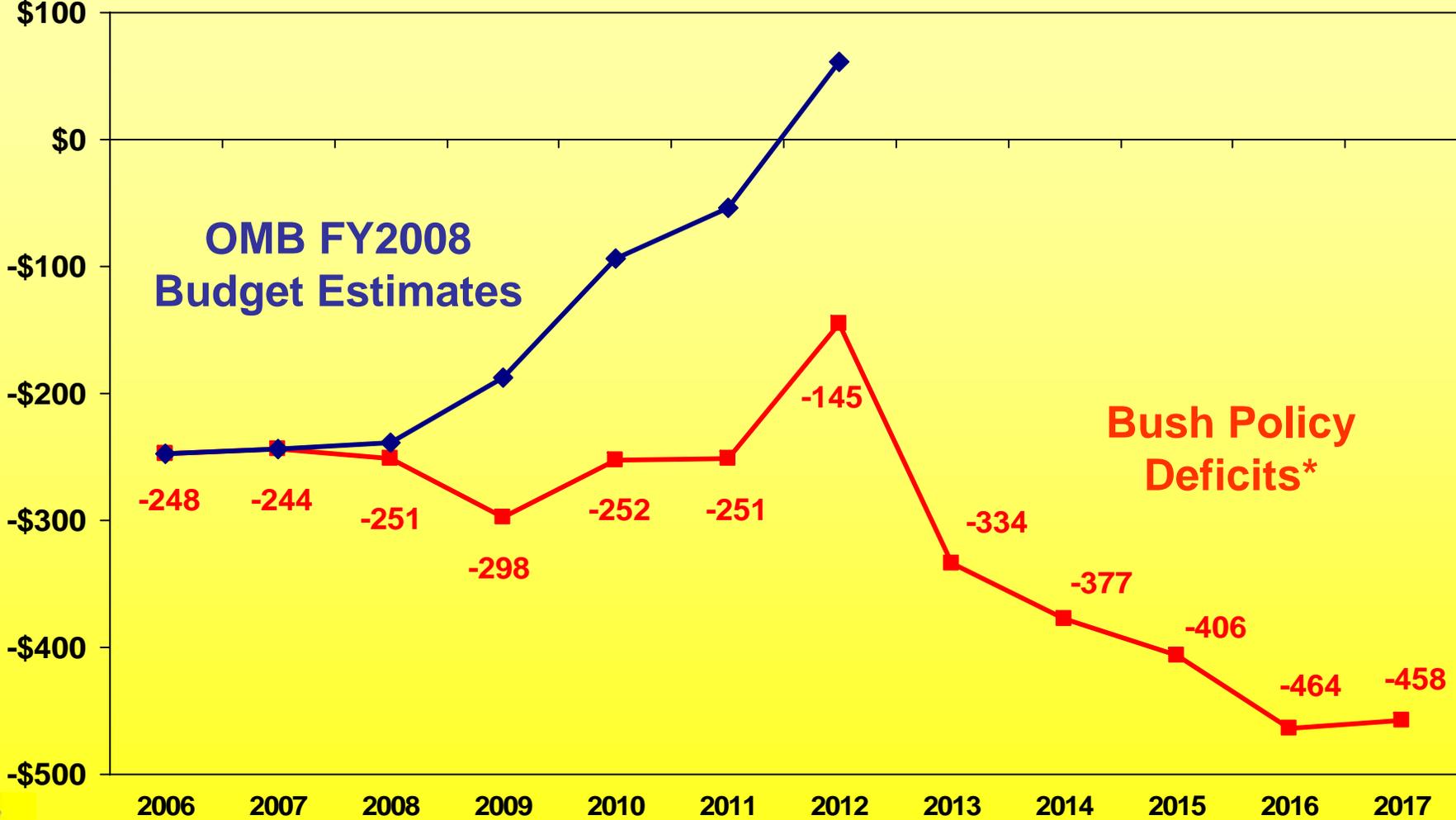
## Omitted Costs

- Likely War Costs
- Fix the Alternative Minimum Tax
- Realistic Revenue Growth



# Bush Policy Deficit Shows That The Budget Never Reaches Balance

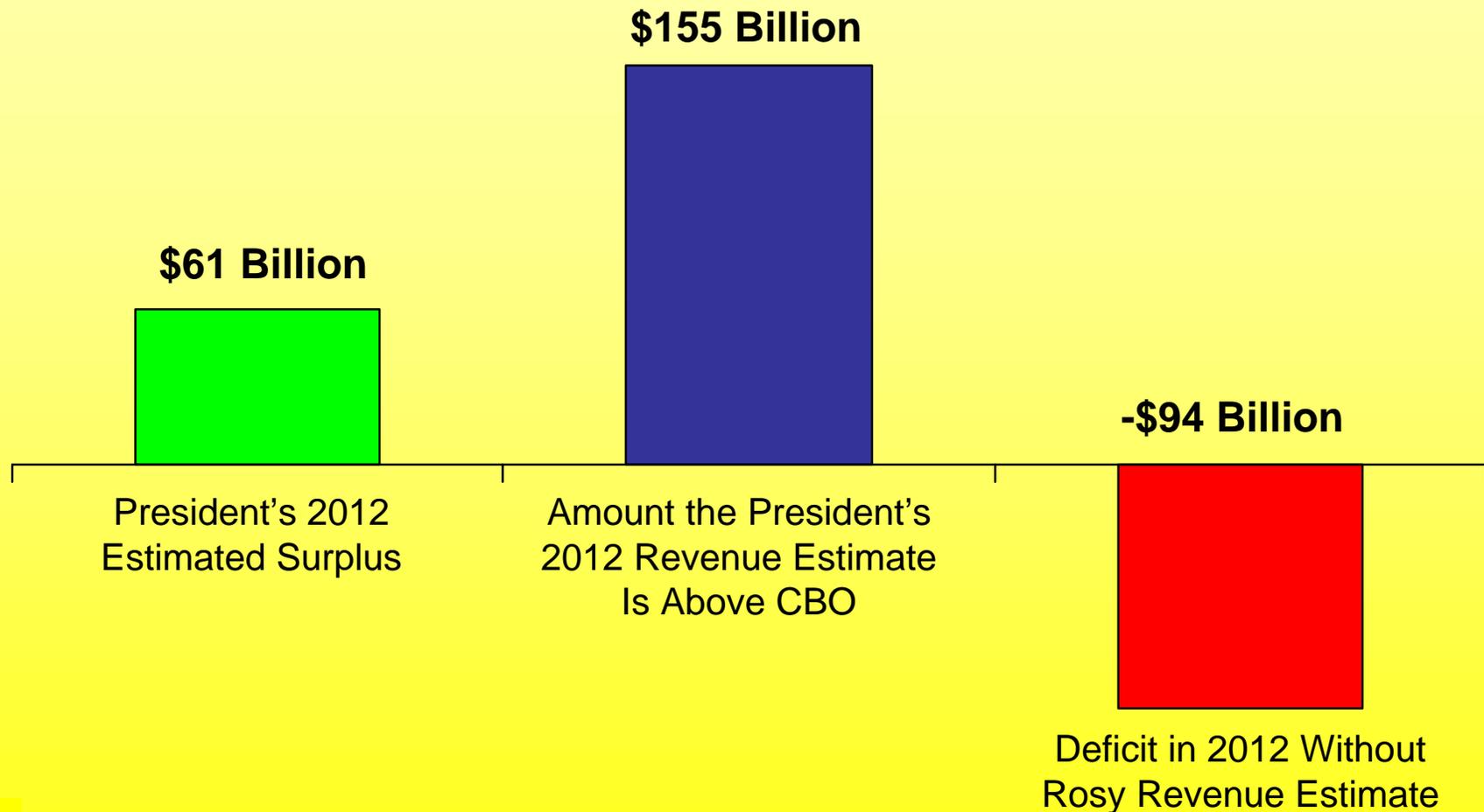
*Deficits in Billions of Dollars*



\* Bush Policy Deficits include omitted costs

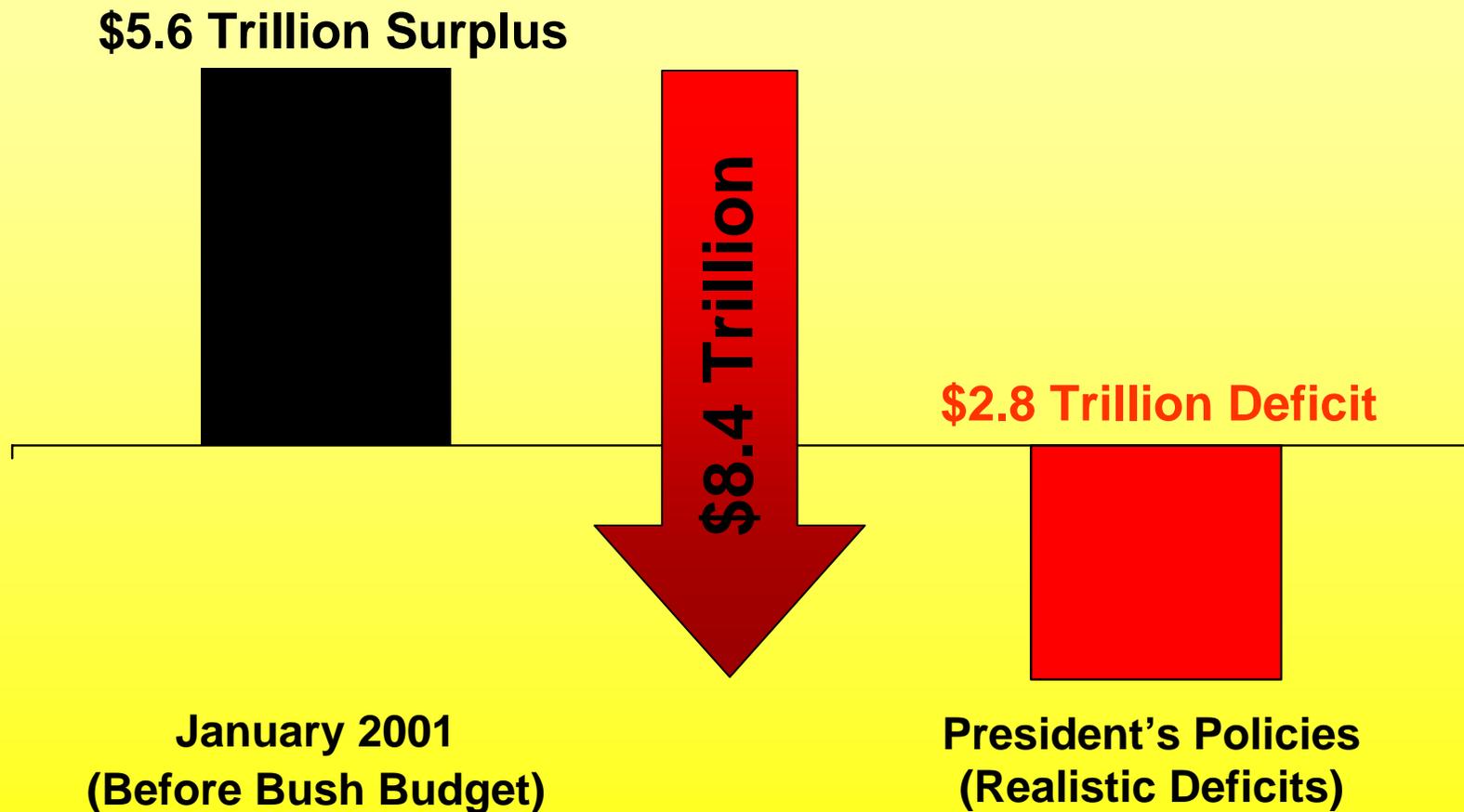
# Bush Budget in Deficit in 2012

*Without Rosy Revenue Assumptions, Bush Budget Never Reaches Balance*



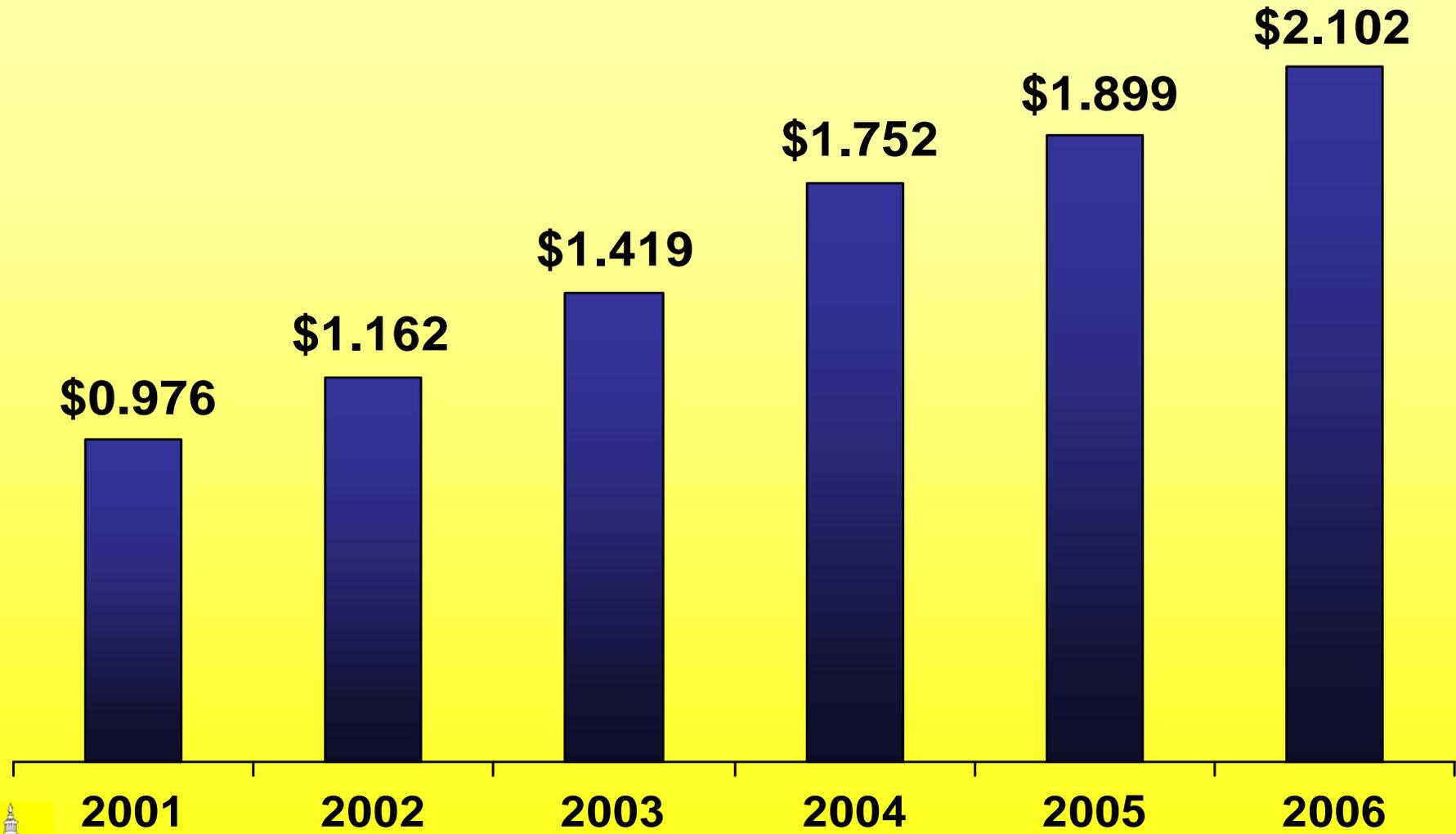
# Surplus Declines \$8.4 Trillion Under President's Policies

*Total Surplus/Deficit 2002-2011*



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

*Trillions of Nominal Dollars*

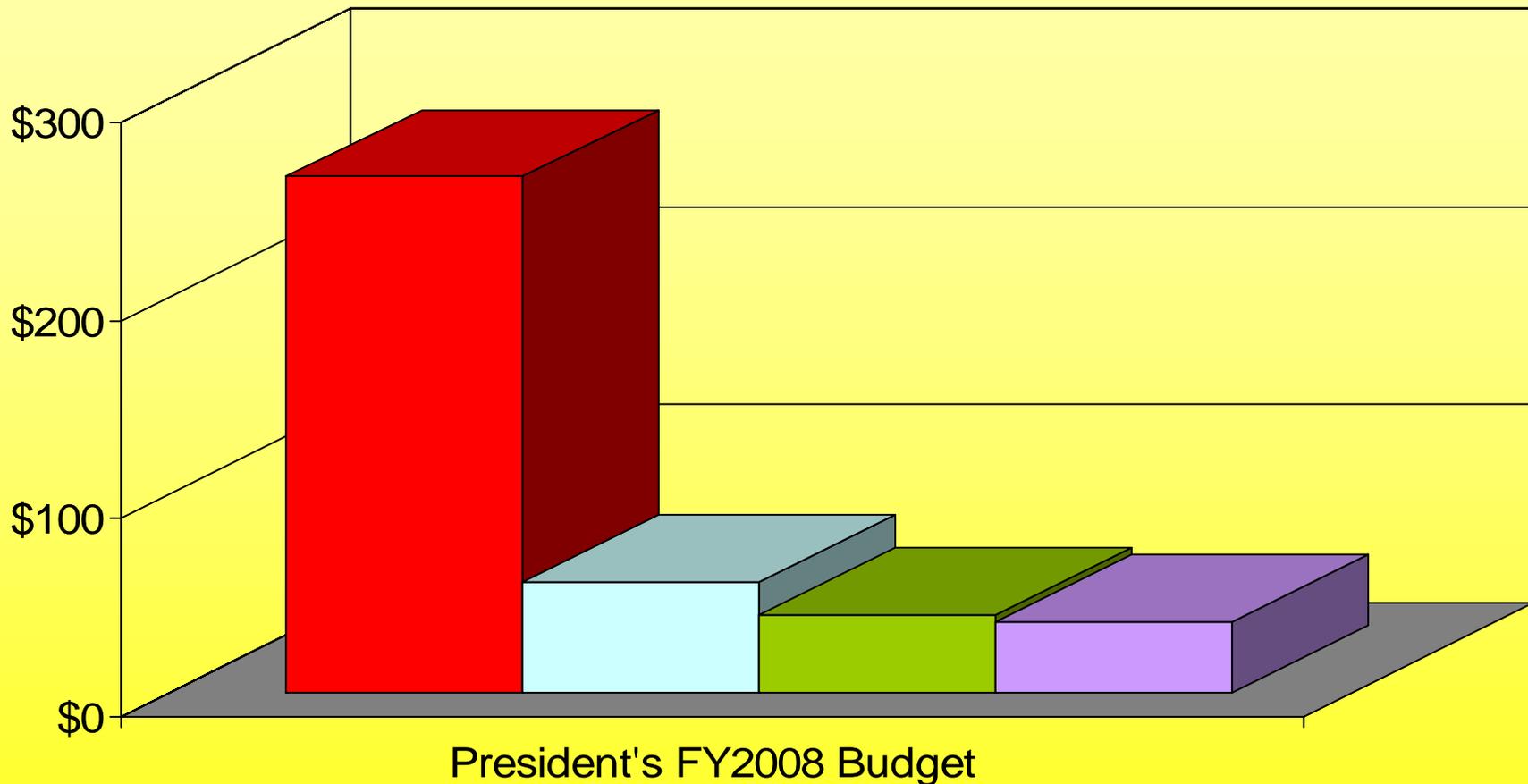


*Annual totals calculated in July of each year*

*2/5/2007*

# Interest Payments on Debt Dwarf Other Priorities

*2008 Budget Authority in Billions*



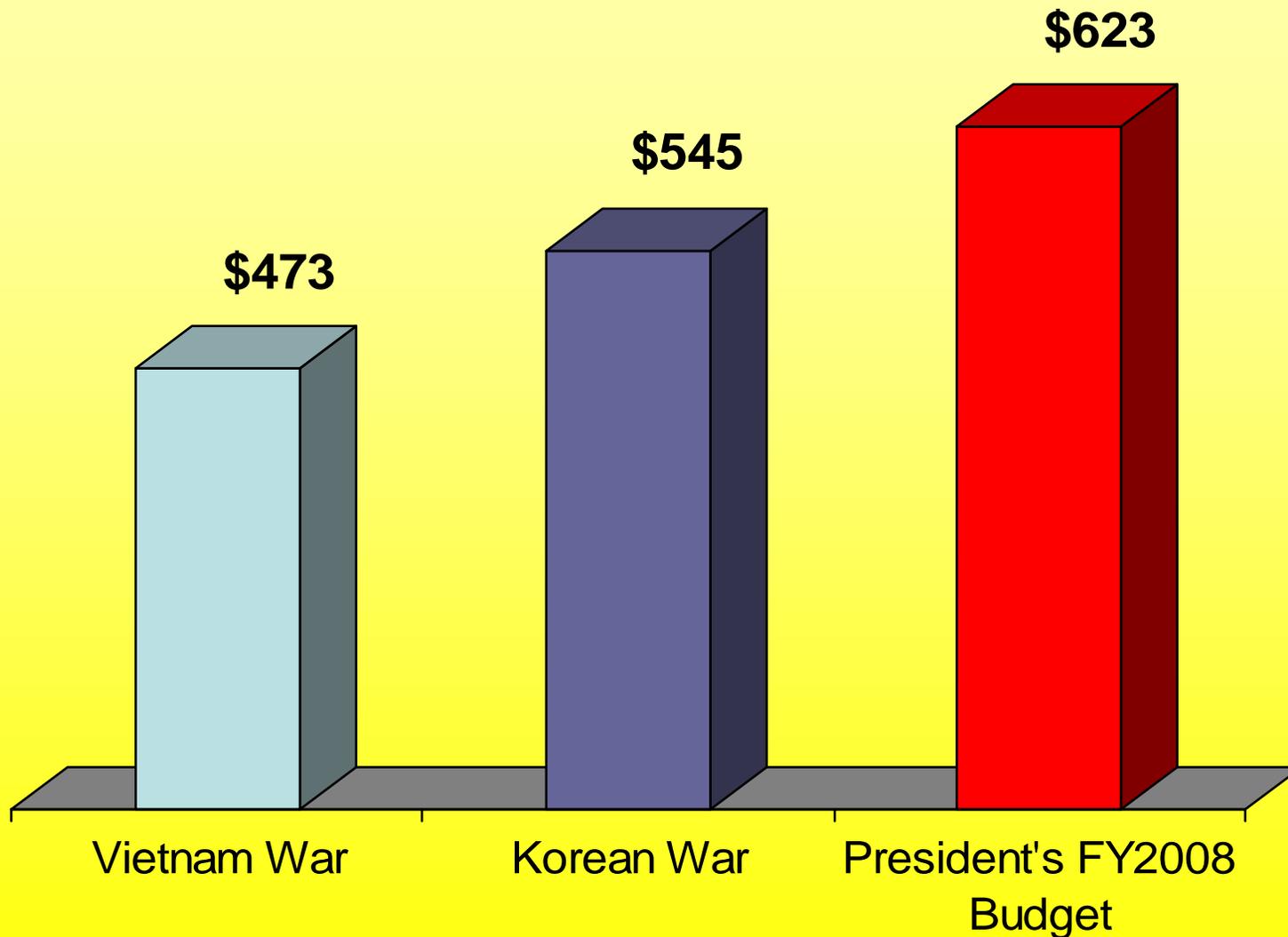
■ Net Interest    ■ Education    ■ Veterans    ■ Homeland Security

*Education, Veterans and Homeland Security are Discretionary Budget Authority Only*



# 2008 Budget Includes More Money for Defense Than at the Height of the Vietnam and Korean Wars

*Billions of Constant 2007 Dollars*



## Statutory Debt

Debt When Bush Took Office	\$5.7 Trillion
Debt Today	\$8.7 Trillion
Debt Added So Far	\$3.0 Trillion
Debt Projected At The End of Bush Presidency	\$9.5 Trillion
<b>Total Bush Increases To The Debt</b>	<b>\$3.9 Trillion</b>

## Deficits Without Social Security Surplus

On-Budget Deficit, 2007	\$427 Billion
On-Budget Deficit, 2008	\$451 Billion

## Cost of Debt Service

Net Interest, 2002	\$171 Billion
Net Interest, 2008	\$261 Billion



## The President's 2008 Budget

Billions of Dollars

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	Total 2008-2017	Total 2013-2017
CBO Baseline	-172	-98	-116	-137	-12	170	159	185	208	192	249	800	
Remove Repeating Supplemental	---	43	65	78	86	92	98	104	111	118	125	920	
CBO Baseline w/o repeating supp	-172	-55	-51	-59	73	262	257	289	319	309	374	1720	
<b>The President's Budget</b>	<b>-244</b>	<b>-239</b>	<b>-187</b>	<b>-94</b>	<b>-54</b>	<b>61</b>							
<b>Omitted Items and the Second Five Years</b>													
Tax Policies*							-269	-273	-273	-267	-259		-1342
Entitlement Programs							31	35	41	48	55		210
Defense Appropriations							-50	-50	-50	-51	-53		-254
Non-Defense Appropriations							34	36	37	38	39		184
Social Security Reform							-67	-109	-130	-142	-160		-608
													---
Repair AMT**	---	-11	-70	-69	-80	-93	-106	-120	-135	-151	-168	-1004	-681
Ongoing Military Operations**	---	---	-39	-79	-100	-87	-69	-59	-58	-56	-57	-603	-299
Subtotal of Omitted Items	---	-11	-108	-148	-180	-179	-495	-541	-569	-582	-604	-3417	-2790
Debt Service	---	-0	-3	-9	-17	-27	-96	-125	-157	-191	-228	-852	-796
Total Changes	---	-11	-111	-157	-198	-206	-591	-666	-725	-773	-831	-4270	-3586
<b>Resulting Deficits</b>	<b>-244</b>	<b>-251</b>	<b>-298</b>	<b>-252</b>	<b>-251</b>	<b>-145</b>	<b>-334</b>	<b>-377</b>	<b>-406</b>	<b>-464</b>	<b>-458</b>	<b>-3235</b>	<b>-2038</b>

\* Includes outlay effects

\*\* CBO estimates of policy adjusted for what is already included in President's Budget.

negative items make deficits worse

Debt Service costs based on CBO's January estimates

Baseline estimates assume tax cuts expire as written in law and 2007 emergency supplemental funding repeats every year and grows with inflation