



# BRIEF ANALYSIS OF THE PRESIDENT'S FY 2005 BUDGET

PREPARED BY: SENATE BUDGET COMMITTEE, DEMOCRATIC STAFF  
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## FY 2005 Budget Confirms President Bush as Most Fiscally Irresponsible President in Nation's History

President Bush's FY 2005 Budget confirms that he is the most fiscally irresponsible President in our nation's history. His budget now projects a \$521 billion deficit for this year – the largest ever. To put that number in perspective, it means that every minute the Bush administration is spending \$991,000 more than it is taking in.

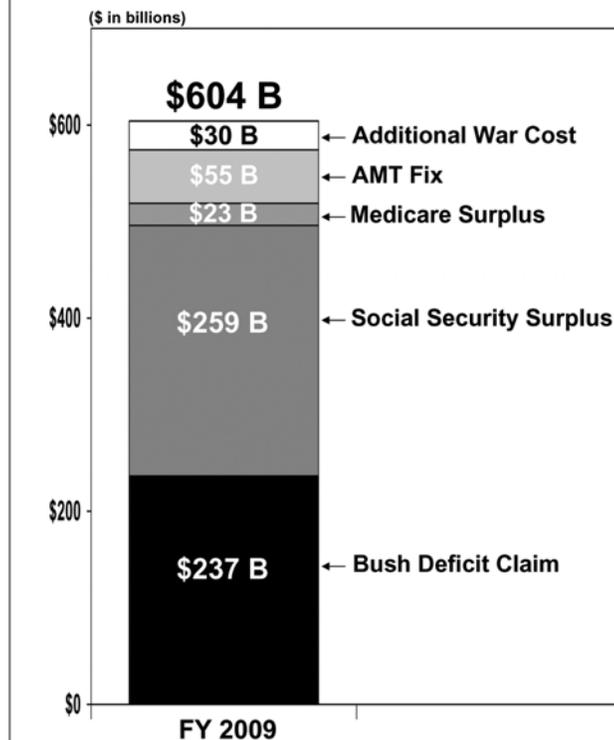
Every year since taking office, the President has made claims about the budget that have turned out to be wrong. In 2001, he told the nation that "we can proceed with tax relief without fear of budget deficits." In 2002, he said that his "budget will run a deficit that will be small and short-term." In 2003, his staff argued that the deficit was "not large by historical standards." Every one of these claims has been wrong. Now the President is claiming that "the deficit will be cut in half over the next five years." It is clear that this latest assertion will also be proven wrong.

### Claim That Deficit Will Be Cut in Half by 2009 Is Not Credible

The President's claim that the deficit will fall to \$237 billion in 2009 is just not credible. The real deficit in 2009 will be closer to \$604 billion. The President isn't telling people that his 2009 deficit estimate:

- hides the true level of the deficit by using every penny of the Social Security surplus and every penny of the Medicare surplus (\$259 billion and \$23 billion respectively);
- ignores the cost of fixing the alternative minimum tax, which will cost \$55 billion in 2009 if the President's tax cuts are extended; and,
- leaves out funding for ongoing operations in Iraq and Afghanistan, which CBO estimates could cost \$30 billion in 2009.

### Bush Claim That He Will Cut Deficit in Half by 2009 is Not Credible 2009 Operating Deficit Likely to be Far Larger Than \$237 B



Source: OMB, CBO  
Note: Includes interest

### **Providing Only Five Years of Numbers Hides Long-Term Deterioration of Budget**

By providing only five years of deficit numbers, President Bush is playing 'hide the ball' with the nation's finances. His budget is incomplete and misleading. The President's focus on the short-term, with his promise that he will cut the deficit in half in five years, diverts attention away from the exploding deficits created by his policies years down the road.

### **Social Security Surplus Is Being Used to Conceal True Extent of Deficits**

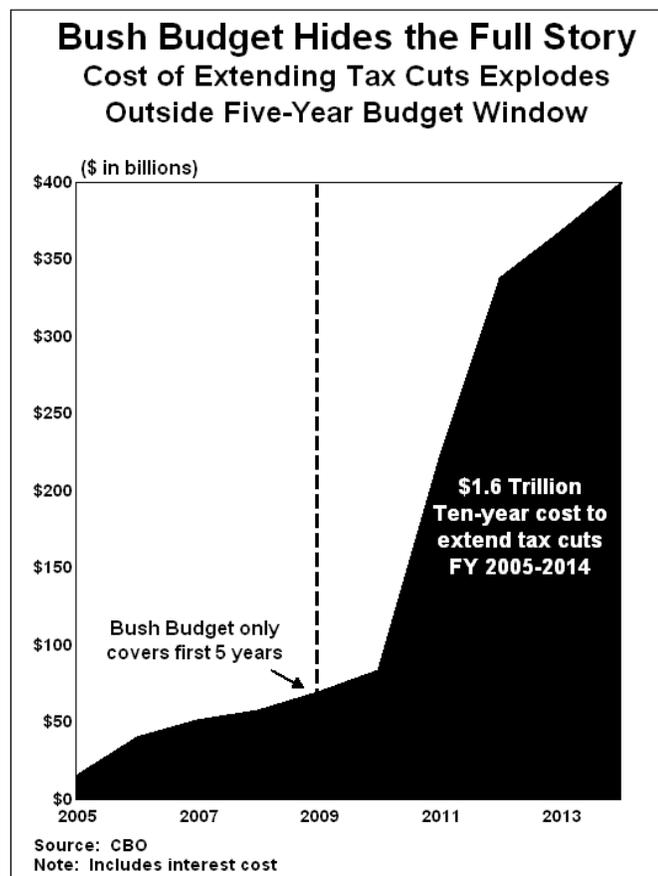
The President isn't telling people that his budget takes every penny of the Social Security surplus to pay for his tax cuts and other spending. In 2004, if Social Security is excluded, the operating deficit is actually \$670 billion, not the \$521 billion cited in the President's budget. Over the ten-year period, 2005-2014, the President would spend \$2.4 trillion in Social Security surplus that should be used to prepare for the coming retirement of the baby boom generation.

### **Cost of Extending Tax Cuts Explodes Outside Five-Year Budget Window**

The President's budget doesn't show the full effects of extending the tax cuts, because the cost of that policy explodes outside the limited five-year budget window covered in the budget. The cost of extending those tax cuts over the ten-year period, 2005-2014, is \$1.6 trillion, including interest.

### **Cost of AMT Reform Explodes Outside Five-Year Budget Window**

The President's budget also doesn't show that the cost to reform the Alternative Minimum Tax – so that it doesn't hit more than 40 million taxpayers by 2014 – explodes outside his five-year budget window. The cost to reform the AMT if the President's tax cuts are made permanent is \$658 billion, including interest, over the ten-year period, 2005-2014. The President proposes to fix the AMT only for one year, essentially kicking the rest of the cost down the road.



### **Budget Provides No New Funding For Ongoing Military Operations**

The President is still not leveling with the American people about the true cost of operations in Iraq, Afghanistan, and in the continuing war on terror. His budget provides no new funding for these ongoing operations, despite the fact that it is clear that these operations will need to be funded. In a July 2003 report, CBO estimated that it could cost \$280 billion to fund ongoing

operations over the ten-year period, 2005-2014. This lack of funding is particularly disturbing given the administration's acknowledgment that it is planning to submit another Iraq supplemental – possibly in the \$50 billion range – after the November elections.

### **Debt Soars Under the President's Irresponsible Fiscal Policies**

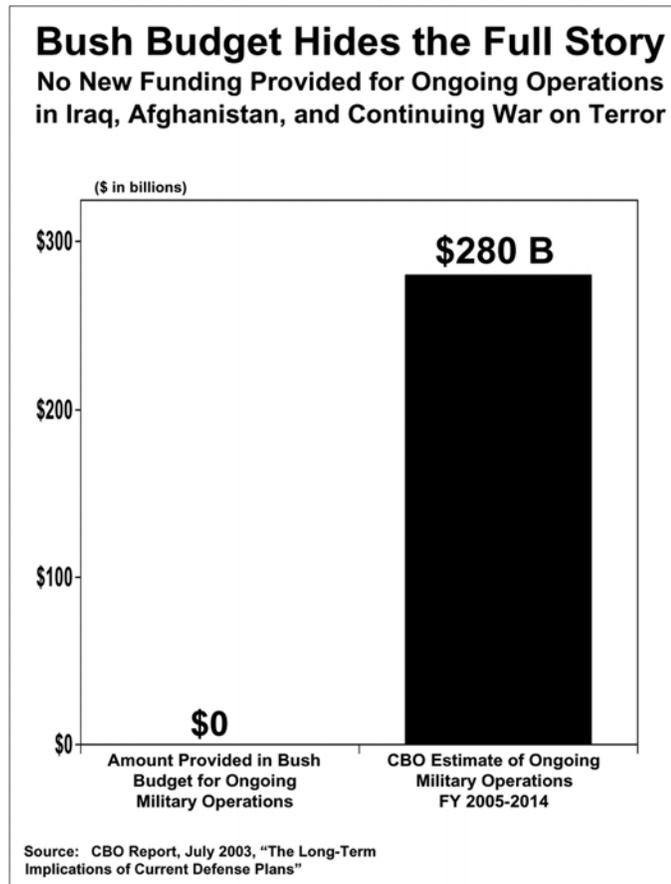
The President likes to say that it is “the people’s money.” But it is also the people’s debt. And his policies are exploding the gross federal debt from the \$5.8 trillion we faced in 2001, to \$15.1 trillion in 2014. By 2009, the end of the President’s five-year budget window, each person’s share of the debt will be \$35,283.

Some of this debt is being funded by borrowing from the American people. But to an increasing degree, it is being borrowed from other countries. The top ten foreign countries owning U.S.

Treasury securities include: Japan, China, United Kingdom, “Caribbean Banking Centers,” Hong Kong, Taiwan, Germany, OPEC, South Korea, and Switzerland. The President’s fiscal policies are putting the nation deeper and deeper into debt to these countries.

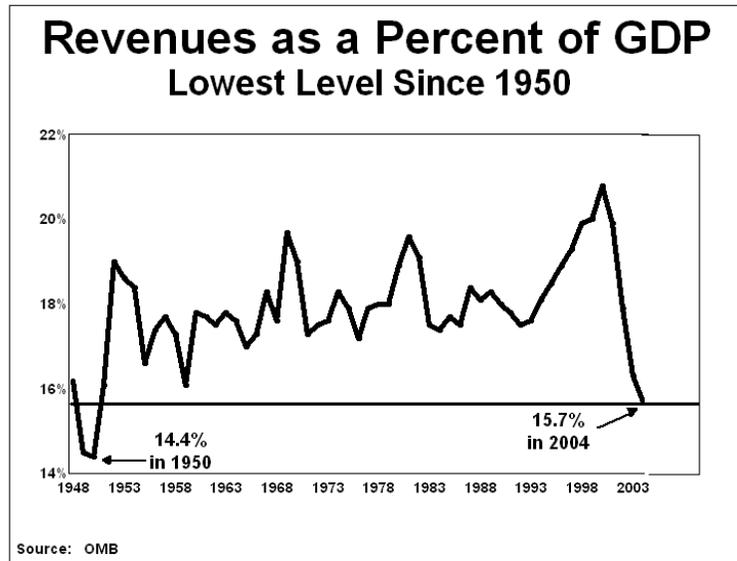
### **President’s Focus on Limiting Domestic Spending Will Do Little to Cut Deficit**

The President likes to talk about controlling spending to bring down the deficit. While it is correct that discretionary spending has gone up, almost all of this spending – 91 percent over the 2001-2004 period – has come in the areas of defense, homeland security, and response to the attacks of September 11. Non-homeland security domestic discretionary spending represents only a small fraction of federal spending. So even if Congress enacted all of the savings proposed by the President in this area, it would do little to reduce the deficit. In fact, when adjusted for inflation, non-homeland security domestic spending has already been flat over the past two years.



**Decline in Revenue Is Most Important Factor Creating Deficits**

The reality is that deficits have exploded in large measure because revenues as a percent of GDP have declined to their lowest level since 1950. According to OMB, revenues will fall to just 15.7 percent of GDP in 2004.



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*Senate Budget Committee Democratic Staff, Dirksen 624*

*Contact: Stu Nagurka (202) 224-7436 or Steve Posner (202) 224-7925*