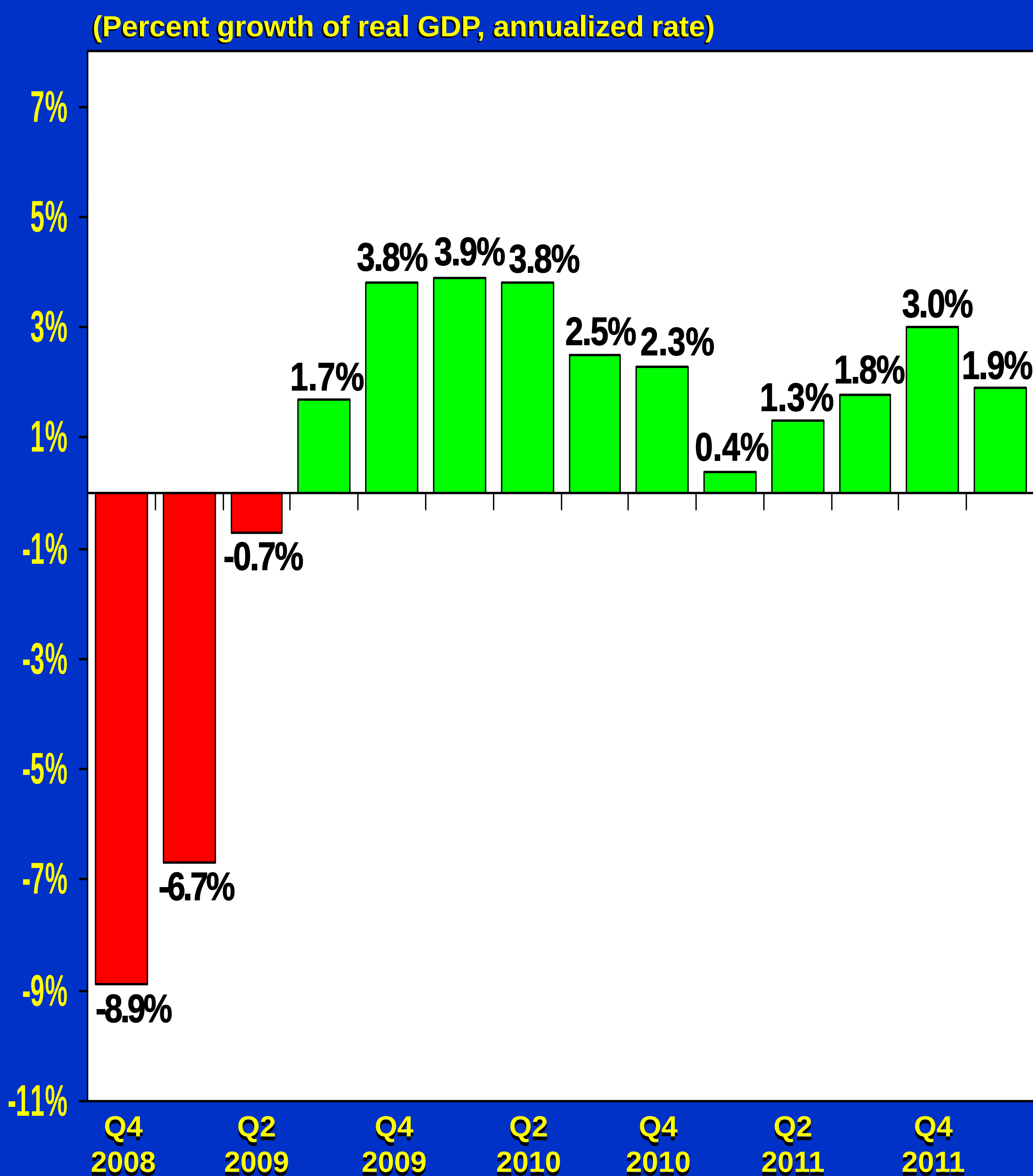
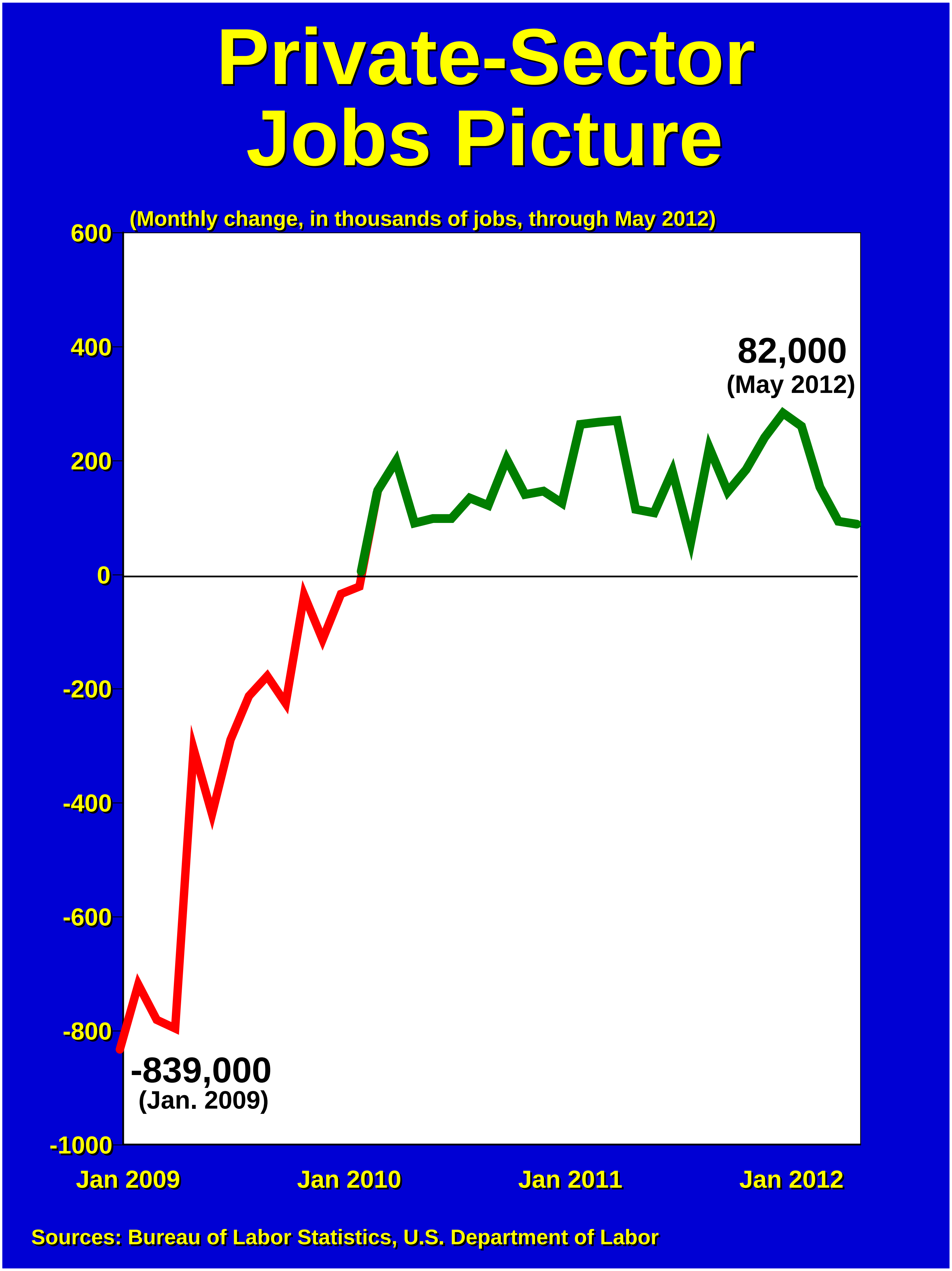
Economic Crisis of 2008-2009

- Worst recession since Great Depression
- Economy contracts 8.9% in 4th quarter of 2008
- 800,000 jobs lost in January 2009 alone, unemployment surging
- Housing market crisis ripples through economy – homebuilding and sales plummet, record foreclosures
- Financial market crisis threatens global economic collapse – lending frozen

Economic Performance



Source: Bureau of Economic Analysis, U.S. Department of Commerce


Private-Sector
Jobs Picture
(Monthly change, in thousands of jobs, through May 2012)
600
400
200
0
-200
-400
-600
-800
-1000
82,000
(May 2012)
-839,000
(Jan. 2009)
Jan 2009
Jan 2010
Jan 2011
Jan 2012
Sources: Bureau of Labor Statistics, U.S. Department of Labor

Following Severe Financial Crises, Economic Recoveries Are Shallower and Take Much Longer

"Real per capita GDP growth rates are significantly lower during the decade following severe financial crises.... In the ten-year window following severe financial crises, unemployment rates are significantly higher than in the decade that preceded the crisis...."

– Dr. Carmen M. Reinhart, Peter G. Peterson Institute for International Economics, and Dr. Vincent R. Reinhart, American Enterprise Institute (AEI) National Bureau of Economic Research (NBER) Working Paper, *After the Fall* September 2010

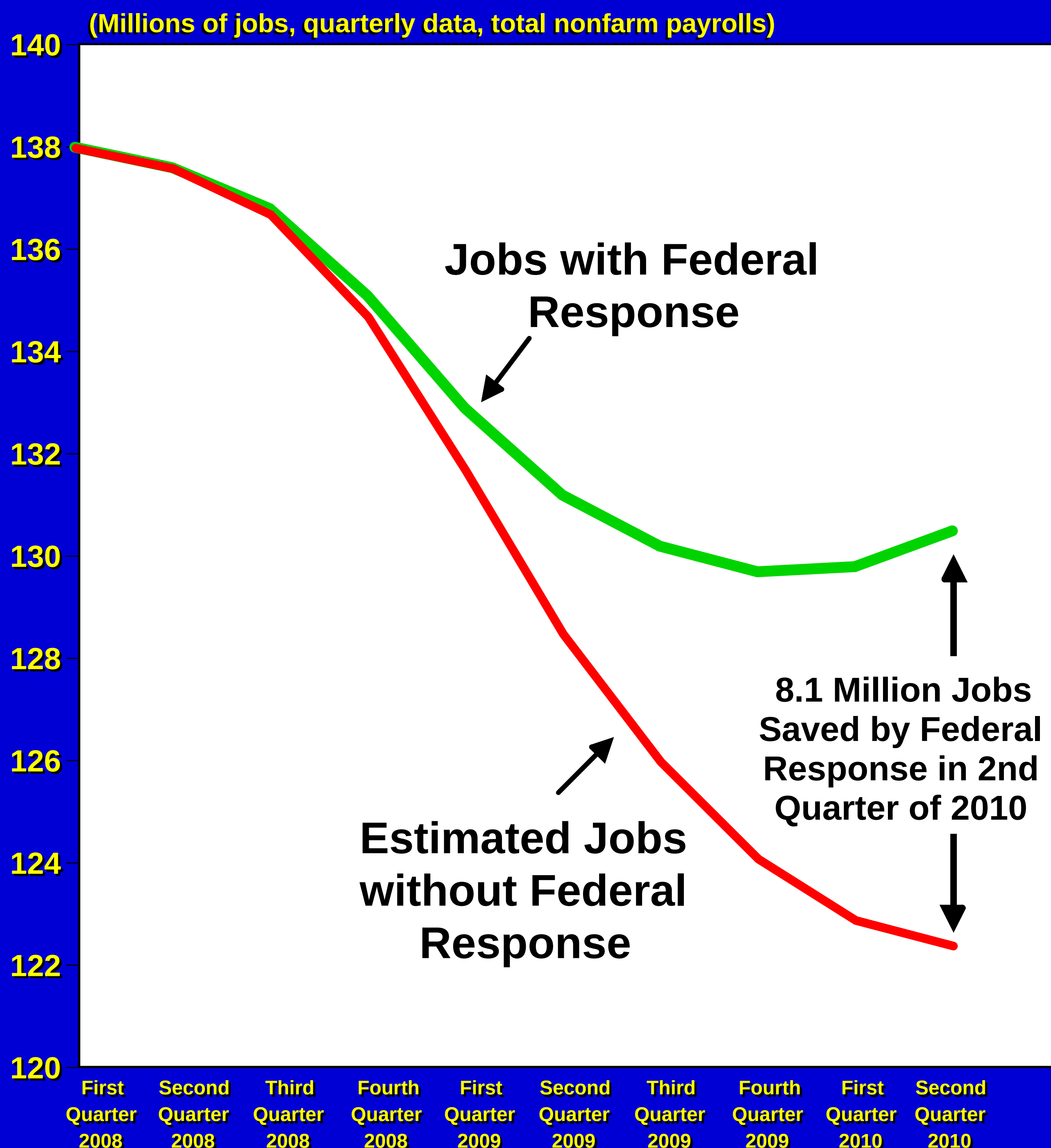
Economists Blinder and Zandi on Federal Government Response to Financial Crisis and Recession

"We find that its effects on real GDP, jobs, and inflation are huge, and probably averted what could have been called Great Depression 2.0.

"...When all is said and done, the financial and fiscal policies will have cost taxpayers a substantial sum, but not nearly as much as most had feared and not nearly as much as if policymakers had not acted at all. If the comprehensive policy responses saved the economy from another depression, as we estimate, they were well worth their cost."

– Alan S. Blinder and Mark Zandi
How the Great Recession Was Brought to an End
July 27, 2010

Jobs Picture: With and Without Federal Response to Financial Crisis and Recession

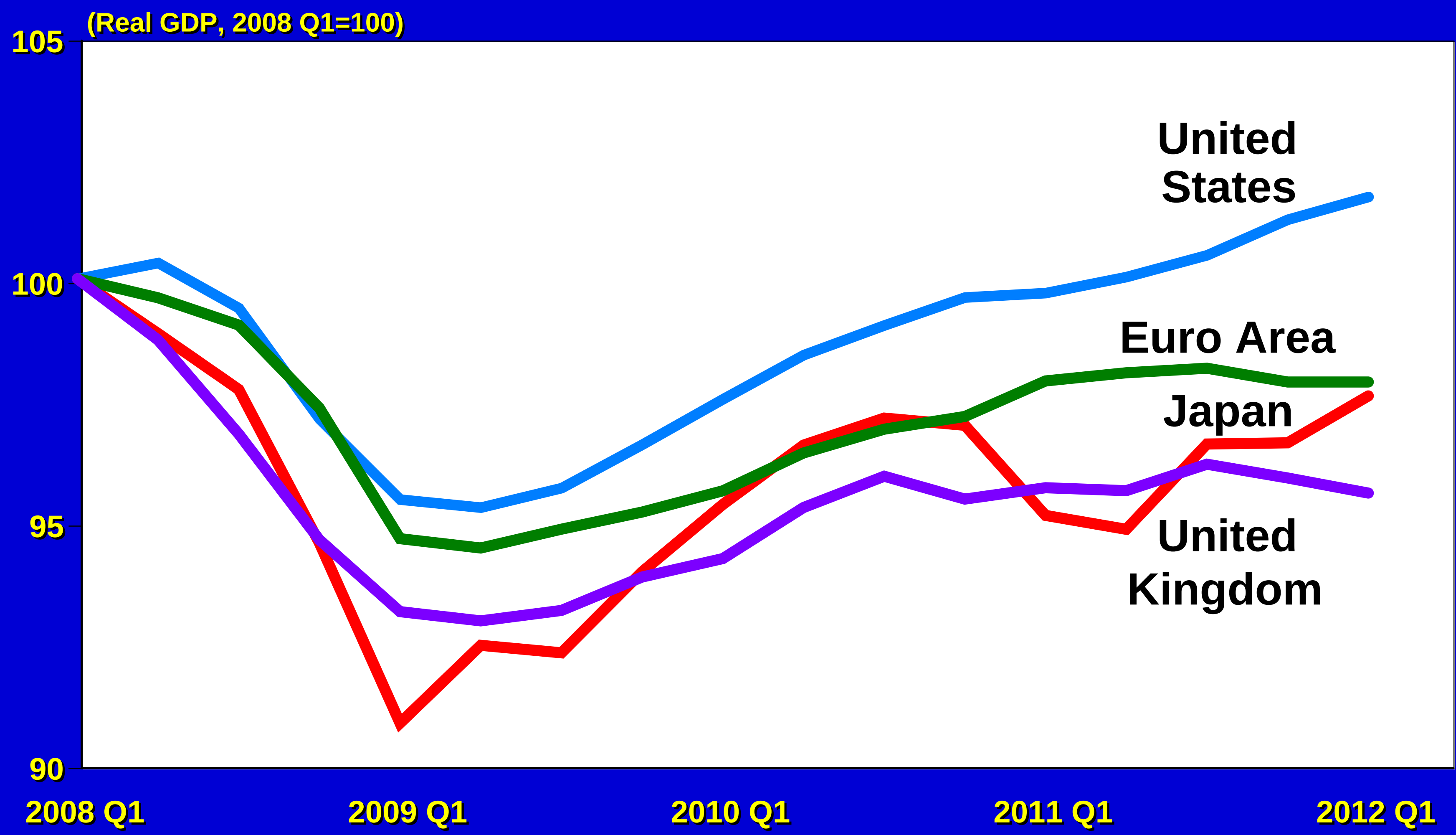


Sources: U.S. Department of Labor; Alan S. Blinder and Mark Zandi, *How the Great Recession Was Brought to an End,* July 27, 2010

Positive Signs for U.S. Economy

- 27 consecutive months of private-sector job growth
- 11 consecutive quarters of real GDP growth
- Unemployment rate down from 2009 peak
- Manufacturing has expanded for 34 consecutive months
- U.S. auto manufacturers returning to profitability
- State revenues showing signs of improvement

U.S. Economic Growth Has Outpaced Global Competition



Source: BEA, EuroStat, U.K. ONS, Cabinet Office of Japan

International Herald Tribune
FRIDAY, MAY 4, 2012

Austerity is strangling Europe

Gerhard Schröder

> **"…[T]he direction of European economic and financial policy must change, away from pure austerity toward growth. Greece, Ireland, Portugal, Italy and Spain have made substantial progress in stabilizing their finances. But the economic and political situation in these countries shows that austerity alone is not the way to resolve the crisis. On the contrary, there is a danger of half-strangling national economies with a strict policy of austerity.... We would therefore be well advised to cushion harsh austerity measures with programs for growth."**

BERLIN The emergence of a united Europe is a process that has been going on for decades, characterized by progress but also by setb
been crises again and
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shown this. The pre he Euro-
pean Parliament, chulz, rightly
speaks of a crisis fidence, be-
cause people do the ability of de-
mocracy to so e urgent problems. The Union must overcome this crisis of confidence.

In the past months it has become clear that there are different speeds in the European Union. The gulf between countries that are able and willing to integrate more quickly, and countries that are applying the brakes has become wider. This development is not at all unusual: We have gone through many phases with different speeds.

In my time in office, Belgium, Germany, France and Luxembourg initiated a debate about security policy in

of which I am a founding member:

First, the direction of European economic and financial policy must change, away from pure austerity toward growth. Greece, Ireland, Portugal, Italy and Spain have made substantial progress in stabilizing their finances. But the economic and political situation in these countries shows that austerity alone is not the way to resolve the crisis. On the contrary, there is a danger of half-strangling national economies with a strict policy of austerity.

This policy conceals dangers. It delegitimizes democratic politics in the nation states that find themselves faced with protests and the growth of extremist parties. But this policy is also economically wrong for the whole Union, because developments in these states

And third, I believe Europe must become more politically integrated to overcome the financial crisis for the long term. The current situation makes it clear that you cannot have a common currency area without a common financial, economic and social policy. So we must work to bring about real political union in Europe with further transfer of power from the nation states.

To this end the European institutions must be reformed in the following ways:

- The European Commission must be further developed into a government elected by the European Parliament.
- The European Council must give up powers and should be transformed into an upper chamber with similar functions to the Bundesrat in Germany.

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wer — the United States and China — if we continue the path to integration. Then the European Union will remain a socially, economically, culturally and politically successful community that will be a model for other regions. Europeanization is a rational political response to globalization.

GERHARD SCHRÖDER *was chancellor of Germany from 1998 to 2005.*

GLOBAL VIEWPOINT

What's Holding Back U.S. Economy From Stronger Recovery

- European debt / financial crisis throws cloud over global markets
- Iran / Middle East situation threatens to disrupt oil supplies
- Federal, state, local government cutbacks create economic drag
- Political deadlock on fiscal issues creates uncertainty – threat from "Fiscal Cliff"
- Housing market continues to pose threat

The New York Times
SATURDAY, MAY 5, 2012

Government Getting Smaller in the U.S.

By FLOYD NORRIS

FOR the first time in 40 years, the government sector of the American economy has shrunk during the first three years of a presidential administration.

Spending by the federal government, adjusted for inflation, has risen at a slow rate under President Obama. But that increase has been more than offset by a fall in spending by state and local governments, which have been squeezed by weak tax receipts.

In the first quarter of this year, the real gross domestic product for the government — including state and local governments as well as federal — was 2 percent lower than it was three years earlier, when Barack Obama took office in early 2009.

The last time the government actually got smaller over the first three years of a presidential term was when Richard M. Nixon was president. That decrease was largely because of declining spending on the '

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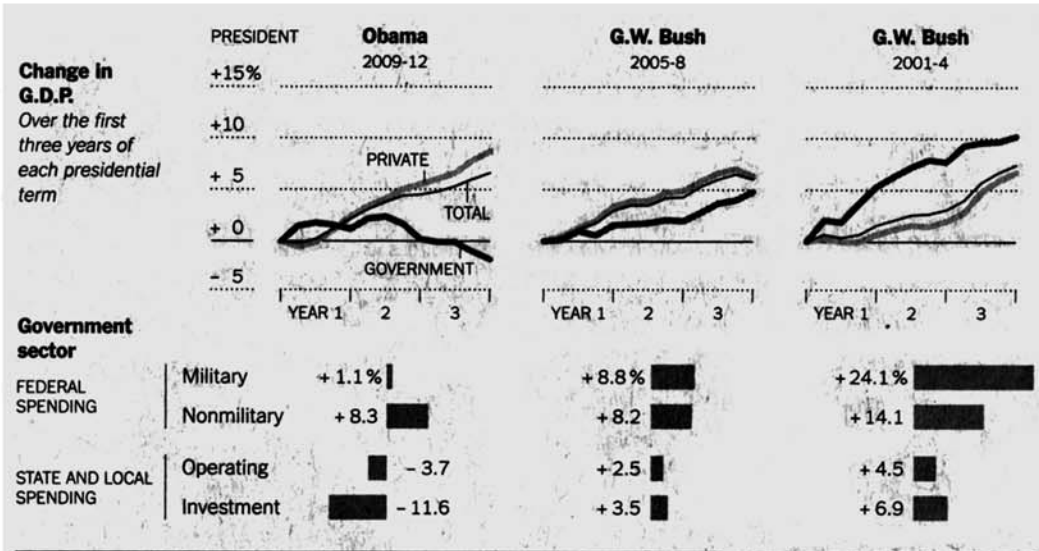
ma took office, bu
has been slow.

Of the adminis ... own, overall growth ... ama's first three yea ... been the slowest. But ... s largely because gove ... ment spending did not accelerate as it normally does when the private sector is weak. The private sector grew faster in

Shrinking Government

The government sector of the economy shrank during the first three years of the Obama administration, but the private sector grew more rapidly than it did during the first three years of either of George W. Bush's terms in office. The charts show the growth in gross domestic product from the first quarter of the year in which each president was inaugurated through the first quarter of the subsequent election year. All figures are adjusted for inflation.



"For the first time in 40 years, the government sector of the American economy has shrunk during the first three years of a presidential administration. Spending by the federal government, adjusted for inflation, has risen at a slow rate under President Obama. But that increase has been more than offset by a fall in spending by state and local governments, which have been squeezed by weak tax receipts. In the first quarter of this year, the real gross domestic product for the government — including state and local governments as well as federal — was 2 percent lower than it was three years earlier, when Barack Obama took office in early 2009."

administration than it did in three of the previous five administrations — the exception being Bill Clinton's administrations, when private sector growth was more rapid. In both of George W. Bush's terms as well as in the first three years of the George H. W. Bush administration, though, the private sector grew more slowly.

Much of the variation in gov-

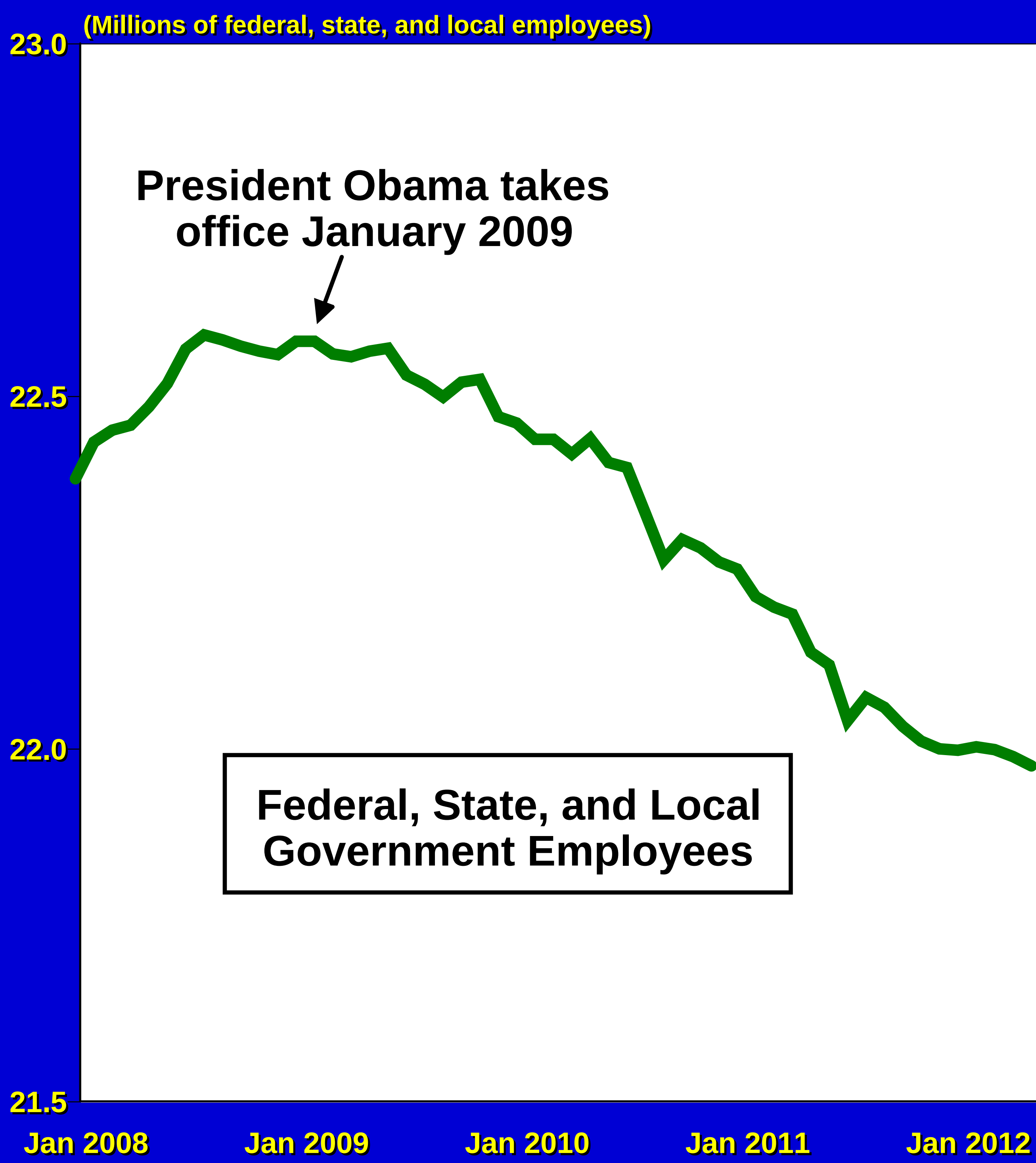
attributed to military spending. Adjusted for inflation, it has grown at a slow pace under President Obama despite declines in the costs of the Iraq and Afghanistan wars. Nonmilitary spending has risen at about the same pace as it did during George W. Bush's second administration, and much more slowly than during his first.

State and local government spending on investments — new

...ys, for example — has often been subject to abrupt cutbacks in response to a weak economy. But the continued decline in operating expenditures is new. In the past, saving money through such means as laying off teachers has generally been avoided, but the number of education employees at the state and local level has been lower in each of the last three autumns than it was a year earlier.

Floyd Norris comments on finance and the economy at nytimes.com/economix.

U.S. Government Workforce Shrinking



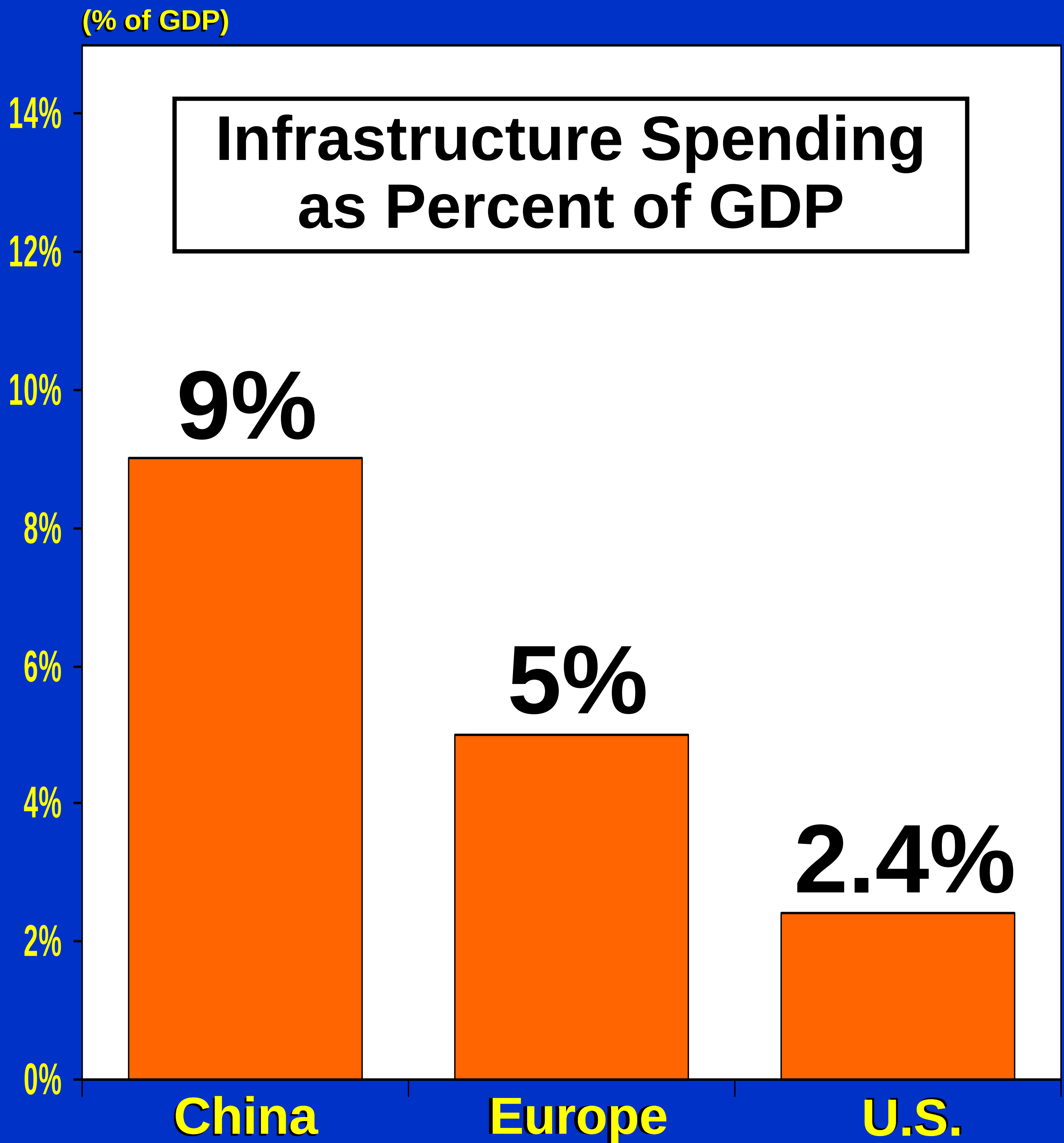
Source: BLS, SBC
Note: Monthly non-Census payrolls, seasonally-adjusted.

Economist Prakken on Lack of Demand

"The number one problem that [small businesses] say they have to deal with right now is lack of demand. They do not say access to capital. They do not say burden of regulation.... They say their order books are thin."

– Dr. Joel Prakken, Chairman, Macroeconomic Advisers
Testimony before Senate Budget Committee
January 26, 2012

U.S. Infrastructure Investment Falling Behind Global Competitors



Source: *Economist*
Note: Public spending on transportation and water infrastructure.

Budget Control Act Contained Budget for 2012 and 2013

SEC. 106. SENATE BUDGET ENFORCEMENT.

(a) IN GENERAL.—

(1) For the purpose of enforcing the Congressional Budget Act of 1974 through April 15, 2012, including section 300 of that Act, and enforcing budgetary points of order in prior concurrent resolutions on the budget, the allocations, aggregates, and levels set in subsection (b)(1) shall apply in the Senate in the same manner as for a concurrent resolution on the budget for fiscal year 2012 with appropriate budgetary levels for fiscal years 2011 and 2013 through 2021.

(2) For the purpose of enforcing the Congressional Budget Act of 1974 after April 15, 2012, including section 300 of that Act, and enforcing budgetary points of order in prior concurrent resolutions on the budget, the allocations, aggregates, and levels set in subsection (b)(2) shall apply in the Senate in the same manner as for a concurrent resolution on the budget for fiscal year 2013 with appropriate budgetary levels for fiscal years 2012 and 2014 through 2022.

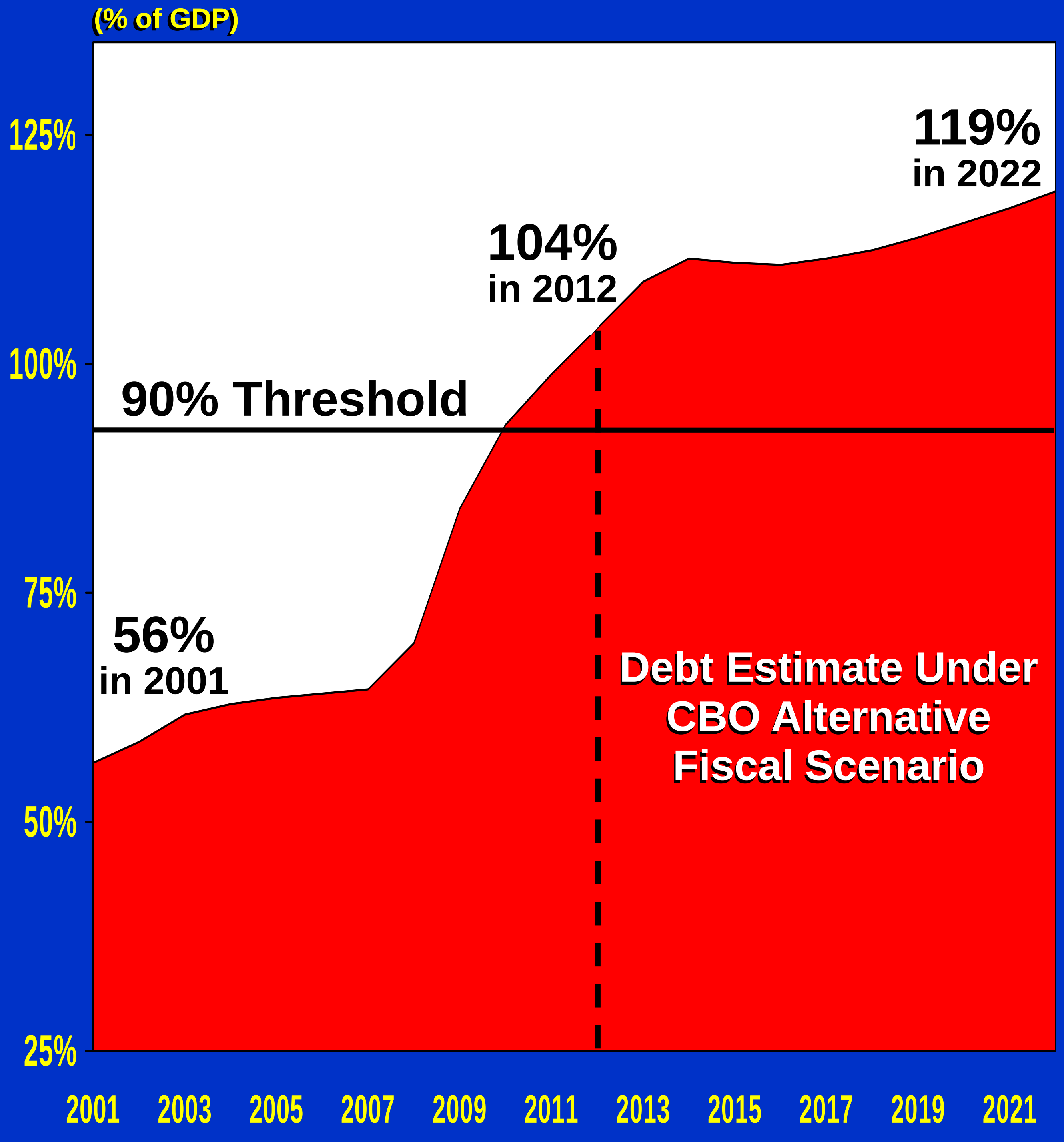
PUBLIC LAW 112–25—AUG. 2, 2011

Budget Control Act Represents Largest Deficit Reduction Package in U.S. History

$900 B Discretionary Savings	**+**	**$1.2 T** Sequester	**=**	**$2.1 T** Total Savings

U.S. Borrowing Almost 40 Cents of Every Dollar It Spends

Gross Debt as % of GDP Under CBO Alternative Fiscal Scenario



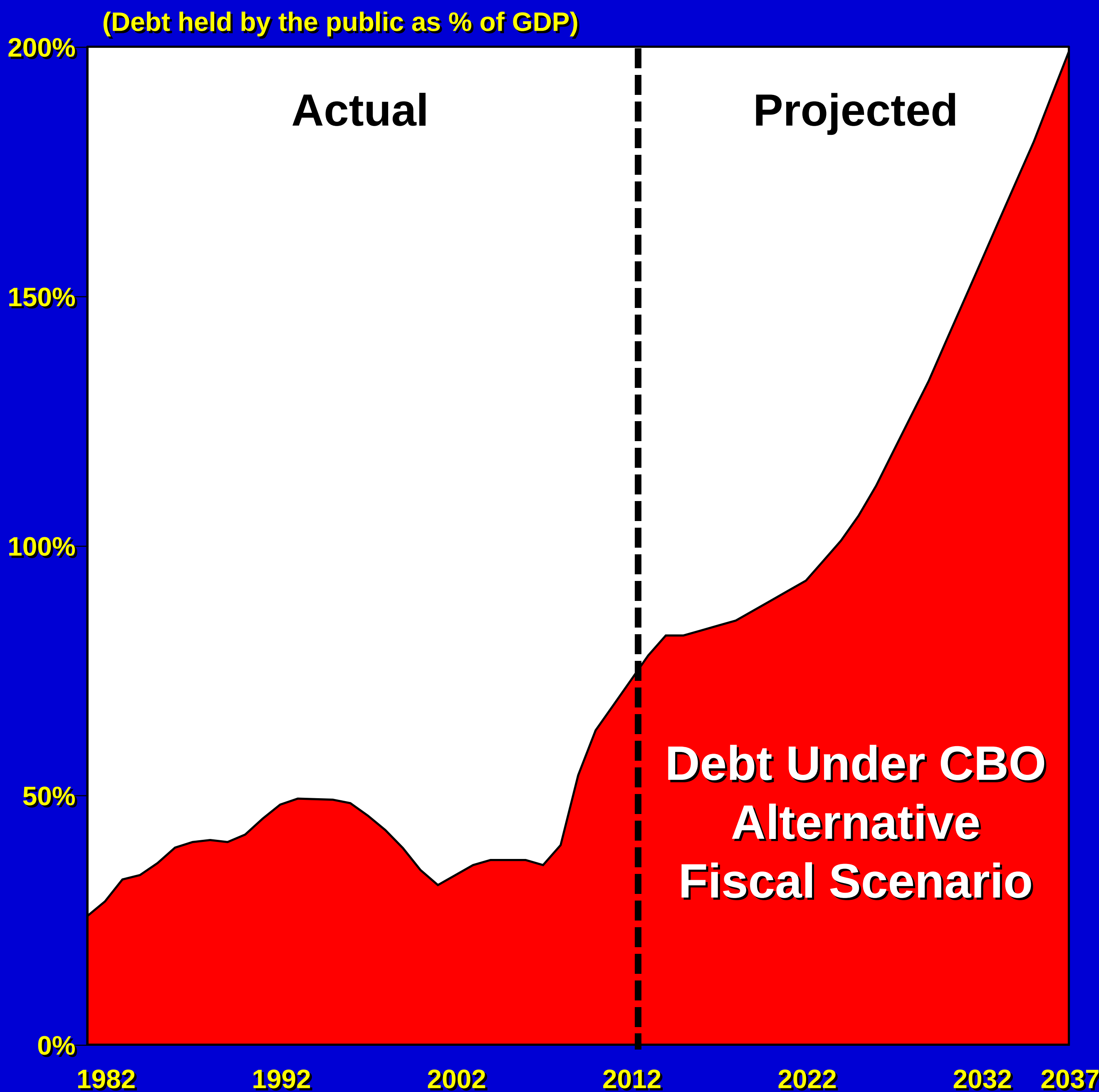
Sources: CBO and SBC
Note: CBO's March 2012 baseline, adjusted to reflect its alternative fiscal scenario: extension of 2001 and 2003 tax cuts, tax extenders, AMT reform, SGR reform, and reversal of automatic spending reductions required by Budget Control Act.

Economists Reinhart and Rogoff on Danger of Gross Debt Above 90 Percent of GDP Threshold

"We examine the experience of 44 countries spanning up to two centuries of data on central government debt, inflation and growth. Our main finding is that across both advanced countries and emerging markets, high debt / GDP levels (90 percent and above) are associated with notably lower growth outcomes."

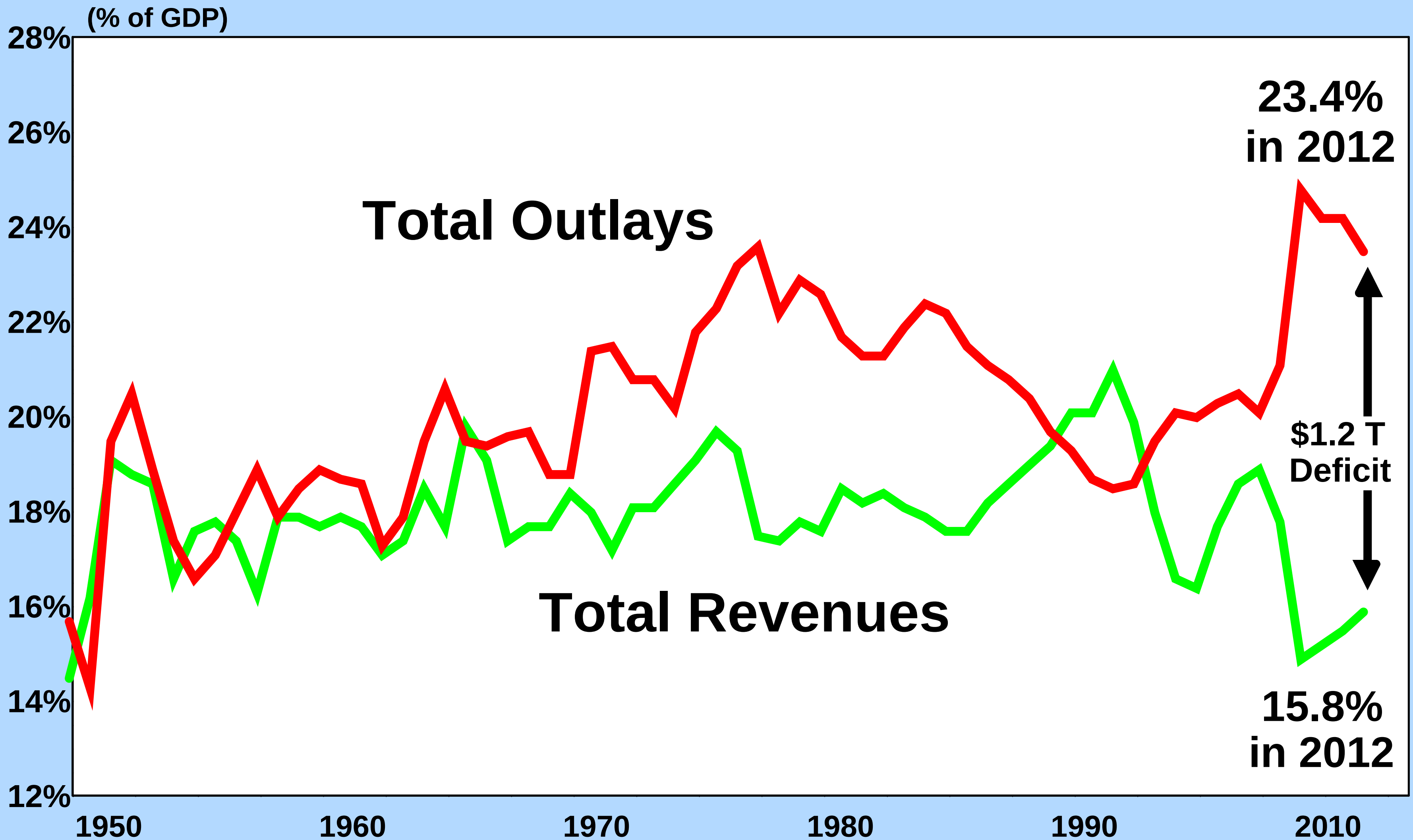
– Carmen M. Reinhart and Kenneth S. Rogoff
"Growth in a Time of Debt," American Economic Review: Papers & Proceedings
May 2010

CBO Long-Term Debt Outlook



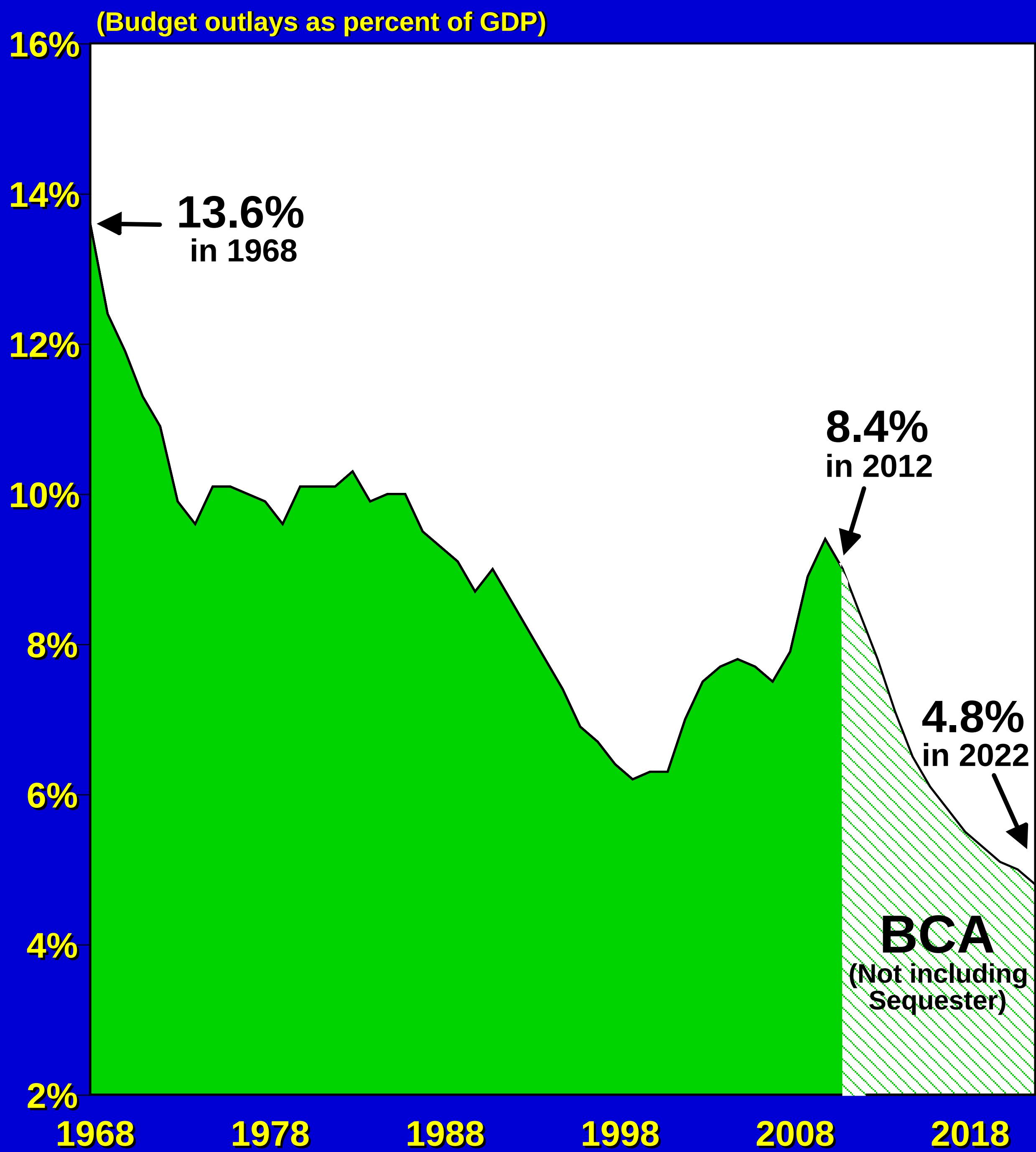
Source: CBO Long-Term Budget Outlook, June 2012
Note: CBO alternative fiscal scenario.

Spending and Revenues



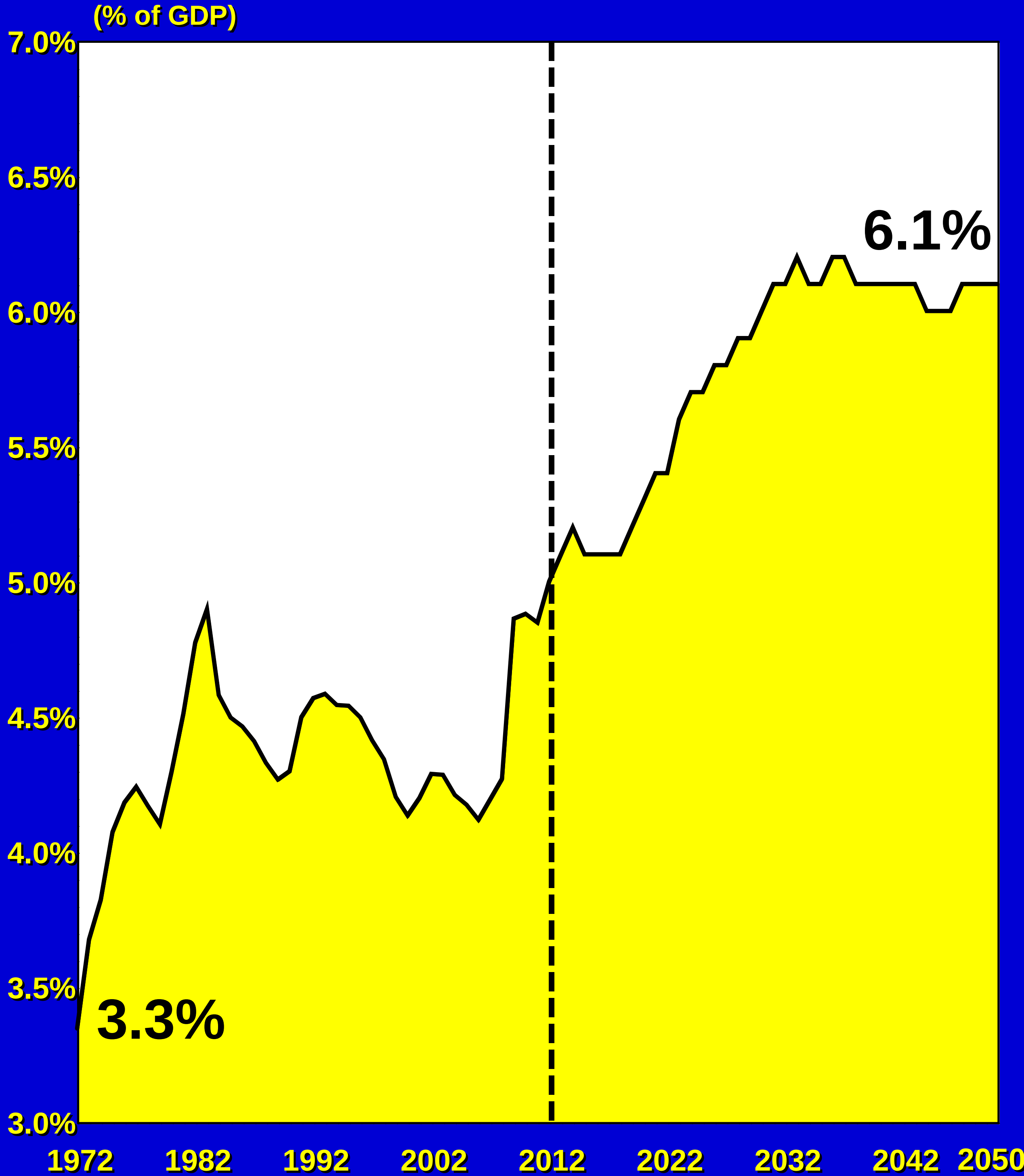
Sources: OMB, CBO
Note: 2012 estimate from CBO's March 2012 baseline.

Budget Control Act Drops Discretionary Spending to Historic Low



Source: OMB, SBC

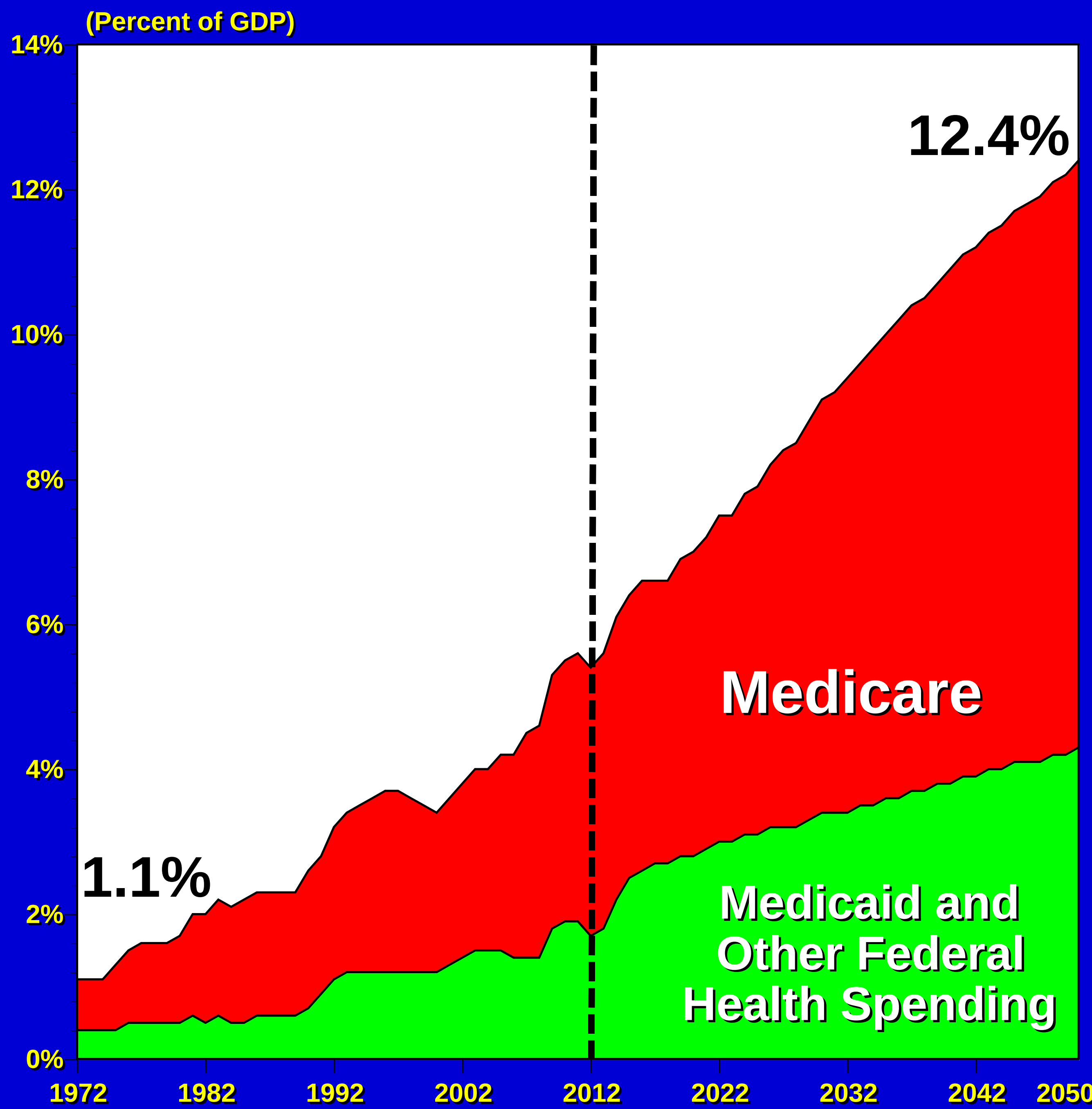
Social Security Spending as Percent of GDP
1972 - 2050



Source: CBO
Note: 2012-2050 data from CBO Long-Term Budget Outlook, June 2012. CBO alternative fiscal scenario.

Medicare, Medicaid, and Other Federal Health Spending as % of GDP

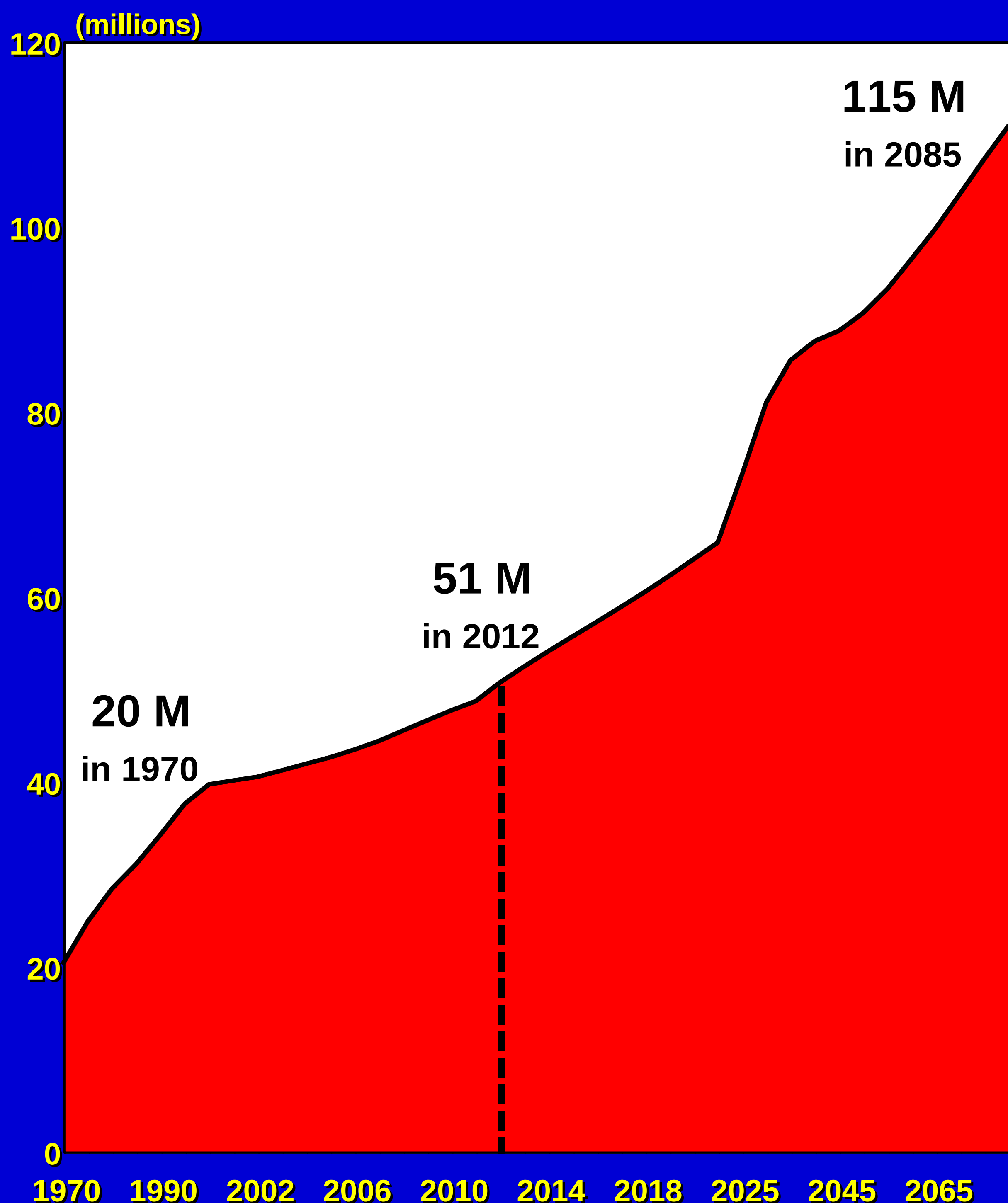
1972 - 2050



Source: CBO

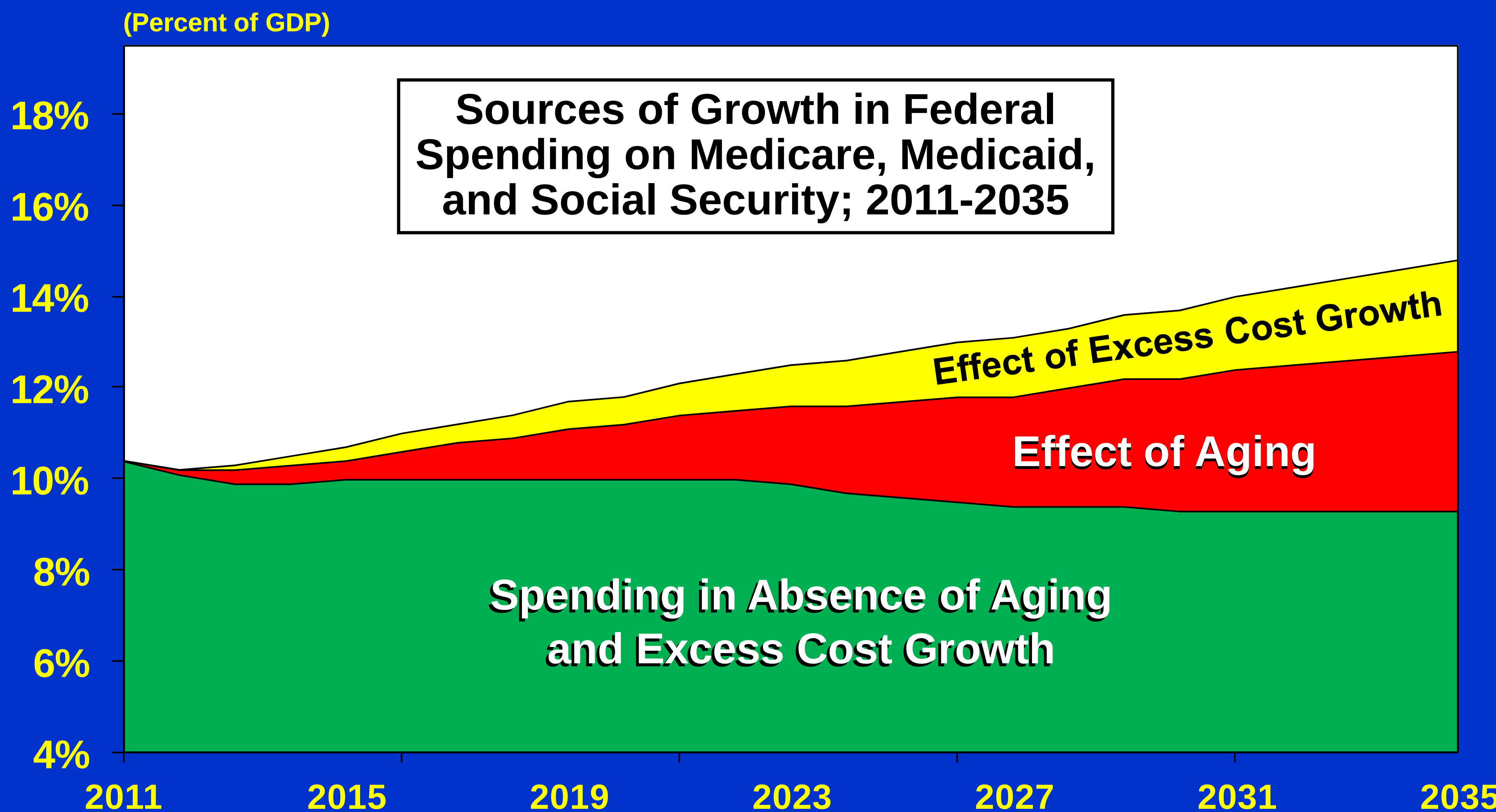
Note: 2012-2050 data from CBO Long-Term Budget Outlook, June 2012. CBO alternative fiscal scenario; reflects gross spending on Medicare, Medicaid, CHIP, and outlays for health insurance subsidies through exchanges.

Medicare Enrollment Soaring
1970 - 2085



Source: 2012 Annual Report of the Social Security and Medicare Board of Trustees

Aging Population is Primary Driver of Medicare, Medicaid, and Social Security Cost Growth



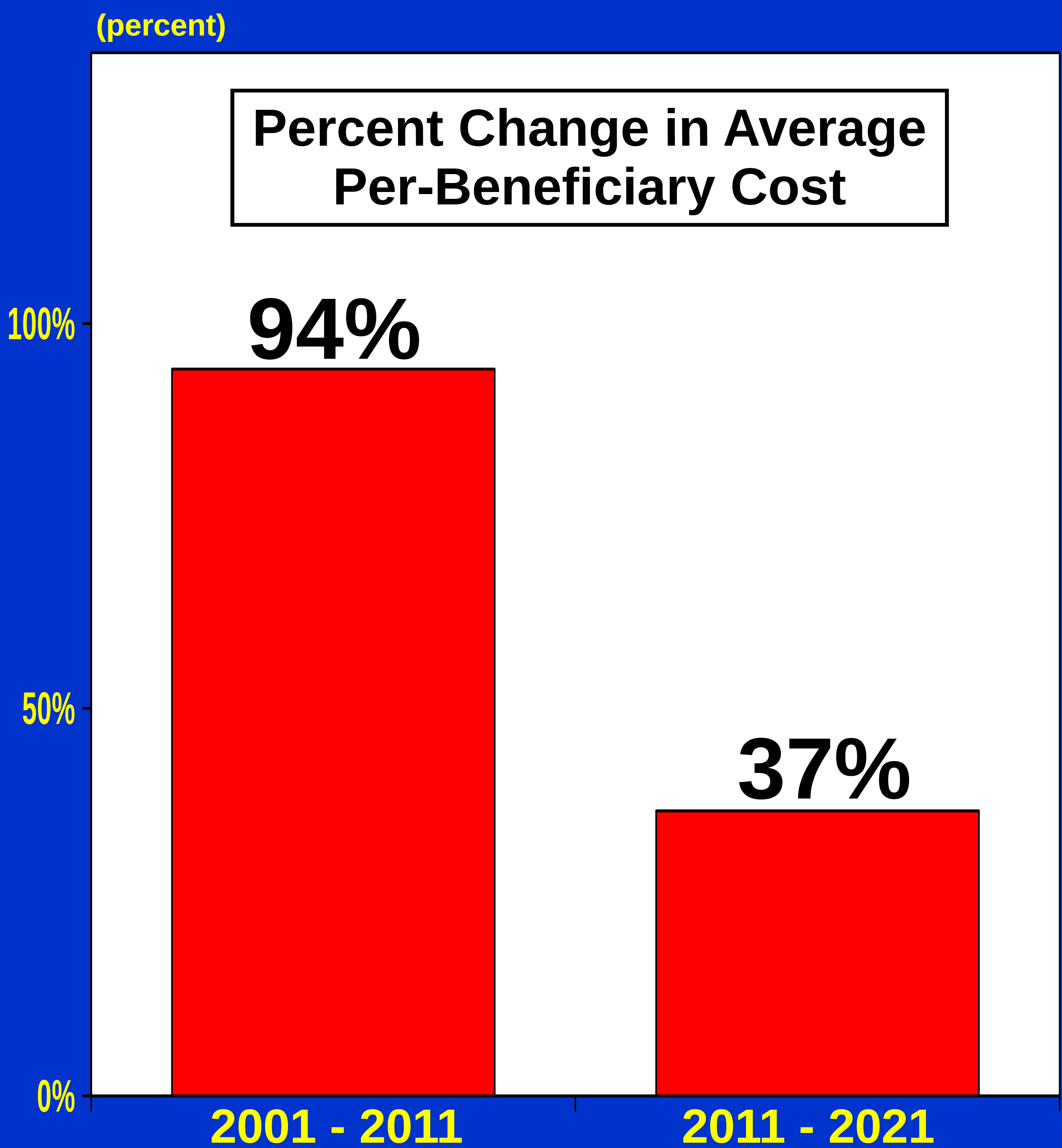
Source: CBO Long-Term Budget Outlook, June 2011

Medicare Trustees Say Health Reform Reduced Long-Term Medicare Costs

"Projected Medicare costs over 75 years are substantially lower than they otherwise would be because of provisions in the ... 'Affordable Care Act' or ACA."

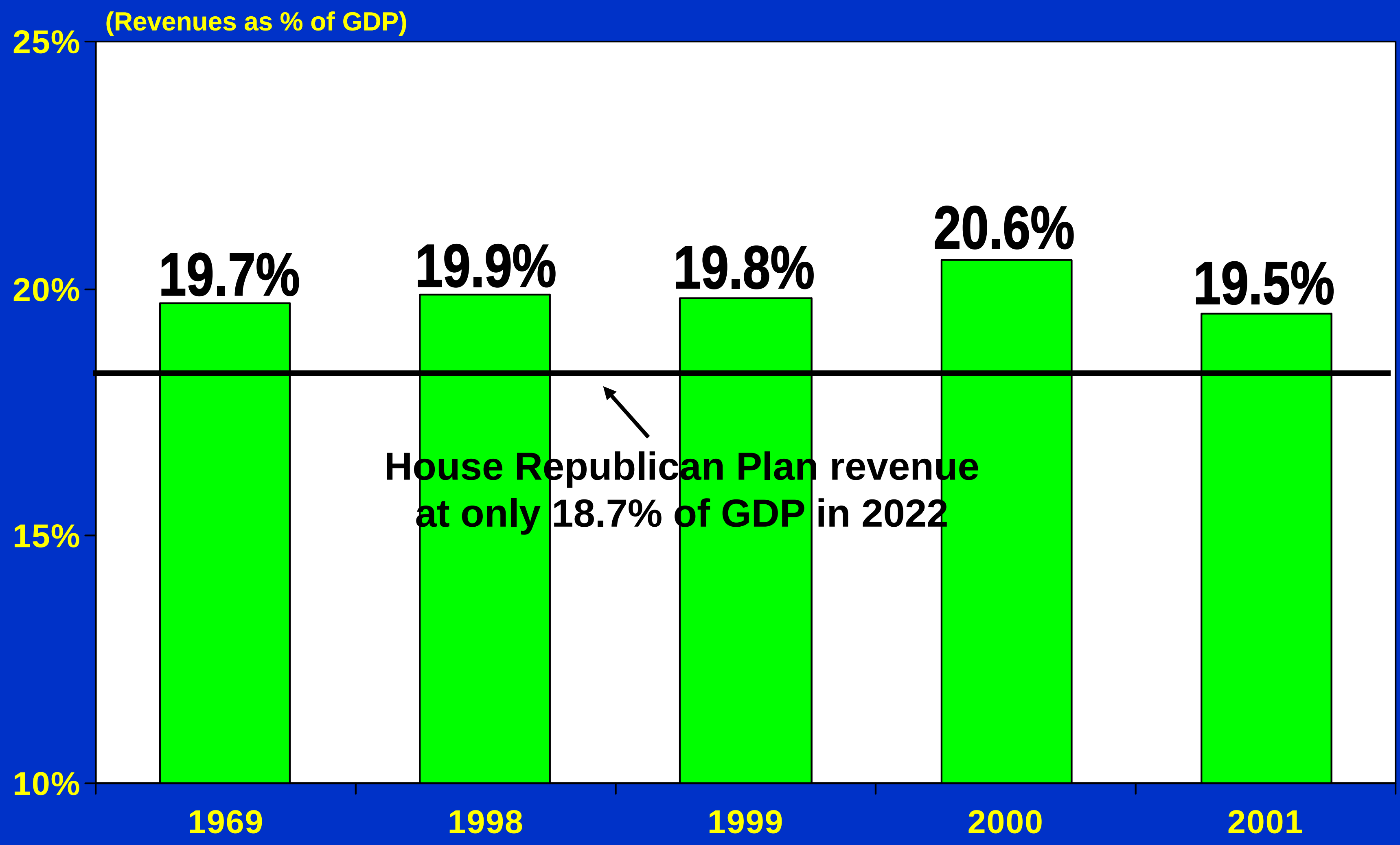
– Social Security and Medicare Board of Trustees
Summary of the 2012 Annual Reports
April 2012

Medicare Trustees Project Reduction in Medicare Costs



Source: 2012 Annual Report of the Social Security and Medicare Board of Trustees
Note: Hospital Insurance (HI) and Part B cost. Total includes Part D.

Last Five Times Budget in Surplus, Revenues Near 20% of GDP



Source: OMB, HBC

The Need for Tax Reform

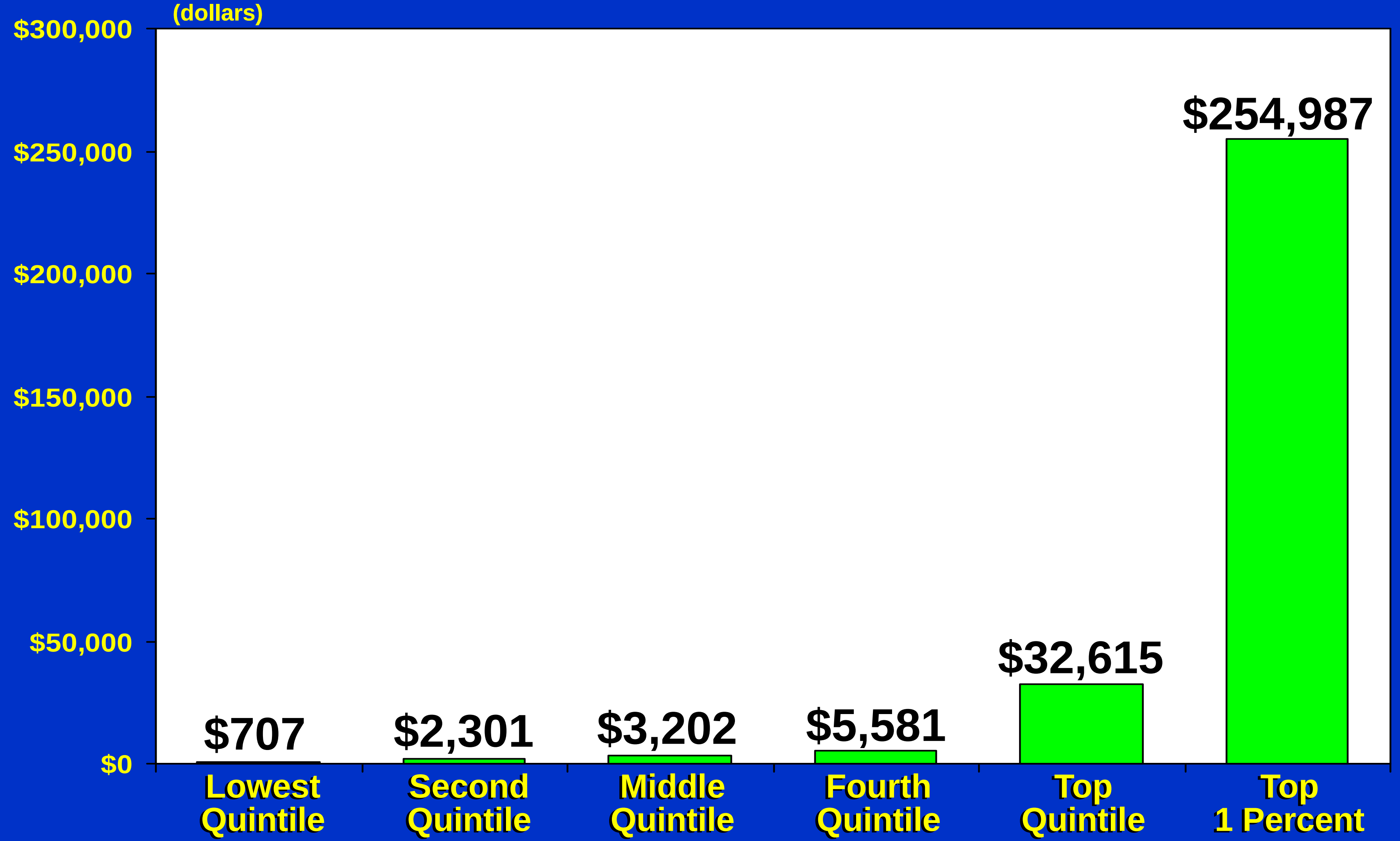
- Tax code out-of-date, inefficient, hurting U.S. global competitiveness
- Complexity imposes significant burden on individuals and businesses
- Expiring provisions create uncertainty and confusion
- Hemorrhaging revenue to tax gap, tax havens, abusive shelters
- Need to restore fairness – current system contributing to growing income inequality
- Long-term fiscal imbalance must be addressed – revenue must be part of solution

Economist Feldstein on Need to Reduce Tax Expenditures

"Cutting tax expenditures is really the best way to reduce government spending.... [E]liminating tax expenditures does not increase marginal tax rates or reduce the reward for saving, investment or risk-taking. It would also increase overall economic efficiency by removing incentives that distort private spending decisions. And eliminating or consolidating the large number of overlapping tax-based subsidies would also greatly simplify tax filing. In short, cutting tax expenditures is not at all like other ways of raising revenue."

– Martin Feldstein
Professor of Economics at Harvard University
Chairman of Council of Economic Advisers under President Reagan
"The 'Tax Expenditure' Solution for Our National Debt,"
Wall Street Journal
July 20, 2010

Increase in After-Tax Income from Tax Expenditures



Source: SBC calculations using data from Tax Policy Center
Note: Reflects 2012.

Five-Story Cayman Islands Building That 18,857 Companies Call Home

Public Supports Balanced Deficit Reduction Approach

QUESTION:	**What is the best way to reduce the federal budget deficit?**	
ANSWER:	**Cut major programs**	**17%**
	Increase taxes	**8%**
	Combination of both	**62%**

Source: Pew Research Center, November 9-14, 2011

THE NATIONAL COMMISSION ON FISCAL RESPONSIBILITY AND REFORM

The Moment of Truth

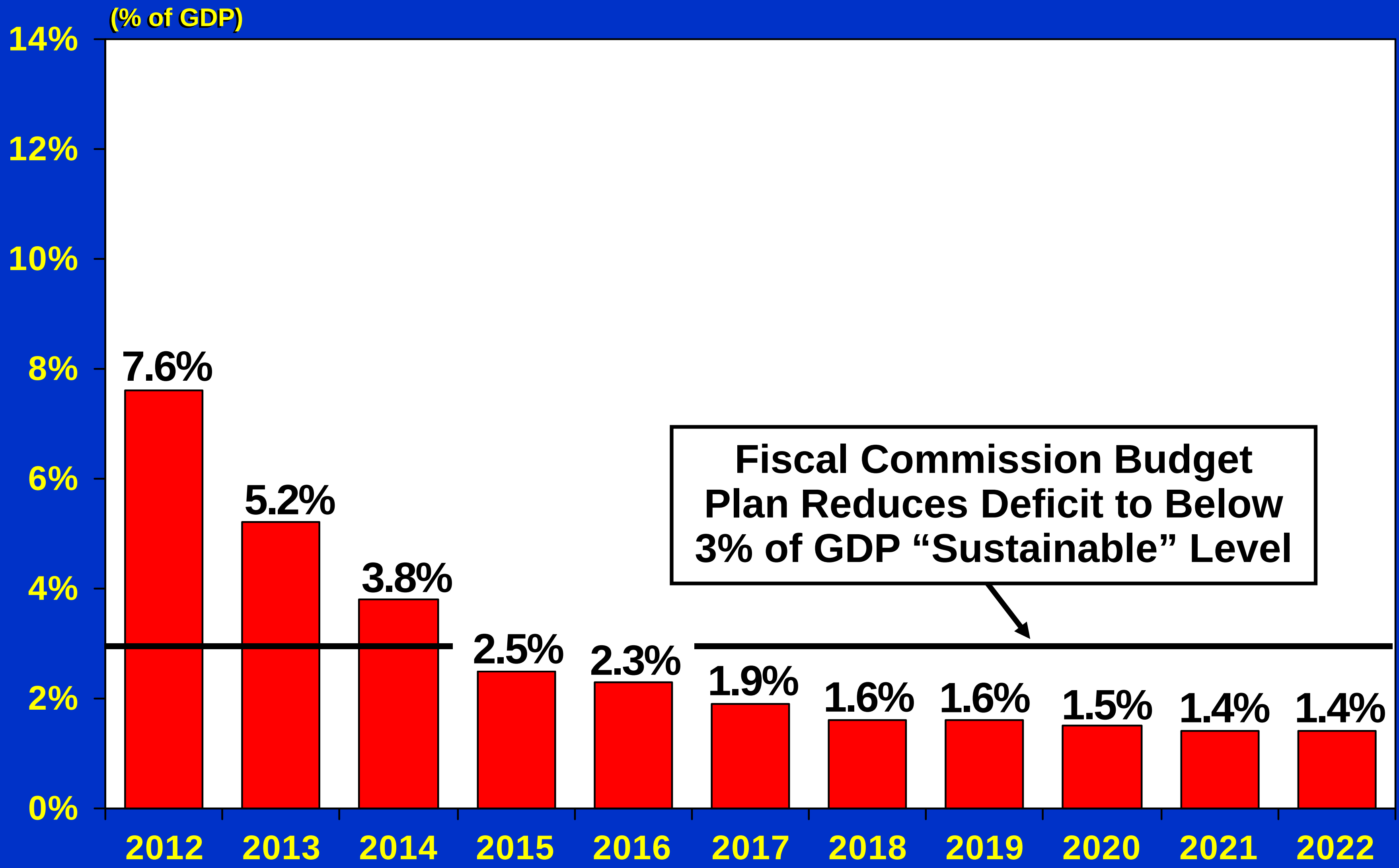
DECEMBER 2010

THE WHITE HOUSE
WASHINGTON

Overview of Fiscal Commission Budget Plan

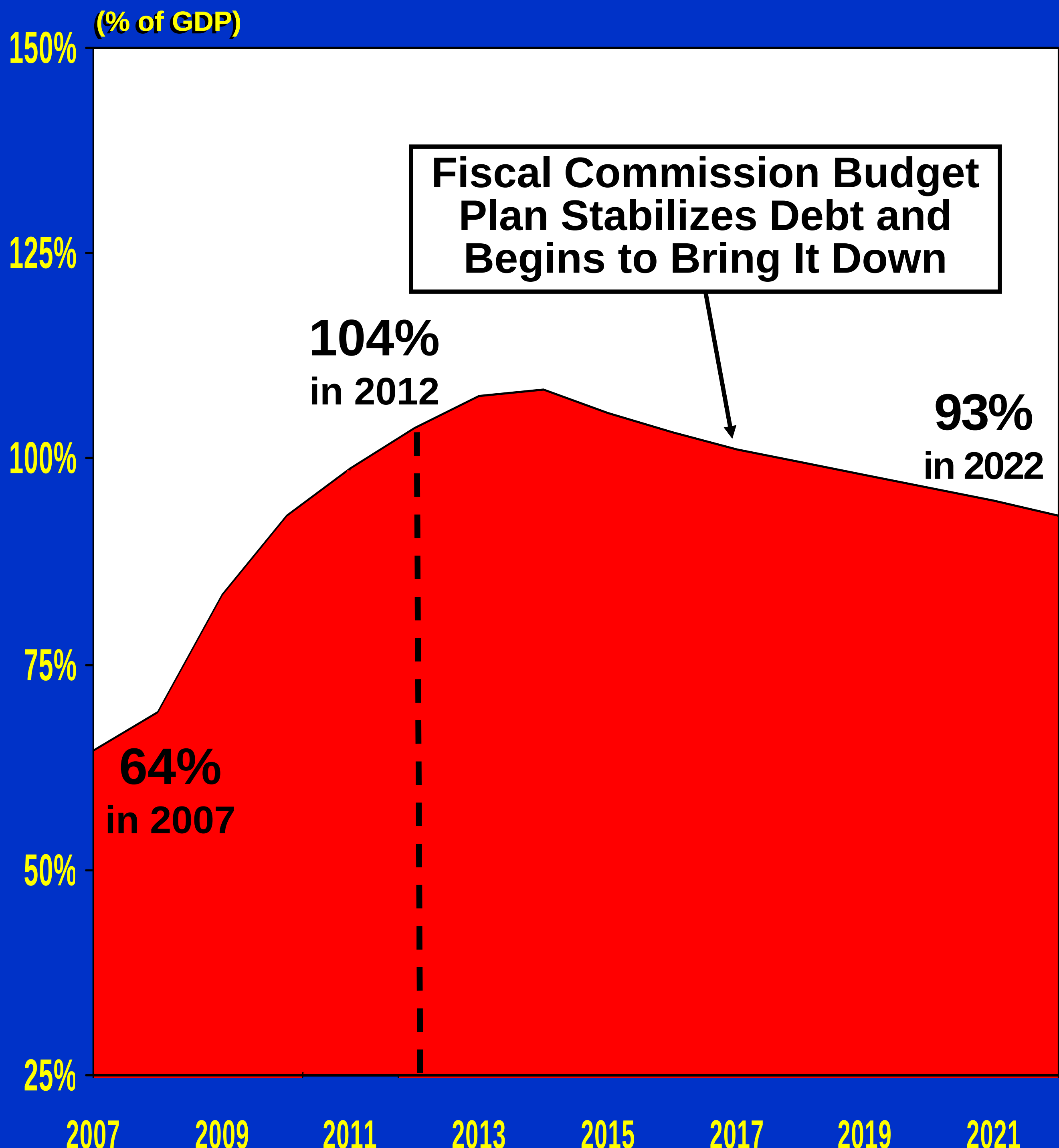
- $5.4 T in deficit reduction
- Lowers deficit to 1.4% of GDP in 2022
- Stabilizes gross debt by 2015
- Reduces discretionary spending to 4.8% of GDP by 2022
- Builds on health reform savings
- Calls for Social Security reform - savings to be used only to extend solvency
- Includes fundamental tax reform that raises revenue

Deficit as Percent of GDP Under Fiscal Commission Budget Plan



Source: SBC

Gross Debt as % of GDP Under Fiscal Commission Budget Plan



Source: OMB, SBC