



BRIEF ANALYSIS

FY 2007 OMB MID-SESSION REVIEW

PREPARED BY: DEMOCRATIC STAFF, SENATE BUDGET COMMITTEE
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Another Effort by Bush Administration to Distract From Deteriorating Long-Term Budget Outlook

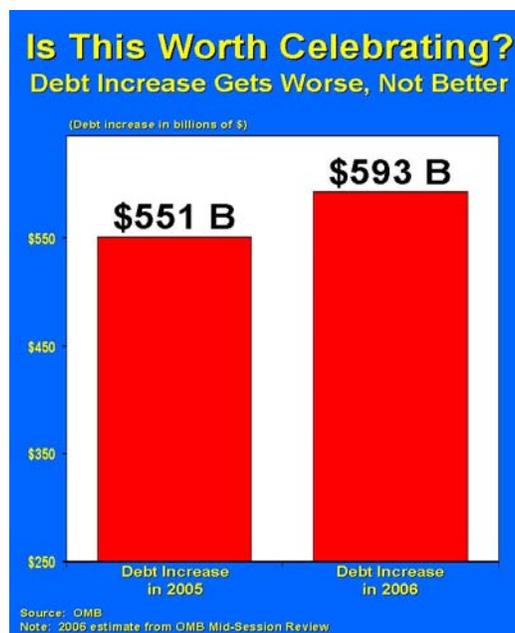
OMB's FY 2007 Mid-Session Review represents another effort by the Bush administration to distract from the nation's deteriorating long-term budget outlook. Anyone celebrating the short-term deficit projections in the report is really missing the bigger picture. The long-term outlook remains bleak, the debt continues to pile up at an unsustainable rate, and the Bush administration has done nothing but make it all much worse.

Small Improvement in Short-Term Deficit Is Nothing to Celebrate

According to the administration, the deficit in 2006 will be \$296 billion – representing a small improvement over the \$318 billion deficit in 2005. This is hardly a cause for celebration. This is the fourth year in a row of record-high deficits, and the deficit is still projected to explode over the long-term as the rising cost of the President's tax cuts collide with the coming retirement of the baby boom generation.

Debt Increase Gets Worse, Not Better

Meanwhile, the debt continues to soar. When we add in the Social Security and other trust fund dollars being spent, the debt in 2006 will actually increase by \$593 billion. That is \$42 billion worse than the debt increase in 2005.



Debt Increase Far More Than Deficit Level Claimed

The Bush administration has continued its practice of leaving out large costs to make its deficit projections look smaller. For example, once again the administration has left out realistic long-term war costs and the cost of Alternative Minimum Tax (AMT) reform. Once those omitted costs are factored in, as well as the Social Security surplus and other trust fund dollars being spent, we can see that the debt will increase by more than \$570 billion in every year over the next five years and will actually increase by almost \$3 trillion over the 2007-2011 period.

Debt Continues to Soar Under Bush Administration Policies							
(\$ in billions)	2006	2007	2008	2009	2010	2011	2007-2011
OMB Deficit Projection	-296	-339	-188	-157	-123	-127	-934
Omitted Costs							
Ongoing War Costs	0	0	-2	-32	-31	-28	-92
AMT	0	-16	-45	-55	-66	-77	-257
Debt Service	<u>0</u>	<u>0</u>	<u>-2</u>	<u>-5</u>	<u>-10</u>	<u>-15</u>	<u>-32</u>
Total Omitted Costs	0	-16	-48	-91	-106	-119	-381
Adjusted Deficit	-296	-355	-236	-248	-229	-246	-1,315
Adjusted Deficit w/out Social Security	-473	-535	-442	-472	-450	-454	-2,353
Increase in Gross Debt	593	639	573	599	578	579	2,969

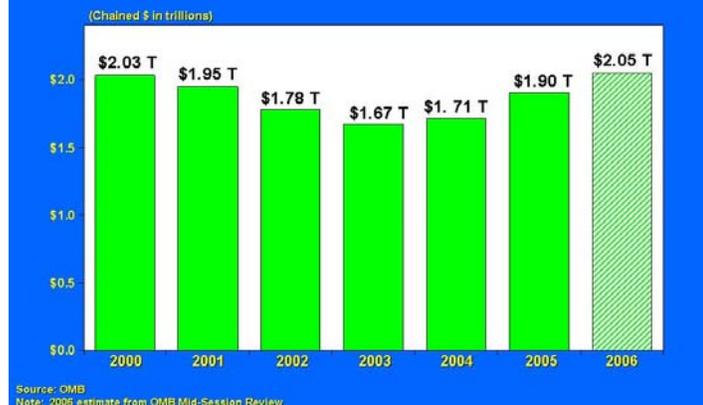
Reliance on Debt Held by Foreigners

The result of this exploding debt is that we are becoming increasingly reliant on foreigners to buy our debt and finance our deficit spending. Foreign holdings of U.S. debt have gone up 104 percent since 2001, rising from \$1.01 trillion in January 2001 to \$2.07 trillion now. It took 42 Presidents 224 years to run up a trillion dollars of external debt. This administration has more than doubled that amount of external debt in five years.

Real Revenues Have Experienced Virtually No Growth Since 2000

On the issue of revenue, real revenues – that is, adjusted for inflation – have experienced little growth since 2000. In other words, despite claims that revenues are pouring into the federal treasury due to the President's tax cuts, real revenues have only this year surpassed where they were six years ago. And revenues in 2006 are still almost \$300 billion below the original projections for revenues for the year.

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Others Agree Budget Outlook Getting Worse, Not Better

Government Accountability Office Comptroller General David Walker has warned that the budget outlook is actually getting worse, not better. He was quoted in the *Los Angeles Times* on July 11 stating: "Our problem is our large long-term deficit, and the sooner we deal with that the better." Walker warned of a "false sense of security. We're in much worse shape fiscally today than we were a few years ago."

Former CBO Director Douglas Holtz-Eakin has similarly cautioned against celebrating the administration's new deficit projections. He was quoted in the *New York Times* on July 9 stating: "The long-term outlook is such a deep well of sorrow that I can't get much happiness out of this year."

Another Effort to Distract From Failed Fiscal Record

The Bush administration's cheering about a small improvement in this year's deficit projection is a distraction. It is a distraction from what is really happening with our nation's budget. This administration, with the help of the Republican Majority in Congress, has increased spending while dramatically cutting revenues. And the result has been an explosion of deficits and debt.

The American people deserve better. They deserve an honest assessment of our budget outlook. And they deserve a real plan to put our fiscal house back in order.

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