



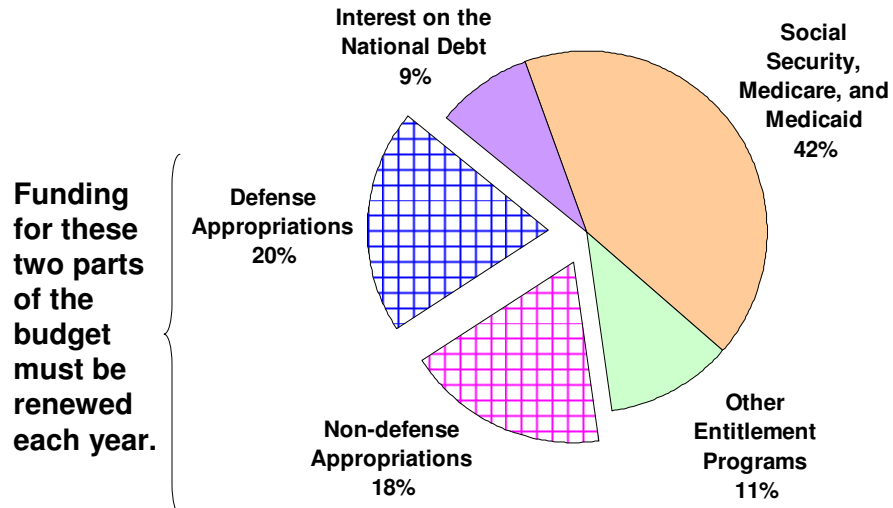
The Federal Budget Outlook

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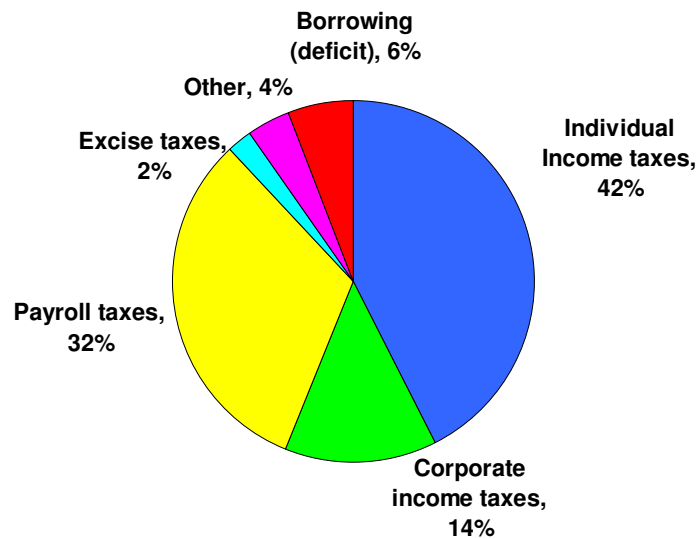
February 27, 2008

I. Budget Basics

What's in the Federal Budget?



Where Does the Money Come From?

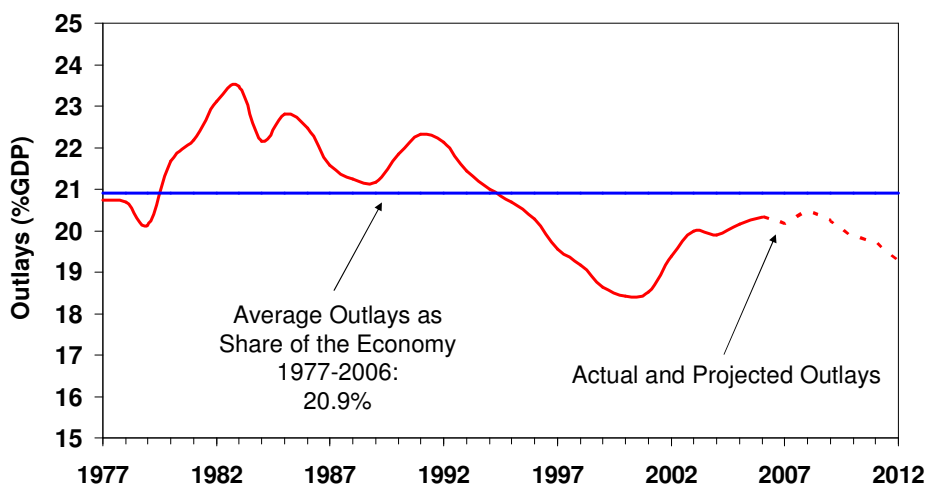


How Does It All Add Up?

How much the federal government can spend each year is largely driven by how much tax revenue it collects. Right now, the country is running a deficit because we are not bringing in enough revenue to cover current expenditures.

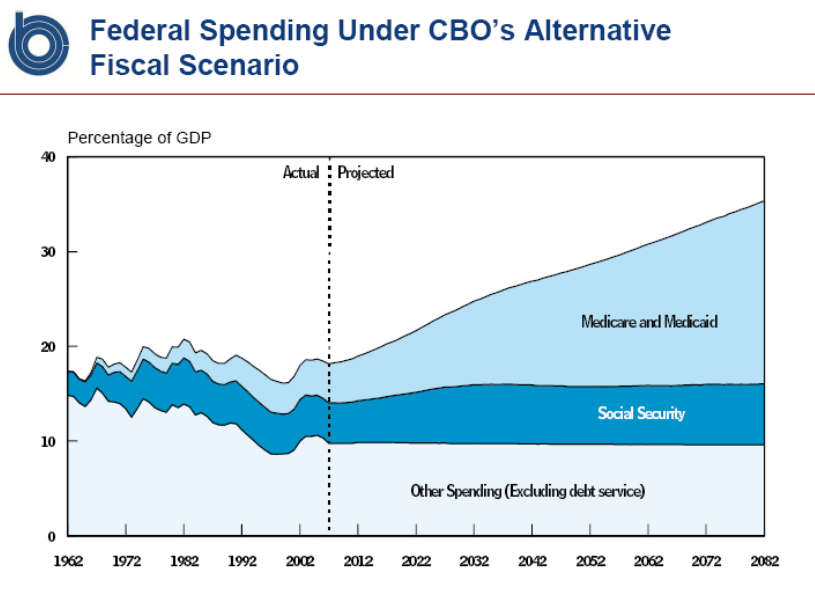
Revenues	\$2.568 trillion
Expenditures	\$2.731 trillion
Deficit	\$ 163 billion

Even with Iraq and Afghanistan, Federal Spending is Below Average for Recent Decades



Source: CBPP calculations based on Congressional Budget Office data.

II. What Does the Future Hold?

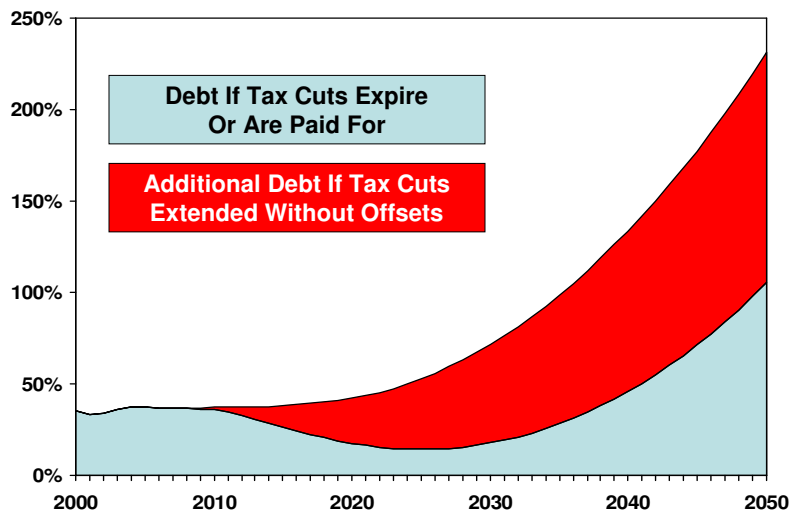


Three Main Drivers of the Looming Federal Fiscal Crisis

1. Rising health care costs in the private and public sectors alike
2. The aging of the population, which raises the costs of Social Security, Medicare, and Medicaid
3. The Bush tax cuts

Debt With and Without Unpaid-For Extension of Recent Tax Cuts





Debt as a Share of the Economy



Source: CBPP calculations based on Congressional Budget Office data.

III. What's Happening This Year?

The Federal Budget Calendar

Winter 	The President sends his budget request to Congress by the first week in February. Congress considers the President's proposal and then begins crafting its own budget resolution.
Spring 	Congress finalizes its budget resolution, which is like a blueprint for the year.
Summer 	Congress begins consideration of individual appropriations, entitlement, and tax bills.
Fall 	Congress finalizes appropriations and other bills, as the President begins formulating his budget request for the following year.

A First Step Towards Budget Discipline: “Pay-As-You-Go”

- Last year, Congress reinstated the "pay-as-you-go" rule, which requires any tax cut or entitlement expansion to be paid for, so that it does not add to the deficit.
- This rule does *not* apply to discretionary programs funded through the annual appropriations process (including the war).
- There can still be entitlement expansions or tax cuts -- Congress just has to find a way to pay for them (or agree to waive the rule, which in the Senate requires 60 votes, and in the House requires the leadership's support along with a majority vote).

IV. President Bush's Very Last Budget Proposal

Overview of President Bush's Budget Request

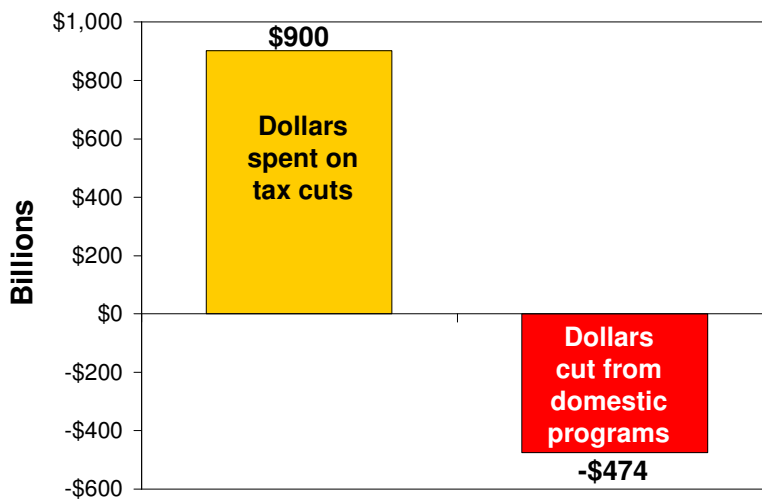
Key Components

- **Cuts in domestic priorities** like LIHEAP, child care, clean water, and K-12 education.
- **Permanent tax cuts**, including for the wealthiest Americans, at a cost of \$2.4 trillion over the next decade
- **Cuts in Medicaid, law enforcement, and other grants to states** already facing budget problems due to the economic downturn
- **Big health care cuts**, in Medicaid and Medicare, plus insufficient funds to maintain SCHIP coverage

Net Effect

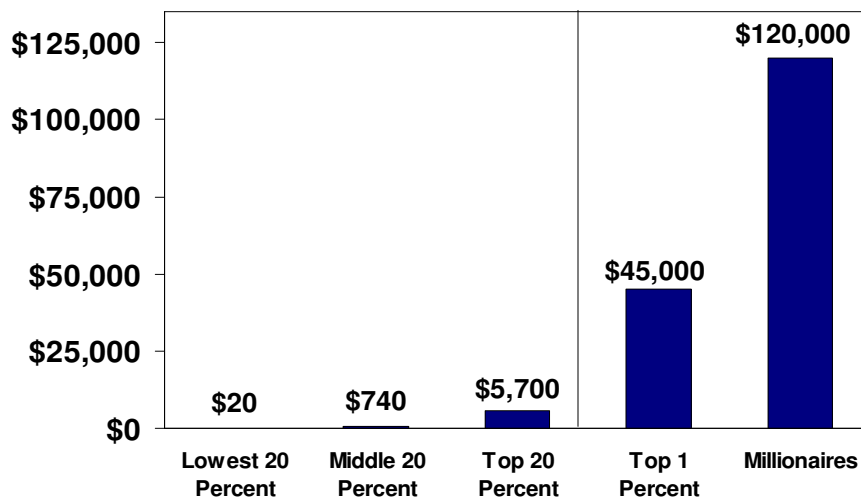
- Greater income inequality
- Higher deficits
- Costs shifted to states and localities

Cost of Tax Cuts Far Outweighs Domestic Program Savings in President's Budget



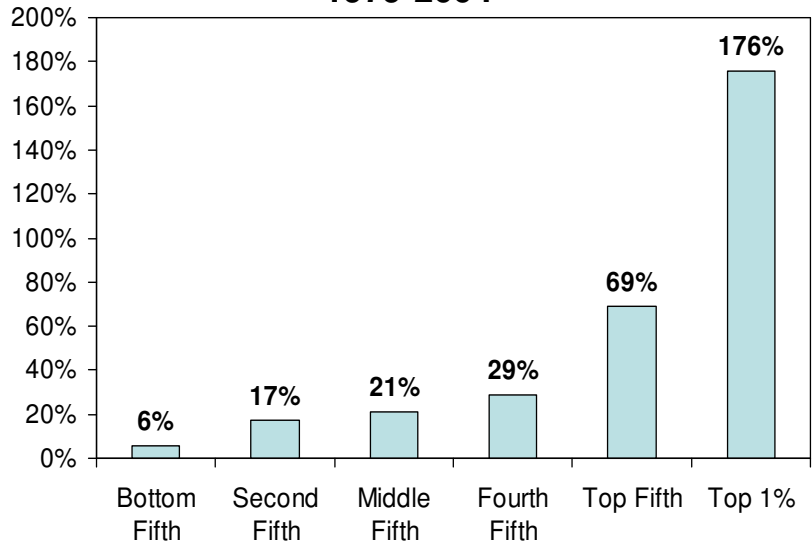
V. The Bush Tax Cuts, Due to Expire in Two Years

Average Value of Tax Cuts Enacted Since 2001



Source: Urban Institute-Brookings Institution Tax Policy Center

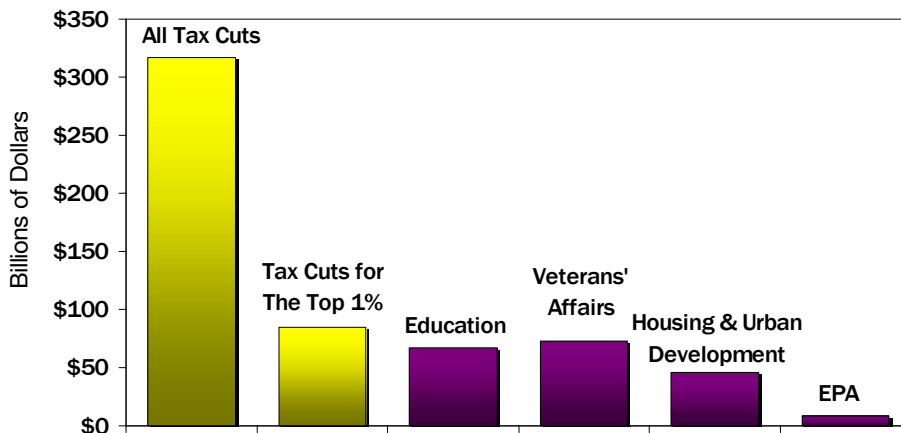
Change in Average Real After-Tax Income: 1979-2004



Source: Congressional Budget Office

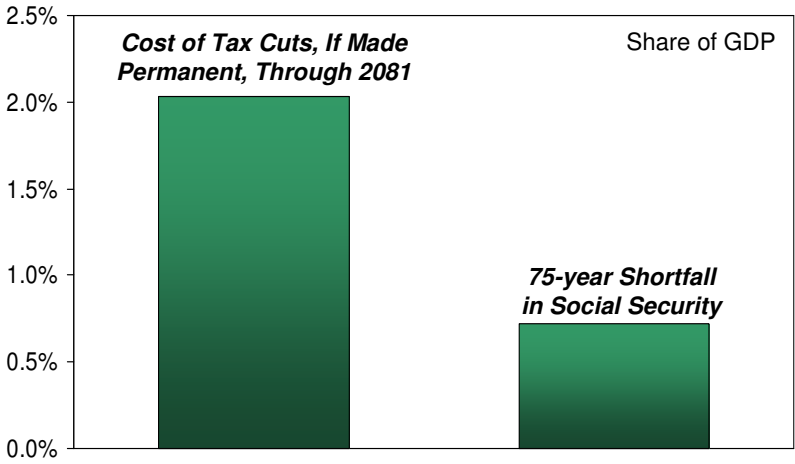
Tax Cuts Cost More Than Most Agency Budgets

2007 Agency Budgets, Tax Cuts if Fully in Effect in 2007



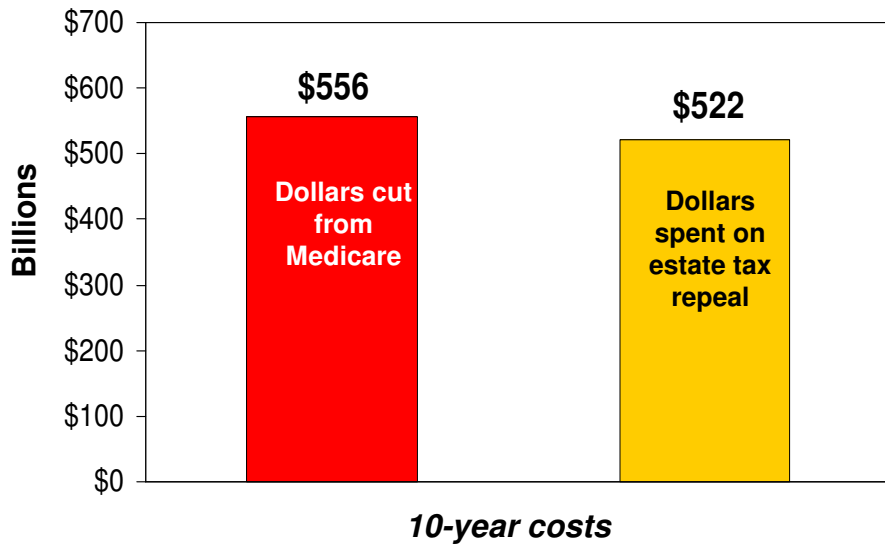
Source: CBPP calculations based on Treasury Department, Joint Committee on Taxation, and Urban-Brookings Tax Policy Center data.

Cost of Tax Cuts Is More Than Three Times Size of Social Security Shortfall



VI. Budgets Are About Choices

Estate Tax Repeal Would Use Up Savings From Medicare Cuts in President's Budget



WHAT WOULD IT TAKE TO BALANCE THE BUDGET WHILE PRESERVING THE TAX CUTS?

To balance the budget by 2012 while extending the tax cuts and continuing AMT relief, policy makers would have to:

- ✂ Cut **Social Security** benefits by..... **32%**
- ✂ Or cut **defense** spending by **42%**
- ✂ Or cut **Medicare** by..... **51%**
- ✂ Or cut **every other program** except Social Security, Medicare, defense by..... **20%**

Source: CBPP calculations based on Congressional Budget Office data.

Likely Consequences of *Unbalanced* Approach to Deficit Reduction

- Large cuts over time in help for the poor
- More people going without health insurance
- A federal government that may be unable to fulfill some core functions
- More costs shifted to states

A More Balanced Approach Would...

- *put everything on the table* – taxes as well as spending
- *maintain a safety net* for those who need it
- *be bipartisan* – the first President Bush and President Clinton both worked with Congress to pass significant deficit reduction legislation