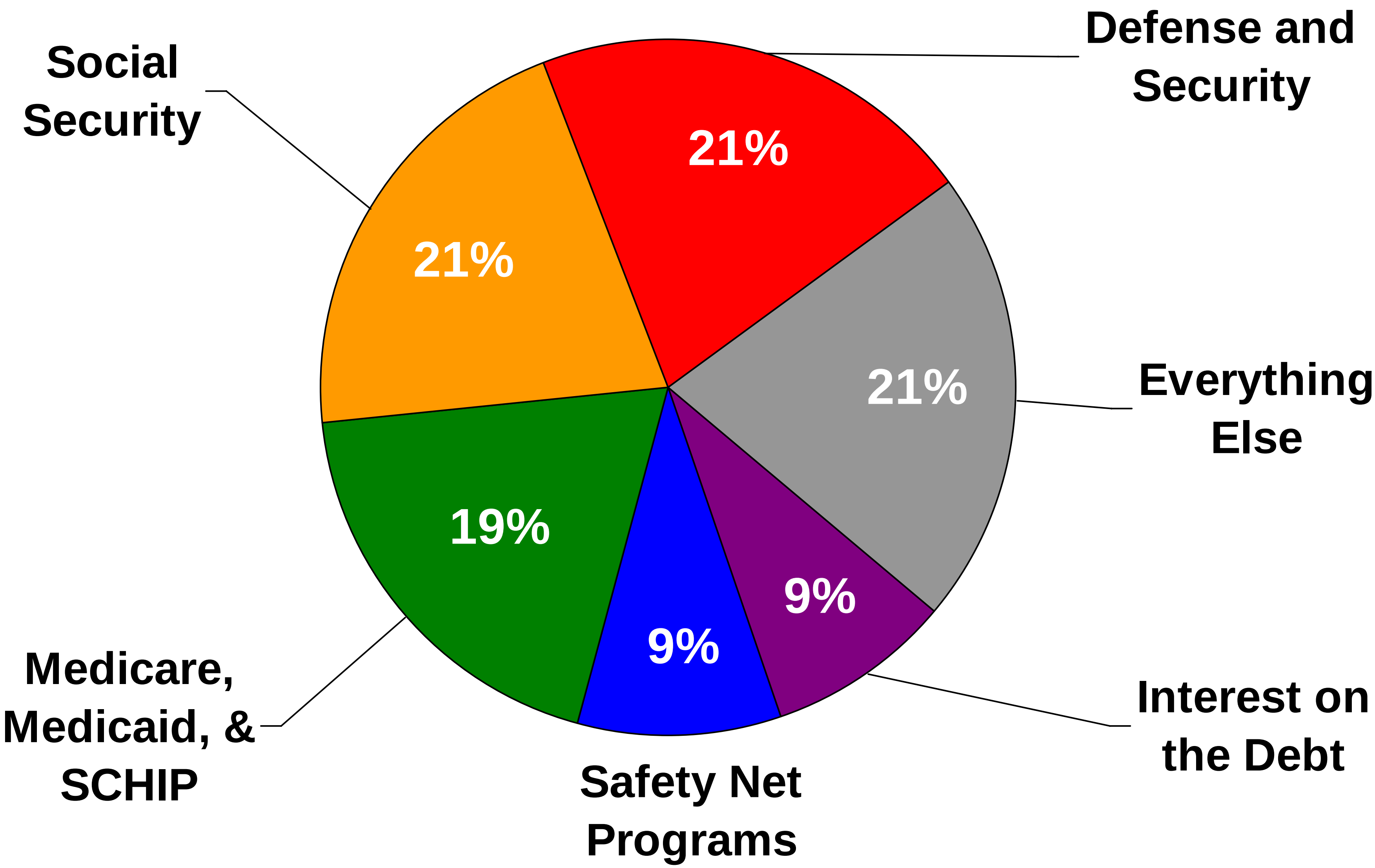
I. Background on the Federal Budget

Composition of the Federal Budget in 2006



Source: Office of Management and Budget data.

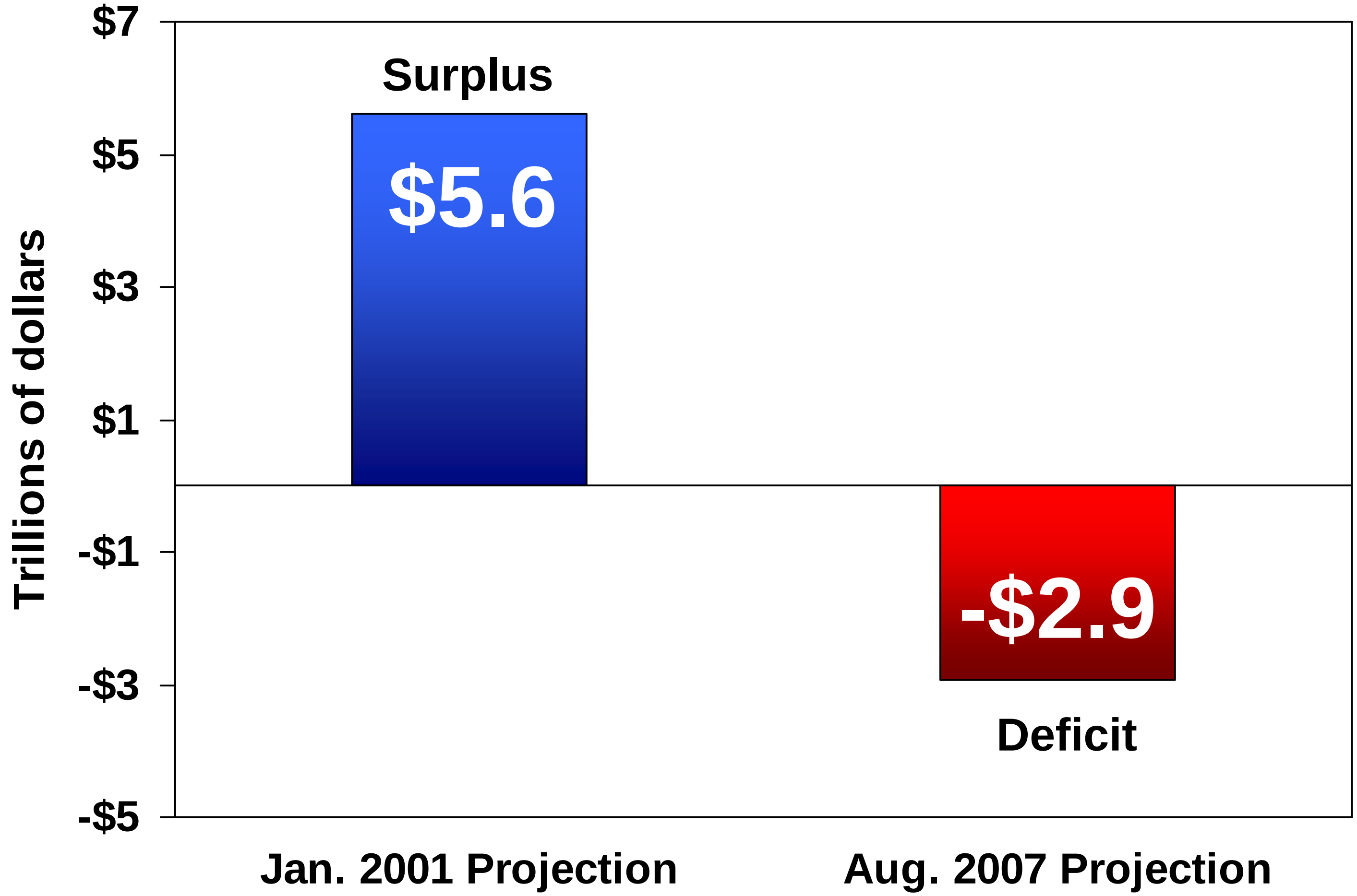
The Federal Budget in 2007

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

Source: Congressional Budget Office.

From Large Surpluses to Large Deficits in Just 6 Years

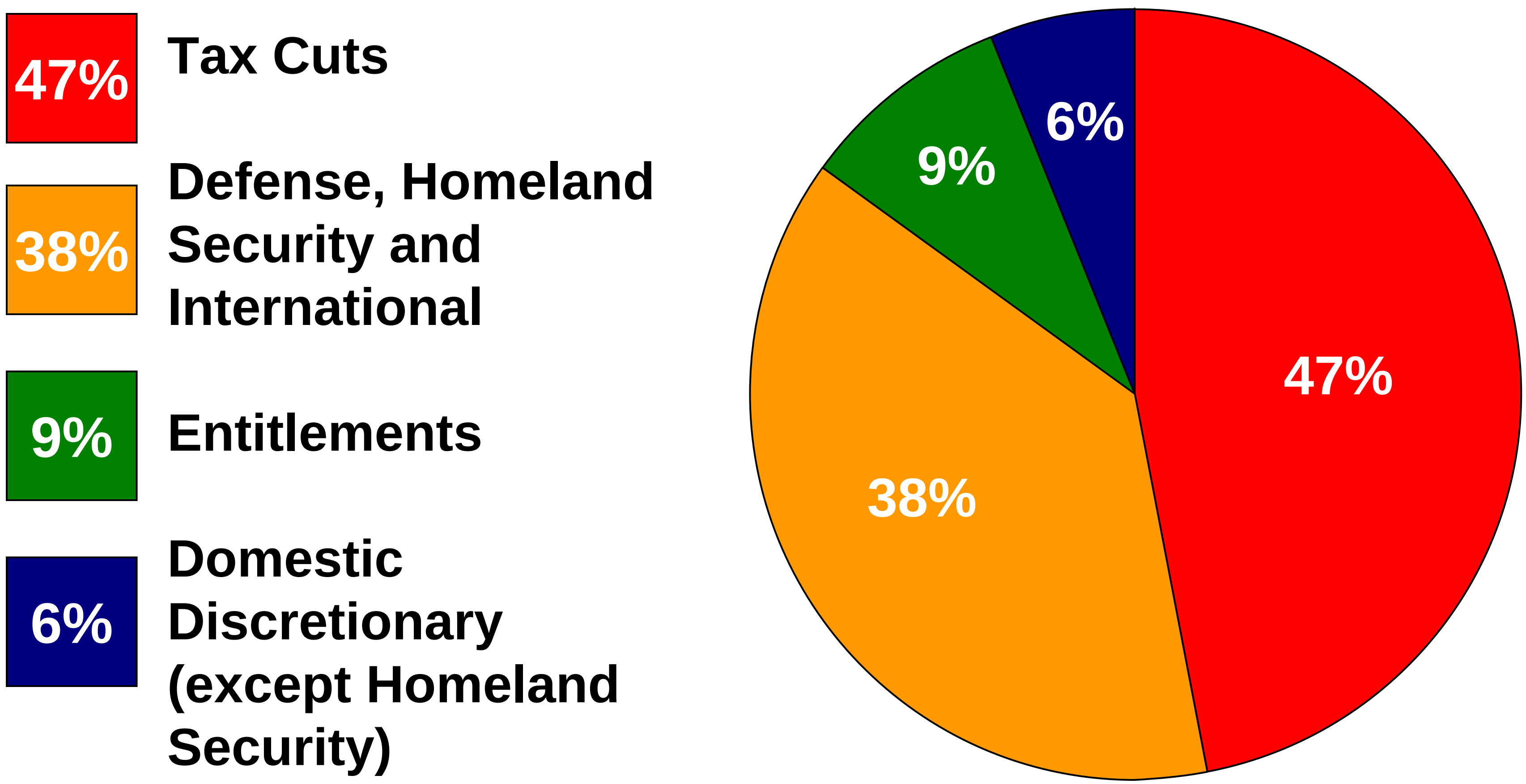
Cumulative Surpluses/Deficits, 2002-2011



Source: CBPP calculations based on Congressional Budget Office data.

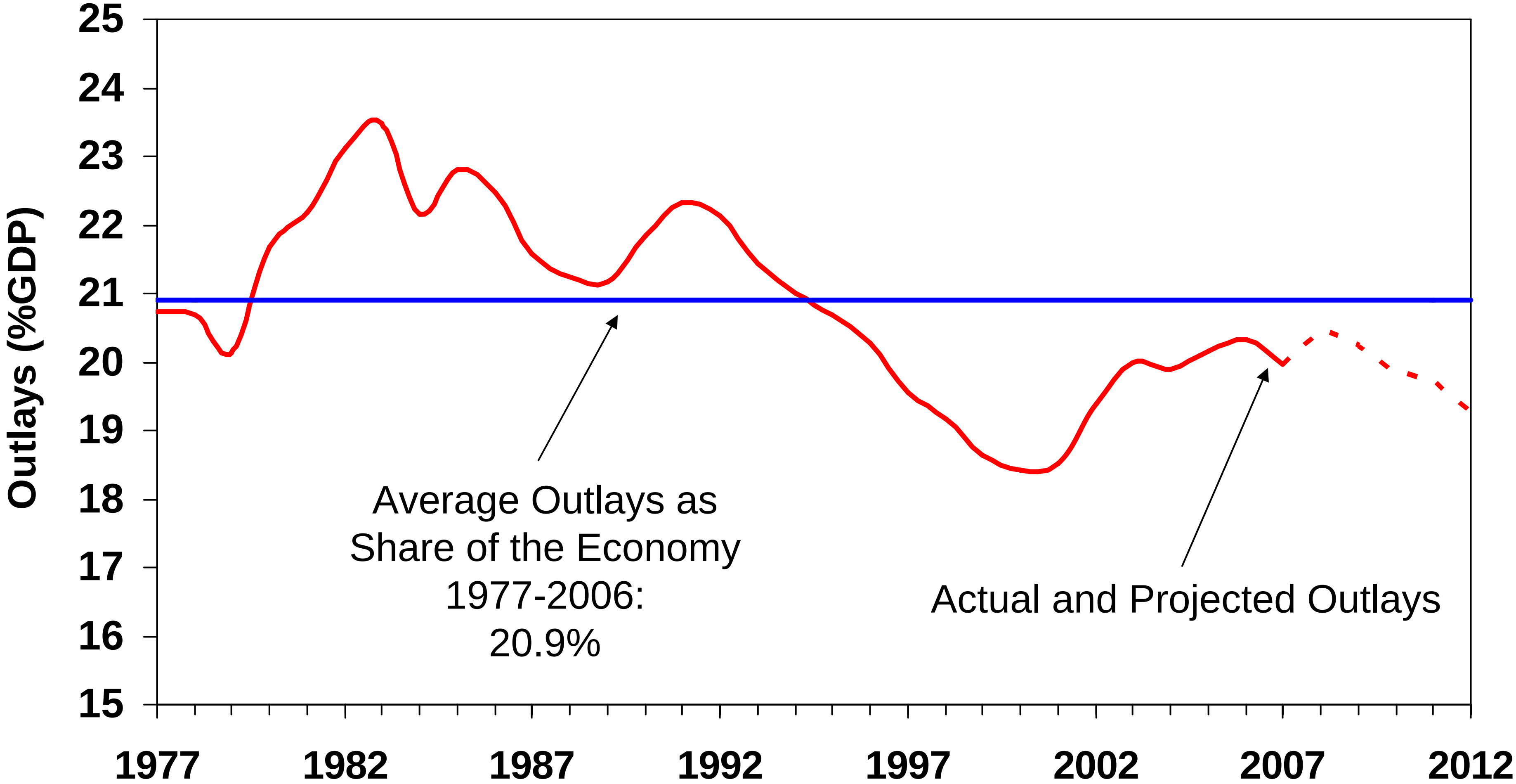
Legislation Adding to Deficits: Mostly Tax Cuts and Defense

Cost, 2002-2011, of policy changes since January 2001



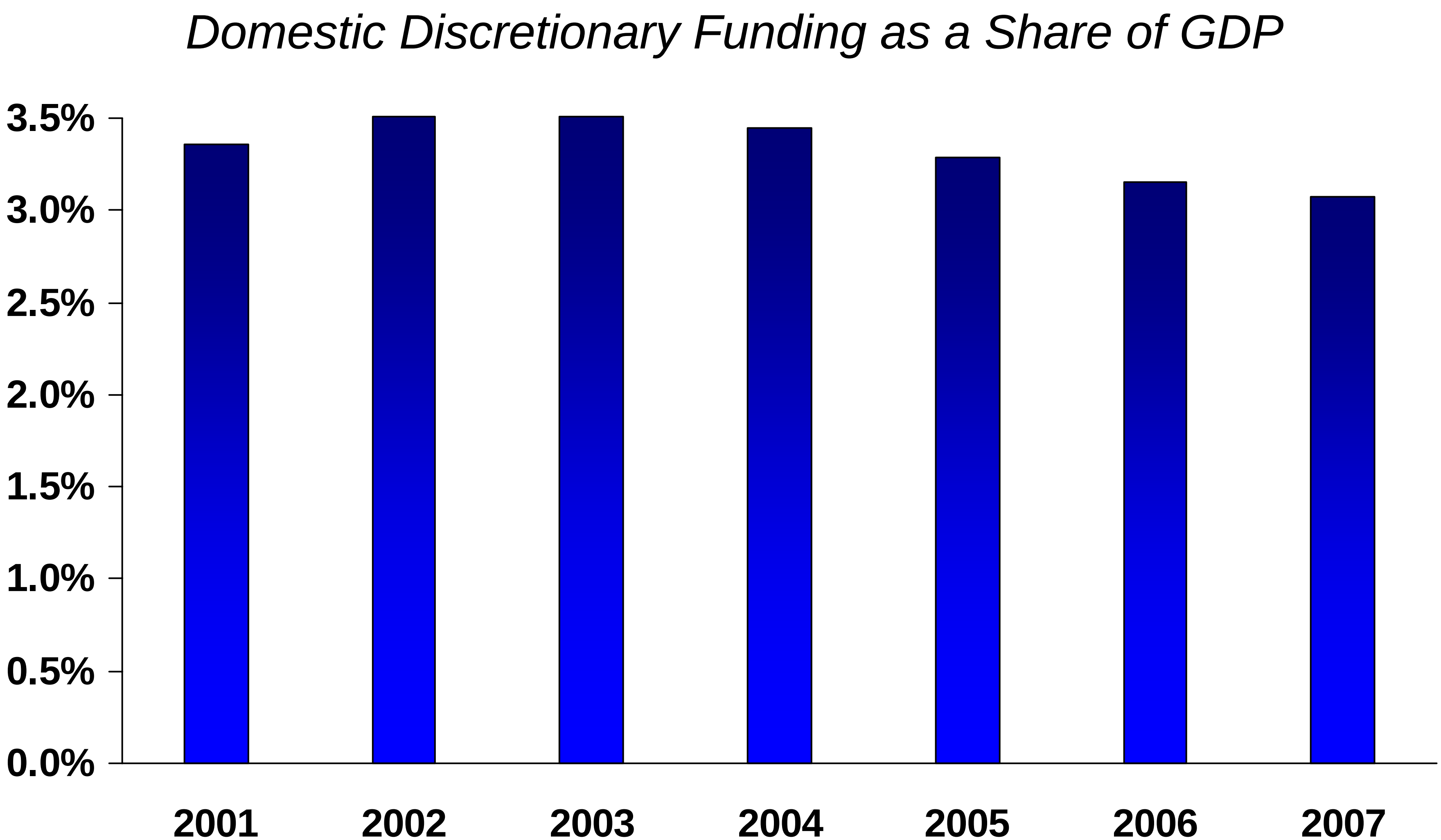
Source: CBPP calculations based on Congressional Budget Office data. Assumes extension of the President's tax cuts, continuation of Alternative Minimum Tax relief, a gradual phasedown of operations in Iraq and Afghanistan, and underlying defense spending in line with the President's FY 2008 budget.

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



Source: CBPP calculations based on Congressional Budget Office data.

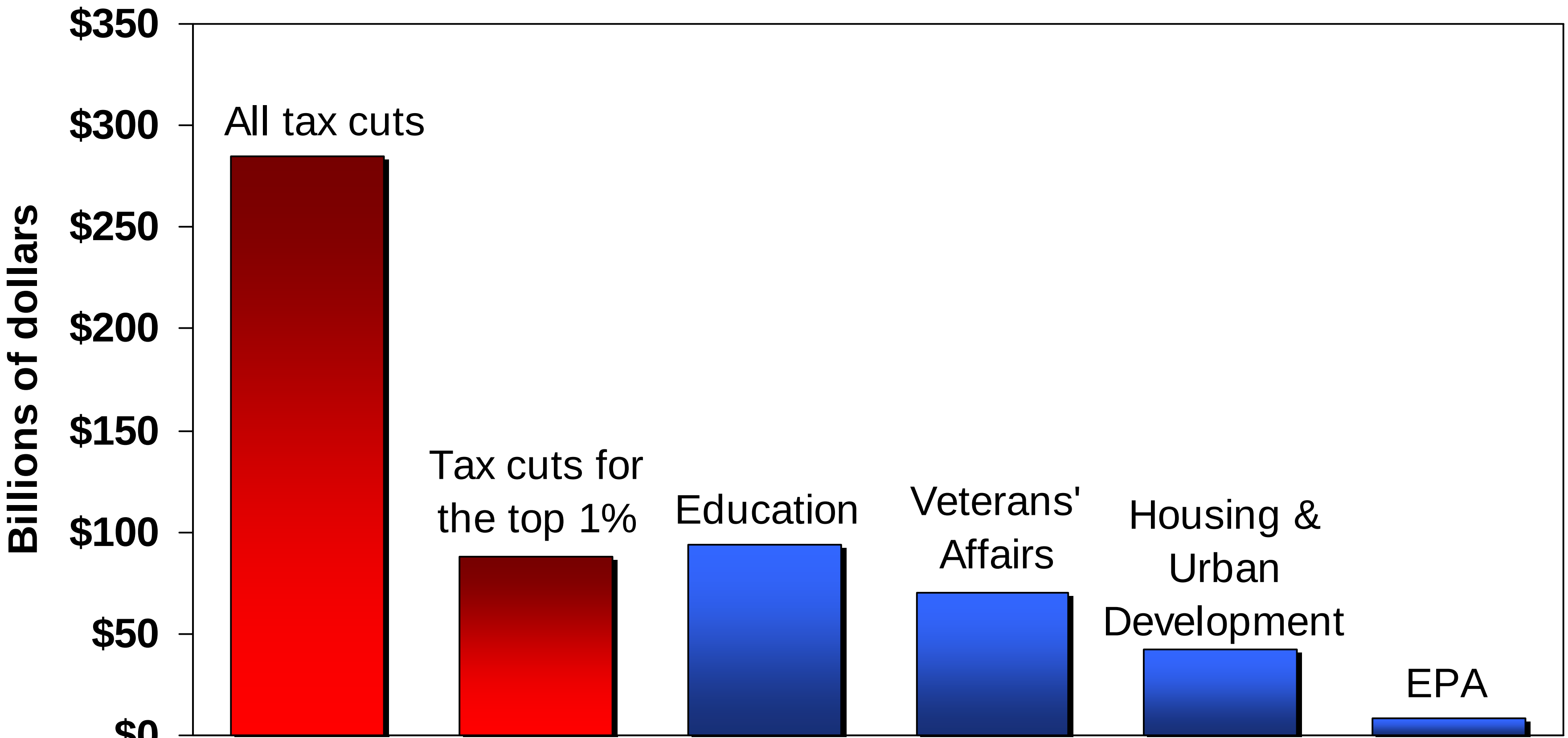
Since 2001, Funding for Domestic Discretionary Programs Has Fallen as a Share of the Economy



Source: CBPP calculations based on CBO data. To avoid distortions, figures do not include funding for homeland security or hurricane relief.

Tax Cuts Cost More Than Most Agency Budgets

2006 Agency Budgets, Tax Cuts if Fully in Effect in 2006



Source: CBPP calculations based on Office of Management and Budget, Congressional Budget Office, Joint Committee on Taxation, and Urban-Brookings Tax Policy Center data.

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

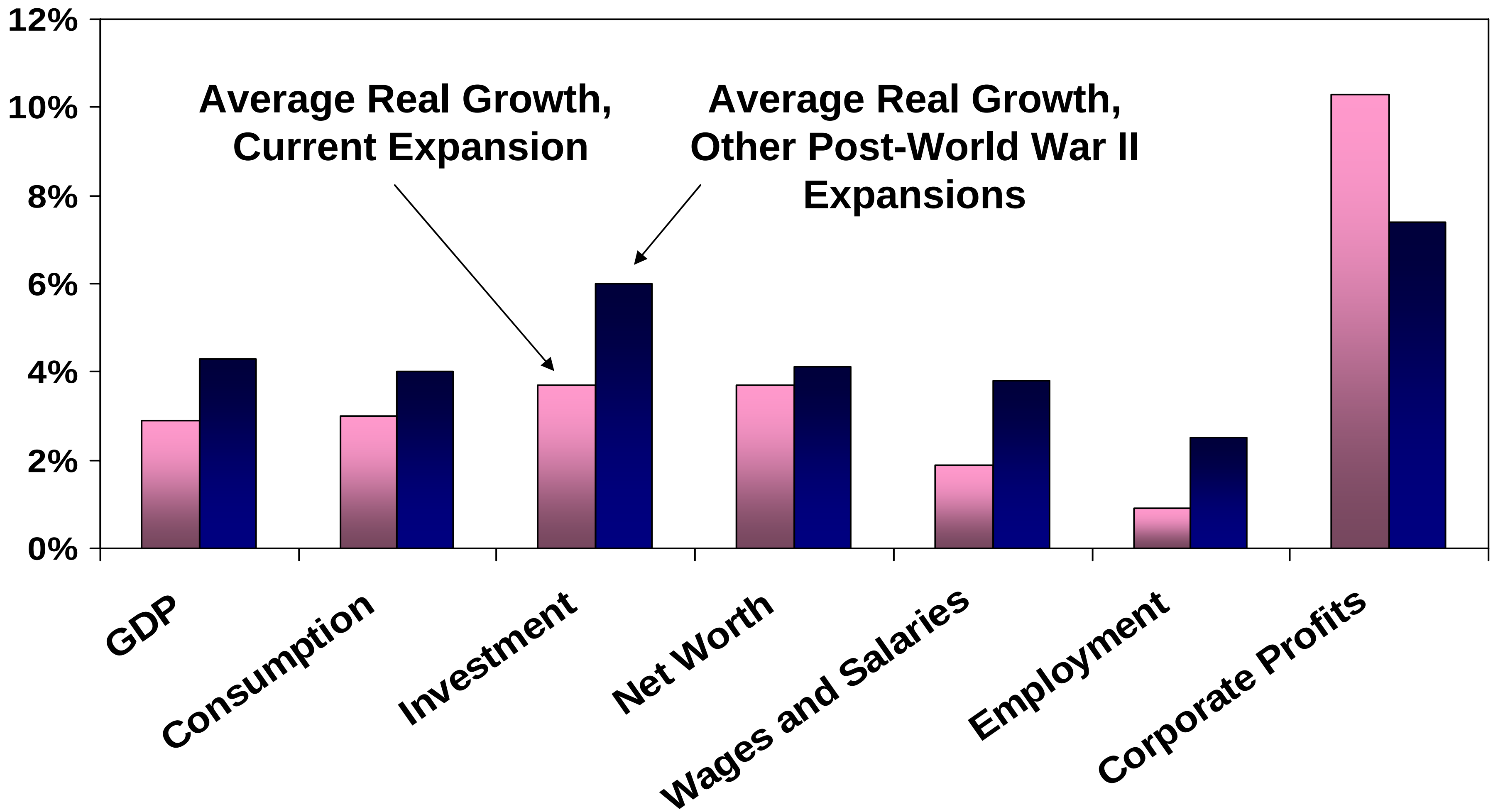
To balance the budget by 2012 while extending the tax cuts and continuing AMT relief, policy makers would have to:

- 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.

II. The Economic Record of the Last Seven Years

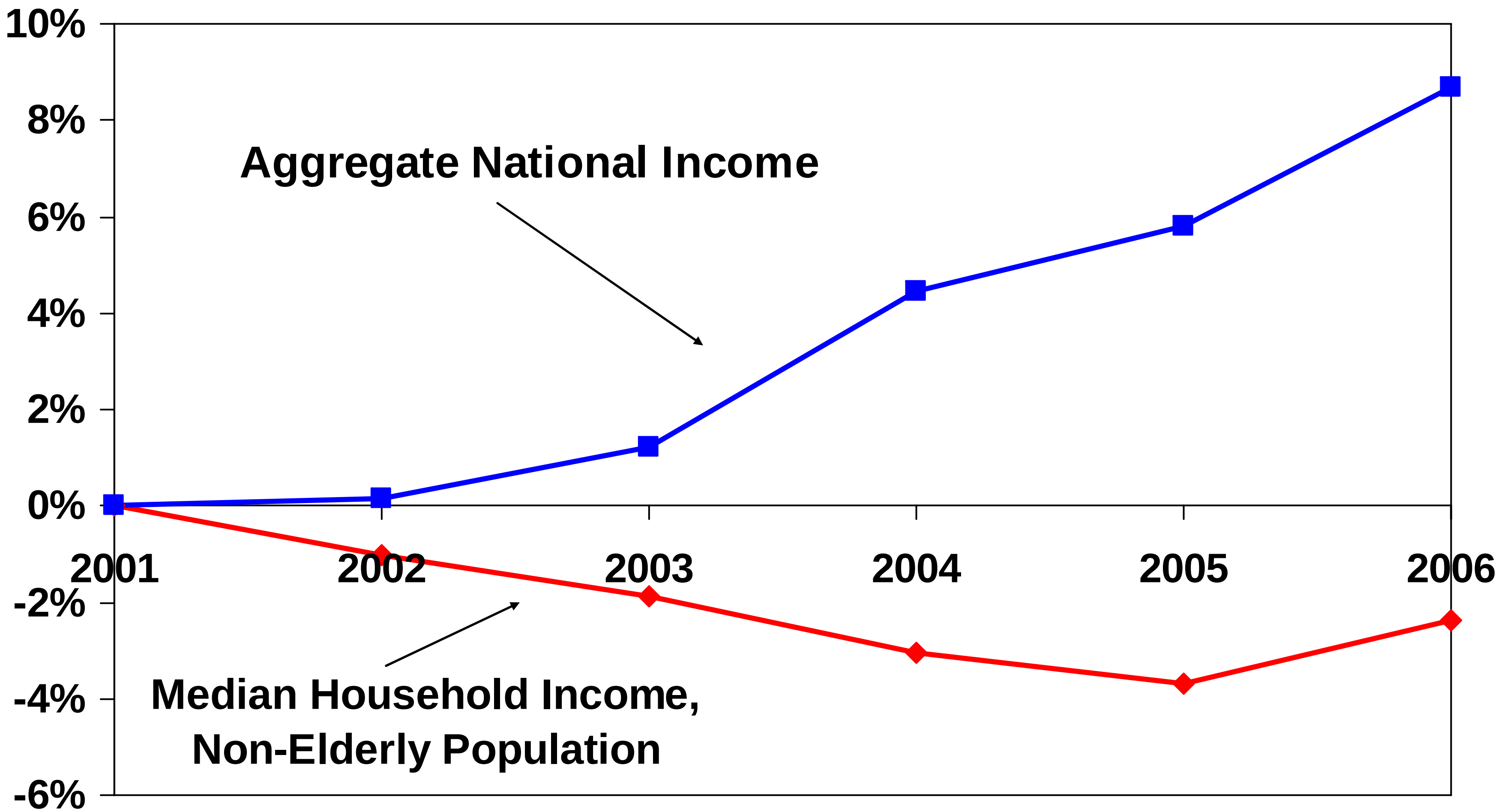
The Current Expansion Has Been Weaker Than Average; Only Corporate Profits Have Grown Rapidly



Source: CBPP calculations based on Commerce Department, Labor Department, and Federal Reserve data. Employment data through December 2007. All other data through the third quarter of 2007.

Typical Working-Age Household Has Seen Income *Losses* During the Current Expansion

Cumulative Percent Change Since Recession Ended in 2001



Source: Census Bureau and Commerce Department data.

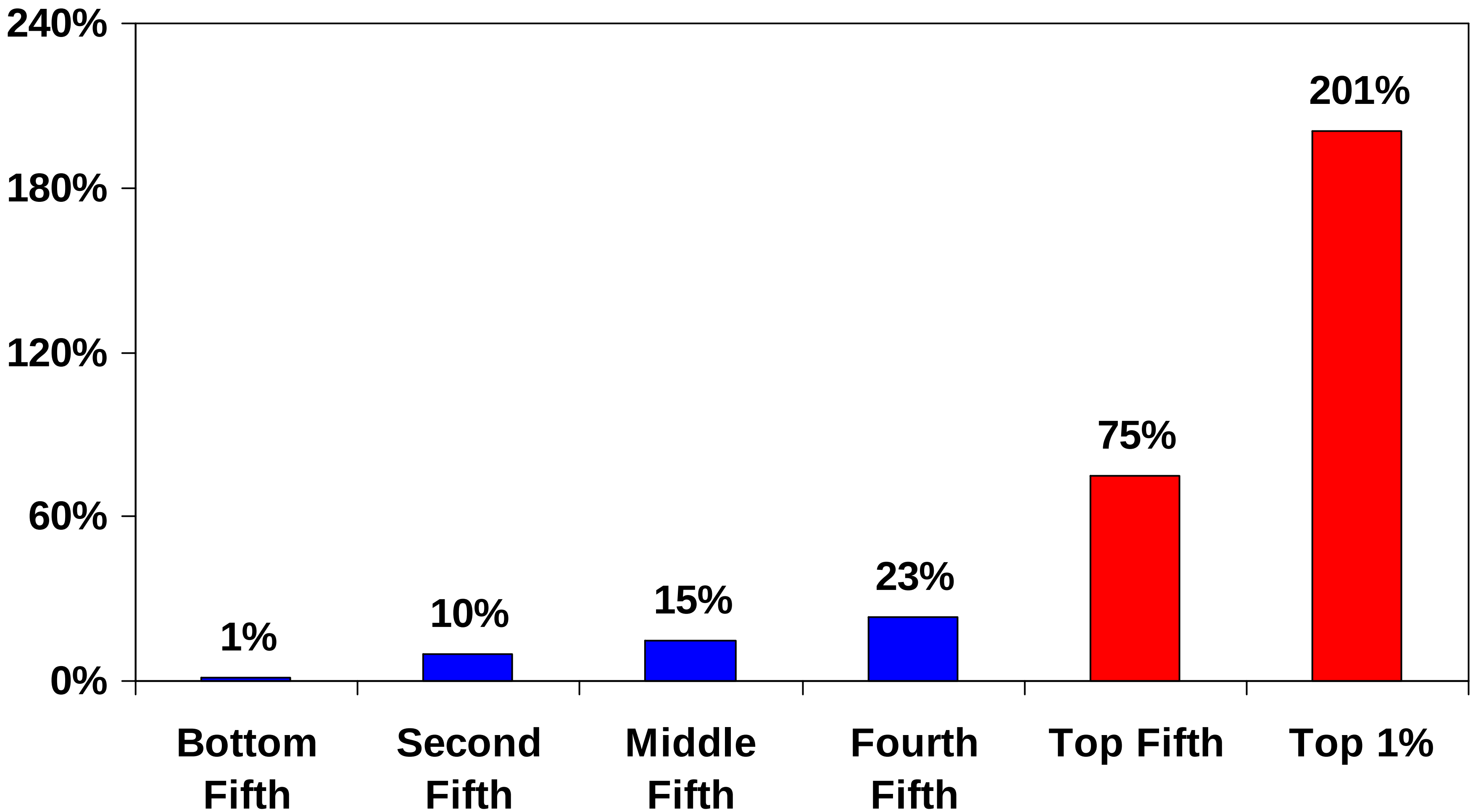
State of the Nation: Alternative Measures

Share of population	2006	Change from 2000
In poverty	12.3%	+1.0%
In deep poverty	5.2%	+0.7%
Lacking health insurance	15.8%	+1.6%
Food insecure	12.1%	Unch.
w/ very low food security	3.8%	+0.7%

Source: Census Bureau and Department of Agriculture data.

Last 26 Years Have Seen Rapid Income Growth at the Top, Virtually No Growth at the Bottom

Growth in average real pre-tax income, 1979-2005



Source: CBPP calculations based on Congressional Budget Office data.

Prominent Leaders, Including President Bush, Have Acknowledged the Need to Confront Rising Inequality

"I know some of our citizens worry about the fact that our dynamic economy is leaving working people behind. We have an obligation to help ensure that every citizen shares in this country's future. The fact is that income inequality is real; it's been rising for more than 25 years. "

- President Bush

"[R]ising inequality is a concern in the American economy. It's important for our society that everyone feels that they have an opportunity to participate in the opportunities that the economy is creating."

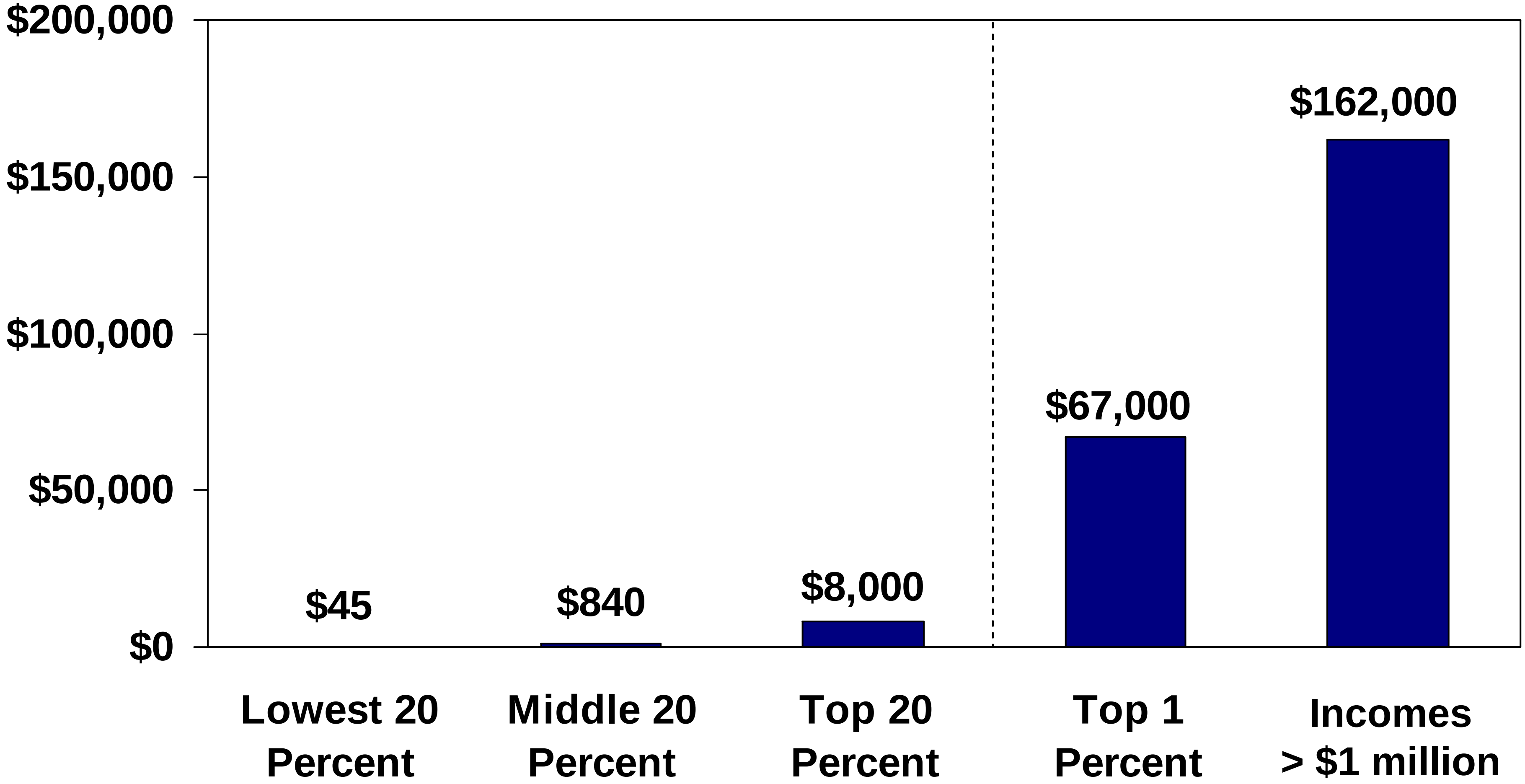
- Federal Reserve Chairman Bernanke

"[There is a] really serious problem here, as I've mentioned many times before this [House] committee, in the consequent concentration of income that is rising..."

- Fmr. Fed. Chairman Greenspan

Benefits of President's Tax Cuts Flow Disproportionately to High-Income Households

Average Value of the Tax Cuts in 2012



Source: Urban-Brookings Tax Policy Center.

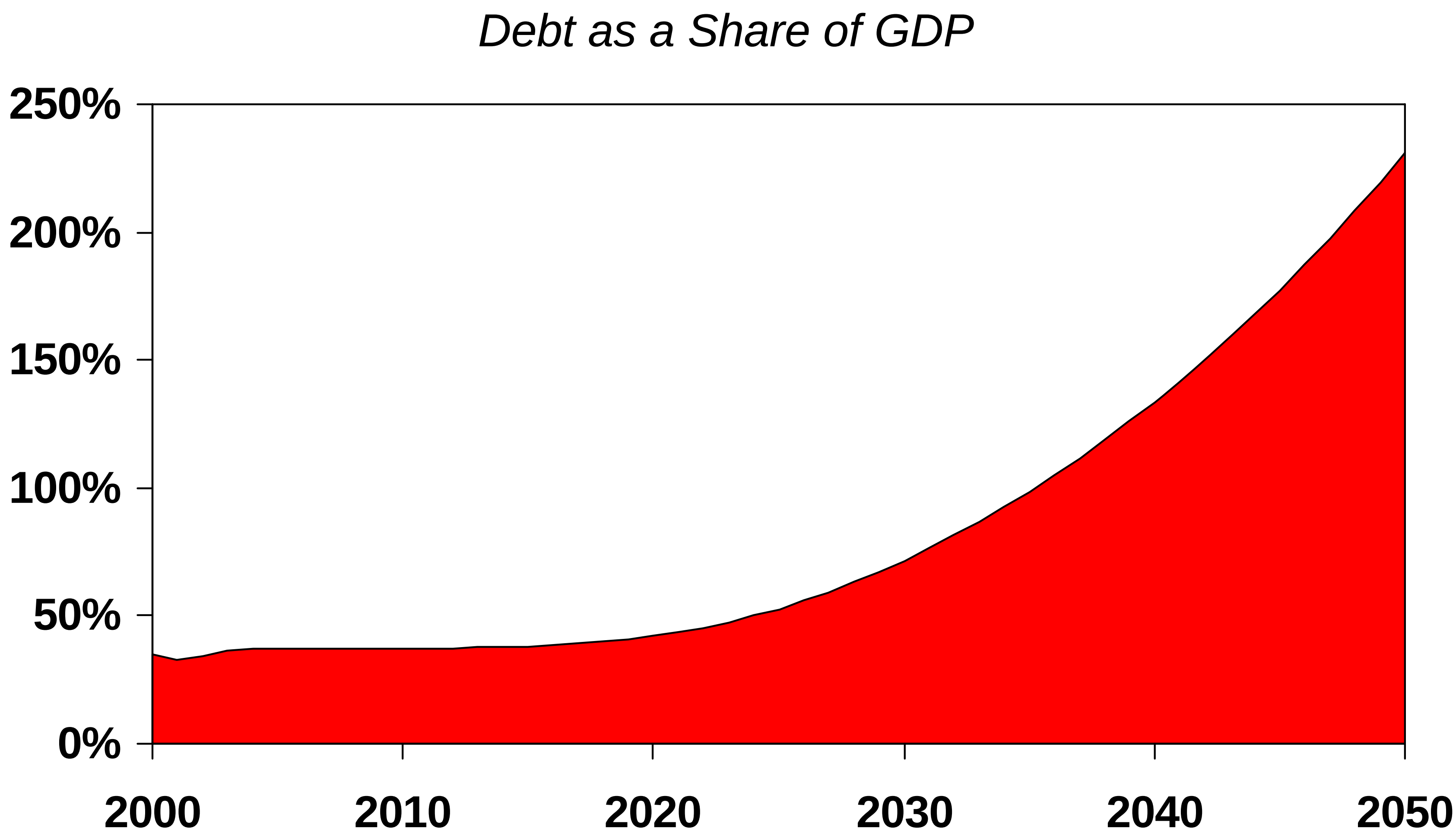
III. Drivers of the Long-Term Fiscal Problem

- Rising health care costs in the private and public sectors alike.

- Large tax cuts.

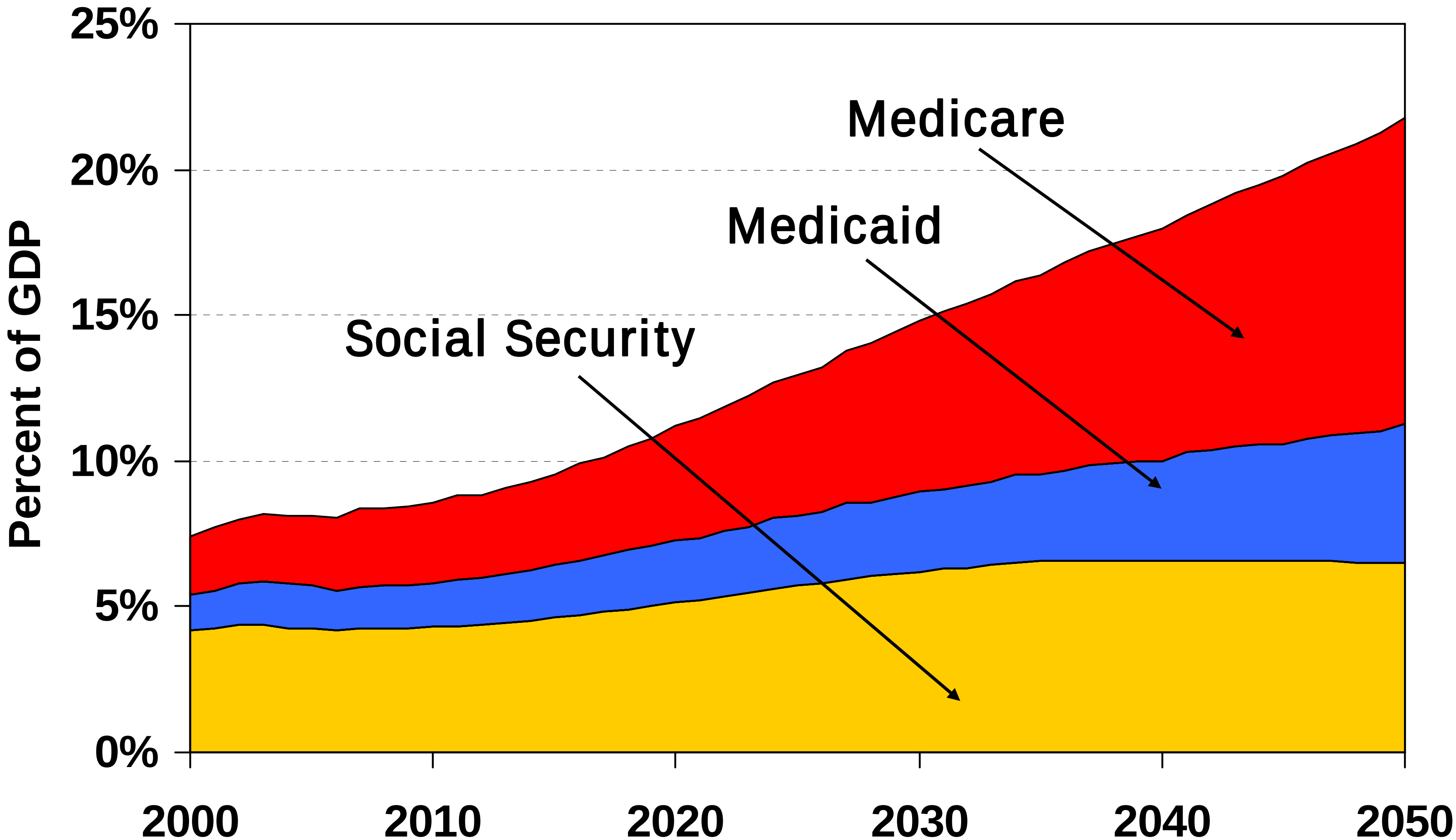
- The aging of the population, which raises the costs of Social Security, Medicare, and Medicaid.

Under Current Policies, Debt Will Reach 231 Percent of GDP in 2050



Source: CBPP projections based on Congressional Budget Office data.

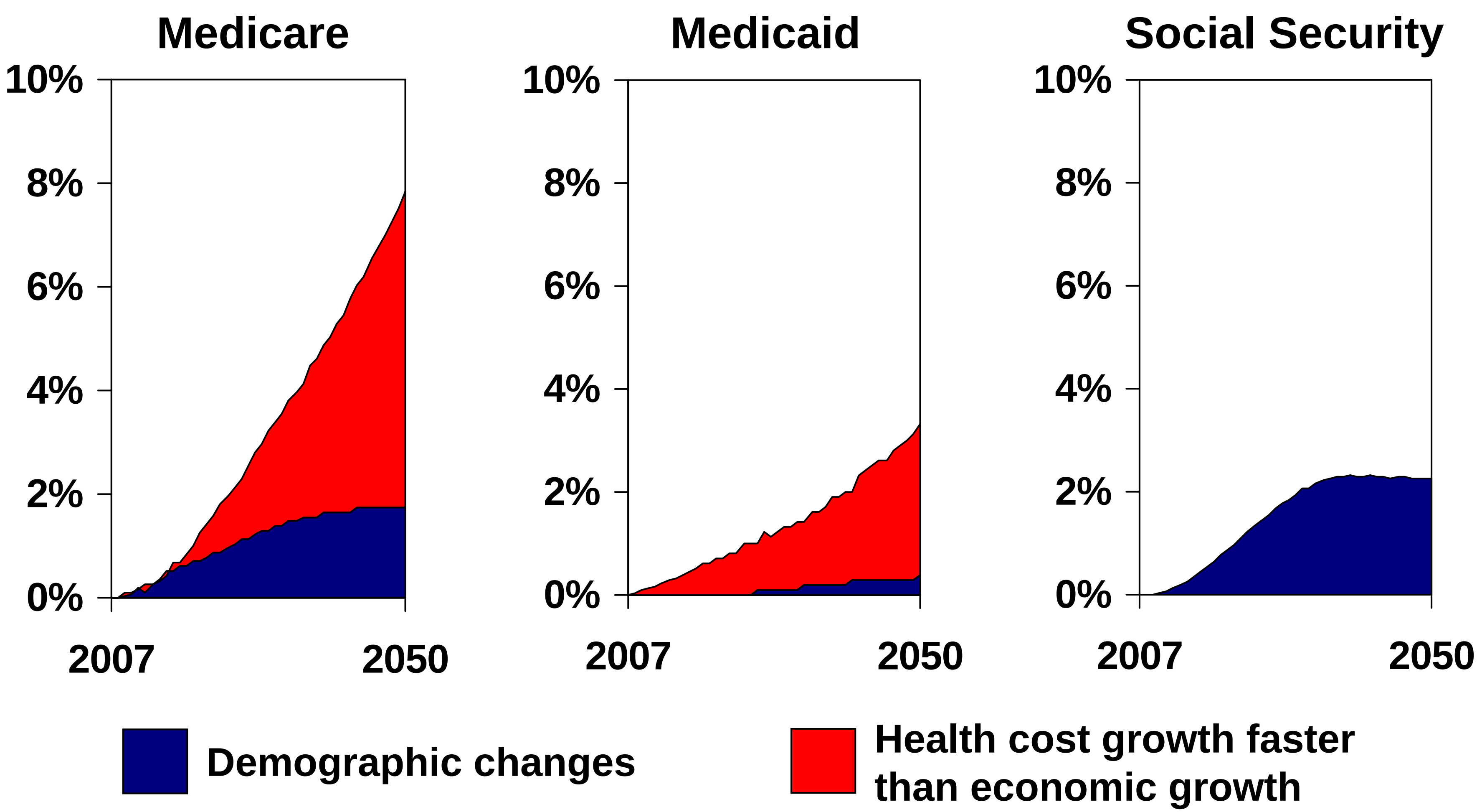
Medicare, Medicaid, and Social Security Expected to Rise Rapidly



Source: CBPP projections based on Congressional Budget Office data.

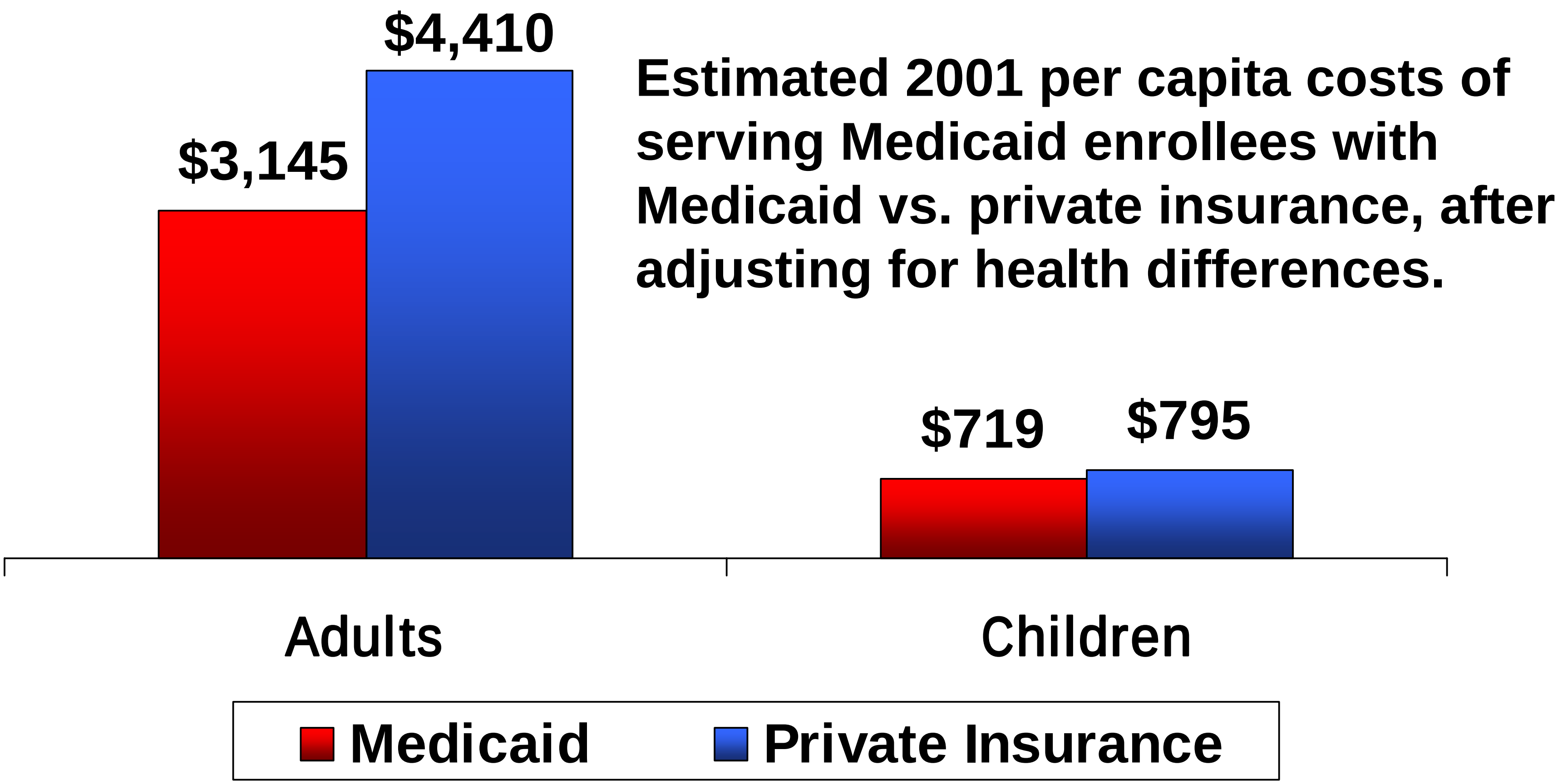
Rising Health Costs are the Main Driver of Growth in the "Big Three"

Sources of cost growth in the "Big Three" as a share of GDP



Source: CBPP projections based on Congressional Budget Office data.

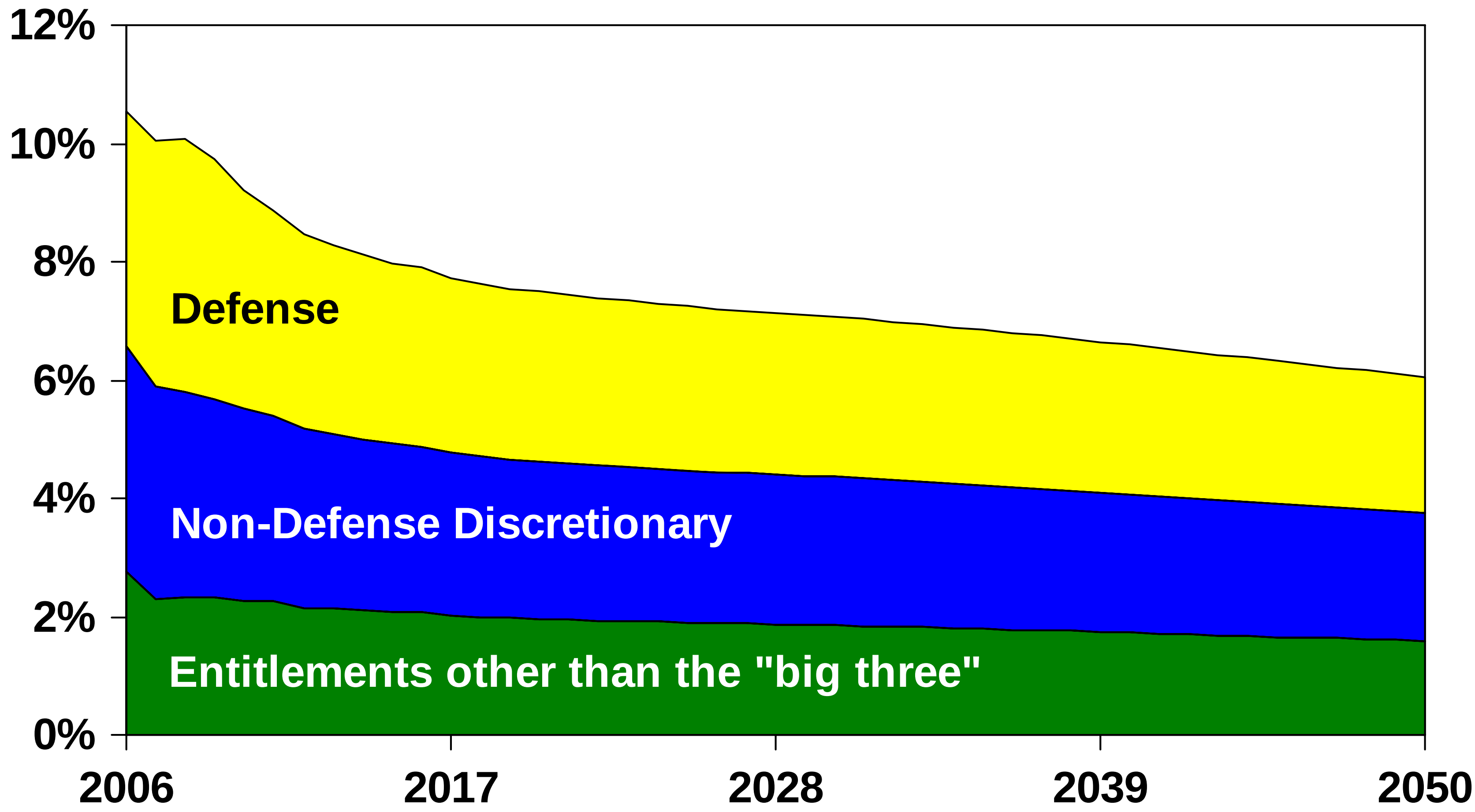
Medicaid Costs Less Than Private Health Insurance



Source: Hadley and Holahan, *Inquiry,* 2004

Long-Term Fiscal Problem Not a General "Entitlement Crisis"

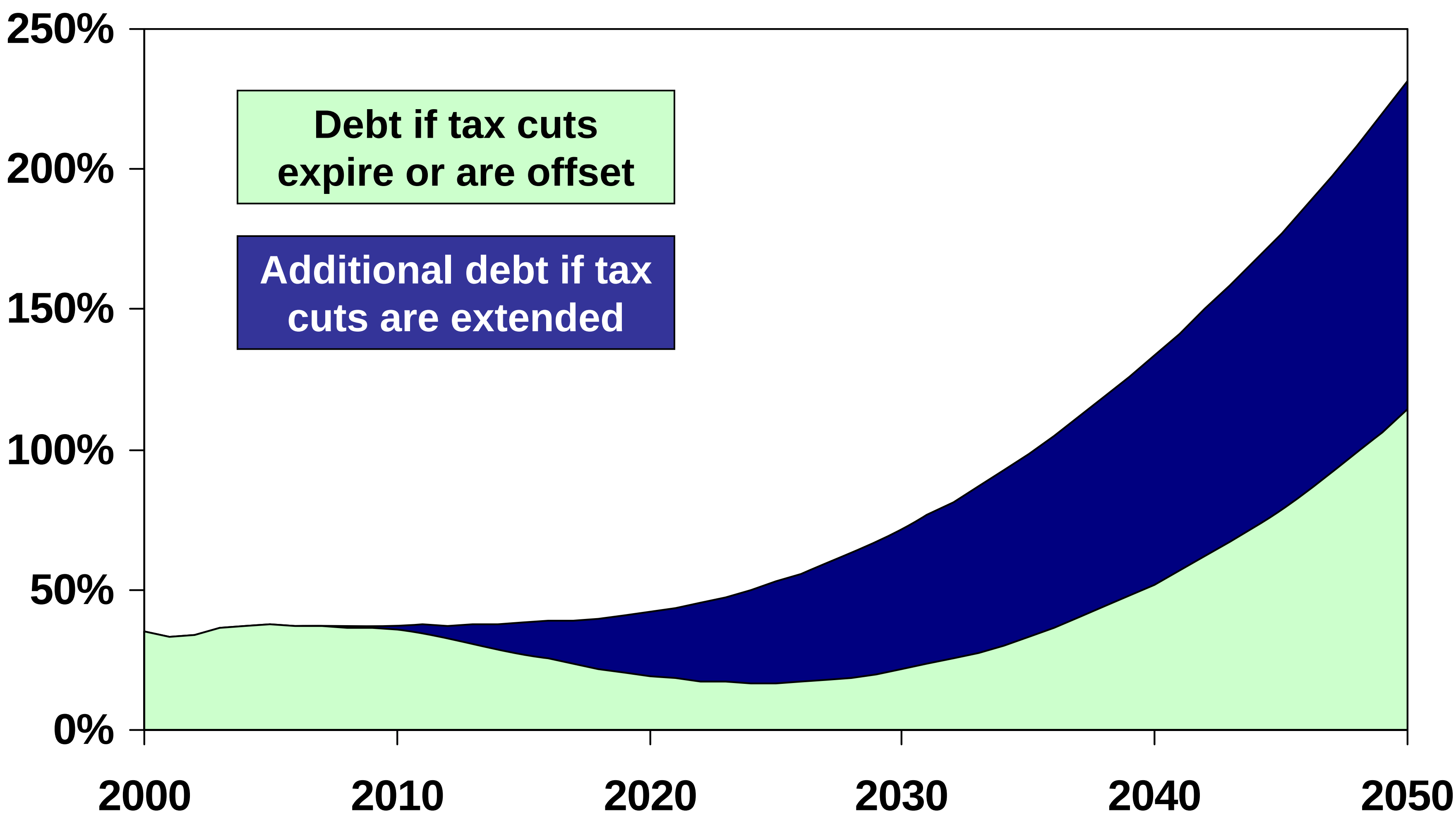
Program spending as a Share of GDP



Source: CBPP projections based on Congressional Budget Office data.

Debt With and Without Unpaid for Extension of Recent Tax Cuts

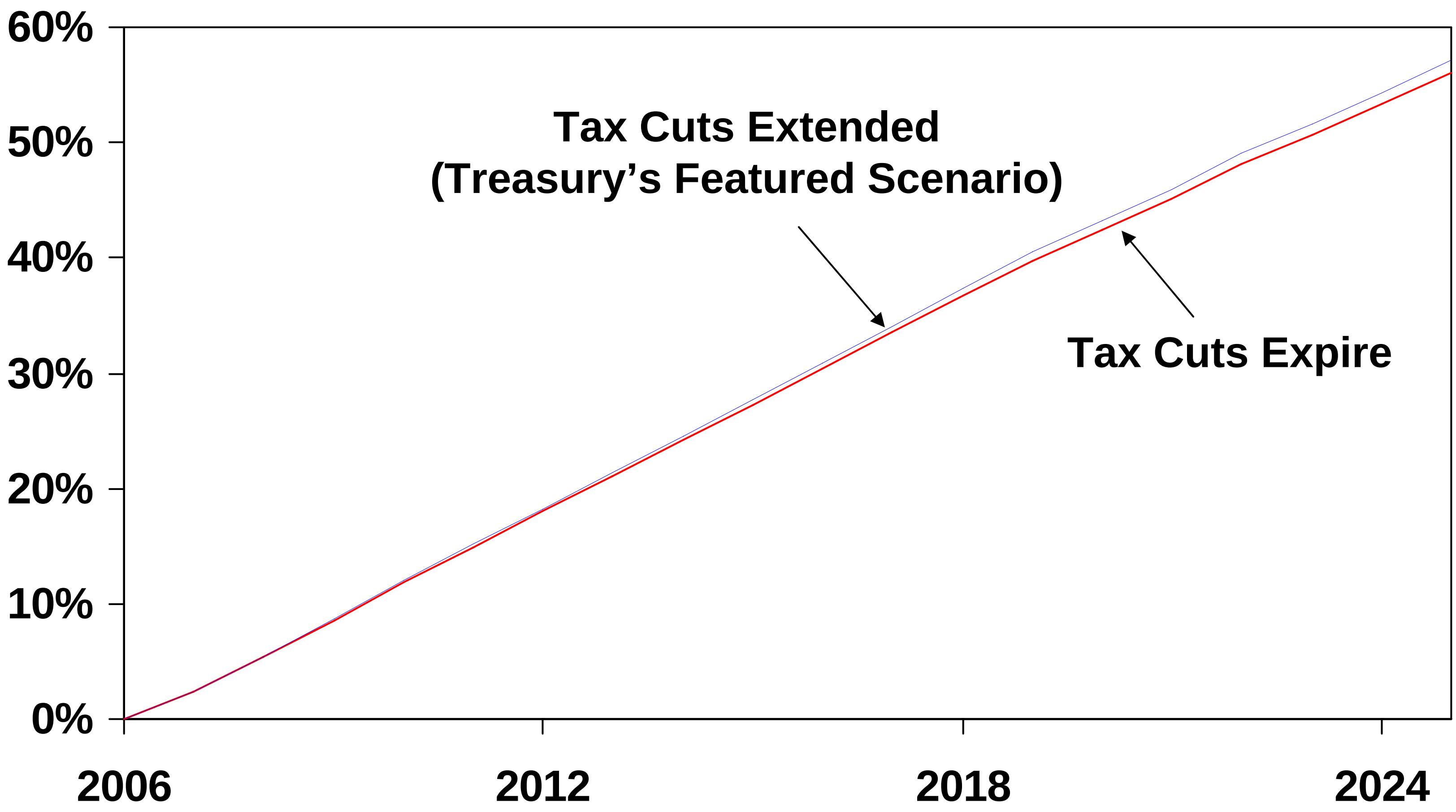
Debt as a Share of the Economy



Source: CBPP projections based on Congressional Budget Office data.

Treasury Department: Long-Run Effects of Tax Cuts on Economy Small, Possibly Negative

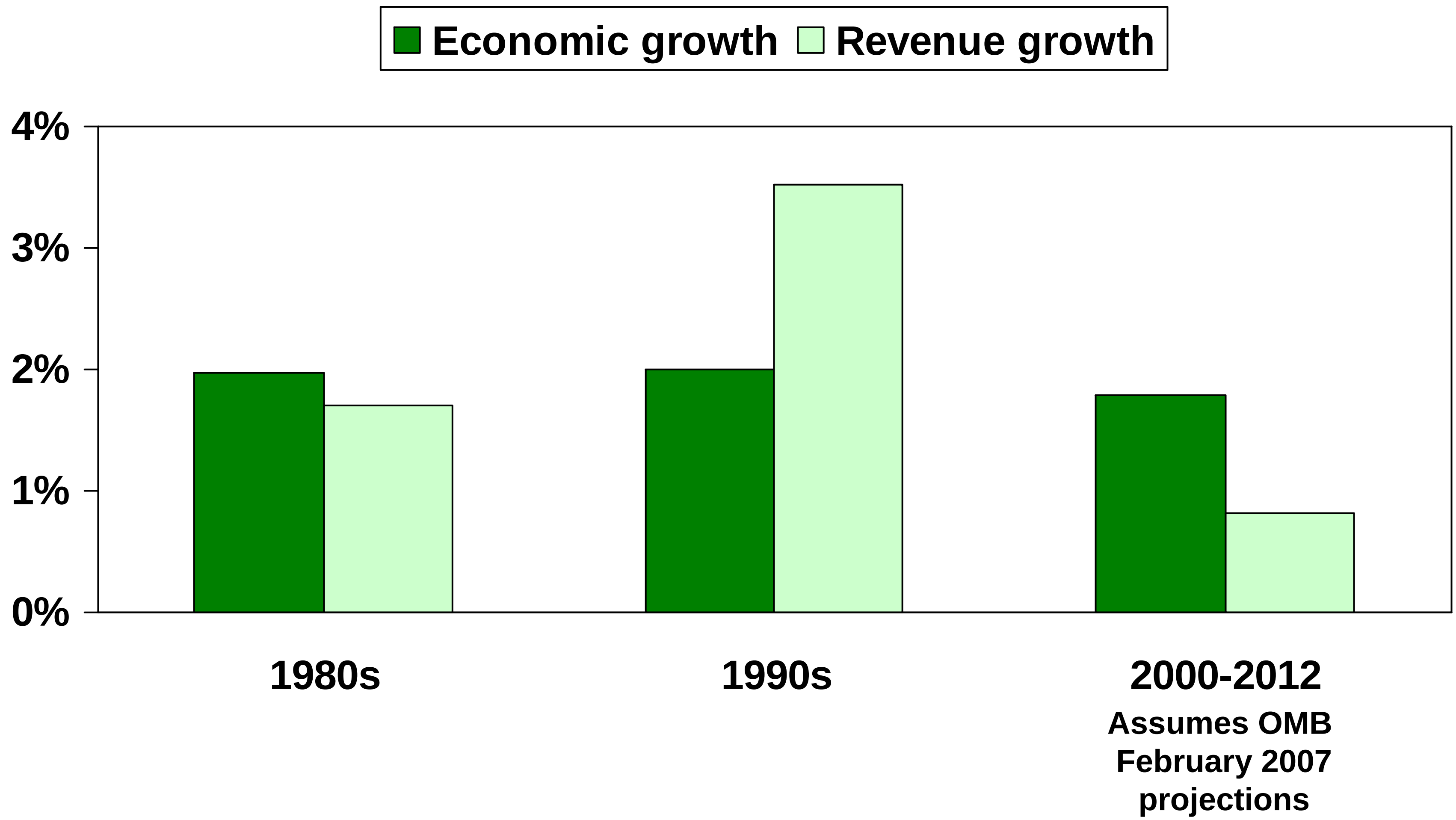
Percent Increase in Real GDP through 2025



Source: CBPP calculations based on Treasury "Dynamic Analysis." Treasury did not provide year-by-year figures, so the path provided is illustrative only. Path assumes full benefits materialize by 2025.

Economic and Revenue Growth Following 1980s and Recent Tax Cuts and 1990s Tax Increases

Growth Rates, Adjusted for Inflation and Population Growth



Source: CBPP calculations based on Commerce Department and Office of Management and Budget data.

Studies Find Recent Tax Cuts, If Not Offset, Are at Least as Likely to Reduce Long-Term Economic Growth as to Increase It

"Nearly all of the simulations [done of the tax cuts' effects on the economy] showed that the tax cuts would have positive effects in the short run and negative effects in the long run."

-- Congressional Research Service

"making the 2001 and 2003 tax cuts permanent would raise the cost of capital for new investments, reduce long-term investment, and reduce economic growth."

-- William Gale, Brookings Institution; and
Peter Orszag (formerly of the Brookings Institution,
now director of Cong. Budget Office)

Studies by **Federal Reserve economists, the Congressional Budget Office, the Joint Committee on Taxation**, and other noted experts have produced similar findings regarding the effects of unpaid for tax cuts.

IV. Where Do We Go From Here?

Likely Consequences of *Un*balanced Approach to Deficit Reduction

- Large cuts over time in programs for the poor.
- Increases in number of uninsured Americans.
- Federal government may be unable to fulfill some core functions.
- More costs shifted to states.

The Goal: *Balanced* Approach To Deficit Reduction

- Balanced approach would include revenue increases as well as spending cuts.
- Cuts would not fall disproportionately on low-income programs and would focus on “weak claims,” not “weak clients.”
- Balanced approach was taken in 1990 and 1993 by Presidents Bush and Clinton.

The Big Enchilada:
The U.S. Health Care System

- The largest factor behind the grim budget forecast is the rising cost of Medicare and Medicaid.
- The rising costs of these programs essentially reflect the rapidly rising costs in the entire U.S. health care system.
- To cut future costs in Medicare and Medicaid sharply *without* restraining costs in the health care system as a whole would necessitate draconian cuts in these programs.
- Thus, the key to addressing the future implosion of the budget is to reform the U.S. health care system

Some First Steps Under a Balanced Approach to Deficit Reduction

- Abide by “Pay As You Go” rules requiring both tax cuts and increases in entitlement programs to be paid for.
- Shelve tax cuts not yet fully in effect; do not extend expiring tax cuts unless they are paid for.
- Adopt recommendations from congressional Medicare commission to curb excessive Medicare payments to health-care providers.
- Pare back earmarks in appropriations bills.
- Adopt Joint Tax Committee proposals to curb unproductive tax breaks and shelters and reduce tax avoidance.
- Use better inflation measure for everything from Social Security cost-of-living adjustments to indexing of the tax code.