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## IN SPEECH ON U.S. CREDIT DOWNGRADE, PRESIDENT PROPOSES TO ADD \$250 BILLION TO THE DEFICIT

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- Yesterday, the President gave another [speech](#) on the budget. His remarks addressed the recent downgrade by Standard and Poor's (S&P) of the U.S. Government's credit rating, and he called for additional reductions in deficits and debt.
- Towards the end of that speech, the President mentioned three initiatives designed to address an unemployment rate that has remained stubbornly high during his Administration, despite the expenditure of hundreds of billions of dollars in "stimulus" funds.
- While the President did not offer detailed proposals or explain the significant cost associated with them, it appears he is proposing to –
  - Extend the 2 percentage-point reduction in the employee portion of the payroll tax for one year through calendar year 2012.
  - Extend the current level of enhanced unemployment benefits for one year through calendar year 2012. Permanent funding provides regular benefits, which are 26 weeks in most states. Enhanced benefits provide up to an additional 73 weeks, for a total of up to 99 weeks.
  - Provide additional support for roads, bridges, and airports. The President was unclear on the details of this proposal, but his budget included \$30 billion in new spending to establish a new National Infrastructure Bank (I-Bank). This bank would provide loans and grants for infrastructure projects and other activities that are "of significance to our Nation's economic competitiveness." (For the purposes of this analysis, Congressional Budget Office (CBO) estimates of his I-Bank proposal are used.)
- Figure 1 includes the estimated budget impact of these proposals. All of the data is based on CBO or Joint Committee on Taxation estimates. Based on these estimates and including related debt service, House Budget Committee staff estimates that the President's initiatives would increase the deficit by \$250 billion over the next 10 years.
- On Saturday, S&P [clarified](#) that its ratings are based on a three- to five-year horizon. Over three years, the President's three proposals will cost \$168 billion. By contrast, the recently enacted Budget Control Act (BCA) will save \$122 billion over three years. (The BCA includes \$917 billion in spending reductions over ten years, puts in place a process to achieve \$1.2 trillion to \$1.5 trillion more, and reduces spending by \$21 billion in the first year alone, according to the [CBO](#).)
- The Administration has already tried to address a weak economy by increasing spending, deficits, and debt. The CBO currently estimates that the stimulus law cost taxpayers \$821 billion. Despite a promise that it would hold unemployment below 8 percent, today unemployment remains at 9.1 percent, the debt stands at \$14.584 trillion, and the U.S. Government's credit rating has been downgraded for the first time in history.

**Figure 1**

<b>Estimated Deficit Impact of the President's August 8, 2011 Proposed Initiatives</b> (billions of dollars by fiscal year)											
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2012-2021</b>
Extend payroll tax reduction through calendar year 2012 <sup>1</sup>	84	28									112
Extend enhanced unemployment benefits through calendar year 2012 <sup>2</sup>	27	18									45
\$30 Billion National infrastructure bank <sup>2</sup>	0.0	0.2	1.0	2.0	3.0	3.7	4.0	4.1	3.3	2.3	23.6
<b>Subtotal</b>	<b>111.0</b>	<b>46.2</b>	<b>1.0</b>	<b>2.0</b>	<b>3.0</b>	<b>3.7</b>	<b>4.0</b>	<b>4.1</b>	<b>3.3</b>	<b>2.3</b>	<b>180.6</b>
Debt service	1.0	3.5	5.0	5.9	6.8	7.7	8.6	9.5	10.5	11.2	69.8
<b>Total Deficit Impact</b>	<b>112.0</b>	<b>49.8</b>	<b>6.0</b>	<b>7.9</b>	<b>9.8</b>	<b>11.3</b>	<b>12.6</b>	<b>13.6</b>	<b>13.8</b>	<b>13.6</b>	<b>250.4</b>

Notes:

1. Reduced revenues.

2. Increased outlays.