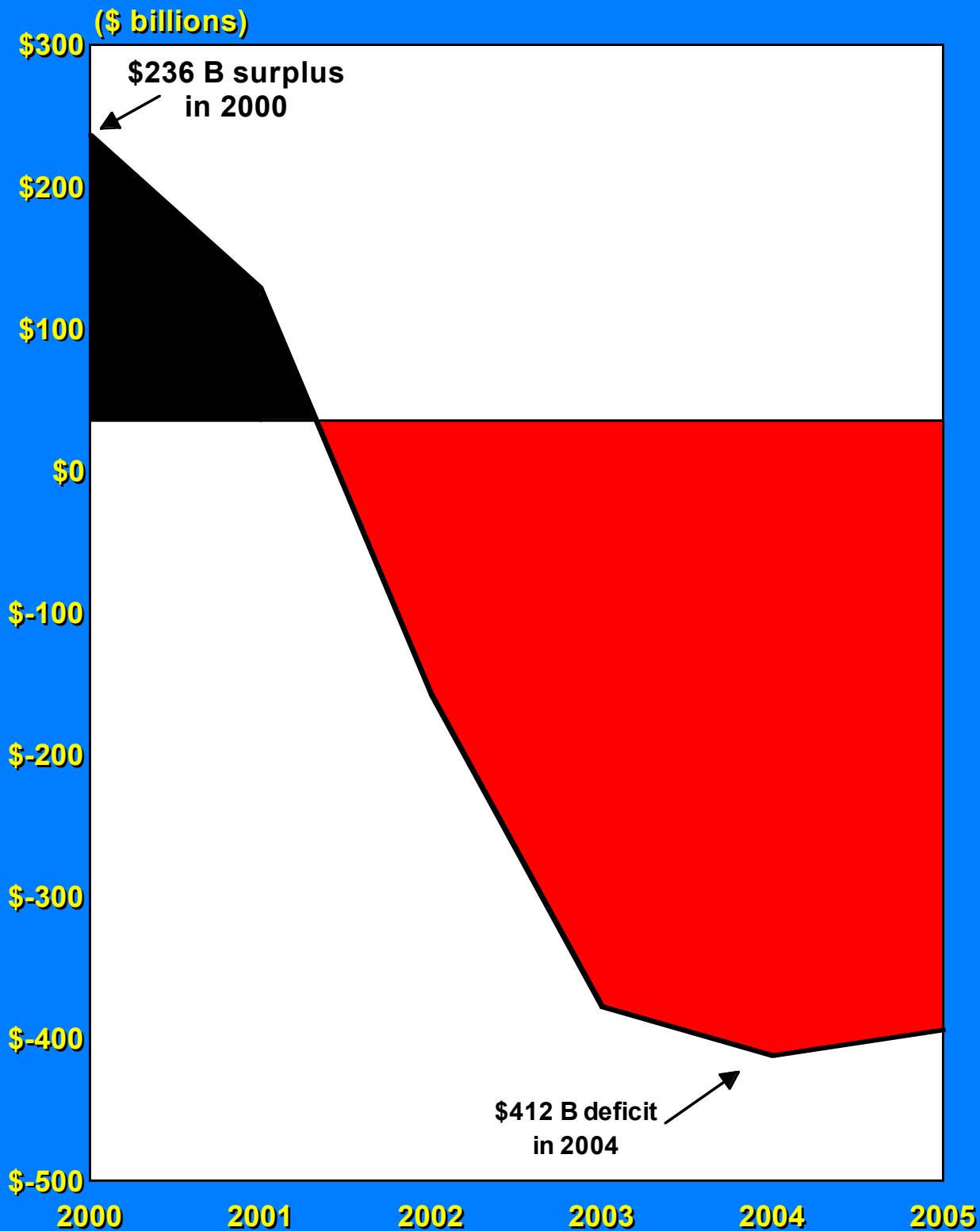


Bush Administration Said No Fear of Budget Deficits

**“[W]e can proceed with tax relief
without fear of budget deficits, even
if the economy softens.”**

**–President Bush
Remarks at Western Michigan University
March 27, 2001**

Dramatic Deterioration in Budget Picture Since 2000



Note: All years are fiscal years.

Source: CBO

Mar 14

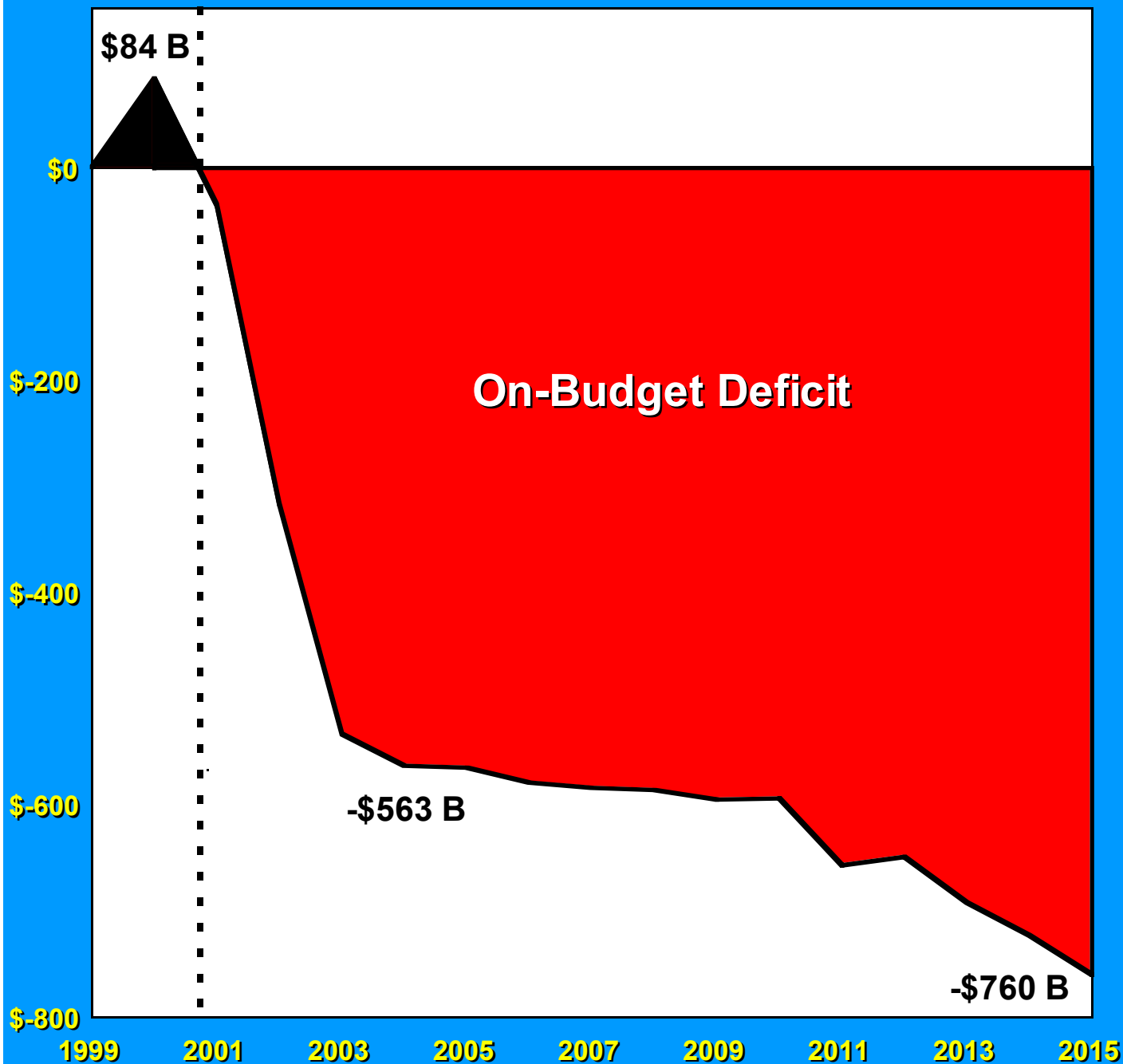
Bush Administration Promised Deficits Would be Small and Short-Term

**“...[O]ur budget will run a deficit that will
be small and short-term...”**

**–President George W. Bush
State of the Union Address
January 29, 2002**

Deficits Under Bush Budget with Ongoing War Costs, AMT Reform, and Social Security Surplus Spent

(On-budget deficit in billions of \$)



Source: CBO

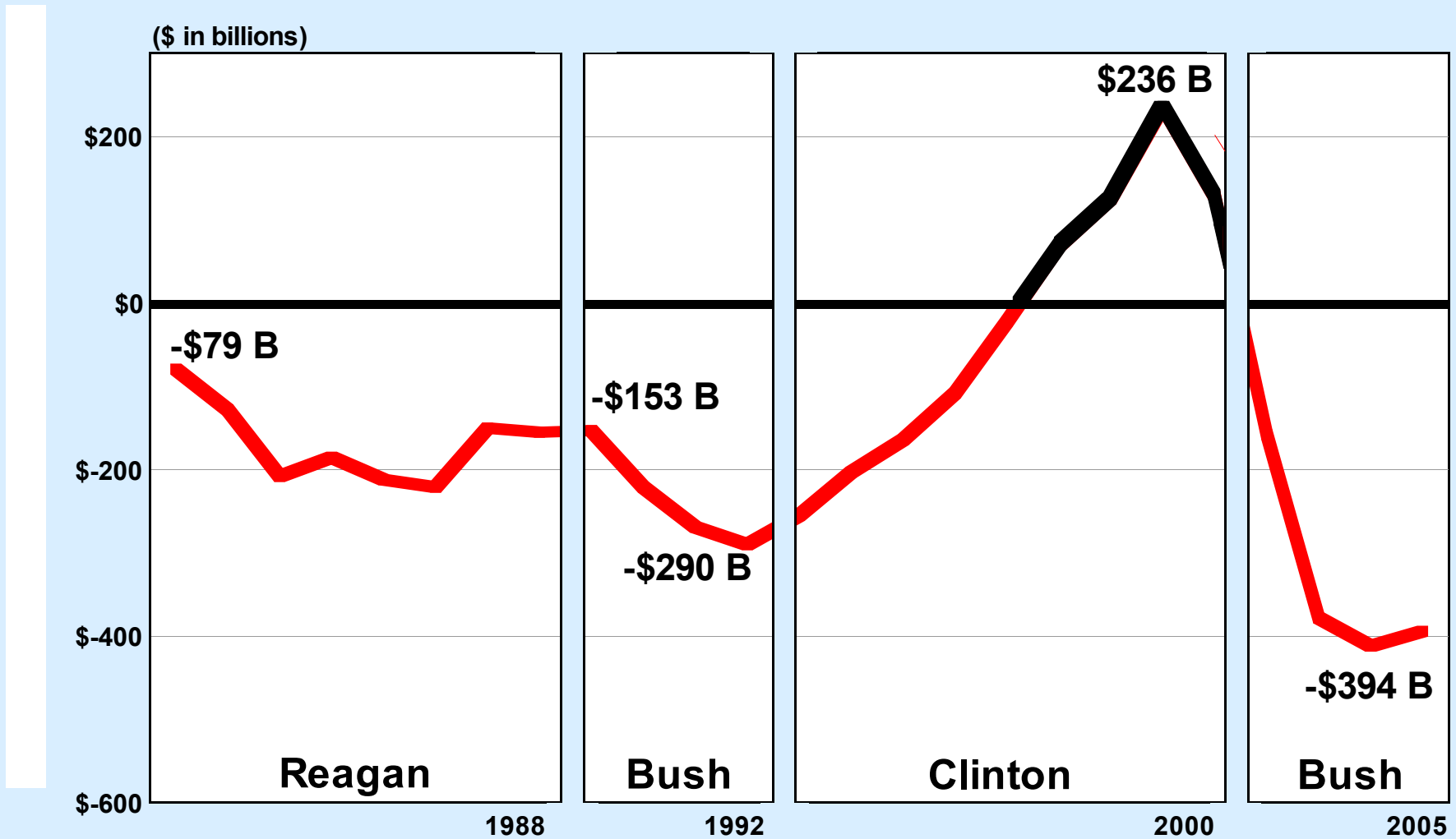
Note: CBO March 2005 reestimate of Bush FY 2006 budget with ongoing war costs and AMT reform.

Bush Administration Tried to Downplay Significance of Deficits

“[O]ur budget gap is small by historical standards.”

**– President Bush’s FY 2004 Budget, page 1
February 2003**

Reagan vs. Bush vs. Clinton vs. Bush Fiscal Accomplishments



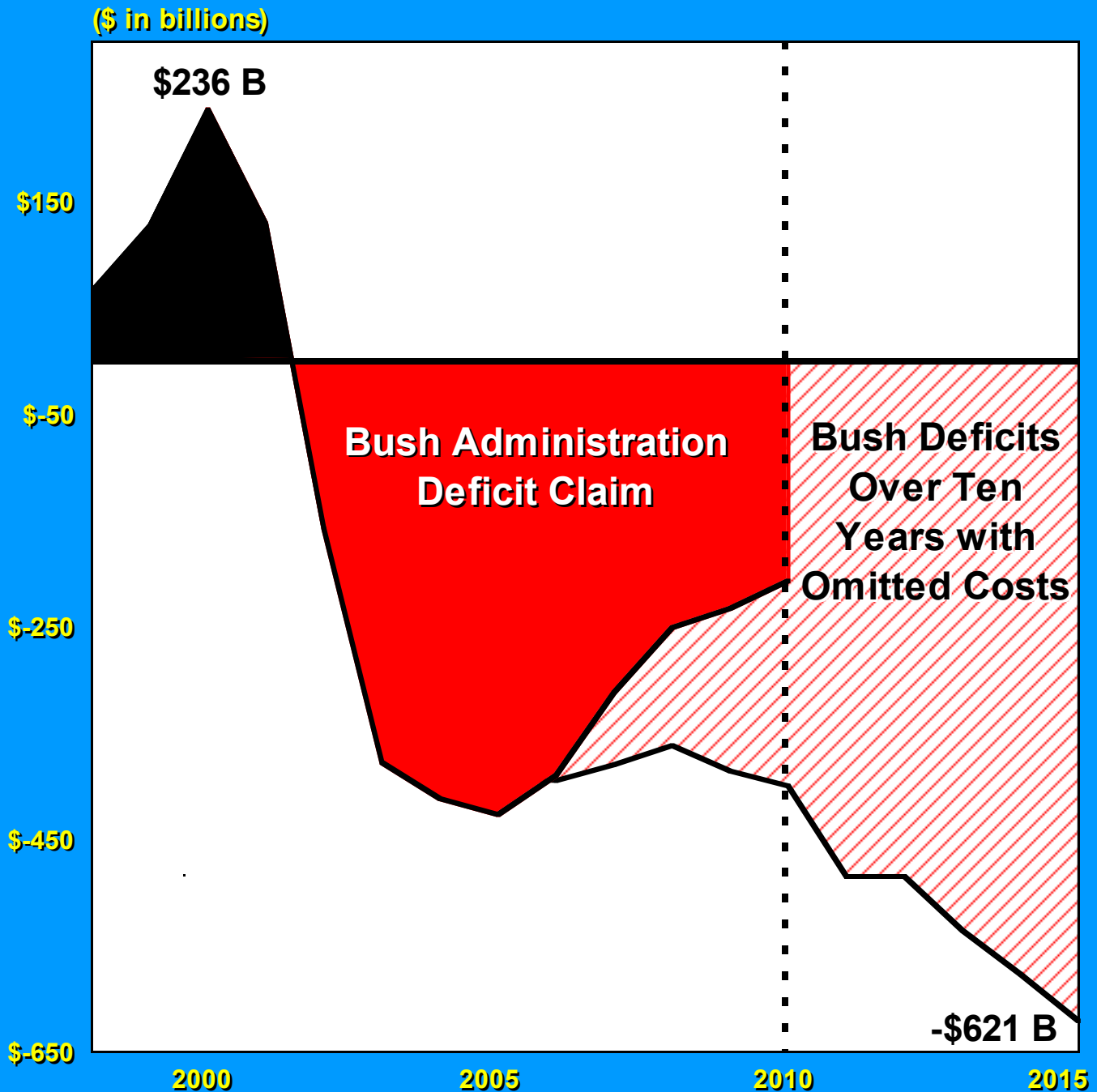
Source: CBO

Bush Administration Promised Deficits Will be Reduced in the Future

**So I can say to you that the deficit
will be cut in half over the next
five years...”**

**– President George W. Bush
Remarks in Annandale, Virginia
August 9, 2004**

Bush Budget Hides Worsening Budget Outlook



Source: OMB, CBO, SBC Democratic staff
Note: CBO March 2005 reestimate of Bush FY 2006 budget with AMT reform, ongoing war costs, and the President's Social Security privatization plan.

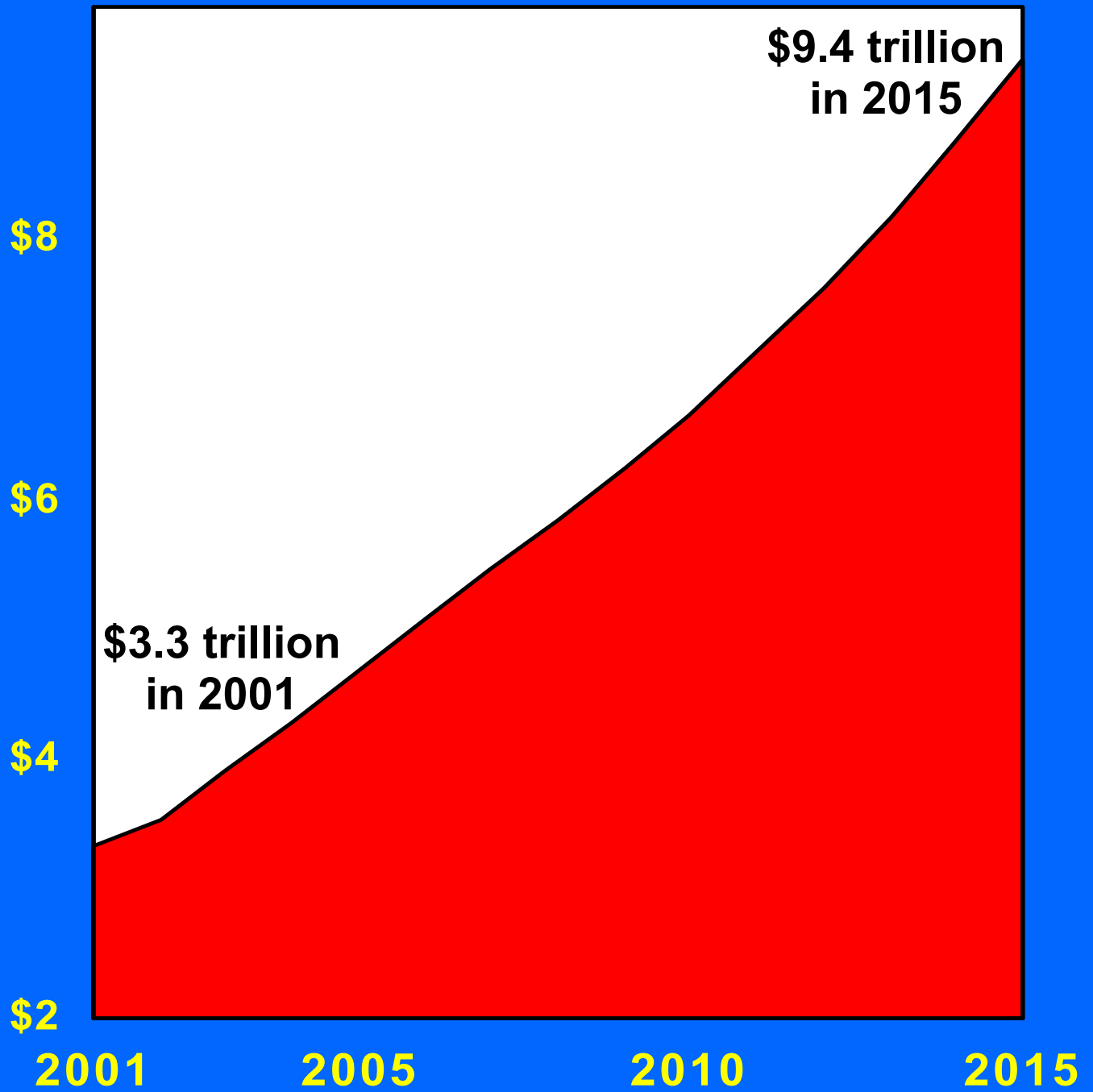
Bush Administration on Importance of Paying Down Debt

“...(M)y budget pays down a record amount of national debt. We will pay off \$2 trillion of debt over the next decade. That will be the largest debt reduction of any country, ever. Future generations shouldn't be forced to pay back money that we have borrowed. We owe this kind of responsibility to our children and grandchildren.”

**–President George W. Bush
Radio Address
March 3, 2001**

Publicly-Held Debt

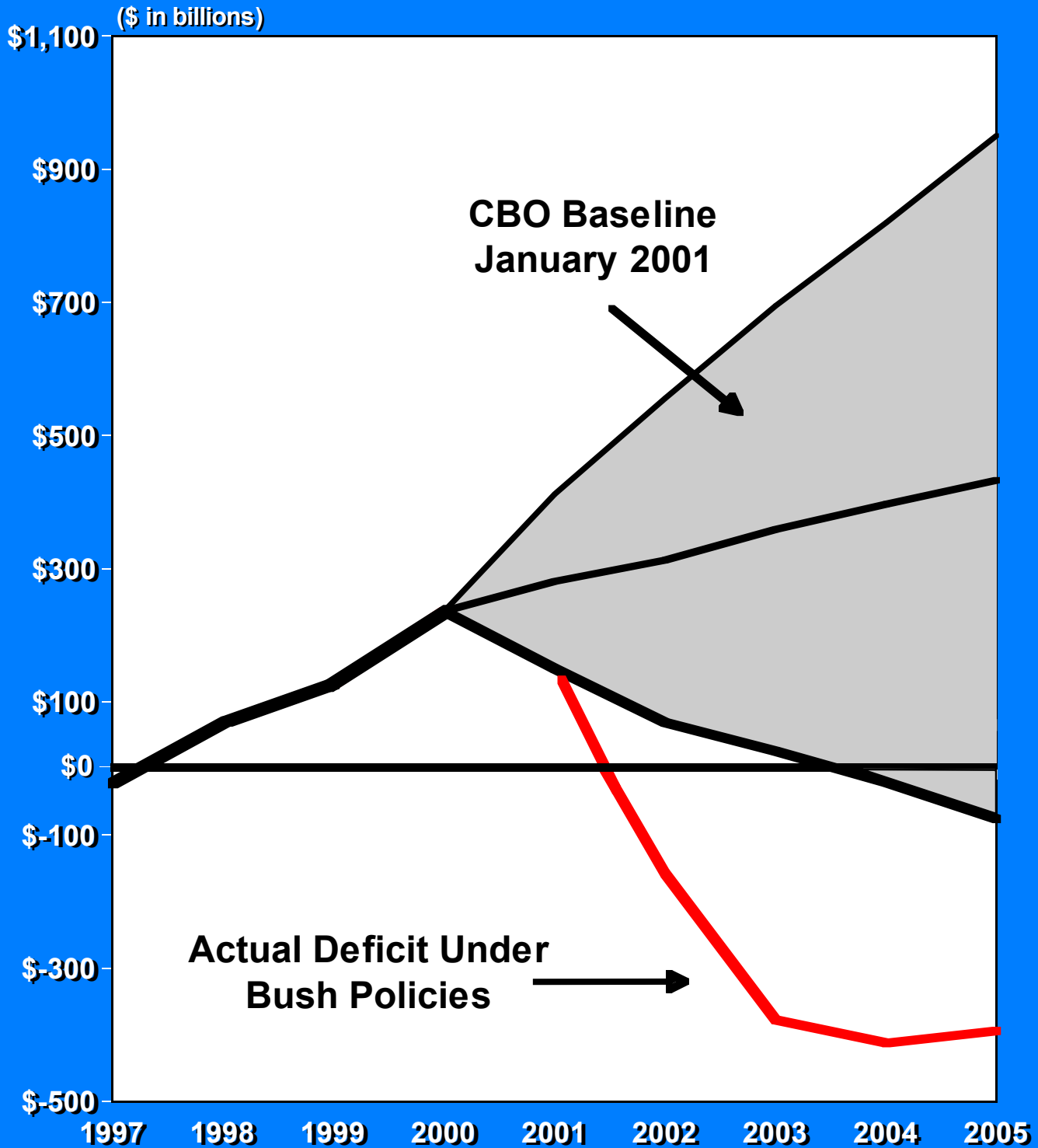
Assuming Bush Budget Policies



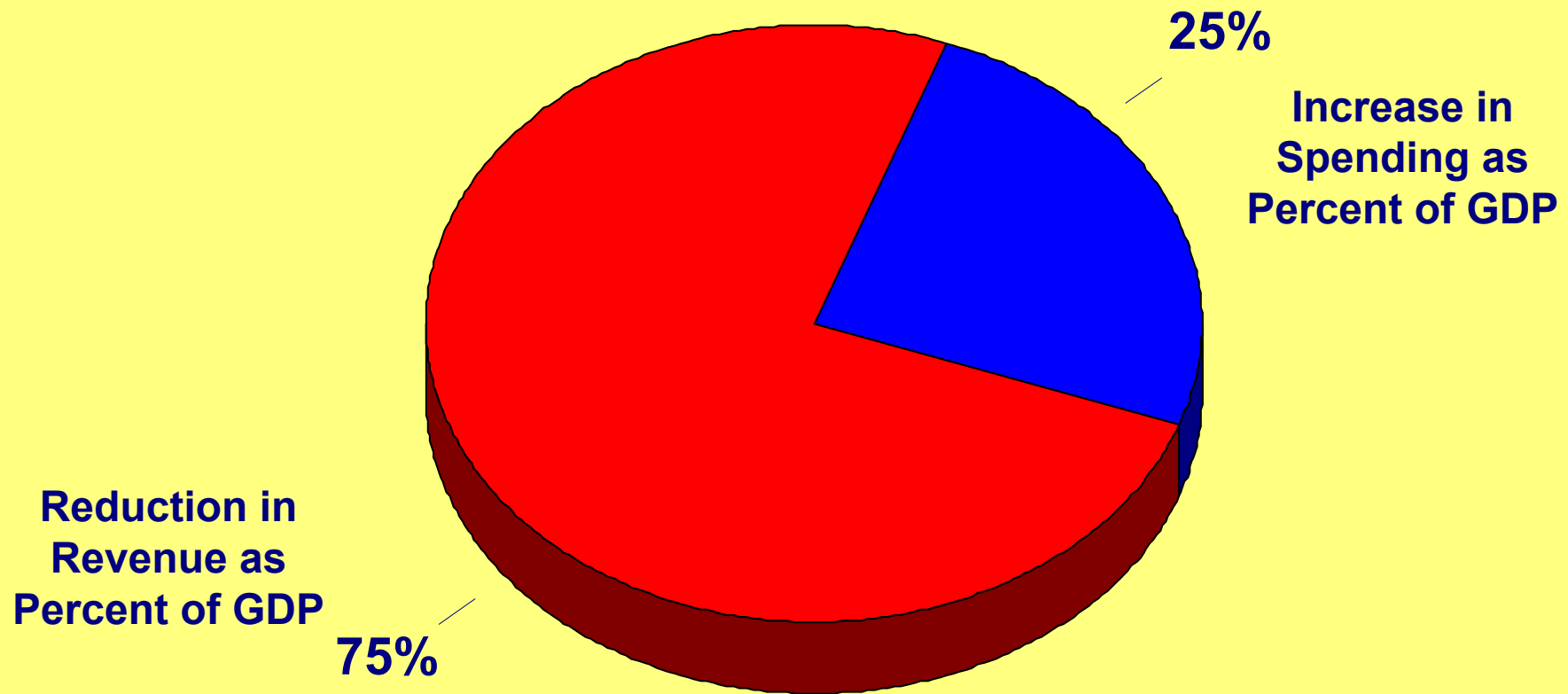
Source: SBC Democratic staff

Note: CBO March 2005 reestimate of Bush FY 2006 budget with AMT reform, ongoing war costs, and the President's Social Security privatization plan.

Bush Deficits Far Worse Than Scenarios Projected by CBO in 2001



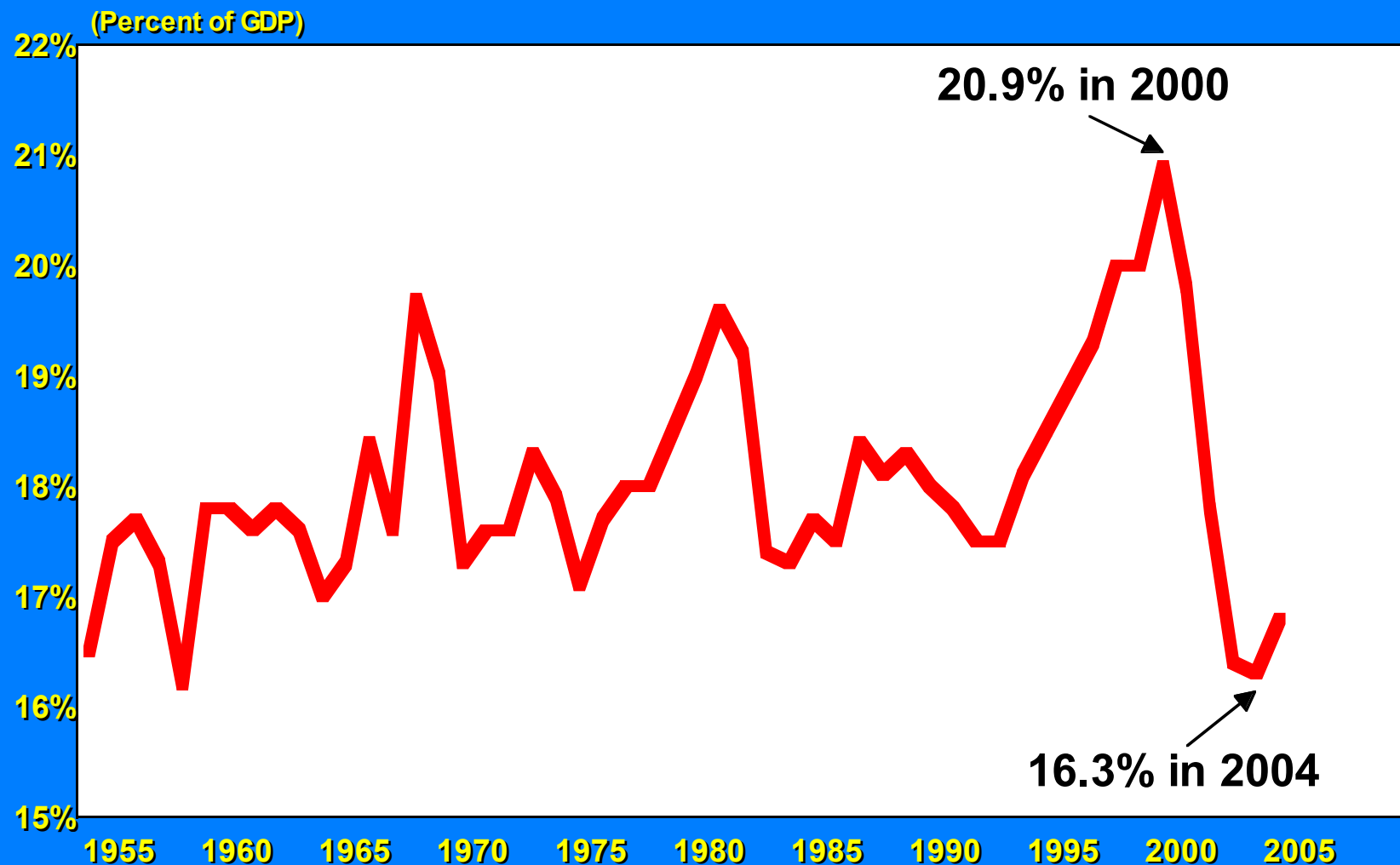
Revenue Loss Accounts for Bulk of Budget Turnaround Since 2000



Sources of Change from Surplus of 2.4% of GDP in 2000 to Deficit of 3.0% of GDP in 2005

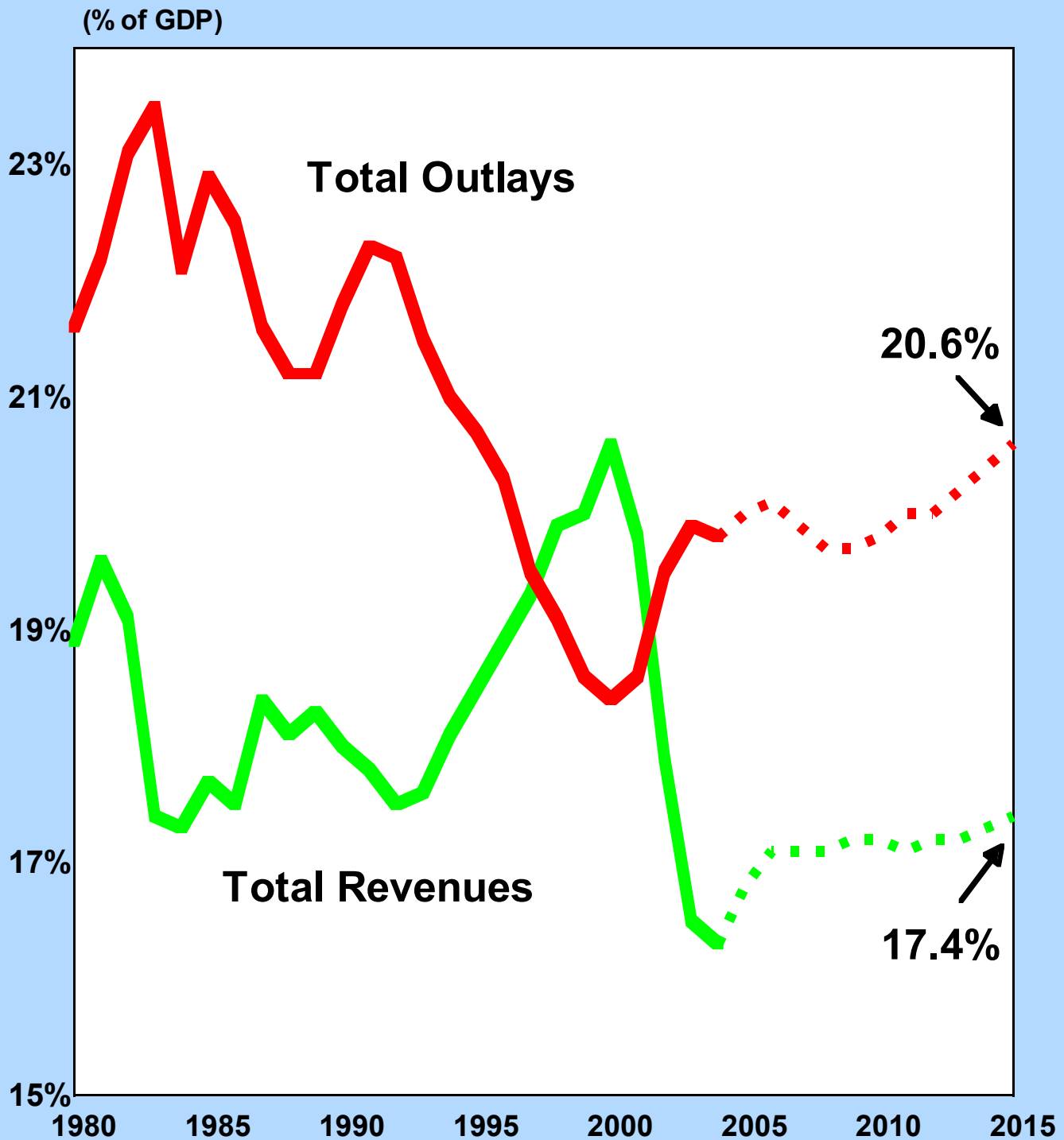
Revenues as a Percent of GDP

2004 Level is Lowest Since 1959



Source: CBO

Deficits Primarily Caused by Drop in Revenues, Not Increase in Spending



Source: SBC Democratic staff

Note: CBO March 2005 reestimate of Bush FY 2006 budget with AMT reform, ongoing war costs, and the President's Social Security privatization plan.

President Bush on the Budget Deficit

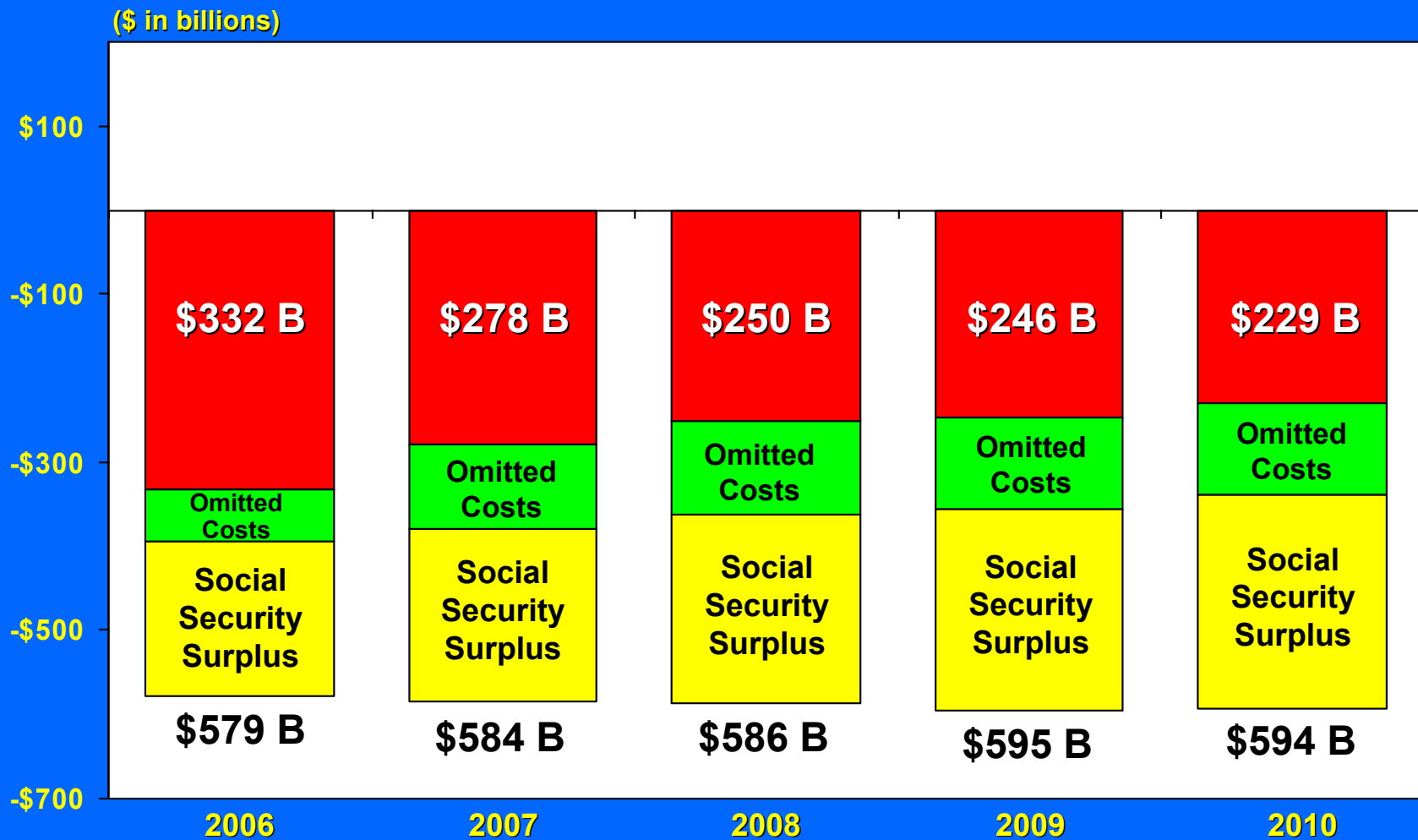
**“We’ve got to do something about
the deficit.... It’s important.”**

**– President George W. Bush
“Conversation” on Job Training
Arnold, Maryland
March 2, 2005**

What's Left Out of Bush Budget

- ✗ Full 10-Year Numbers**
- ✗ Funding for Ongoing Iraq Costs Beyond FY 2005**
- ✗ AMT Reform**
- ✗ Social Security Privatization Transition Costs**
- ✗ Spending Policy Details Beyond FY 2006 (Discretionary)**

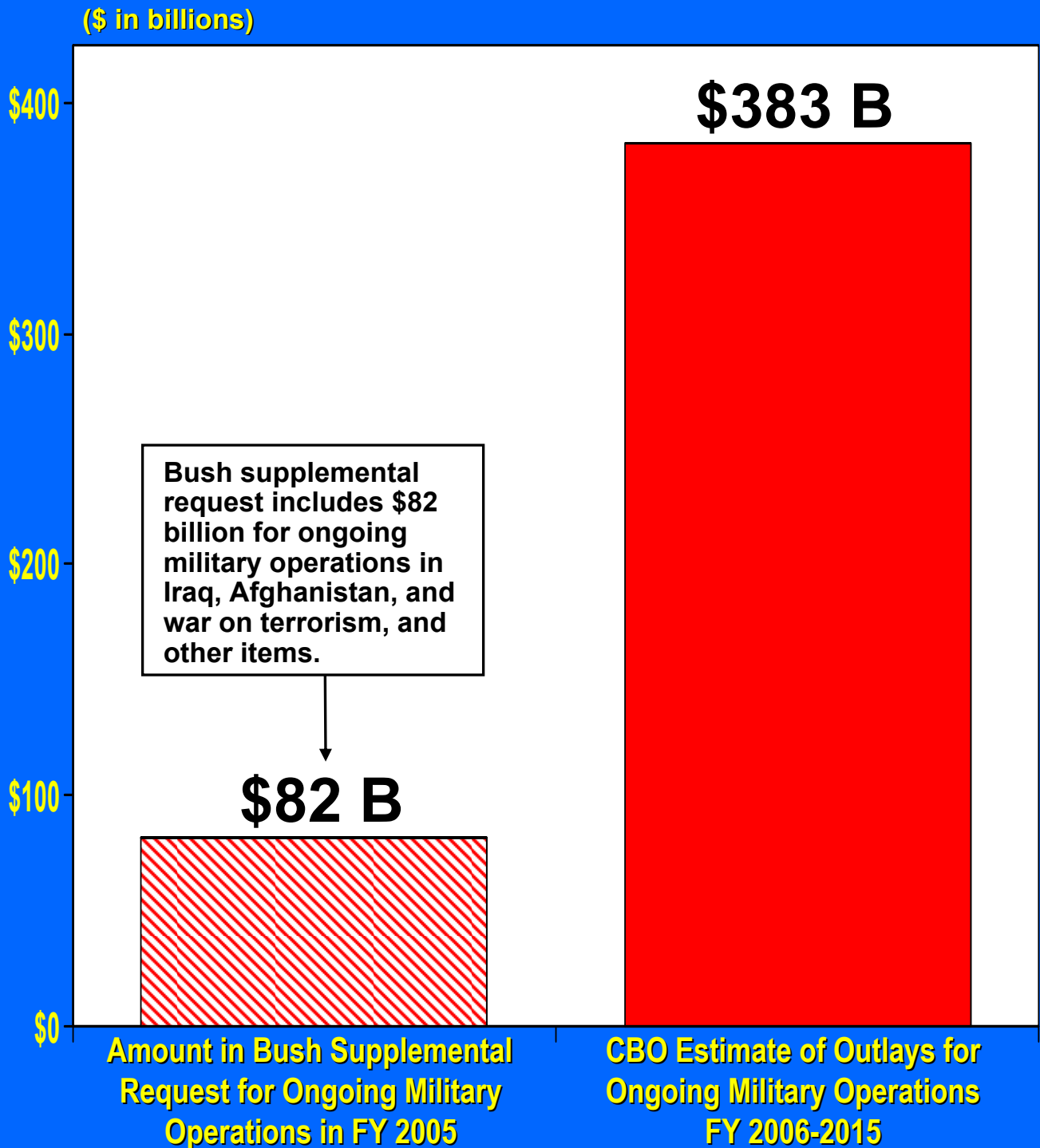
Deficits Under Bush Budget with AMT Reform, Ongoing War Costs, and Social Security Surplus Spent



Source: CBO

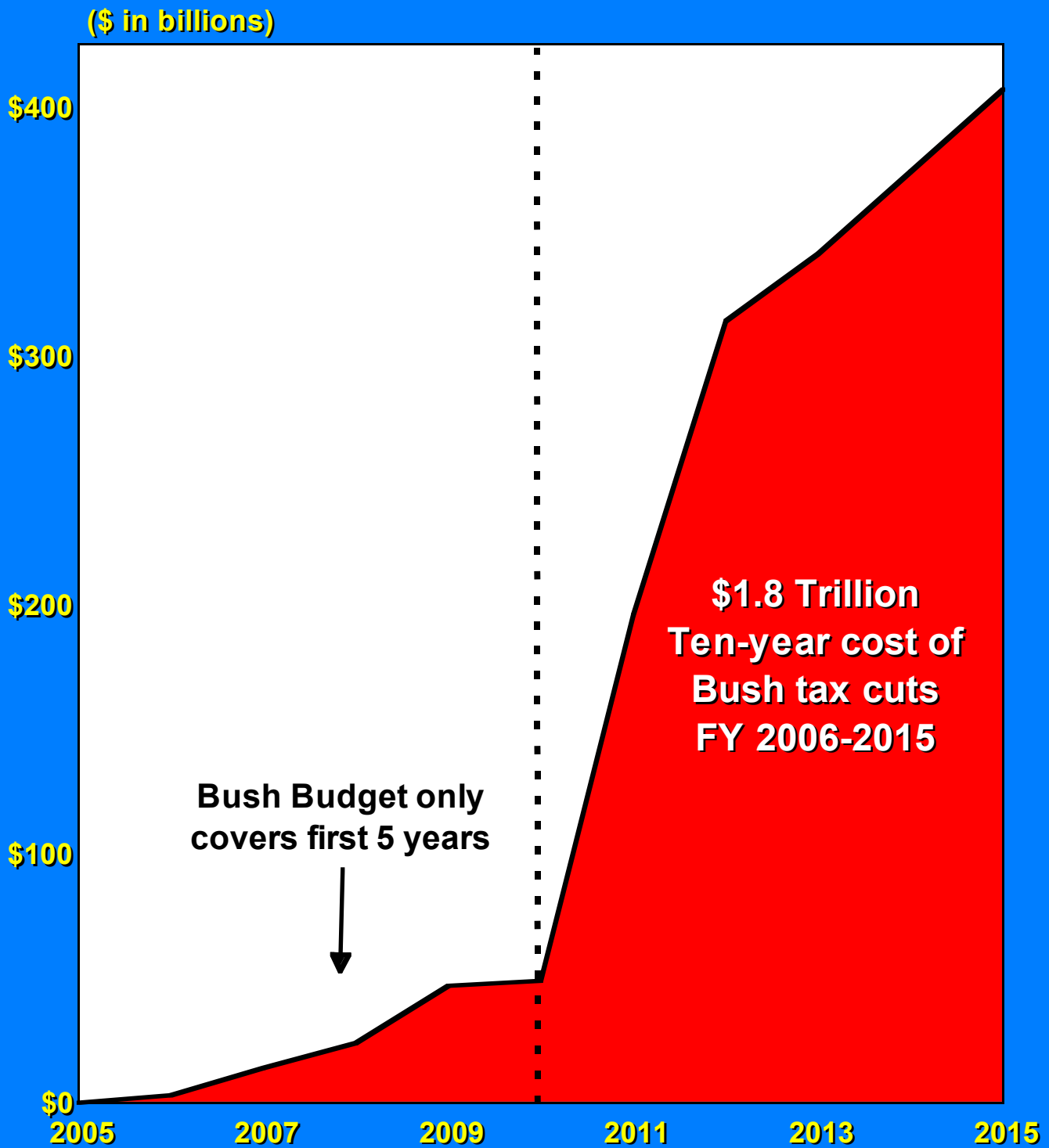
Note: CBO March 2005 reestimate of Bush FY 2006 budget. Omitted costs include AMT reform and ongoing war costs.

Long-Term Costs Underfunded for Ongoing Operations in Iraq, Afghanistan, and Continuing War on Terror



Source: OMB, CBO

Cost of Bush Tax Cuts Explodes Outside Five-Year Budget Window

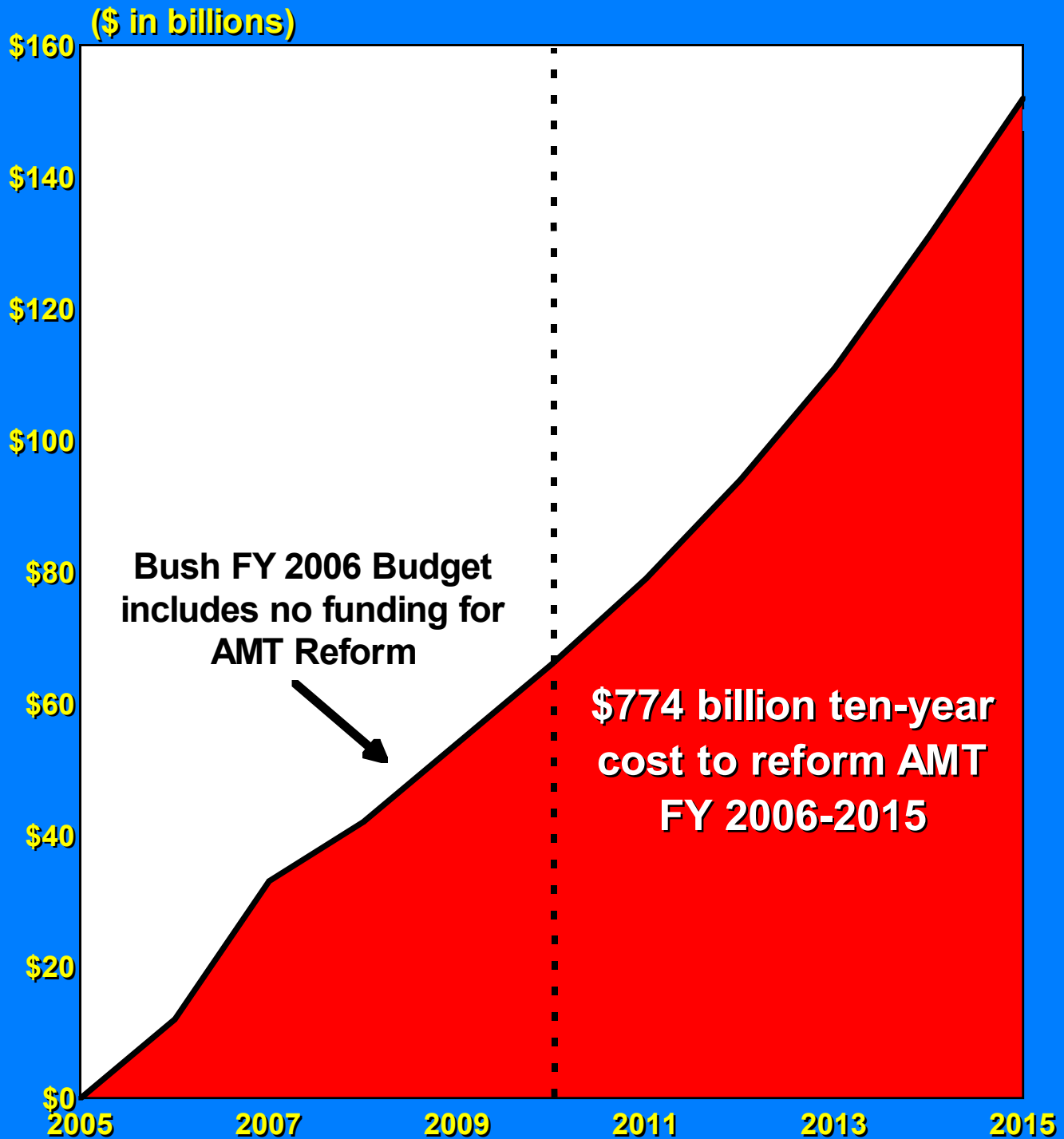


Source: CBO, Bush FY 2006 Budget

Note: Includes debt service. CBO March 2005 reestimate of Bush FY 2006 budget with AMT reform, ongoing war costs, and the President's Social Security privatization plan.

Mar 7

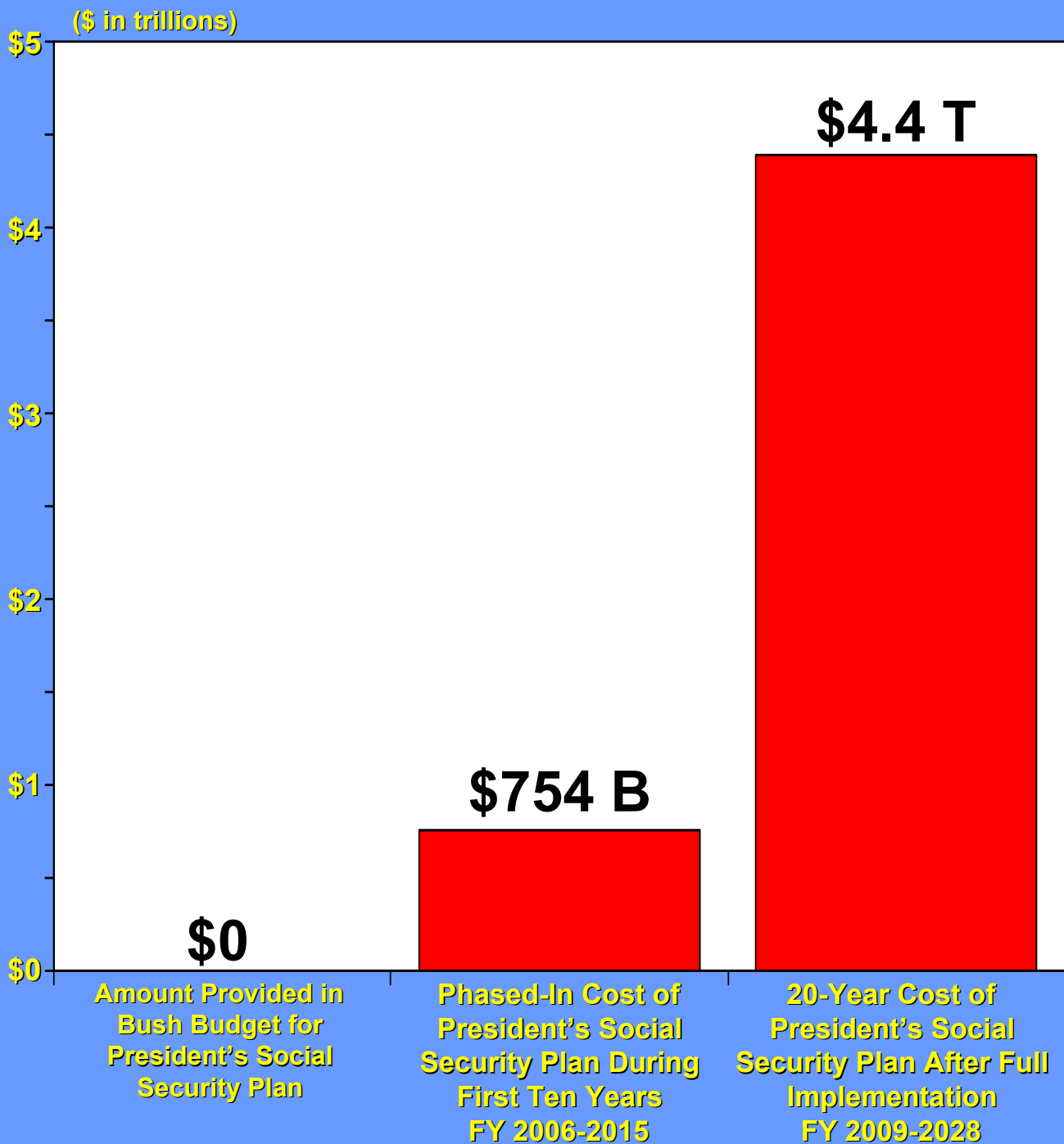
Cost of AMT Reform Explodes Outside Five-Year Budget Window



Source: CBO

Note: Includes interest cost, assumes tax cuts made permanent.

Bush Budget Provides No Funding for President's Social Security Plan



Note: The 20-year cost of President's Social Security plan assumes price indexing of benefits.

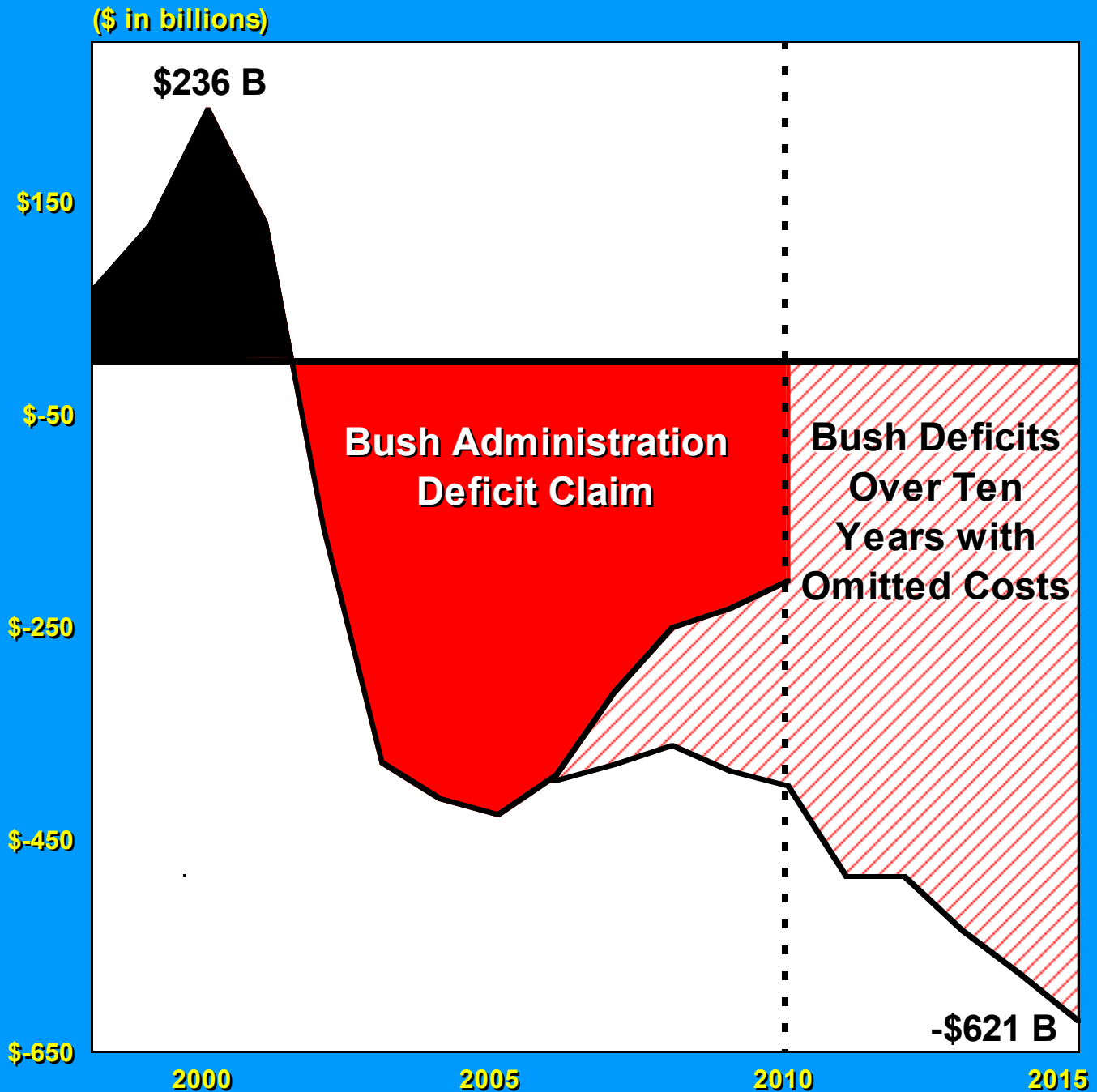
Source: OMB, SSA, CBPP

Comptroller General Walker Warns That Fiscal Outlook is Worse Than Claimed

**“The simple truth is that our
nation’s financial condition is
much worse than advertised.”**

**–GAO Comptroller General David M. Walker
Speech to National Press Club
February 2, 2005**

Bush Budget Hides Worsening Budget Outlook



Source: OMB, CBO, SBC Democratic staff
Note: CBO March 2005 reestimate of Bush FY 2006 budget with AMT reform, ongoing war costs, and the President's Social Security privatization plan.

What do the Bush Administration's Irresponsible Fiscal Policies Mean?

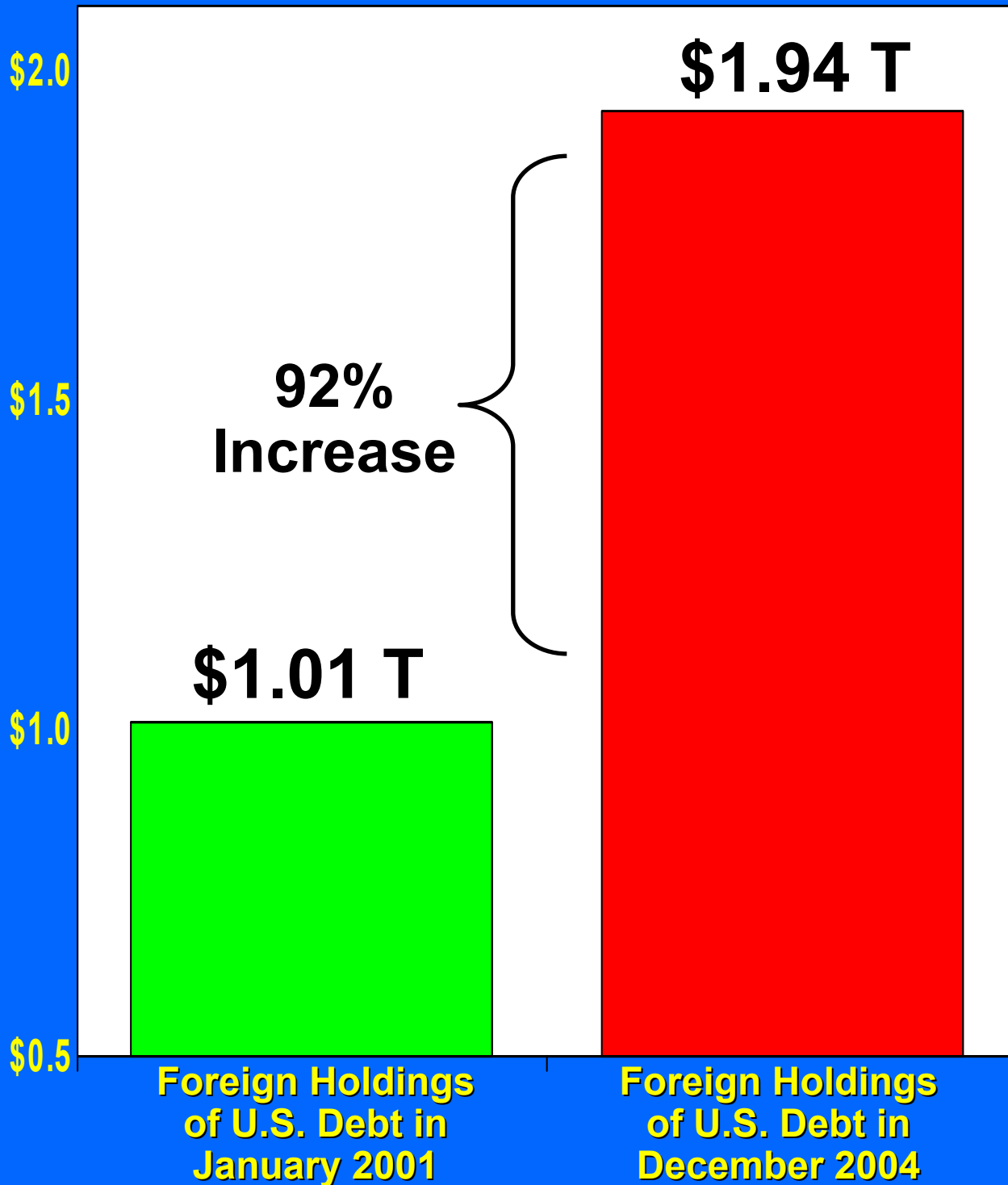
By 2015, each family's share
of the debt will total

\$73,563.

Note: Based on publicly-held debt in 2015 assuming CBO March 2005 reestimate of Bush FY 2006 budget with AMT reform, ongoing war costs, and the President's Social Security privatization plan. Families include single person households.

Foreign Holdings of U.S. Treasury Debt Have Increased 92 Percent Under President Bush

(\$ in trillions)



Source: U.S. Treasury

Top Ten Countries Holding Our National Debt

| | |
|-----------------------------|---------|
| Japan | \$712 B |
| China | \$194 B |
| United Kingdom | \$164 B |
| “Caribbean Banking Centers” | \$69 B |
| South Korea | \$69 B |
| OPEC | \$60 B |
| Taiwan | \$59 B |
| Germany | \$54 B |
| Hong Kong | \$53 B |
| Switzerland | \$51 B |

Source: Department of Treasury
Note: As of December 2004

Central banks shun US assets

Shifting reserves to eurozone will deepen Bush's difficulties in funding deficit ● Actions likely to undermine dollar's value further

By Chris Giles, Economics Editor

Central banks are shifting reserves away from US assets and towards the eurozone in a move that looks set to deepen the Bush administration's difficulties in financing its ballooning current account deficit.

In actions likely to undermine the dollar's value on currency markets, 70 per cent of central bank reserve managers said they had increased their exposure to the euro over the past two years. The majority thought eurozone money and debt markets were as attractive a destination for investment as the US.

The findings emerge from a survey of central bank reserve managers published today and conducted between September

and December of last year. About 65 central banks, controlling assets worth \$1,700bn, took part and the results showed a marked change in attitude over the past two years.

Any rebalancing of central bank reserve portfolios has serious implications for the global financial system as the US has become increasingly dependent on official flows of funds to finance its current account deficit, estimated at \$650bn in 2004.

At the end of 2003, central banks held 70 per cent of their official reserves in dollar-denominated assets and central bank purchases of US securities had financed more than 80 per cent of the the US current account deficit in 2003.

Any reluctance to increase exposure to dollar assets further could cause the greenback to plunge on currency markets.

"The US cannot take support for the dollar for granted," said Nick Carver, one of the authors of the study conducted by Central Banking Publications, a company that specialises in reporting on central banks.

"Central banks' enthusiasm for the dollar seem to be cooling off."

In a further worrying sign for the greenback, 47 per cent of reserve managers surveyed said they expected the growth of official reserves to slow to less than 20 per cent over the next four years. Between the end of 2000 and mid-2004, official reserves had increased by 66 per cent.

Slower reserve accumulation

growth implies the supply of official finance is likely to become more limited but few expect the demand from the US for finance to slow. The consensus among economists is that the US current account deficit will increase to \$694bn in 2005.

More than 90 per cent of central bank reserve managers said that the income from reserve management was "important" or "very important".

In the two years since a similar survey was conducted, reserve managers had begun to seek higher returns for the money under management.

For these managers, dollar assets have become less attractive because the fall in the dollar since 2002 has reduced the yield they received and, in some cases,

has led to negative real returns.

Alan Greenspan, the chairman of the Federal Reserve, warned in November that there was a limit to the willingness of foreign governments to finance the US current account deficit.

The survey was conducted on the guarantee of anonymity for the banks involved. The 65 central banks that participated control 45 per cent of global official reserves. Individually, they had up to \$250bn under management.

The People's Bank of China and the Bank of Japan control larger official reserves than this so it is clear that they did not respond to the survey.

US depends on central banks, Page 2
Week Ahead, Page 24
News background: www.ft.com/dollar

The Washington Post

WEDNESDAY, FEBRUARY 23, 2005



BY KIM KYUNG HOON—REUTERS

A clerk carries U.S. dollar bills at a bank in Seoul. South Korea's central bank says it plans to invest more of its holdings in currencies other than the dollar.

Korea To Limit Its Dollar Holdings

*Central Bank's Plan
Upsets Exchanges*

By PAUL BLUSTEIN
Washington Post Staff Writer

Fears flared anew yesterday that the U.S. dollar might lose a crucial underpinning of support—purchases by the world's central banks—after South Korea's central bank said in a report that it plans to invest more of its holdings in the currencies of other countries.

News of the report by the Bank of Korea sent the dollar skidding on foreign exchange markets. The euro was trading at \$1.3259 late yesterday, up from Monday's close of \$1.3067. The dollar fell to 104.04 yen, from 105.64 on Monday; and the greenback also sank against the British pound, Canadian dollar and Swiss franc.

The dollar's slide, together with a rise in oil prices to more than \$50 a barrel, drove stock prices sharply lower, with the Dow Jones industrial average falling 174.02 points, or 1.6 percent, to 10,611.20.

Analysts differed on the significance of the Korean report, which some said was neither new nor alarming. But the announcement, and the market's reaction,

See CURRENCY, E3, Col. 3

Talk in Japan Shakes Dollar And Treasuries

By JONATHAN FUERBRINGER

The dollar fell and Treasury yields rose yesterday after the Japanese prime minister made remarks that suggested the country's central bank could be shifting some of its huge reserves out of dollars and Treasury securities.

Japan's Ministry of Finance quickly denied there was any change, a statement that limited the fall of the dollar and bolstered Treasury prices. But the volatile reactions in the markets underscore that the dollar, already under pressure from the drag of the United States' record current-account deficit, has another issue that could weigh on it in the future.

"There is a heightened sensitivity to anything that smacks of reserve reallocation," said Robert Sinche, global head of currency strategy at Bank of America.

Indeed, the comments from the prime minister, Junichiro Koizumi, came less than a month after reports, later denied, that the central bank of South Korea was planning to move some of its reserve holdings out of dollars and into other currencies. Even after the denial, those reports roiled the currency markets, and the dollar fell 1.5 percent against the euro and 1.4 percent against the yen on Feb. 22.

Yesterday, the dollar slipped as much as 0.4 percent against the euro and 0.1 percent against the yen. Late in trading, the euro was valued at \$1.3424, with the dollar down 0.1 percent, and the dollar was up 0.2 percent against the yen, at 104.02 yen. The yield on the 10-year Treasury note, which jumped to 4.56 percent, finished the day at 4.50 percent, down from 4.52 percent on

Continued on Page 6

The New York Times

MONDAY, MARCH 7, 2005

In '05, Buffett Says He's Still Betting Against the Dollar

By FLOYD NORRIS

When the stock market was soaring in the late 1990's, Warren E. Buffett now says, he should have sold stocks rather than just complain that they were overvalued. Now Mr. Buffett, the billionaire investor, says he is acting on his view that the dollar is still headed down, even though it makes him nervous that so many agree with him.

"I can properly be criticized for merely clucking about nosebleed valuations during the bubble, rather than acting on my views," Mr. Buffett wrote in the annual report of his investment company, **Berkshire Hathaway**, which was released over the weekend. "Though I said at the time that certain of the stocks we held were priced ahead of themselves, I underestimated just how severe the overvaluation was. I talked when I should have walked."

The annual report showed that of the \$3.5 billion in pretax gains on investments Berkshire realized in 2004, well over half came from betting against the dollar. That included \$1.8 billion from foreign exchange contracts. A portion of the \$730 million in profits on junk bonds came from foreign exchange profits as well. The bonds were purchased in 2001 and 2002, when such bonds traded at relatively high interest rates.

Over all, Berkshire reported a decline in 2004 earnings, to \$7.31 billion, or \$4.753 a share, from \$8.15 billion, or \$5.309 a share, in 2003. Mr. Buffett said hurricanes cost the company's insurance business \$1.25 billion.

Berkshire ended the year with \$43.4 billion in cash and short-term investments, up from \$36 billion a year earlier and \$12.7 billion at the end of 2002. He said he was looking for good investments but having difficulty finding them.

On the dollar, Mr. Buffett renewed his criticism of the nation's economic policies. "The evidence grows that our trade policies will put unremitting pressure on the dollar for many years to come," he wrote, adding that Berkshire owned \$21.4 billion in foreign exchange contracts, denominated in 12 currencies, at the end of 2004.

In a 2003 article in *Fortune Magazine*, Mr. Buffett proposed that the United States achieve a trade balance — or at least a sharply reduced trade deficit — by issuing what he called "import certificates" to American companies that exported goods. The certificates could be sold by exporters, but a company could not import goods without a certificate. The idea has gained little support, and the trade deficit has continued to widen, rising to a record \$618 billion in 2004.

"There are deep-rooted structural problems that will cause America to continue to run a huge current-account deficit unless trade policies either change materially or the dollar declines to a degree that could prove unsettling to financial markets," Mr. Buffett wrote in the annual report.

If nothing is done, he said, the United States will continue to transfer ownership of assets to foreigners to finance American over consumption. Americans, he said, will eventually "chafe at the idea of perpetually paying tribute to their creditors and owners abroad."

"A country that is now aspiring to an 'Ownership Society' will not find happiness in — and I'll use hyperbole here for emphasis — a 'Sharecropper's Society.' But that's precisely where our trade policies, supported by Republicans and Democrats alike, are taking us."

Mr. Buffett's reputation was built on buying stocks, and sometimes whole companies, cheaply, and on rarely selling stock in what have become Berkshire's principal holdings. In the new annual report, he said that Berkshire's "big four" stock positions — **American Express, Coca-Cola, Gillette and Wells Fargo** — had performed well in terms of their businesses, but that he had underestimated how overvalued they had become during the bubble. Of the four, only Wells Fargo now trades for more than it sold for in 2000, while where our trade policies, supported by Republicans and Democrats alike, are taking us."

Mr. Buffett's reputation was built on buying stocks, and sometimes

whole companies, cheaply, and on rarely selling stock in what have become Berkshire's principal holdings. In the new annual report, he said that Berkshire's "big four" stock positions — **American Express, Coca-Cola, Gillette and Wells Fargo** — had performed well in terms of their businesses, but that he had underestimated how overvalued they had become during the bubble. Of the four, only Wells Fargo now trades for more than it sold for in 2000, while Coca-Cola is worth less than half its peak value.

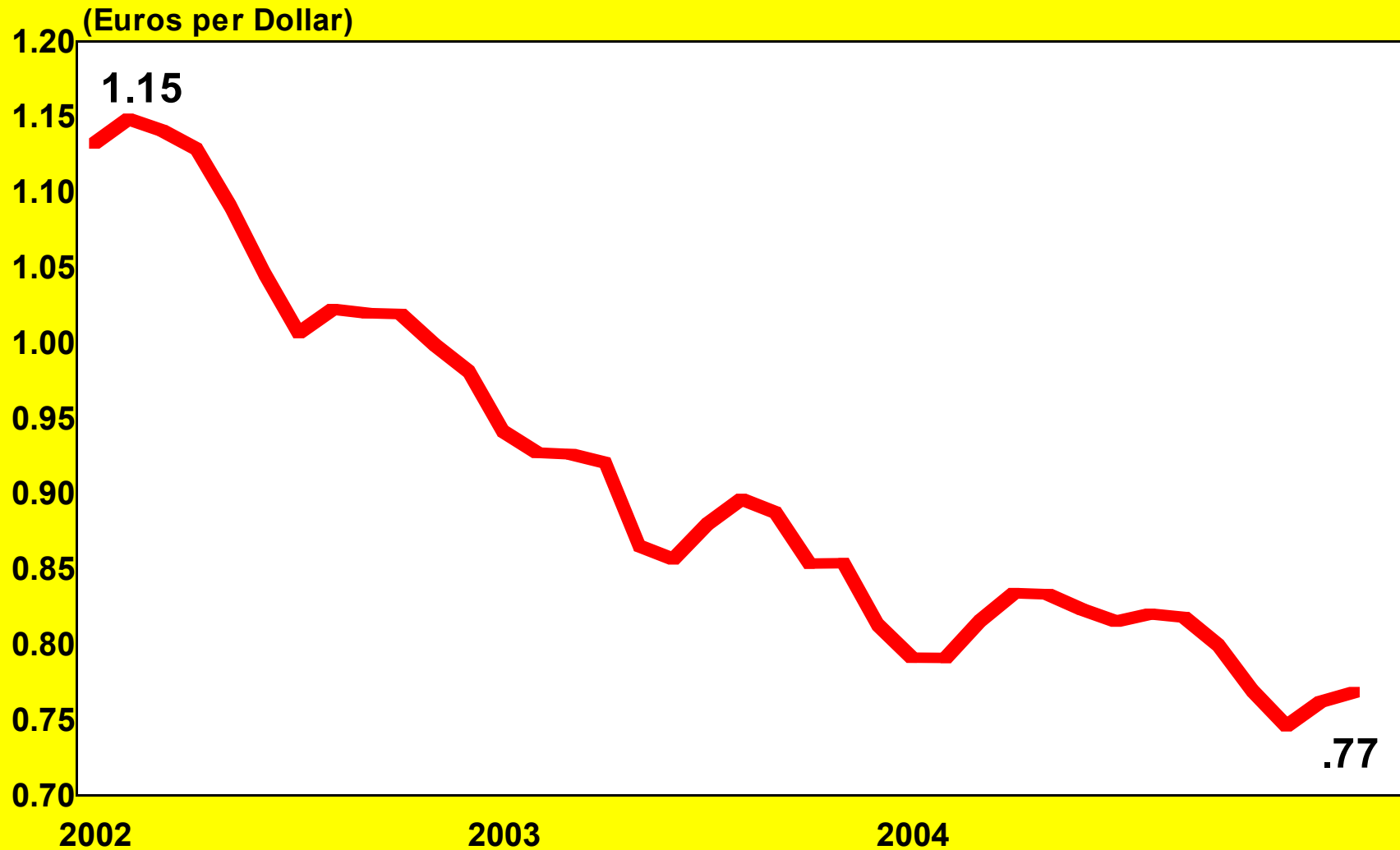
In a long discussion of Berkshire's insurance holdings, Mr. Buffett did not mention reports that **American International Group** is being investigated by federal and New York state authorities for selling a product to a Berkshire company that may have distorted financial statements.

The annual report does say that the liquidator of two failed insurance companies in Australia, FAI Insurance and HIH Insurance, planned to assert claims against Berkshire. The liquidator contends that Berkshire's General Re unit contributed to the companies' collapse by helping them with improper accounting. Berkshire said it could not predict the result of the claim.

Unlike most major companies, Berkshire has never granted stock options, and Mr. Buffett has been a vocal proponent of treating the value of such options as an expense, something that is now required in Europe and that will be required in the United States beginning June 15 unless Congress intervenes. He urged Berkshire shareholders to oppose Congressional action.

But in the annual report, Mr. Buffett, who is 74, said it was possible that Berkshire would change its policies. "My successor at Berkshire may well receive much of his pay via options," he wrote, quickly adding that such options would have to be structured to prevent the rapid sale of shares after options were exercised.

Dollar Declines More Than 33 Percent Against Euro



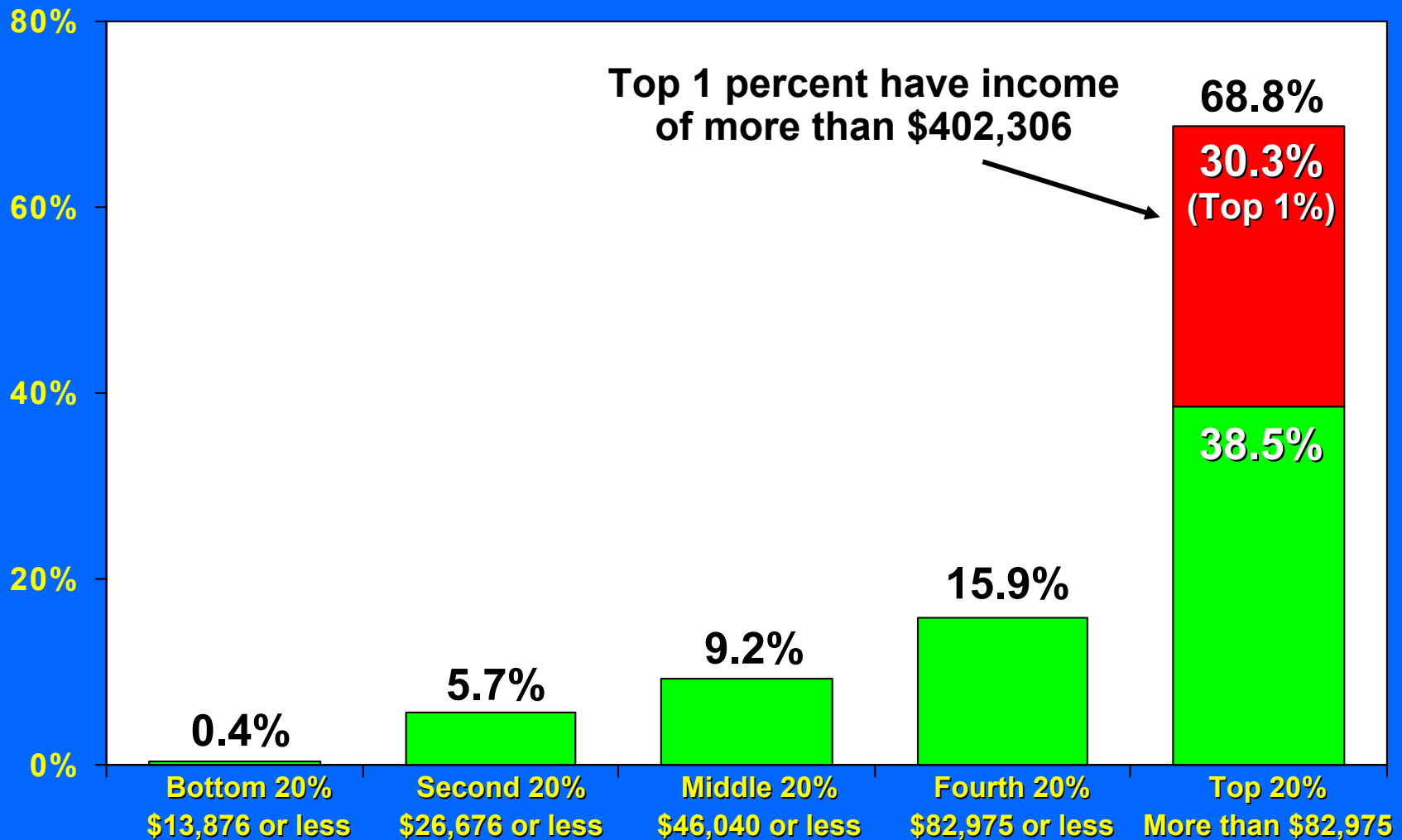
Source: Federal Reserve Board

Higher Interest Rates Will Burden Families

For the typical American family, a one percent increase in interest rates will raise the payment on a 30-year home mortgage of \$150,000 by \$1,200 per year.



Top 20 Percent of Taxpayers Get More Than Two-Thirds of Bush Tax Cuts in 2006



Source: Tax Policy Center

Note: Benefits in 2006.

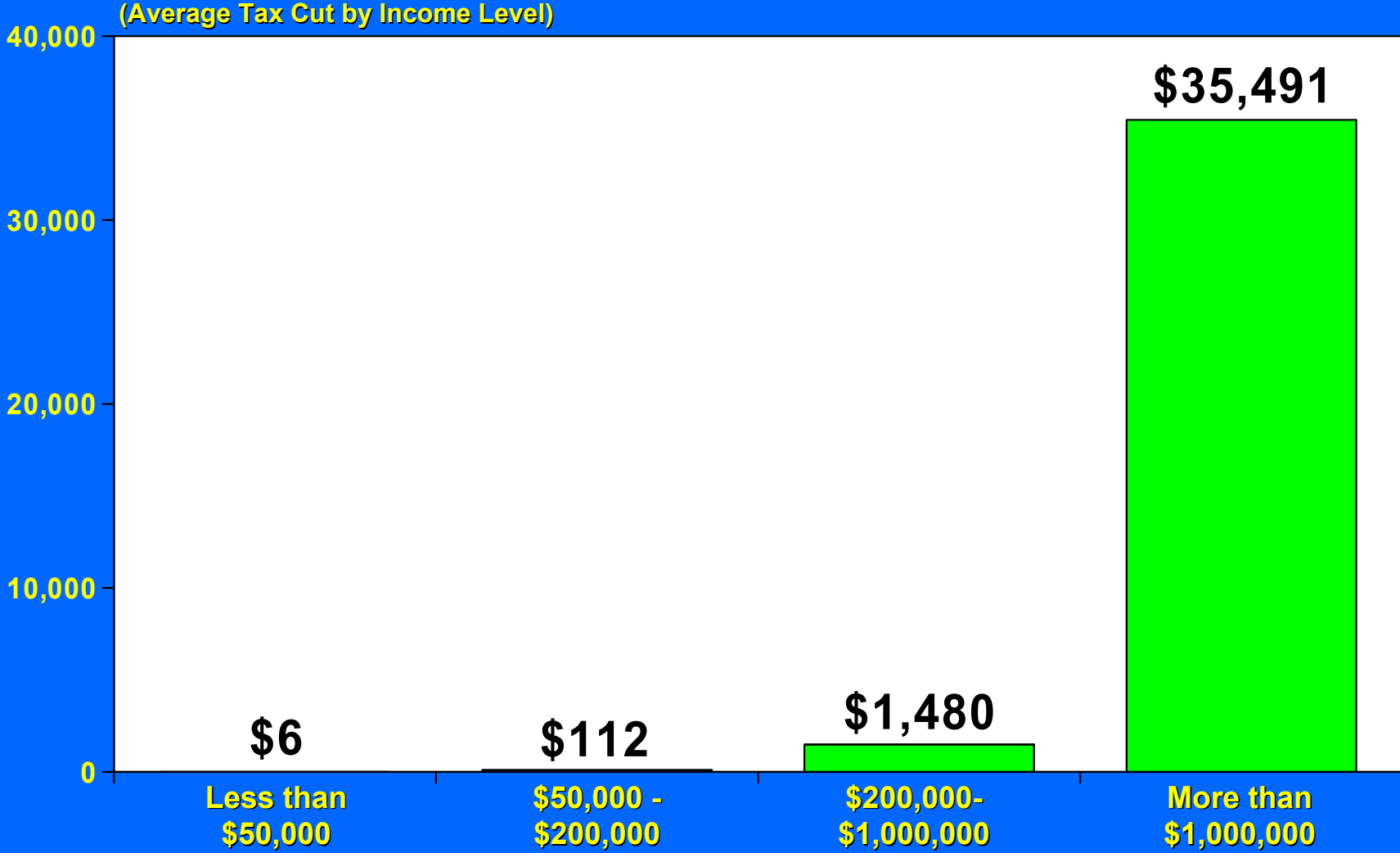
How the Tax Benefits Stack Up

Average Tax Cut in 2004



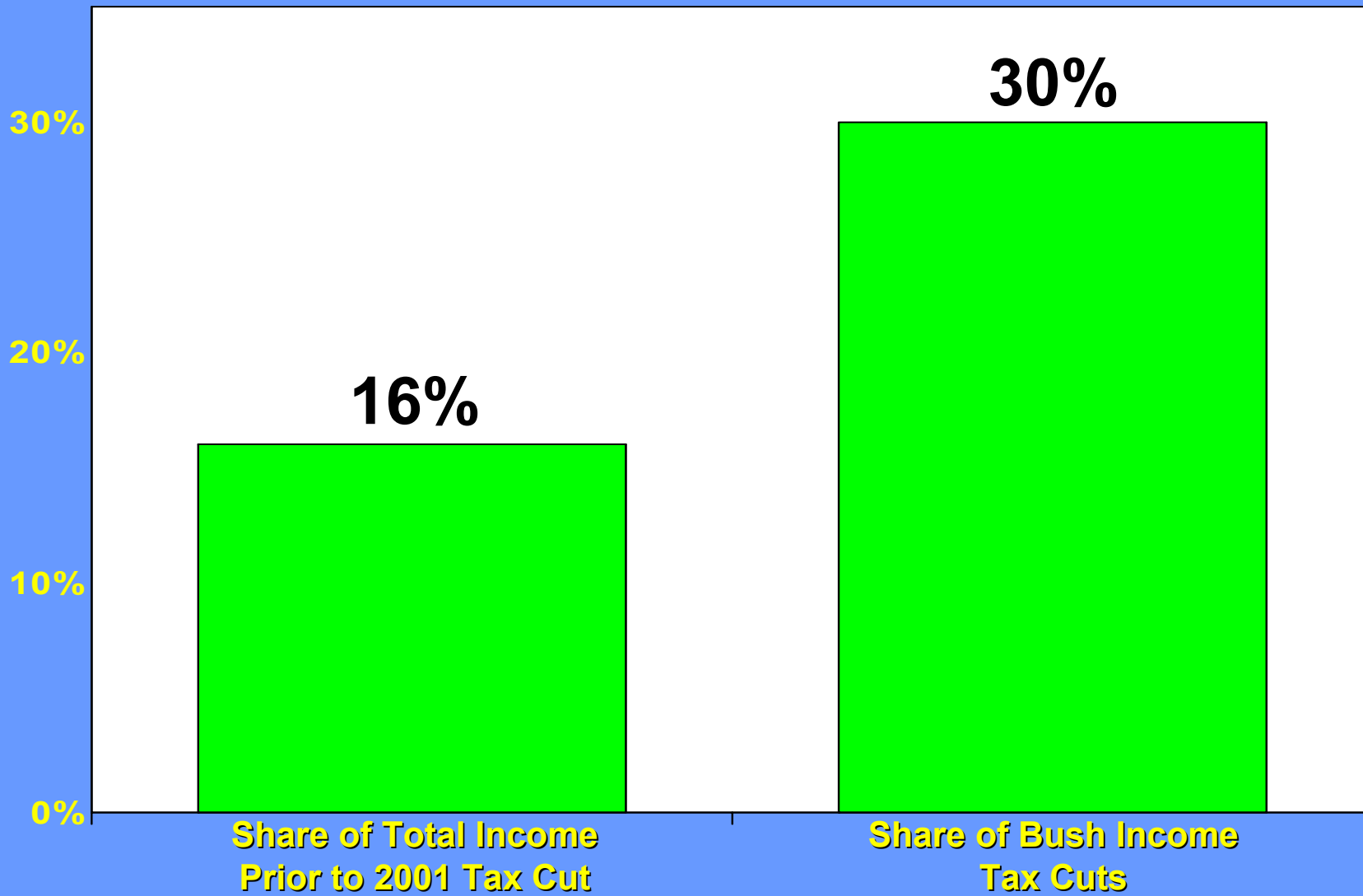
Source: CBO September 2004 estimate

Dividends/Capital Gains Cut Provides Millionaires a \$35,000 Tax Break



Source: Urban-Brookings Tax Policy Center

Share of Benefits of Bush Tax Cuts for Top 1% is Disproportionate to Their Share of Income

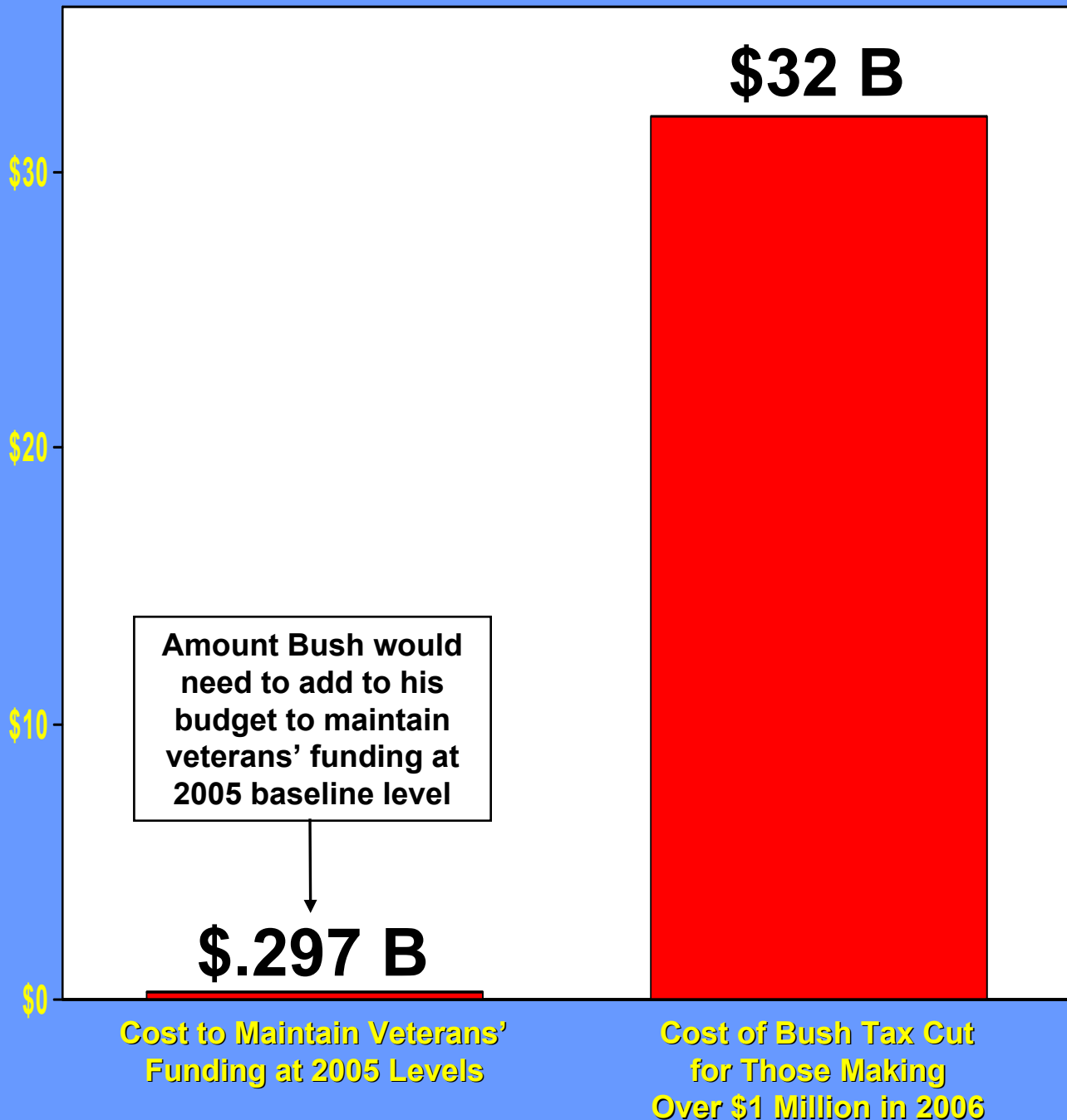


Source: Tax Policy Center

Note: Combined effects of EGTRRA and JGTRRA in 2006

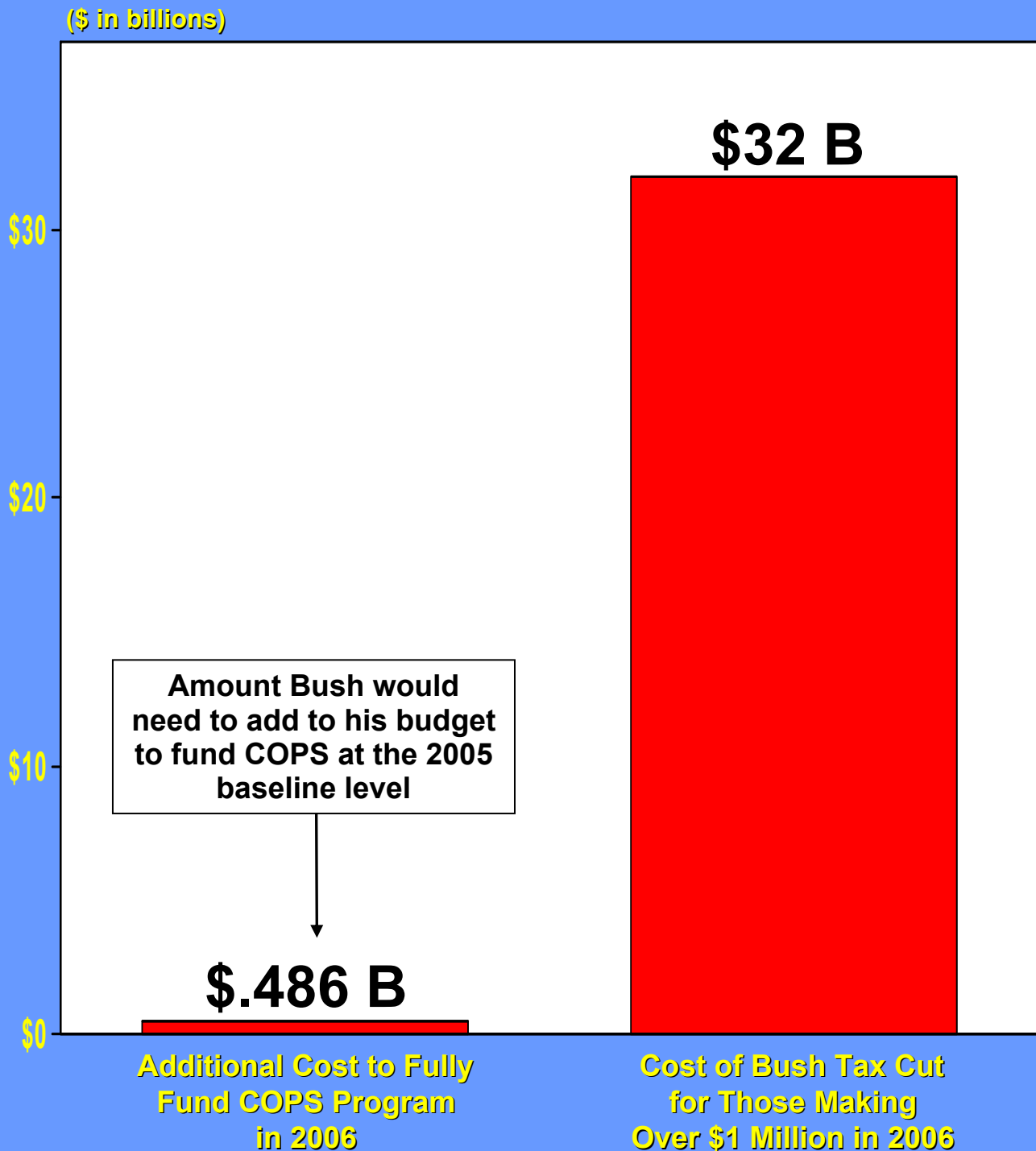
The Wrong Priorities: Bush Plan to Cut Veterans' Funding Saves Little Compared to Cost of Tax Cuts for Millionaires

(\$ in billions)



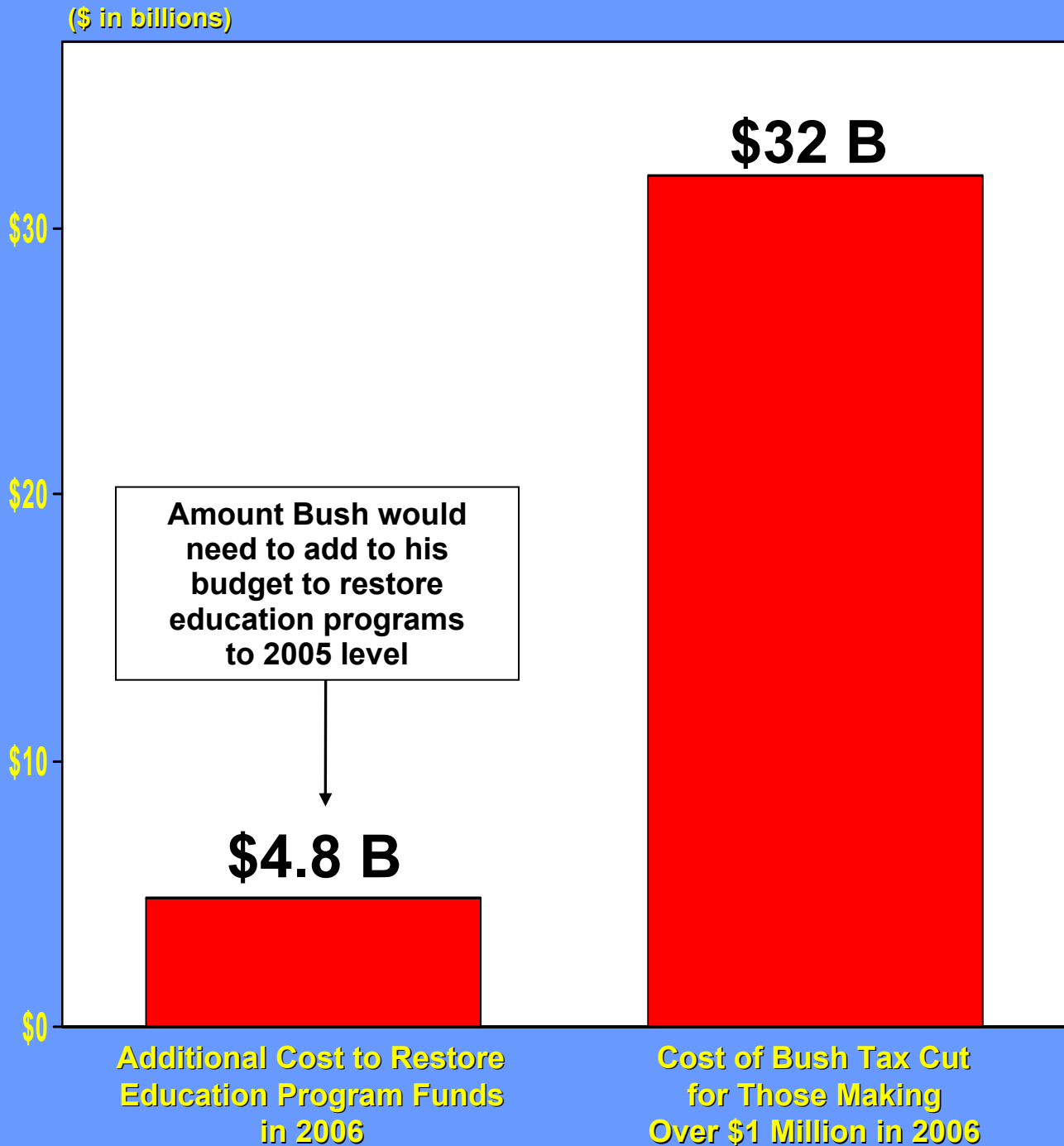
Source: OMB, CBO, SBC based on Tax Policy Center data.

The Wrong Priorities: Bush Plan to Cut COPS Saves Little Compared to Cost of Tax Cuts for Millionaires



Source: OMB, CBO, SBC based on Tax Policy Center data

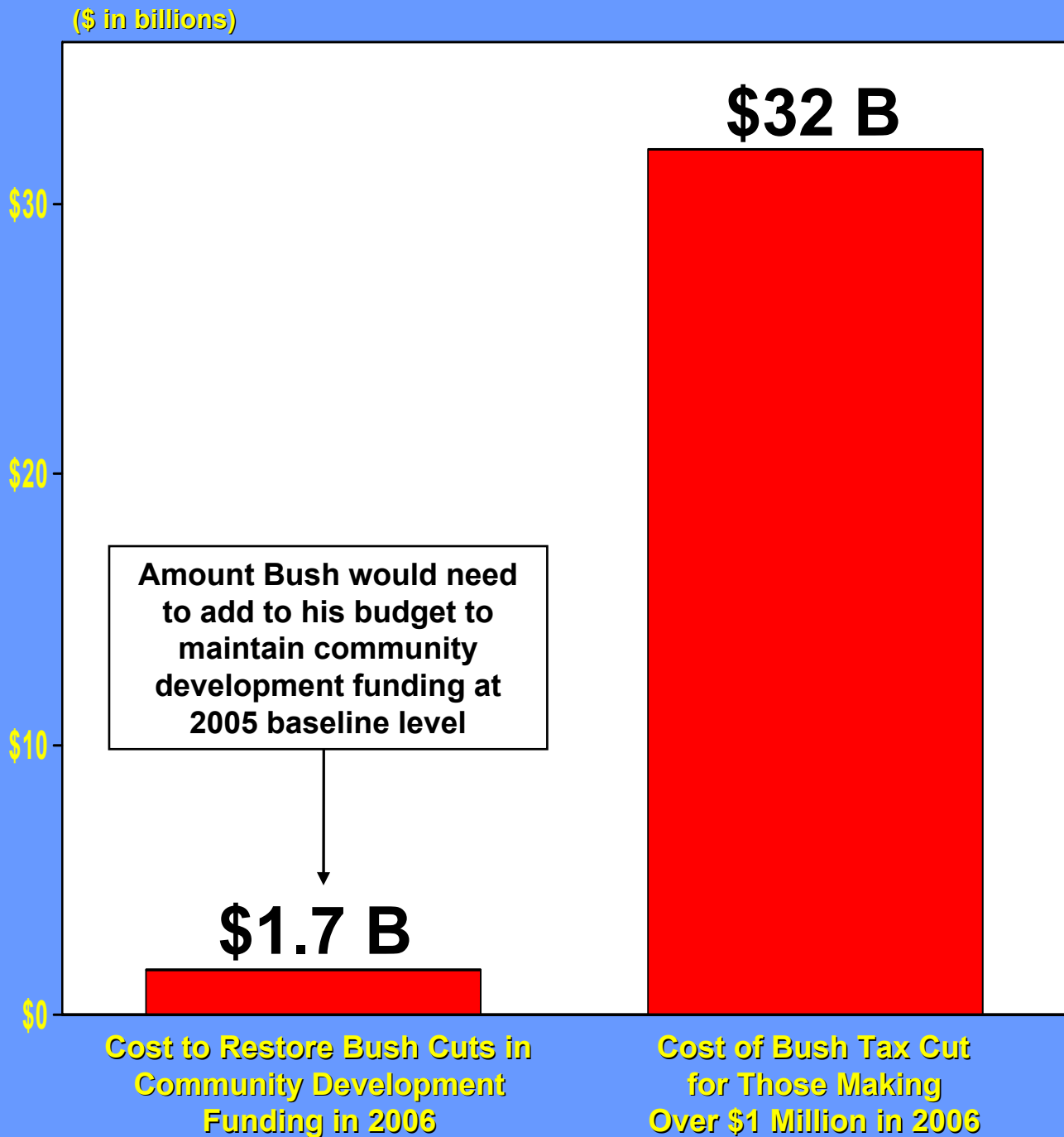
The Wrong Priorities: Bush Plan to Cut Education Programs Saves Little Compared to Cost of Tax Cuts for Millionaires



Note: Bush plan proposes to eliminate 48 education programs and significantly reduce funding for others.

Source: OMB, CBO, SBC based on Tax Policy Center data

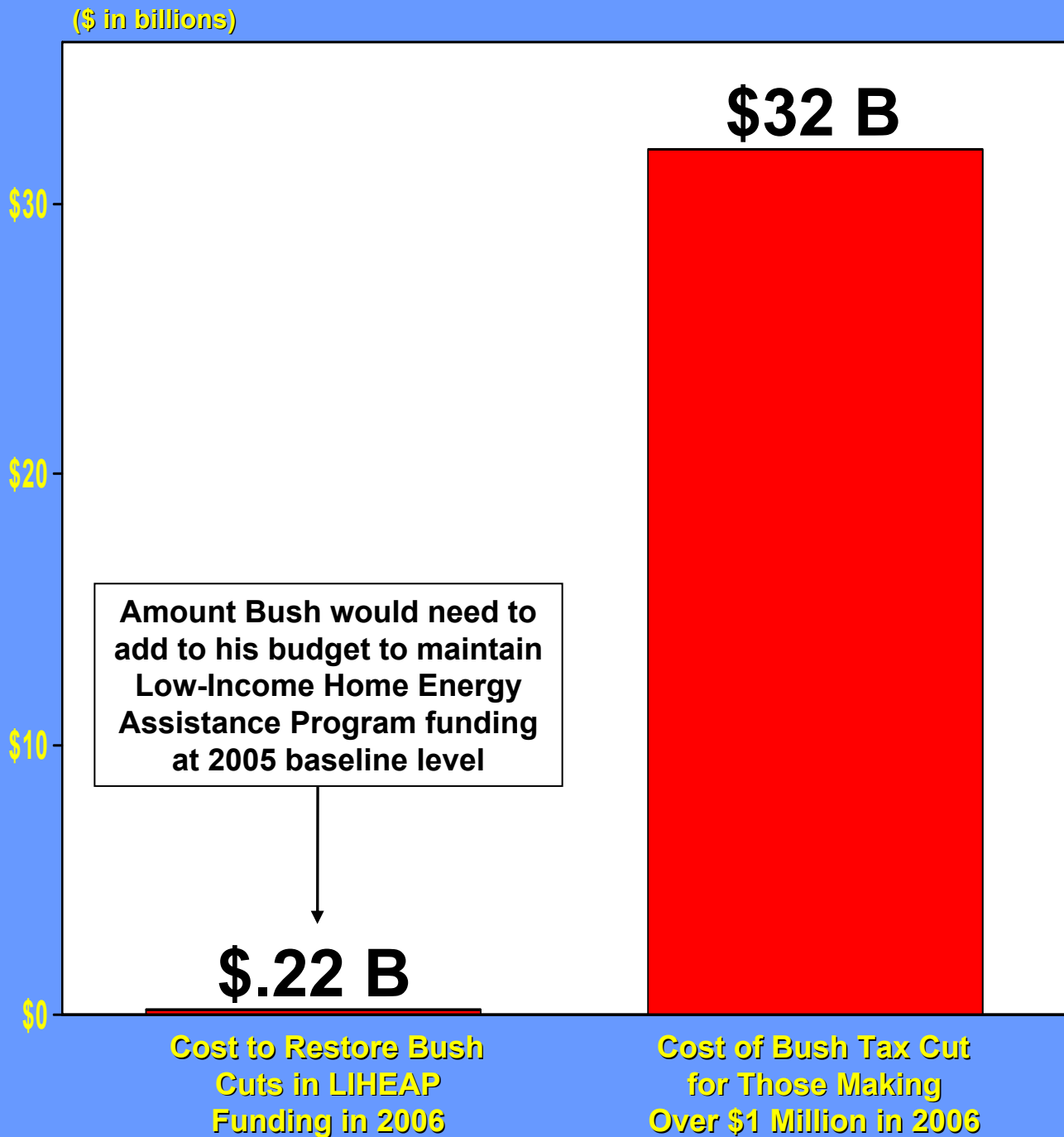
The Wrong Priorities: Bush Plan to Cut Community Development Funding Saves Little Compared to Cost of Tax Cuts for Millionaires



Source: OMB, CBO, SBC based on Tax Policy Center data, and Citizens for Tax Justice

The Wrong Priorities:

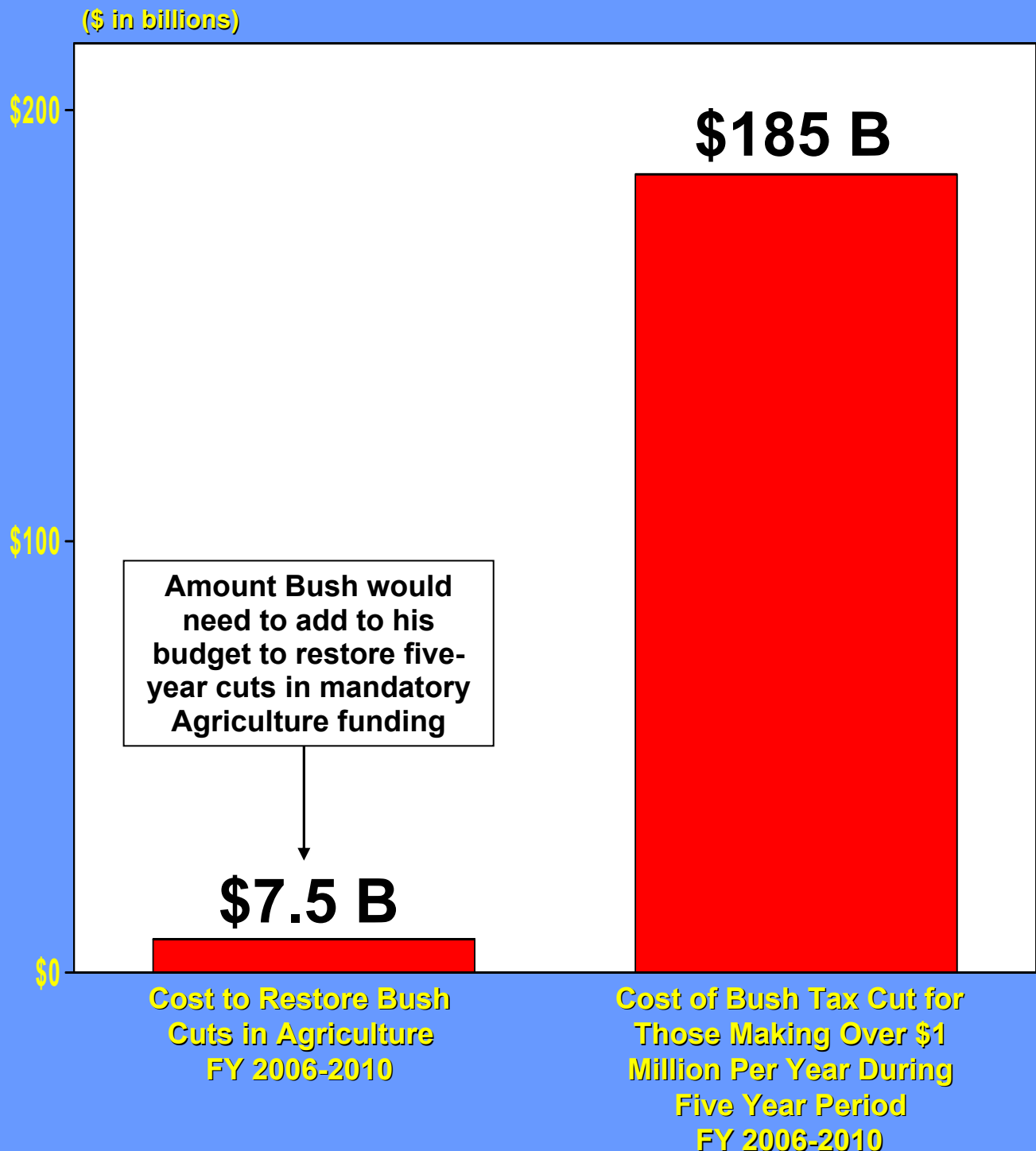
Bush Plan to Cut LIHEAP Funding Saves Little Compared to Cost of Tax Cuts for Millionaires



Source: OMB, CBO, SBC based on Tax Policy Center data, and Citizens for Tax Justice

The Wrong Priorities:

Bush Plan to Cut Agriculture Saves Little Compared to Cost of Tax Cuts for Millionaires

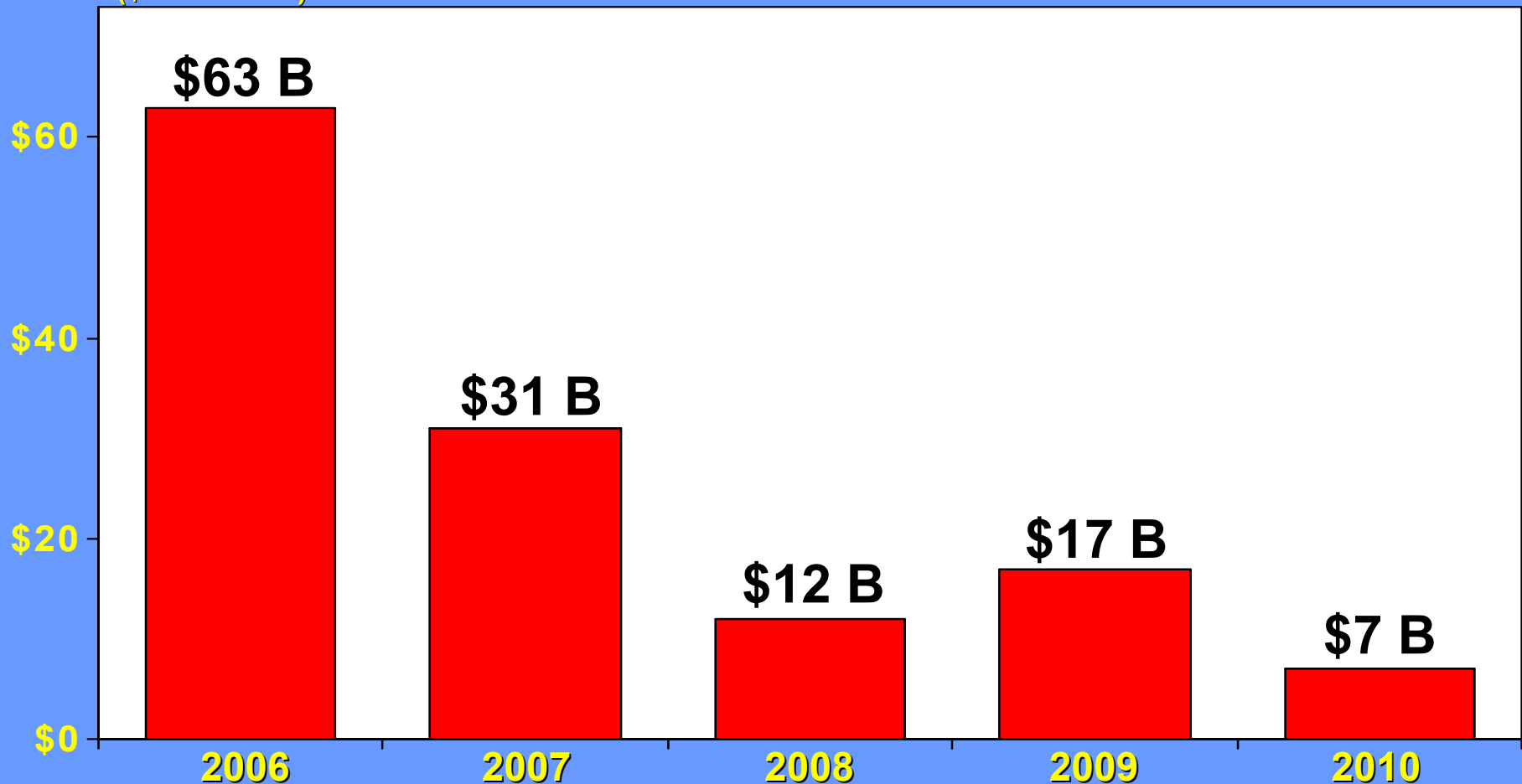


Source: OMB, CBO, SBC based on Tax Policy Center data

Senate GOP Budget Increases the Deficit by \$130 Billion Over 5 Years

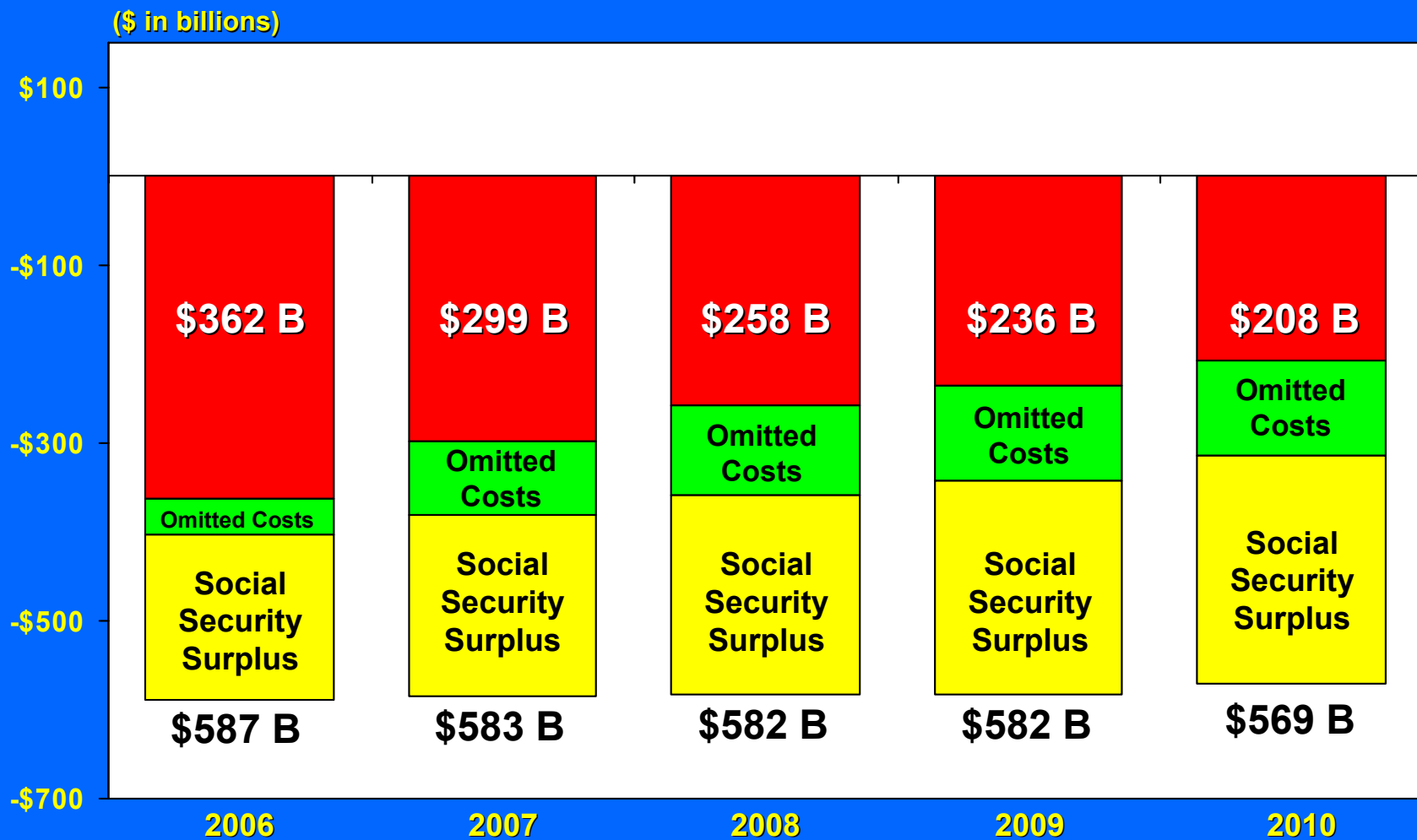
Increase Above CBO Baseline Deficit

(\$ in billions)



Source: Senate GOP Budget Resolution

Deficits Under Senate GOP Budget with AMT Reform, Ongoing War Costs, and Social Security Surplus Spent



Source: CBO, Senate GOP Budget Resolution

Note: Omitted costs include AMT reform and ongoing war costs.

Senate GOP Budget Increases Debt Every Year Over Five-Year Period

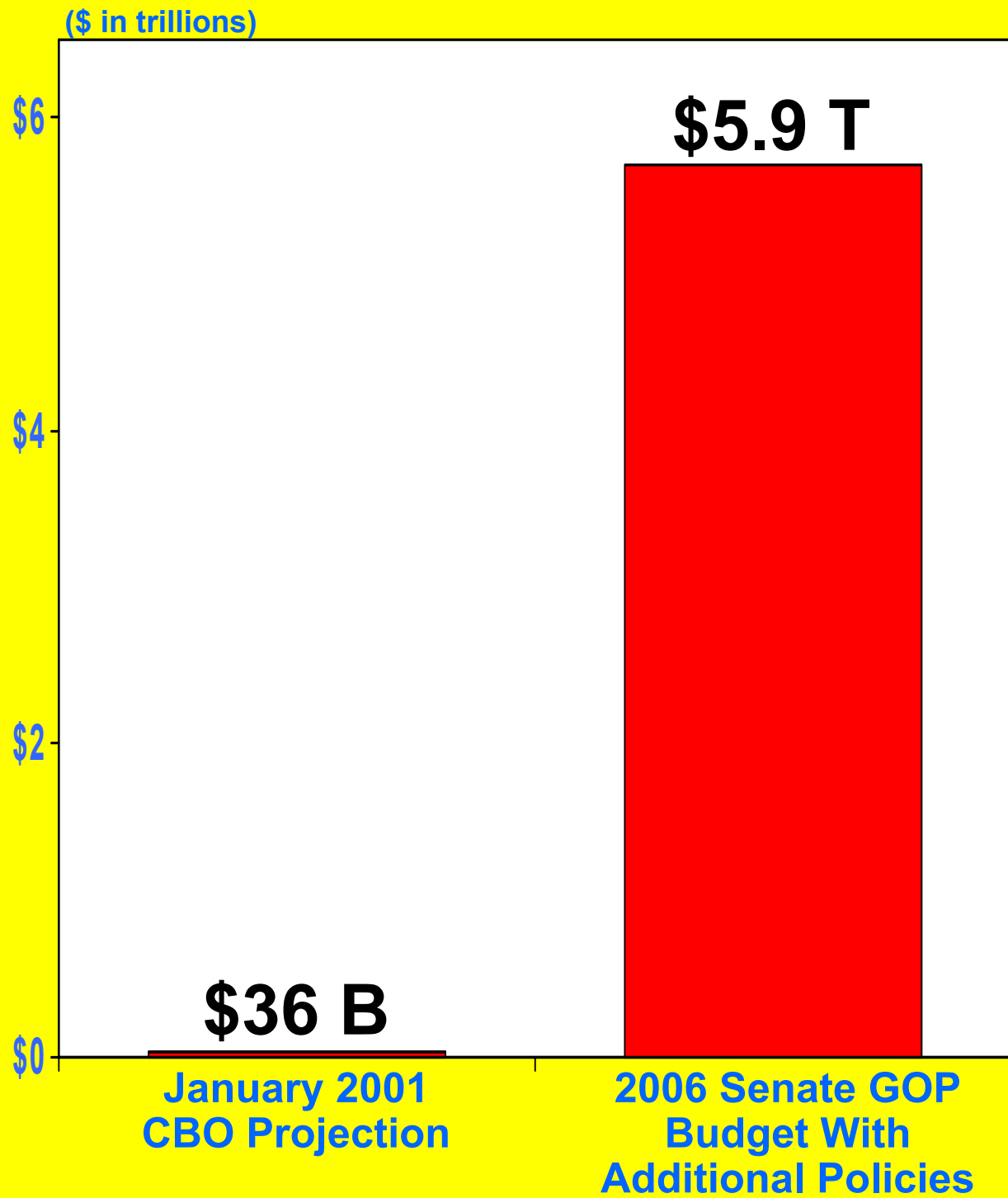
FISCAL YEAR 2006 BUDGET RESOLUTION
CHAIRMAN'S MARK
(In billions of dollars)

| Fiscal year | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2006-10 |
|---------------------------------------|-----------|-----------|-----------|-----------|------------|------------|---------|
| Summary | | | | | | | |
| Debt Held by the Public (end of year) | 4,688.918 | 5,060.681 | 5,372.906 | 5,644.888 | 5,892.763 | 6,111.689 | |
| Debt Subject to Limit (end of year) | 7,961.738 | 8,630.464 | 9,266.253 | 9,890.194 | 10,511.998 | 11,122.769 | |
| | 669 | 636 | 624 | 622 | 611 | | |

Source: Senate GOP Budget Resolution

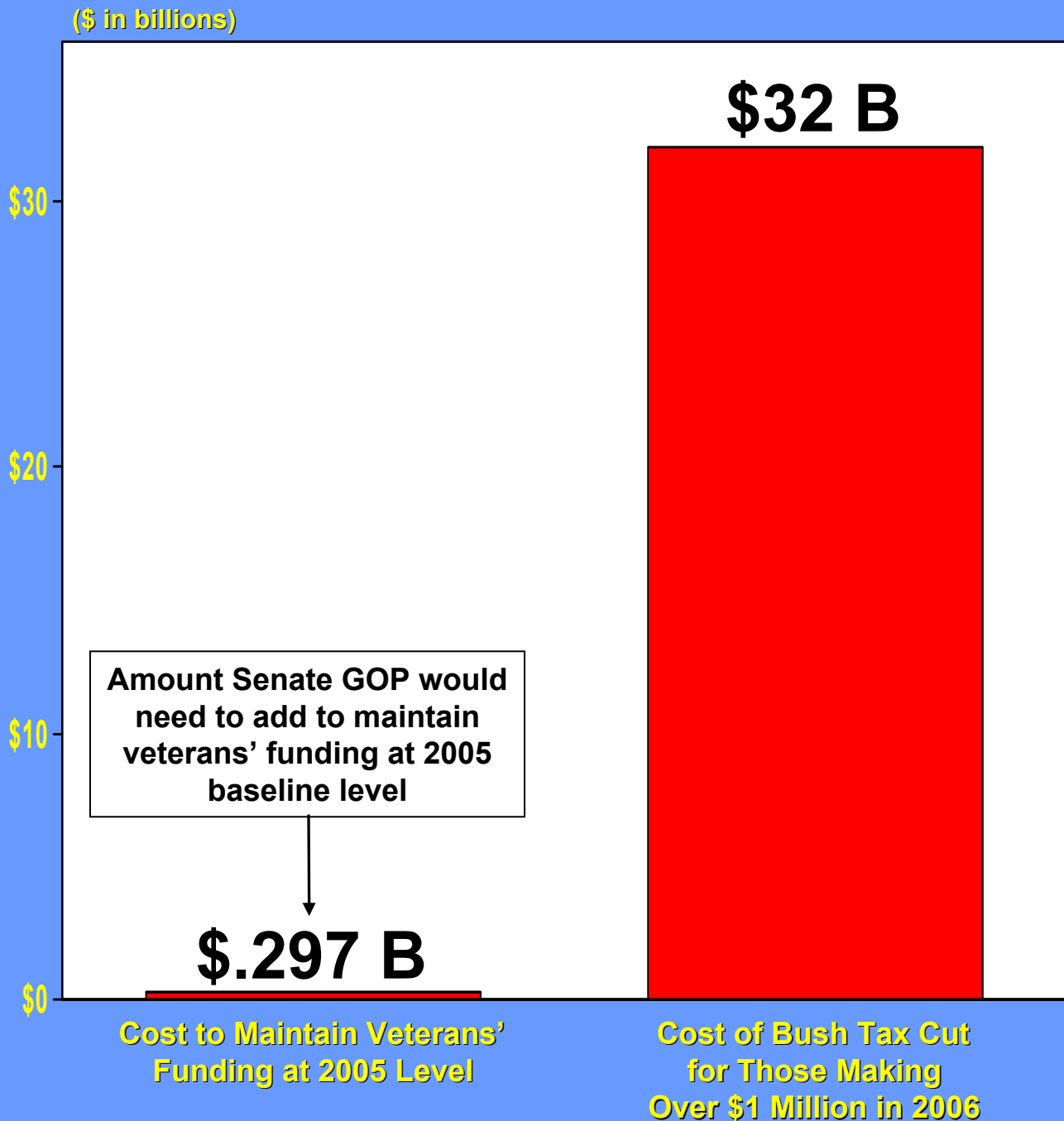
Debt Held by the Public Soars by 2008

\$5.9 Trillion More Debt, Assuming Senate GOP Budget Policies



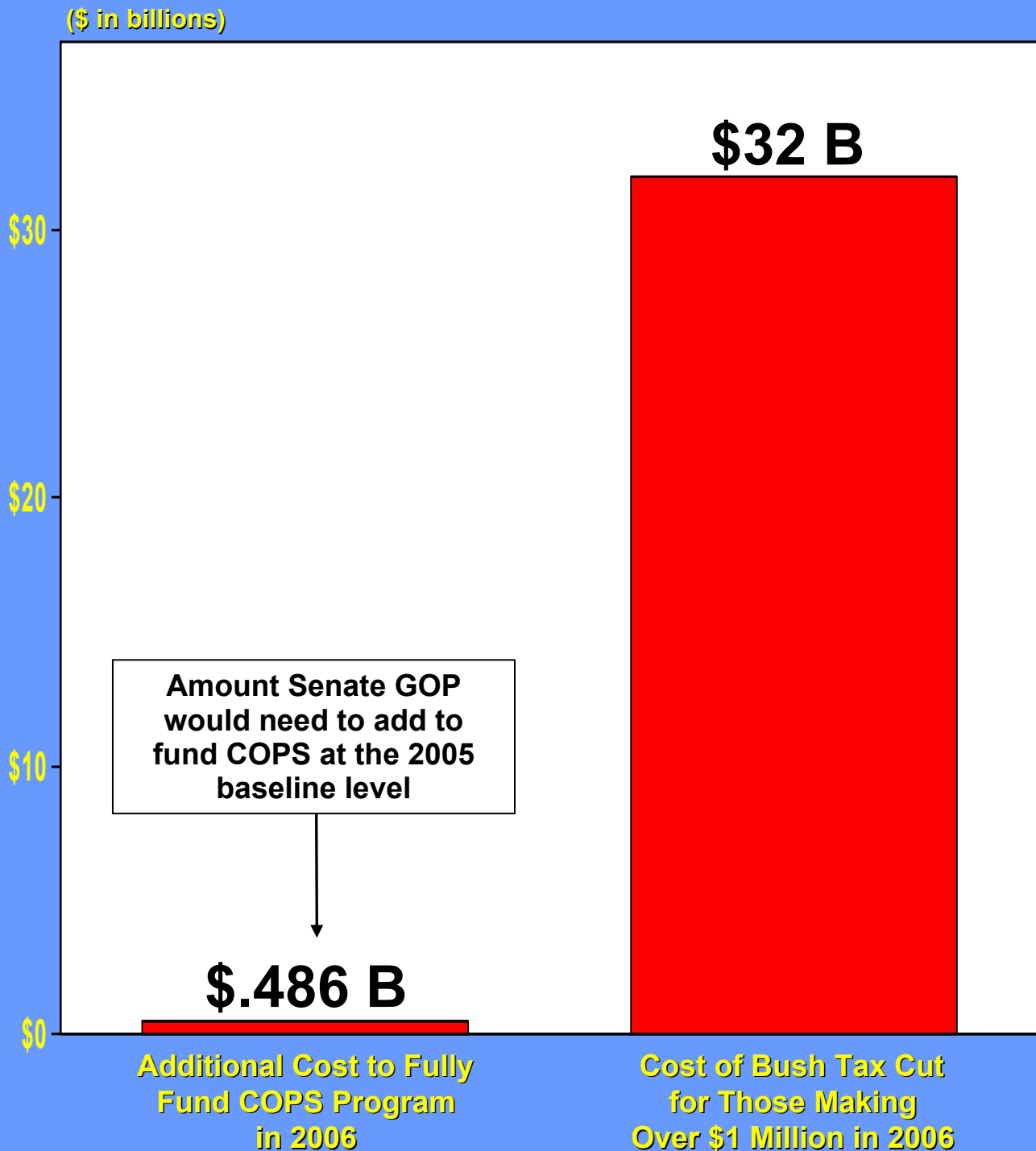
Note: Senate GOP Budget with AMT reform and ongoing war costs.
Source: CBO, Senate GOP Budget Resolution

The Wrong Priorities: Senate GOP Plan to Cut Veterans' Funding Saves Little Compared to Cost of Tax Cuts for Millionaires



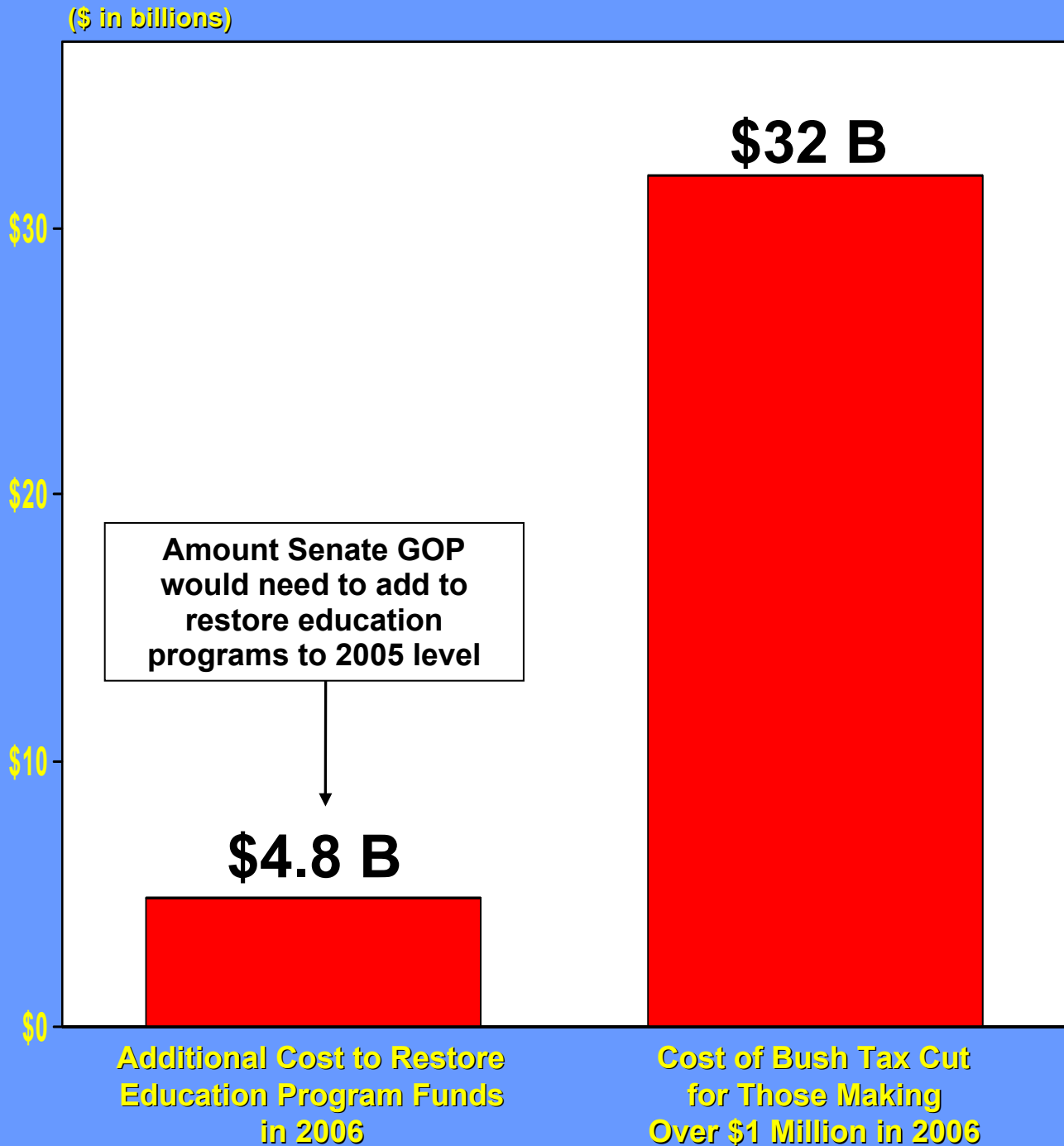
Source: CBO, Senate GOP budget resolution, SBC based on Tax Policy Center data

The Wrong Priorities: Senate GOP Plan to Cut COPS Saves Little Compared to Cost of Tax Cuts for Millionaires



Source: CBO, Senate GOP budget resolution, SBC based on Tax Policy Center data

The Wrong Priorities: Senate GOP Plan to Cut Education Programs Saves Little Compared to Cost of Tax Cuts for Millionaires



Note: Senate GOP plan proposes to eliminate 48 education programs and significantly reduce funding for others.

Source: CBO, Senate GOP budget resolution, SBC based on Tax Policy Center data