SETTING THE RECORD STRAIGHT

A $458 BILLION BUDGET HOLE

ROB PORTMAN'S RECORD AS GEORGE W. BUSH'S BUDGET DIRECTOR

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Before he became Ohio's junior U.S. Senator, Rob Portman was the architect of President George W. Bush's penultimate budget in his final term.

Having previously served in the Bush Administration as U.S. Trade Representative, Portman shifted to a new role in the Bush Cabinet in 2006 when he was appointed as the Director of the Office of Management and Budget. Portman's signature accomplishment in this position was the creation of the fiscal year 2008 budget.

ROB PORTMAN'S RESUMÉ

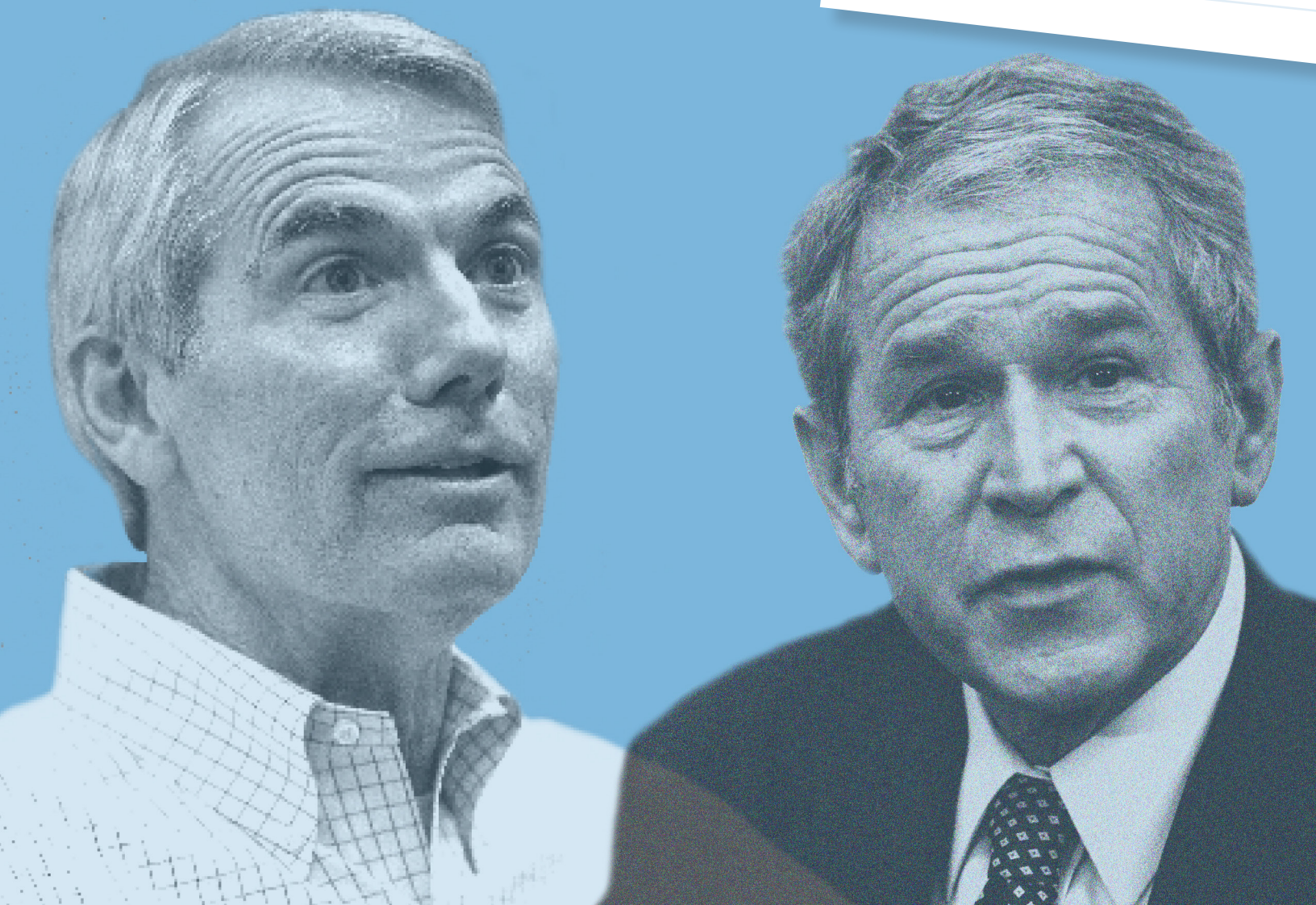
Member of U.S. House of Representatives (1993-2005)

United States Trade Representative under George W. Bush (2005-2006)

Director of the Office of Management and Budget under George W. Bush (2006-2007)

Lawyer at Squire Sanders & Dempsey (2007-2009)

United States Senator (2011-present)



INNOVATION OHIO ANALYSIS:

A $458 BILLION BUDGET HOLE

Rob Portman's Record as George W. Bush's Budget Director

This report takes a closer look at the impacts of this budget and the policy decisions within it. As we'll see, **the 2008 Bush-Portman budget resulted in a federal budget deficit of $458 billion because of a failure to control spending while also making permanent tax cuts that disproportionately favor income earners in the top 10 percent**. Here are just a few notable data points from the 2008 Bush-Portman Budget:

- As the Director of the Office of Budget and Management under George W. Bush, Rob Portman oversaw a budget that **nearly tripled the annual federal deficit from $161 billion to $458 billion.**
- Portman's 2008 budget proposed to make the Bush tax cuts permanent, which give the wealthiest 10 percent over half of the benefit and **added $1 trillion to the national debt.**
- Shortly before the economy collapsed in 2008 and revenue shrunk by 1.7 percent, **Portman wrongly predicted that the economy would grow** and revenue would increase by 5.4 percent.
- Portman **woefully underestimated the impacts of the looming mortgage crisis**, stating that he 'had a hard time imagining' that foreclosures would impact the economy or the 2008 budget.
- At the same time he was **proposing to cut taxes for those at the top**, Rob Portman was also proposing to **cut 141 different programs, including entitlements for the poor.**
- Rob Portman's budget criticisms of Barack Obama and Ted Strickland ring hollow considering the **national debt grew from $8.3 trillion to $8.8 trillion under his watch as budget director.**

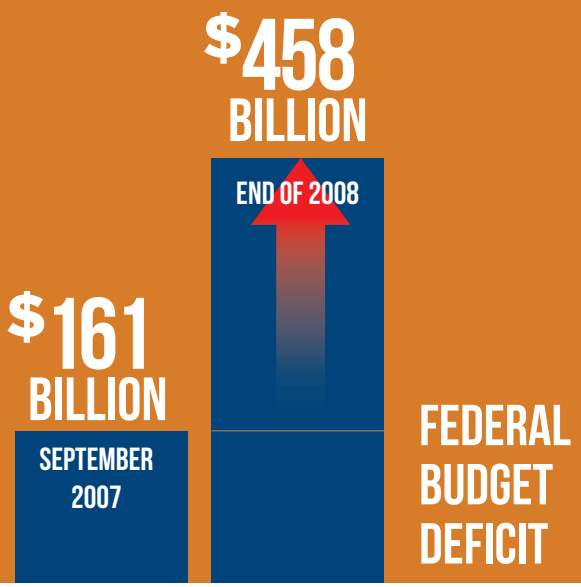
Today, Senator Portman campaigns on a conservative, small government platform, arguing for reduced government spending and the elimination of budget deficits and a return to surpluses. He calls himself a 'leading advocate on deficit reduction.' As this report shows, Portman's time as Bush's point person on the federal budget reveals a track record of large and growing deficits, contributed to, in part, by increased spending and costly tax cuts that largely favor those at the top.

SO WHAT WENT WRONG?

It was a combination of Bush administration policy, bad economic forecasts and the start of the global recession, which Portman and his team did not see coming.

KEY POINT

As the Director of the Office of Budget and Management under George W. Bush, Rob Portman oversaw a **budget that nearly tripled the annual federal deficit from $161 billion to $458 billion**.



INCREASING THE DEFICIT – CREATING A $458 BILLION BUDGET HOLE

Rob Portman took office as Bush's budget director after the budget for fiscal year 2007 was already in place. That September, as the fiscal year closed, the size of the federal budget deficit was $161 billion. But at the end of fiscal year 2008 – the budget that Portman had played the most direct role in crafting and maneuvering through Congress – **the U.S. budget deficit had nearly tripled to $458.5 billion**. [1]

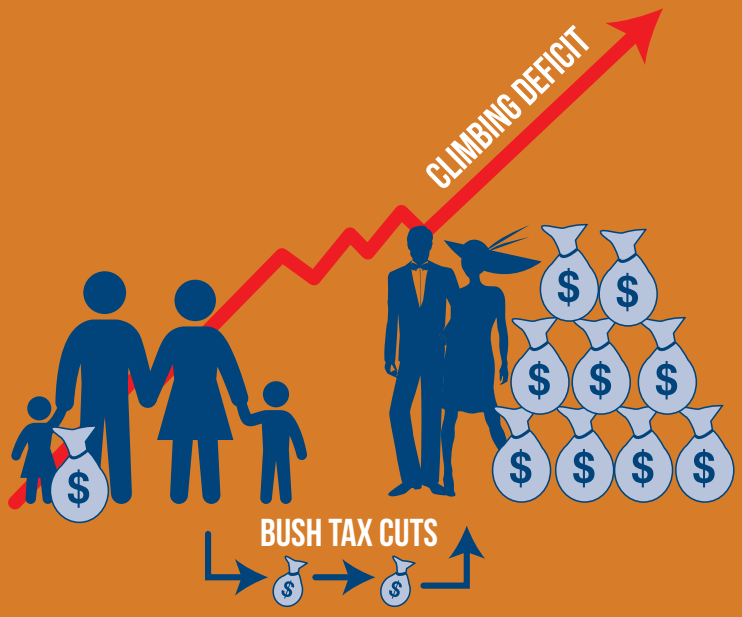
When talking about his budget responsibilities, Portman often points to the $161 billion deficit at the end of fiscal year 2007, failing to mention that he had anything to do with overseeing the fiscal year 2008 budget. Recently Portman said, "$500 billion doesn't seem OK to me. When I was at the Office of Management and Budget, the deficit was $161 billion . . . and I thought it was way too high." Given his close involvement with a budget that produced a $458 billion deficit, this is both ironic and misleading.

> **"$500 billion doesn't seem OK to me. When I was at the Office of Management and Budget, the deficit was $161 billion . . . and I thought it was way too high."**
>
> *- Rob Portman -*

So what happened in 2008 to result in such a large deficit? At a basic level, all budget deficits are caused by some combination of lower than anticipated revenue or higher than anticipated spending. The 2008 budget featured both. **Revenue in fiscal year 2008 declined compared to the previous year by 1.7% while spending grew by 9.3%.** This is in contrast to Portman's projections in testimony to Congress that the budget would actually reduce spending and show revenue growth, both contributing to a reduction in the deficit.

KEY POINT

Portman's 2008 budget proposed to **make the Bush tax cuts permanent, which give the wealthiest 10 percent over half of the benefit and added $1 trillion to the national debt over 10 years.**



PROPOSING TO MAKE THE BUSH TAX CUTS PERMANENT

At least one way that policy choices of the Bush administration may have led to lower revenue was the passage of massive, across-the-board tax cuts in 2001 and 2003. The 2008 budget that Portman oversaw proposed making the cuts, which were set to expire in 2010, permanent. **According to the Wall Street Journal: "Mr. Bush's signature tax cuts, in 2001 and 2003, sapped tax receipts and sliced the projected budget surplus by about $1.7 trillion through 2011, according to the CBO."** [2]

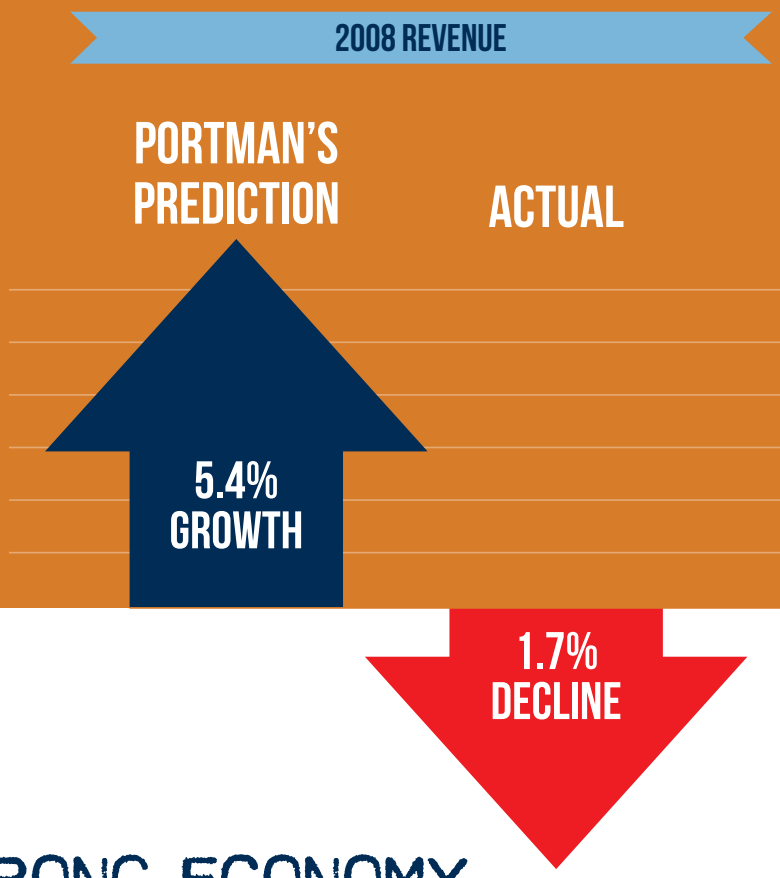
The Bush tax cuts reduced tax rates across the board on individual incomes, as well as on capital gains from investment earnings. The tax on large inheritances was reduced, and changes were made to the Alternative Minimum Tax such that it applied to fewer taxpayers. The packages had a number of additional components, including the elimination of the so-called "marriage penalty," and an increase in the per-child tax credit.

The Bush tax cuts have always been controversial because of their overall cost – estimated at more than $350 billion for 2016 – and they are tilted toward those at the top. **The Economic Policy Institute estimates that the top 1 percent of earners received 38 percent of the tax breaks, while over half – 55 percent – of the tax cut went to the top 10 percent.** In 2010, when Congress once again debated **making the cuts permanent**, the portion of the tax cuts aimed at very high income individuals (married couples with earnings over $250,000 or singles with incomes of $200,000 or greater) would **add $1 trillion to the national debt over 10 years**. [3]

Portman has attempted to minimize the effect of the Bush tax cuts on the overall size of the budget deficit. The Committee for a Responsible Federal Budget determined that Portman's claim is only accurate when looking at tax cuts for those at the very top of the income scale. But CRFB found that the 2001 and 2003 Bush tax cuts in their entirety make up "40 percent of the legislative changes that added to the deficit."[4] The Center on Budget and Policy Priorities says that nearly half – $8 trillion – of the projected $17 billion national debt in 2019 will be due to the combined impact of Bush tax cuts and the wars in Iraq and Afghanistan.[5]

KEY POINT

Shortly before the economy collapsed in 2008 and revenue shrunk by 1.7 percent, Portman **wrongly predicted that the economy would grow and revenue would increase by 5.4 percent.**



PREDICTING A STRONG ECONOMY JUST BEFORE IT COLLAPSED

One primary reason that tax revenue failed to meet Portman's projections in 2008 was that the budget counted on continued economic growth that never materialized, thanks to the start of a global recession. In his 2007 testimony on the budget, Portman reported that "we assume GDP growth will average about 3 percent over the budget window, closely tracking the forecast of the Blue Chip forecasters. This year, our 2.7 percent forecast is now below most outside forecasts and market expectations."

Portman's forecast proved far too optimistic. In reality, the global recession began to take hold in December, 2007. The nation's Gross National Product in 2007 grew by just 1.8, well below forecast, and for 2008 it actually fell by 0.3 percent as the downturn took hold.[6]

At the time of the 2008 budget's introduction, Portman had projected that revenue growth would be so strong that it would play a major role in the reduction of the budget deficit, characterizing his projection of 5.4 percent annual growth as "cautious." Portman's projection turned out to be way off base. **Instead of 5.4 percent annual revenue growth, the 2008 budget actually saw revenue shrink by 1.7%.** Taxes on personal and corporate income declined, while other taxes held steady. The first year of the recession blew a $138 billion revenue hole in the Bush budget.

KEY POINT

Portman **woefully underestimated the impacts of the looming mortgage crisis**, stating that he 'had a hard time imagining' that foreclosures would impact the economy or the 2008 budget.

> **"It's such a small part of our economy now, we have such a huge and diverse economy that I have a hard time imagining that that would have a real-world impact on our economy that would affect this [budget] projection."**

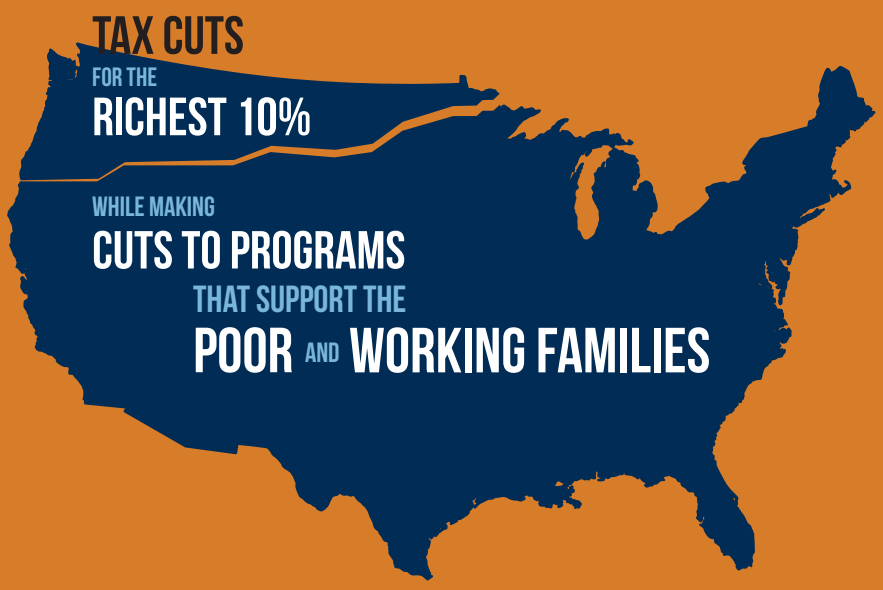
FAILED TO SEE THE MORTGAGE CRISIS COMING

In the summer of 2007, as subprime mortgage foreclosures were mounting, Portman told reporters at a briefing that subprime mortgages were "an issue of concern" but added that "it's such a small part of our economy now, we have such a huge and diverse economy that **I have a hard time imagining that that would have a real-world impact on our economy that would affect this [budget] projection.**" [7]

In reality, the real-world impact of foreclosures was catastrophic to the U.S. economy. From 2006 to 2012, U.S. homeowners lost over $7 trillion in home equity, leaving 22% of homeowners owing more than their homes were worth. In Ohio alone, 661,518 foreclosure filings were initiated after 2006.

KEY POINT

At the same time he was proposing to cut taxes for those at the top, Rob Portman was also **proposing to cut 141 different programs, including entitlements for the poor.**



CUTTING TAXES FOR THE RICH AND ENTITLEMENT PROGRAMS FOR THE POOR

At the same time he was proposing to make permanent the Bush Tax Cuts that overwhelming favor those at the top, Rob Portman was also proposing to cut entitlement programs and 141 different discretionary spending programs that support poor and working families.

Portman made the case to Congress for the Bush administration's FY 2008 budget, in part, by arguing that it would help to reduce the deficit. The **proposal featured a projection of surpluses within five years**. The administration would get there, Portman claimed, by holding the rate of spending growth low and tackling entitlements such as the cost of Medicare and Social Security.

Portman sought to eliminate programs throughout the federal government: **"the Budget proposes to terminate or reduce 141 discretionary spending programs for a savings of $12.0 billion in 2008 alone,"** he noted in a press statement at the time. [8]

In his budget testimony, Portman described a range of spending controls, including a reduction in domestic programs: "[t]he 2008 Budget proposes to hold the rate of growth for non-security discretionary spending to one percent, below the rate of inflation."[9] In reality, **fiscal year 2008 non-security discretionary spending rose under Portman by 5.8 percent**.

Portman told Senators at his 2006 confirmation hearing that unsustainable growth in Medicare, Medicaid and Social Security posed "the greatest long-term fiscal danger,"[10] a theme he still strikes. But the 2008 budget he oversaw actually preserved a Medicare prescription-drug benefit that is estimated to cost taxpayers $80 billion per year with no offsetting revenue to pay for it.[11]

Since leaving office, Portman has claimed that having a Democratic-controlled Congress stymied the administration's plans for deficit reduction by eliminating their spending controls. In 2012, Portman argued that: "the rise in the deficit and debt resulted from House and Senate Democrats who blocked the Republican president from imposing the spending discipline he desired."[12]

But, put in context, **the $12 billion in annual savings Portman estimated from the elimination of domestic programs would have amounted to just four-tenths of one percent of federal outlays in fiscal year 2008**. Overall, spending rose by $253 billion. Had Congress adopted the plan as written by the administration, it would not have made a meaningful difference in the magnitude of that year's deficit.

Declining revenue actually had more to do with the ballooning deficit than increased spending. While actual government **spending in 2008 was $80.5 billion higher than the administration had originally proposed in its budget, tax revenue was $138 billion lower than forecast**. When these effects were combined, the deficit at the close of the year was nearly twice what the administration had forecast, and the larger contribution was from the shortfall on the revenue side.

Recessions, like the one that began in 2007, tend to lead to increased deficits, even if no policy changes are made. This is a result of a combination of higher expenditures for entitlement programs that people depend on when they are out of work, and reduced tax collections on declining personal and corporate income. In the case of the 2008 budget, there were additional policy decisions that further contributed to the rise in the nation's budget deficit.

In addition to higher than anticipated spending and declining tax revenue, the start of the global recession was a third major contributor to the doubling of the deficit in 2008. In response to the downturn, the Bush administration sought and received a $152 billion stimulus package of tax rebates in early 2008 in an attempt to stimulate the faltering economy and avoid a recession.[13] Portman had left his post by this time.[14] At $152 billion, the stimulus represents approximately half of the $298 billion growth in the budget deficit.

Portman did account the full costs of the wars in Iraq and Afghanistan in the President's budget package. Previously these had been handled as off-budget expenditures, preventing their contribution to annual deficits from being accurately measured. The Center on Budget and Policy Priorities estimates that two Bush-era policies – the wars in Iraq and Afghanistan and the 2001 and 2003 tax cuts – both contained within Portman's 2008 budget plan, will be responsible for fully half of the national debt by 2019.[15]

KEY POINT

Rob Portman's budget criticisms of Barack Obama and Ted Strickland rings hollow considering the **national debt grew from $8.3 trillion to $8.8 trillion under his watch as budget director.**

PORTMAN'S BUDGET RHETORIC RINGS HOLLOW

During his 2006 confirmation process, Portman said it is important to look at the deficit "as a percentage of total economic output, or the gross domestic product." He argued at the time that, "both because of spending restraint and economic growth … Republicans are not getting enough credit for controlling spending."[16] Under Portman, however, deficits grew as a share of GDP, reaching 3.2 percent in FY2008.[17] More recently, Portman has suggested that Obama budgets are more of a concern because they are high as a percentage of GDP. However, in FY2015 Obama's budget reached the same level as Portman's: 3.2 percent of GDP.[18]

Portman has also criticized former Governor Ted Strickland, for leaving behind an "$8 billion budget gap," suggesting that the subject is fair game in the race. Unlike the federal government, Ohio's Governor is required by law to enact a budget that is in balance, so any "gap" was merely hypothetical accounting of mismatches between prior spending and forecasted revenue before the budget was crafted.

Rob Portman has leveled sharp criticism about the budget policies of both President Barack Obama and former Ohio Gov. Ted Strickland. However, his own record on budget management reveals a concerning pattern of off-base budget projections, an inability to foresee looming economic challenges, and deficit-driving policies that favor those at the top at the expense of federal programs that protect poor, working- and middle class families.

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