

THE NATION'S

ECONOMY

**RESTORING
FISCAL RESPONSIBILITY
AND PROTECTING
SOCIAL SECURITY**



Dear Friend,

During much of the 1990s, the United States experienced unprecedented economic growth and the standard of living increased for most Americans. Beginning in 2000, however, the economy slowed down and slipped into recession.

Despite recent economic growth, many Americans remain unemployed and the federal deficit has risen to record levels.

In fact:

- **The budget deficit in 2004 rose to \$413 billion, the largest federal deficit on record;**
- **The Congressional Budget Office projects the 2005 deficit to reach \$427 billion, and once the Bush administration's \$82 billion supplemental funding request is included, the deficit is expected to rise to one-half trillion.**
- **Assuming current Bush Administration policies, the federal debt is expected to rise to \$14.9 trillion by 2014.**

With our nation facing numerous threats at home and abroad, I am concerned that too little attention is being given to our long-term fiscal health. This is why I will continue to work to put our economy back on the path toward long-term growth without running budget deficits that will break the bank.

And as we work to restore fiscal responsibility, I will also be sure that we protect the Social Security program that so many Americans depend on.

Congress and the President must work together, putting aside partisanship, to bring the federal budget back into balance and strengthen our economy.

Sincerely,

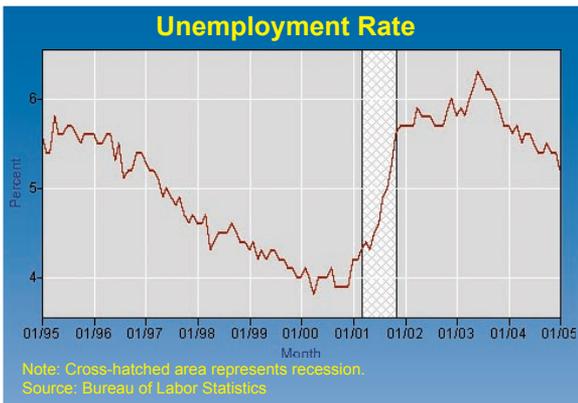
A handwritten signature in blue ink that reads "Dianne Feinstein".

Dianne Feinstein

THE STATE OF THE ECONOMY

The economic downturn of recent years has already had a greater impact than the last major recession in 1991. While the economy has shown signs of modest growth, many of the key economic indicators, in fact, continue to be down:

Unemployment: The number of unemployed workers has increased from 5.7 million at the end of 2000 to approximately 7.7 million, including 1 million Californians, in spring 2005. The average length of time people are out of work is 19 weeks.



Unemployment is declining slowly.

Median Household Income: The income of families in the middle of the income distribution has remained stagnant in recent years. For California families, median household income has remained flat while prices for consumers continue to rise.

Consumer Confidence: The January 2005 Consumer Confidence Index showed that attitudes about economic conditions remain mixed with 26 percent of respondents describing them as “good” while 18 percent described them as “bad.”

Poverty: The percentage of Americans living in poverty rose to 12.5 percent, or 35.9 million people, in 2003 up from 12.1 percent the previous year. At the end of 2003, 12.9 million children were among those in poverty. Meanwhile, more than 45 million Americans lack health insurance.

LONG-TERM CHALLENGES: THE DEBT AND DEFICIT

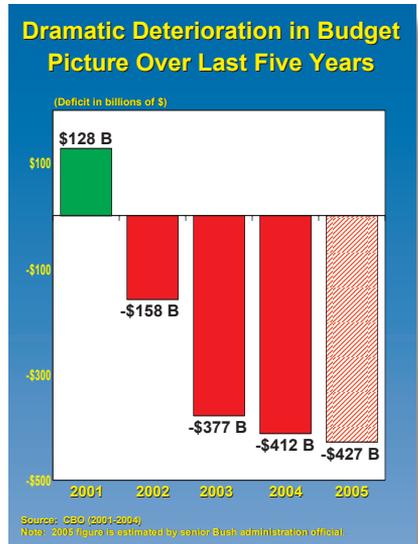
When Senator Feinstein entered the Senate in 1993, the federal budget deficit had reached a record \$290 billion. By 1998, the budget had been balanced for the first time in 30 years through the hard work of members from both parties, and money which had gone to pay interest on the debt could instead be used to pay down the debt.

In 2000, the budget was projected to have a \$5.6 trillion surplus. This surplus would have allowed Congress to eliminate the federal debt by 2010. But times have changed. Once again the nation is projected to run deep budget deficits, risking the hard-won achievements of the last decade.

Rather than pay down the debt entirely, there was a \$413 billion budget deficit in 2004 – the highest level ever – and the federal debt reached \$7.6 trillion. By 2014, the total federal debt is expected to almost double – from \$7.6 trillion today to \$14.9 trillion.

Furthermore, as the share of the federal budget which goes to pay these programs and interest on the debt increases, fewer and fewer dollars are left for education, health care, law enforcement, the environment, and other important priorities.

Senator Feinstein believes that it is critical that our nation reduce both the debt and the deficit. This will keep interest rates low, and enable us to spend more on our priorities.



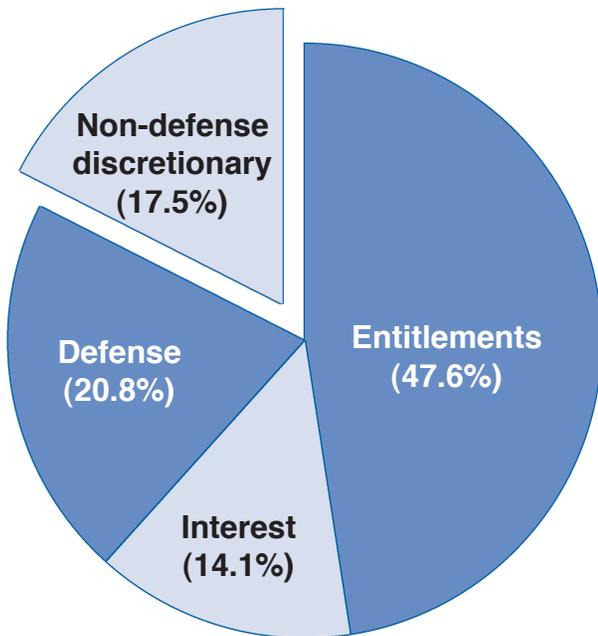
The federal budget has gone from being in surplus to running the largest deficit in history in only 3 years.

COMPARISON OF SPENDING IN 1993, 2004 & 2014

Mandatory spending, including interest on the debt and entitlement programs such as Medicare, Medicaid, and Social Security, are at the center of our deficit problem. Spending for mandatory programs is on autopilot, and without fundamentally restructuring these programs, they will continue to consume more and more of the federal budget each year. If mandatory spending is not addressed, we will put our nation's fiscal health at risk.

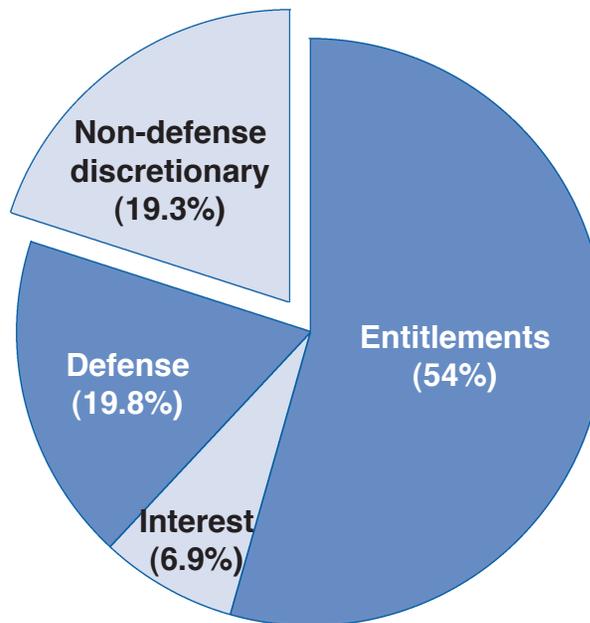
1993 Budget Breakdown

*Entitlement Spending =
\$671.4 billion**



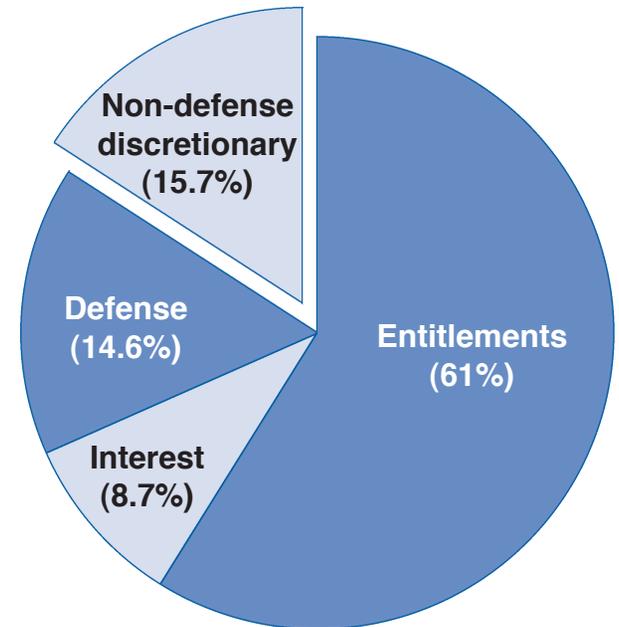
2004 Budget Breakdown

*Entitlement Spending =
\$1.237 trillion**



2014 Budget Breakdown

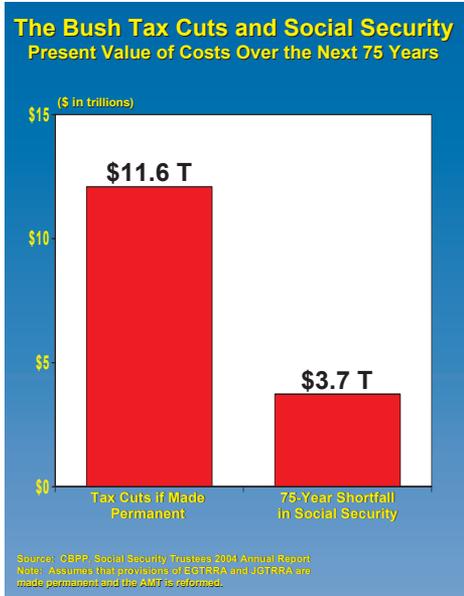
*Entitlement Spending =
\$2.159 trillion**



**Source: Congressional Budget Office*

LONG-TERM CHALLENGES: ENTITLEMENT SPENDING

Over the next several decades, the federal government faces a host of challenges that could severely strain the nation's finances. Homeland security needs, the cost of the wars in Iraq and Afghanistan, and interest on the debt will require significant expenditures in the coming years. However, spending on entitlement programs, which consume more than half of the federal budget, will present the greatest challenge to our nation's fiscal health.



If the Bush tax cuts are made permanent, they will result in a revenue loss three times greater than the Social Security shortfall.

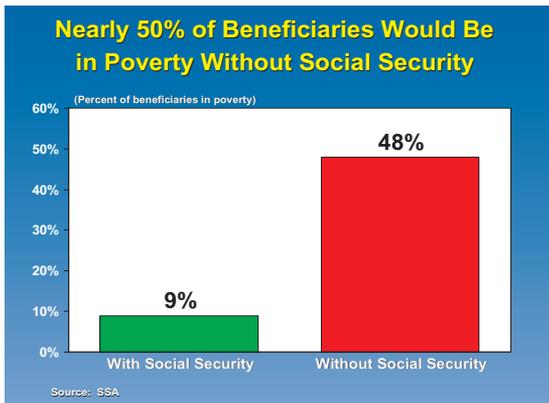
With the retirement of the baby boomers beginning later this decade, the benefits paid out by Social Security and Medicare will soon rise sharply. In preparation for this, it is important that we institute policies which will ensure the long-term health of these programs and the federal budget. Unfortunately, efforts to make the recent Bush tax cuts permanent could make that extremely difficult.

The Social Security program is designed to provide income security to disabled people and Americans over the age of 62. In the 1950s, there were 16 workers who paid into the Social Security

system for every retiree. Today, there are roughly three workers contributing to Social Security for each beneficiary and that ratio is declining. In fact, the number of retirees is expected to double in the next four decades. Medicare is another critical part of our nation's safety net for seniors, providing hospital and supplementary insurance for physician services and outpatient care. Congress recently added a prescription drug benefit to the program to help seniors pay a portion of their costs for pharmaceutical drugs. But if the way the program is managed does not change, the Medicare trust fund faces insolvency as soon as 2019. This is a result of both the impending retirement of the baby boomers coupled with the skyrocketing cost of health care.

PRIVATIZING SOCIAL SECURITY: THE WRONG MEDICINE

Although the Social Security program faces funding shortages in future decades, the Social Security program has been a great success. Before it was implemented 70 years ago, 50 percent of older Americans lived in poverty. Today, that number is down to 9 percent. But the program has not only protected seniors from poverty, it has also served as a safety net for millions of disabled people, widows, widowers, and children whose parents have passed away.



The Social Security program keeps millions of seniors out of poverty.

are made to the program. After 2041, recipients would continue to receive 70 percent of their benefits for the next three decades without any changes to the existing program.

Changes to Social Security are needed, but privatizing the program will worsen its financial problems and weaken this source of retirement and disability income that so many Americans depend on. With half of all American workers not covered by retirement plans, President Bush's plan could seriously jeopardize the retirement security of millions of Americans. In fact, the Center for Economic and Policy Research estimates that the average retiree will lose more than \$152,000 in benefits over the course of a 20-year retirement if the President's plan is enacted.

Americans must do more to prepare for retirement, but we have time to make the necessary changes without fundamentally dismantling the Social Security program.

President Bush has said that the Social Security program is in crisis. In his January 2005 State of the Union address, he claimed that Social Security would be "exhausted and bankrupt" by 2042. However, the Social Security Board of Trustees estimates that the program can pay 100 percent of its promised benefits until 2041, even if no changes

FOR MORE INFORMATION

If you are interested in receiving further information about these important issues, please log onto Senator Feinstein's website <http://feinstein.senate.gov> and register to receive e-mail updates, or contact:

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