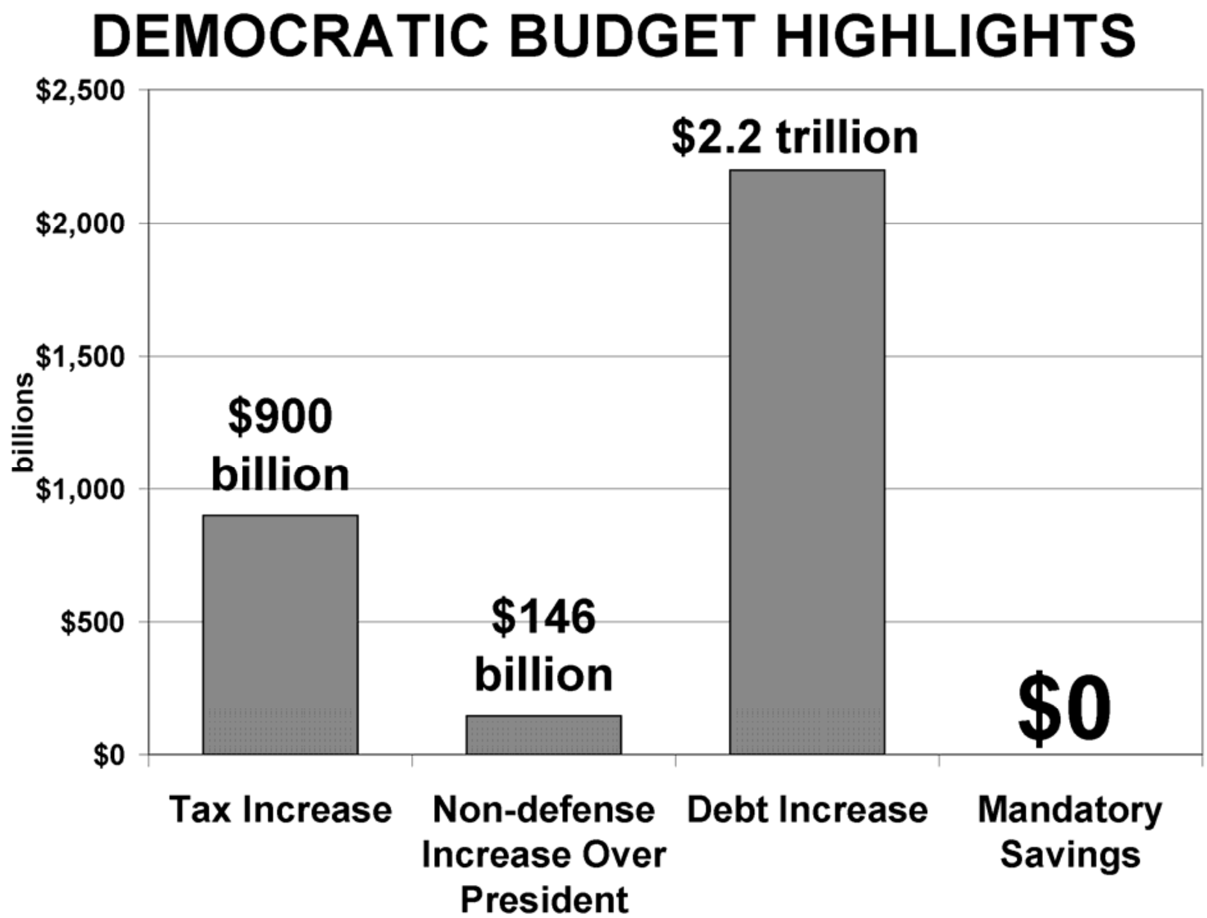
MINORITY VIEWS OF RANKING REPUBLICAN MEMBER SENATOR JUDD GREGG

I recommend that the Senate reject this budget resolution reported by the Democratic majority of the Senate Budget Committee. The proposed budget would increase taxes on American families by $900 billion, do nothing about the economic danger posed by unaffordable growth in entitlement programs, expand the size of the non-defense, discretionary part of government by five percent, and saddle our children with a $2.2 trillion increase in the federal debt.



The Challenge

The challenge is to write a responsible budget that not only has a fair level of taxation, does not trigger a spending spree on the national credit card, and reduces the deficit in the next few years, but also is going to lead to an affordable government for our children in the long run and allow them to maintain the high quality of life that we enjoy now.

Healthy Economy Provides (Missed) Opportunity For Reform

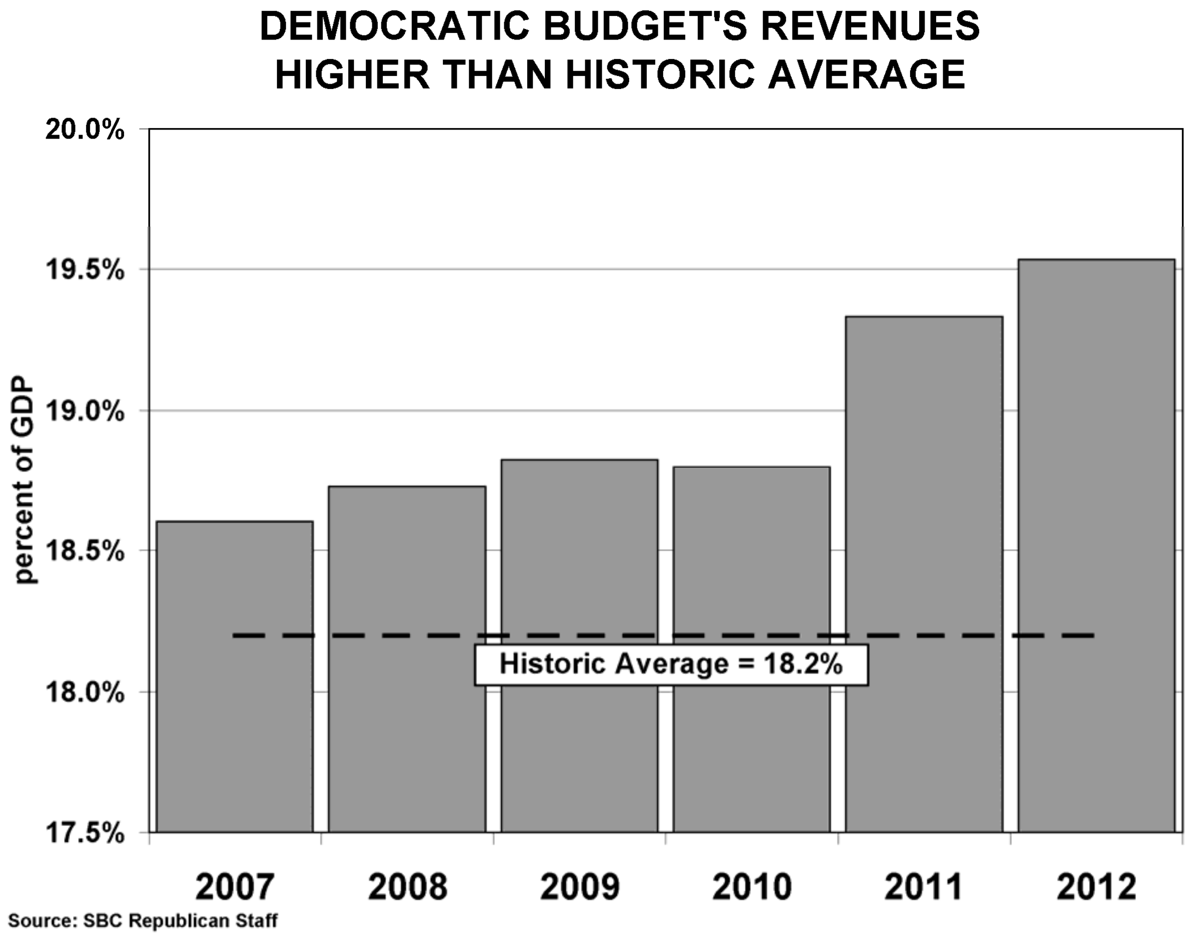
Because of the solid growth of the American economy and projected future reductions in defense costs, almost any budget proposed for the next five year could end in approximate balance by 2012. The President's budget suggests this outcome. The reported budget resolution by the Democratic majority also suggests this outcome.

We know from the budget outlook prepared by the Congressional Budget Office (CBO) that if current law remains unchanged and tax rates are allowed to increase, the budget will go into a small surplus (1 percent of Gross Domestic Product, GDP) within five years and stay in balance for a brief amount of time, until the demands of the Baby Boom generation start to put huge pressure on our system and we head toward insolvency about 20 years from now.

Why has the deficit dropped so precipitously from about $400 billion three years ago to about $200 billion this year, headed down to basically balance in 2012? It is primarily because of revenues and economic activity. We have seen 21 straight quarters of increased economic growth. Unemployment has dropped significantly over this period; it’s been a very robust recovery – 7.6 million new jobs have been created. Real wages have increased. The economy has been extraordinarily strong and has created an entrepreneurial spirit where people are investing and creating jobs.

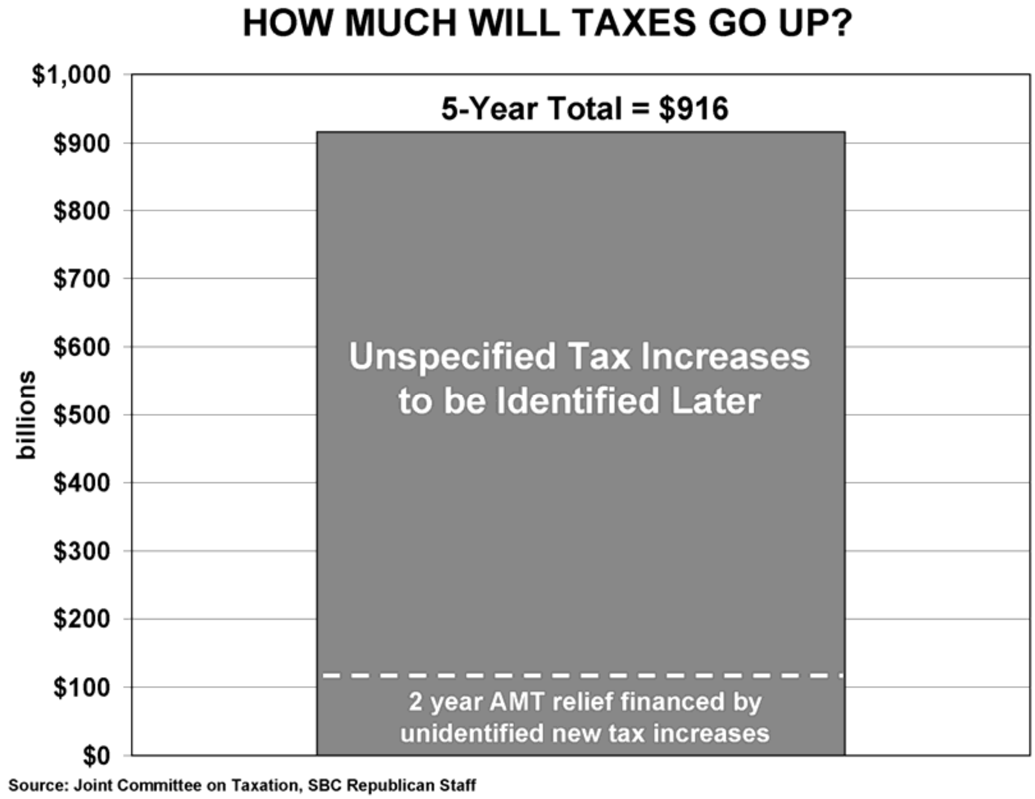
What created the atmosphere that has allowed that? A large part of the explanation is that we put in place a fair tax policy that rewards individual initiative and stimulates economic growth. It said to the American people – if you go out and you are productive, work hard, and take risks with your capital, then you will get a reasonable reward on that investment. As a result, people took those risks and created jobs, which have resulted in rising revenues.

Revenues are now well above what has been the historic average federal tax collection in this country, which has been about 18.2 percent of GDP. For 2007, revenues will be about 18.4 percent of GDP, and the revenue bite out of the economy will continue to rise if tax laws currently on the books are left in place.



$900 Billion Tax Increase

But that is exactly what the Democratic budget would allow to happen – current tax law would be left unchanged. That is why this budget reflects rising revenue levels that match the current law baseline, increasing taxes on Americans by $900 billion over the next five years.



The Democratic majority argues that it does not want to increase tax rates; their budget argues that it could be possible to preserve some tax cuts by increasing revenues from a list of tax-shelter examples and by closing the tax gap. But they cannot point to where such sufficient revenue offsets would come from. We have had many hearings on this topic, and the testimony was pretty clear – there are people not paying the taxes they owe, but collecting them is going to be a challenge. The difference between what is being collected now and what might be collectible is probably no more than $20 or $30 billion, which is certainly not going to make up the $900 billion of new revenue that will be needed to pay for extending the tax cuts as this budget envisions. If we could easily close off enough loopholes, fraud, and overseas tax havens to pick up that amount, I am sure that the Finance Committee would have already done that.

It is almost like the Wizard-of-Oz tax policy here. There is somebody behind the curtain. We have not seen who it is, and we are not supposed to pay attention to what is going on back there, but that person is supposedly going to have the answers as to how we are going to get $900 billion in new revenue without rates going up.

Another problem is that there is prejudice built into this budget through its new points of order. Four new mechanisms have been put into this budget that will create a huge bias towards forcing up tax rates. Each of the mechanisms would require 60 votes to preserve lower tax rates. This would be a dramatic change in the way the Senate operates. For more than 30 years since the enactment of the Congressional Budget Act in 1974, the annual congressional budget resolution, along with the optional reconciliation process to require committees to comply with any instructions in the budget resolution, have been privileged vehicles on the floor of the Senate that cannot be filibustered. This has allowed the Senate to both set and implement its budget plan with a simple majority, whatever the fiscal policy decided on by the Congress. The Senate's current paygo point of order is 100 percent consistent with the design of the Congressional Budget Act and 33 years of history of privileged consideration for Congress' budget legislation. But now with multiple new super-majority points of order proposed in this Democratic budget, the Senate's flexibility to design the fiscal policy of the nation will be severely limited.

Budget Takes a Pass on Reforming Mandatory Programs

With the Baby Boomers starting to retire in 2008, our nation is on the cusp of a huge demographic shift. The over-65 population is estimated to double by 2035 to 75 million (compared to 37 million in 2005).

As the number of Americans over 65 rises from nearly 12 percent of the total population in 2008 to 19 percent by 2030, there will be an increasing burden on working class families. The ratio of the number of workers available to support each retiree will continue to decline from 5.1 to 1 in 1960, to 3.3 to 1 in 2007, to 2.6 to 1 in 2020, to 1.9 to 1 in 2080.

Under current law, mandatory spending will grow at an average of 6.1 percent per year during 2007-2016, reaching $2.5 trillion by 2016. Fueled by rapid growth in Medicare and Medicaid – almost 8 percent per year over the next decade alone – the unfunded liabilities over the next 75 years are staggering:

- Medicare - $32 trillion
- Medicaid - $20 trillion
- Social Security - $4.6 trillion

Unless something is done, total Social Security, Medicare and Medicaid spending will grow to 9.5 percent of GDP by 2010, 18 percent of GDP by 2030, and 28.5 percent of GDP by 2050.

Historically, tax collections have averaged 18.2 percent of GDP, a level that the "big three" entitlement programs will consume all by themselves by 2030. If current spending and tax levels remain unchanged, the federal deficit will grow from 1.3 percent of GDP this year to 24.3 percent of GDP by 2050.

With $67 trillion in total unfunded liabilities, one thing is for certain – we cannot tax our way out of this problem. To put this in perspective, if we wanted to put aside today enough to cover the Medicare and Medicaid promises alone – it would take $170,000 for each and every American or approximately $440,000 per American household.

Despite the multitude of hearings held by the Budget Committee this year - each one opening with an examination of the entitlement crisis facing us - this reported budget resolution contains no net reductions in mandatory programs. Instead, to the extent that this budget claims to assume reductions in a certain mandatory program, it also assumes those savings will be spent on expansion of an existing mandatory program or a new mandatory program.

A perfect example is the $15 billion of “assumed” savings in Medicare by reducing “certain overpayments” to providers, which are then assumed to fund the expansion of another entitlement program – SCHIP.

Therefore, under the Democratic budget, the long-term spending trends of all mandatory programs combined will remain on the exact same unsustainable path where they are currently.

I believe the more appropriate approach towards addressing the entitlement crisis is embodied in the amendments offered by the Republicans in the Senate Budget Committee and proposed by the President’s budget. Medicare is a perfect example.

By including common-sense reforms with long-term savings implications, such as more accurate provider payment updates and income-based cost-sharing for wealthy Medicare beneficiaries, spending could be reduced by $33.8 billion, or 1.5 percent of total Medicare spending of $2.25 trillion during 2008-2012. More importantly, these relatively moderate five-year savings would translate into an $8 trillion reduction in unfunded Medicare liabilities over the long-term horizon.

Expanding the Annually Appropriated Part of Government by Five Percent

Compared to simply maintaining the level that has already been appropriated for all discretionary spending for 2007 (excluding $72 billion in emergency funds), this budget would add $255 billion to discretionary programs over five years. For 2008, that would mean a five percent increase in appropriated programs compared to simply continuing to fund current programs, and this increase would remain, on average, over the next five years.

For the non-defense component of discretionary appropriations, this budget would increase spending over the President’s request by $18 billion in 2008. Compared to the level enacted for 2007, this would be a 6.1 percent increase. Over the next five years, this budget would load up on $146 billion in non-defense increases over the President’s request.

The Democratic majority, in outlining its budget plan, was very forthright. They said, “These are the programs we’re going to spend this money on, these are programs we’re going to expand spending on.” Once new and expanded programs are funded with that increase, they will continue to grow even after five years.

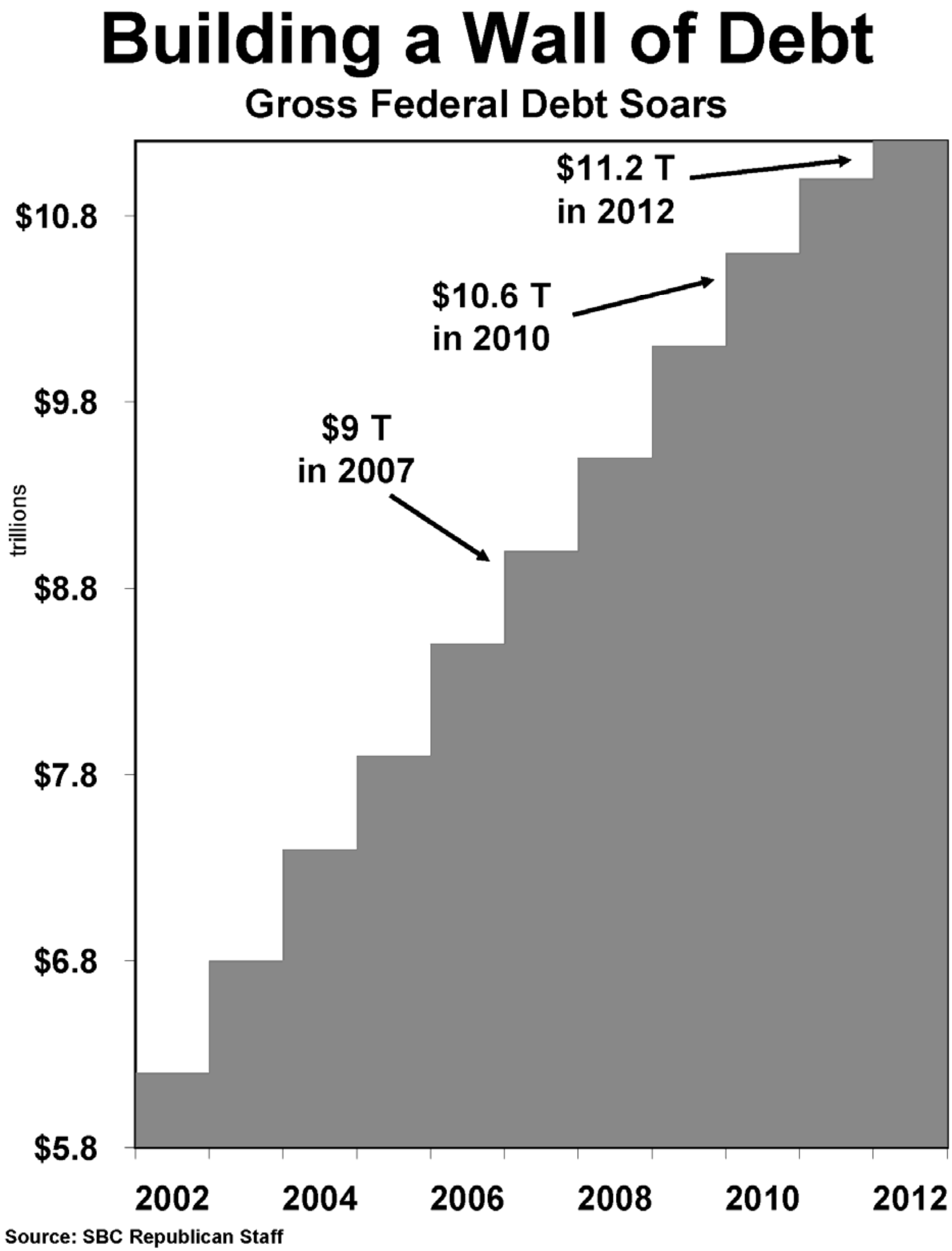
SENATE-REPORTED BUDGET RESOLUTION
DISCRETIONARY SPENDING SUMMARY
(Budget authority in billions of dollars)

	2007	2008	2009	2010	2011	2012
Defense (050)	616	646	582	542	548	557
Non-defense	438	448	457	462	469	477
Total discretionary	1,054	1,094	1,038	1,004	1,017	1,034
Less war supplementals	170	145	50	-	-	-
Less other emergencies	5	0	0	0	0	0
Changes in mandatory programs rebased by CBO (CHIMPS)	6	-	-	-	-	-
Discretionary excluding all supplementals	873	949	989	1,004	1,018	1,034
		8.7%	4.2%	1.6%	1.3%	1.6%
Detail on discretionary excluding supplementals						
Defense	*452*	*504*	*532*	*542*	*548*	*557*
		11.4%	*5.5%*	*2.0%*	*1.1%*	*1.6%*
Non-defense 1/	*421*	*445*	*457*	*462*	*469*	*477*
		5.7%	*2.6%*	*1.1%*	*1.6%*	*1.6%*

NOTE: Zeros represent amounts less than $500 million. Percentages represent percentage change from previous year.
1/ The Senate-reported resolution allows for a $2 billion increase in advance appropriations for non-defense programs for 2009, which is equivalent to increasing the 2008 appropriations level by $2 billion. Adjusting the non-defense level for 2008 to account for this, the year-over-year growth rate for non-defense discretionary spending is 6.1%.

More Discretionary Spending and No Mandatory Reform = More Debt

Because of these huge increases in spending, this budget increases the deficit over the next four years (2008-2011) by $440 billion, compared to the baseline. On the mandatory side, the budget does nothing, which does not help our debt situation. On the discretionary side, this budget borrows in order to spend, which is worse than doing nothing. First, this means that this budget uses $1 trillion of the Social Security surplus to pay for the rest of government. But since the Social Security surplus is not big enough to pay for all the spending in this budget, the budget increases the deficit, and therefore borrowing, and therefore the debt. Under this budget, federal debt will rise by $2.2 trillion between 2007 and 2012.


Building a Wall of Debt
Gross Federal Debt Soars
$11.2 T
in 2012
$10.6 T
in 2010
$9 T
in 2007
$10.8
$9.8
$8.8
$7.8
$6.8
$5.8
trillions
2002
2004
2006
2008
2010
2012
Source: SBC Republican Staff

The language of this budget says one thing, but the substance of the budget says something else. It says it is for fiscal restraint, but there is a huge increase in discretionary spending. It advertises no new taxes, but the tax take would increase by $900 billion compared to the tax policy taxpayers are familiar with. Entitlements will be controlled later, so there is no entitlement reform now. As a result, at the end of five years we will have a lot more debt and a lot more expenditures, a larger government, and much higher taxes on our citizens and small business. We will have missed the chance to discipline ourselves in a time when we should have been disciplining ourselves and getting to balance faster and more efficiently.

SENATE-REPORTED BUDGET RESOLUTION
SUMMARY OF CHANGES FROM ADJUSTED CBO BASELINE

(In billions of dollars)

	2007	2008	2009	2010	2011	2012	2008-12
CBO Baseline (-)deficit/(+) surplus (adjusted to remove the extension of the supplemental)	**-177**	**-69**	**-68**	**-78**	**51**	**247**	**83**
Discretionary outlays	27	130	152	92	61	48	483
Mandatory outlays	3	3	-1	-1	-1	-2	-2
Net interest outlays	1	6	13	18	20	25	82
Tax change (-)tax cut/(+)tax increase	-4	-42	16	58	16	-44	4
Total change	35	181	148	51	64	115	559
Senate-reported resolution unified (-)deficit/(+)surplus	**-212**	**-249**	**-215**	**-129**	**-14**	**132**	**-475**