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How to Capsize the U.S. Economy

The Democrat budget promises hundreds of billions of dollars in new taxes and spending -- more than enough to sink the current prosperity cycle.

By Judd Gregg

The extraordinary success of the U.S. economy over the past several years is evidenced by 22 consecutive quarters of economic expansion, the creation of nearly eight million new jobs, and surging tax revenues that have outpaced projections by $300 billion. Recently, however, an enormous anchor was attached to the economy, in the form of the fiscal-year 2008 budget resolution.

This five-year budget blueprint, a partisan plan designed and passed by congressional Democrats with no input from Republicans, will weigh down the economy with the largest tax increase in U.S. history, hundreds of billions in new spending, and billions of dollars in new debt. Most egregiously, the budget completely ignores the $69 trillion long-term entitlement crisis that threatens to swamp future generations with debt and taxes.

Despite a solid record of success for the fair, pro-growth tax system put in place in 2001 and 2003, this budget chooses not to extend existing policies past 2010. That decision will cost hard-working American families, seniors, and businesses dearly — to the tune of $916 billion in new taxes. In putting us on a path to European tax levels, this budget is just like a French soufflé, except it will be the American economy which will collapse.

Built into the budget are a myriad of roadblocks to extending even basic tax relief, such as the child tax credit or the marriage penalty relief. Tax relief — or allowing taxpayers to keep more of the money they earn — is contingent on a surplus and a Senate supermajority of 60 votes, while the spending increases in this budget are not held to the same standard.

Pay-go, or “tax-go,” is used as a smoke-and-mirrors trick for raising taxes. The budget makes it easy to increase spending next year by offsetting the “pay” part of the equation by alleged savings over many years, while at the same time subjecting all tax extensions to a series of unattainable hurdles. For example, expiring mandatory spending programs and expiring tax relief are treated differently, so that existing spending continues to be assumed in the baseline (even after its expiration) while the extension of existing tax policy must be offset or receive 60 votes.

The budget also is unrestrained in its embrace of new spending on Washington programs. Wasting no time, this budget in fiscal 2008 will spend $82 billion, or 9 percent more than fiscal 2007 levels. In total, discretionary spending jumps $205 billion over the president’s request during the next five years, while entitlement spending grows unchecked by $402 billion during the same period. The budget also includes 37 reserve funds that pave the way for hundreds of billions of dollars in new spending — paid for by new taxes, of course.

To achieve such spending levels, 100 percent of the Social Security surplus — more than $1 trillion — is spent over five years. All Social Security protections that were added by Republican amendments to the Senate-passed budget were discarded in the final Democratic budget.

To compound this fiscal irresponsibility, the budget makes no attempt to address the $69 trillion long-term entitlement obligation that will be triggered by the retirement of the massive Baby Boom generation and spiraling healthcare costs. The over-65 population will double by 2035 as the worker-to-retiree ratio shrinks to just over 2-to-1. The nation is unprepared to handle such an enormous financial burden. Yet Democrats rejected a common-sense proposal by the president to reduce Medicare's long-term liability by nearly 25 percent — without impacting 95 percent of all beneficiaries — by reimbursing health care providers more accurately and by asking only the wealthiest beneficiaries to pay slightly higher Medicare premiums, which are today subsidized by all working Americans.

The budget's only review of entitlement programs is extremely small — a $750 million reconciliation deficit-reduction instruction — and is clearly being used to streamline the enactment of expansions of entitlement programs, including a possible $30 billion growth in spending. Because a reconciliation savings instruction represents a net figure, billions of dollars in entitlement savings can be hijacked and used to finance new entitlement spending instead of deficit reduction, as long as the net savings instruction is met. After throwing out a bipartisan amendment contained in the Senate-passed budget that would have limited any new spending in response to reconciliation instructions to 20 percent of the net instruction, Democrats have created a scenario where new spending is likely to be 2,900 percent greater than the alleged $750 million in deficit savings.

The Democrat budget contains many sleights-of-hand, but closer examination of complicated mechanisms reveals the true nature of what the liberal party is trying to slip past the American taxpayer. Despite the unprecedented tax increases, an even larger spending spree will rack up an additional $2.5 trillion in gross debt over the next five years — certainly an imprudent course of action given the looming demographic and fiscal tsunami.

This partisan budget is based on the basic theme that taxpayer money belongs to Democratic officeholders who can spend it as they see fit. It's a reckless prescription that will only sink today's strong and buoyant economy.

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