



BUDGET COMMITTEE



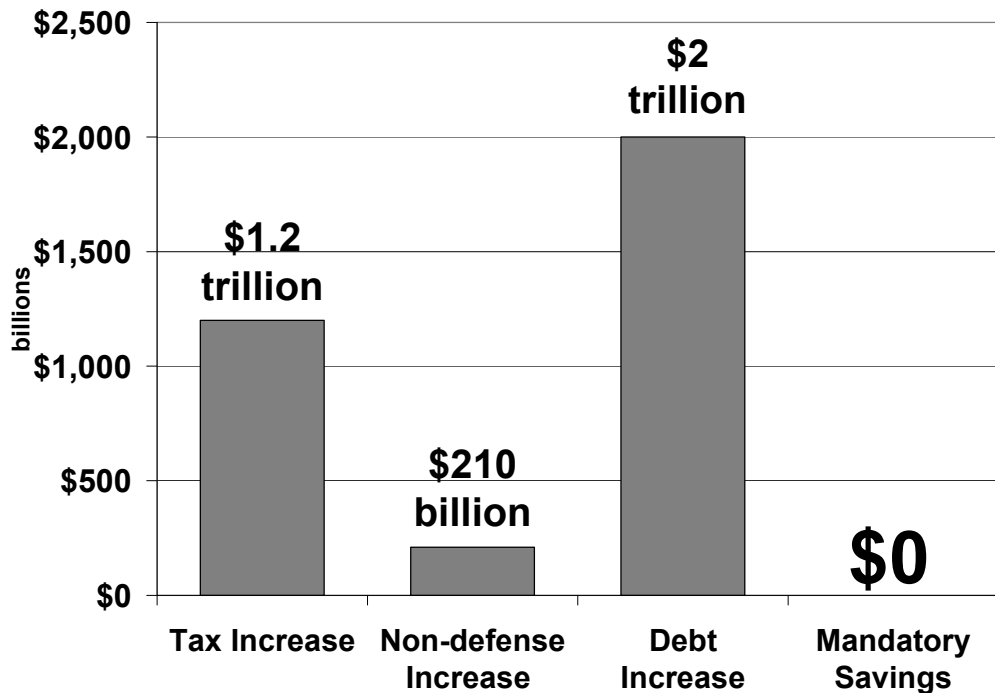
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MINORITY VIEWS OF RANKING REPUBLICAN MEMBER SENATOR JUDD GREGG

I recommend that the Senate reject this budget resolution for FY 2009 reported by the Democratic majority of the Senate Budget Committee. The proposed budget would increase taxes on American families by \$1.2 trillion, 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 9.1 percent compared to 2008, and saddle our children with a \$2 trillion increase in the federal debt.

DEMOCRATIC BUDGET HIGHLIGHTS



TAXES

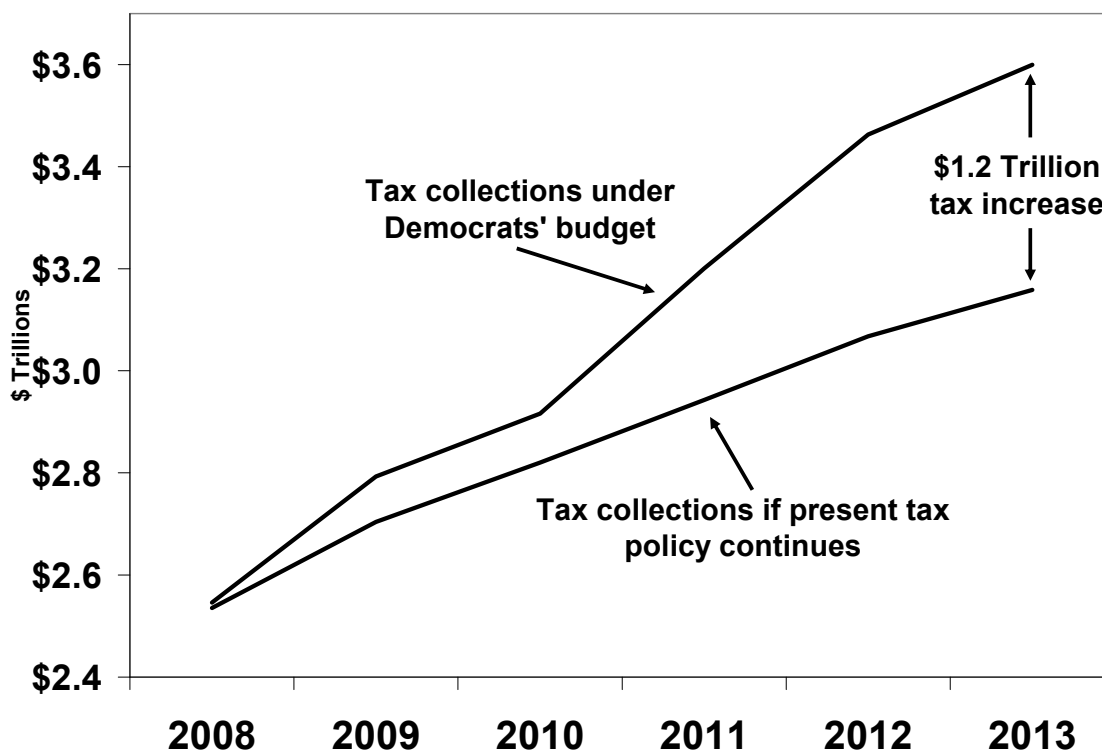
\$1.2 Trillion Tax Increase

Revenue growth has decelerated as the economy has slowed in the past year. The level of revenues is expected to be about 17.9 percent of GDP in 2008, somewhat below the average over the past 40 years of 18.2 percent of GDP. Under the Democratic budget, the revenue bite taken out of taxpayers rises rapidly since the budget assumes that tax policy currently on the books expires after 2010; by 2013, revenues as percent of GDP would rise to 19.9 percent of GDP.

Overall, the Democratic budget asks taxpayers to send in an additional \$1.2 trillion in taxes over the next five years. This means that a family of four with \$50,000 in income will pay \$2,300 more in taxes. Seniors with \$40,000 in income will see their taxes go up by \$2,200. Small businesses will pay \$4,100 more. Nearly 8 million individuals and families who currently don't owe income taxes would be put back on the tax rolls.

The Democrats' budget accommodates one small piece of tax relief – an Alternative Minimum Tax (AMT) patch for 2008, which is not offset. However, the \$62 billion cost of patching the AMT for one year is still subject to the Democrats' pay-as-you-go point of order – but that doesn't matter, because the Senate Democrats have announced that it is their intention to ignore pay-go requirements and waive that point of order.

DEMOCRATS' BUDGET RAISES TAXES \$1.2 TRILLION



Source: Senate Budget Committee Republican Staff

The Democratic majority argues that it does not want to increase certain tax rates or so-called “middle-class” tax benefits and that their budget could preserve some tax relief by increasing revenues from a list of tax-shelter examples and by closing the tax gap. But they cannot identify where such sufficient revenue offsets would come from.

We have had a year of empty claims about going after the tax gap, yet the majority has made it clear again that their budget relies on these phantom revenues. Yes, there are people not paying the taxes they owe, but collecting them is going to be a challenge, especially when Congress last year enacted legislation to collect only \$0.2 billion (over five years) of the \$5.7 billion in tax-gap closures the President proposed. To put that in perspective, this Democratic budget relies on \$300 billion from closing the tax gap over the next five years when last year the majority could only muster \$0.2 billion in progress towards reducing the tax gap. The Democrats’ claim of collecting more revenues from closing the tax gap is nothing more than a hope and a wish. Instead, the tax increases in this budget are going to be pushed on to middle-class families and small businesses.

More discouraging last year is that Congress moved in the opposite direction in terms of addressing the tax gap. The House actually passed bills (which have not been enacted, yet) that would increase the tax gap. In addition, both the House and Senate moved appropriation bills that would have provided more tax enforcement money for the IRS, which the President had requested. But Congress then took the money away when it came time to enact the appropriation bill for the IRS for 2008.

The difference between what is being collected now and what might be collectible is probably no more than \$20 or \$30 billion per year, which is certainly not going to make up the \$1.2 trillion of new revenue that will be needed to pay for extending the tax cuts as this budget envisions.

This budget includes \$1.2 trillion in explicit tax increases, but the tax bill on American families could actually be \$300 billion higher – \$1.5 trillion over the next five years – because this budget includes multiple tax-and-spend reserve funds.

Tax-and-Spend Reserve Funds

The only reason for this budget to include deficit-neutral reserve funds is to set up a mechanism through which a bill that will spend an amount of money (to be named later) on a certain purpose can be offset by a tax increase on someone (to be named later). There are more than 30 reserve funds in this budget resolution. If all of the legislation contemplated by the reserve funds were enacted, taxes would have to be increased by at least \$300 billion over the next five years in order to offset the \$300 billion in spending that advocates of these reserve funds seek.

SPENDING

More Tax & Spend While Ignoring the Crisis

Discretionary Spending Bonanza

For 2009, this budget resolution would allow total regular discretionary appropriations (for defense and non-defense) of **\$1.019 trillion, which includes an extra \$4 billion made possible by an increase in the limit on advance appropriations.**

Before 2000, advance appropriations never exceeded \$5 billion. For 2001, advance appropriations more than doubled, and then for 2002 Congress more than doubled them again to \$23 billion – the level at which they have been limited for seven years. There is no programmatic rationale for any of these advance appropriations; Congress, with the agreement of the Executive Branch, has increased them simply because they are a confusing, non-transparent way of getting around budgetary limits on appropriations. Last year, the long-standing limit was breached as the Democratic budget planned, and Congress, with the President’s signature, enacted a \$2 billion increase in advance appropriations from \$23 billion to \$25 billion. Not satisfied with that increase, this 2009 budget would increase the limit on advance appropriations to \$29 billion – resulting in more than a 25 percent increase in advance appropriations from the limit that had been in place all decade, until last year.

Democratic Budget for 2009 Compared to President's 2009 Request				
(\$ billions)				
	<u>President</u>	<u>Democrats</u>	<u>\$ Increase</u>	<u>% Increase</u>
			<u>over Pres</u>	<u>over Pres</u>
Defense	538	538	0	0
Non-Defense	<u>460</u>	<u>482</u>	<u>22</u>	<u>4.8%</u>
Total	997	1019	22	2.2%

As a result, compared to the President’s request of \$997 billion for 2009 (the President did not request an increase in advance appropriations), this budget resolution plans a \$22 billion increase -- all for non-defense activities. And not only do advance appropriations increase over last year, but total non-defense appropriations increase by 9.1 percent compared to the level enacted for 2008.

Democratic Budget for 2009 Compared to 2008 Enacted				
(\$ billions)				
	<u>2008</u>	<u>2009</u>	<u>\$ Increase</u>	<u>% Increase</u>
			<u>over 2008</u>	<u>over 2008</u>
Defense	495	538	43	8.6%
Non-Defense	<u>441</u>	<u>482</u>	<u>40</u>	<u>9.1%</u>
Total	936	1019	83	8.9%

Unless the Democratic budget argues that some of their planned increases in appropriations is meant to be temporary and should be eliminated in future years (which it does not), this \$22

billion increase (over the President's request) in 2009 alone will go into the base and will translate to \$210 billion in higher spending over the next five years.

The Democratic budget tries to argue that it does not increase non-defense appropriations by very much. Instead of comparing to the level enacted for 2008, their budget argues it represents only a 2.2 percent increase over the baseline level (which adjusts for inflation) for 2009. This is an incorrect comparison because it leaves out some of the 2009 spending that the resolution assumes will be enacted for 2009 (\$5.8 billion for levee repair and \$4 billion in advance appropriations), plus it exaggerates the baseline level. So instead of the 2.2 percent increase for non-defense that the chairman claims, an apples-to-apples comparison shows the real increase is 6.1 percent over baseline. These large increases in domestic spending will have to be paid for somehow – either through higher taxes or larger deficits and more debt imposed on our children.

Democratic Budget for 2009 Compared to CBO Baseline for 2009 (\$ billions)				
	<u>Baseline</u>	<u>Democrats</u>	<u>\$ Increase over base</u>	<u>% Increase over base</u>
Defense	512	538	26	5.1%
Non-Defense	<u>454</u>	<u>482</u>	<u>28</u>	<u>6.1%</u>
Total	965	1019	54	5.6%

For the war, the Democratic budget matches the President's request of \$70 billion for 2009, but includes nothing more than that, because the majority argues that the funding level of \$70 billion (which is probably sufficient to fund the war only from October 2008 through January 2009) is closer to "their policy." If their policy is to start getting the troops out of the war theater as soon as the next President is inaugurated, then their budget does not match their policy because it omits the substantial funds that will be required to bring all the troops and their equipment home. Perhaps it is the policy of this budget to abandon the troops come January 20, 2009?

This budget resolution also matches the President's request for regular (non-war) defense appropriations, but it does not have a firewall protecting this defense spending, so appropriation bills can shift funds that this budget resolution contemplates for defense over to non-defense purposes. This is exactly what happened last year when the appropriation bills for 2008 underfunded the President's defense request by \$3 billion and spent that amount on other activities instead.

Ignoring the Entitlement Crisis

With the Baby Boomers having already begun to retire, our nation is on the cusp of a huge demographic shift. The over-65 population is estimated to double by 2035 to 75 million. As the number of Americans over 65 rises, 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 today, to 2 to 1 in 2050.

Congress has had warnings in recent years about our impending fiscal crisis. In each of the last two years, the Medicare Trustees have notified Congress that more than 45 percent of Medicare outlays will be paid for by the general fund within the next seven years. This has triggered a

Medicare Funding Warning and a Presidential submission to Congress of legislative language to address the problem. If this warning is not enough, the Trustees also have warned us that in 2019 the Medicare Trust Fund will be exhausted.

Our fiscal problems are not limited to health care programs. In 2017, the Social Security system will begin to pay more in benefits than it takes in each year in payroll taxes. This will put incredible pressure on other federal programs.

The problems identified by the Medicare and Social Security Trustees are apparent in both the short and long term. Medicare, Medicaid, and Social Security will grow under current law at an average rate of 6.6 percent per year over the next 10 years. If federal health care costs continue to grow at the 40-year annual average of 2 percentage points faster than the economy, then the spending in the three largest entitlement programs will exceed 18.2 percent of GDP (the average revenue collected by the federal government annually for the past 40 years) in 2037 and reach nearly 50 percent of GDP within 75 years.

With \$66 trillion in total unfunded liabilities in these programs, 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, Medicaid and Social Security promises alone, it would take \$183,000 for each and every American, or just over \$495,000 per American household.

Despite the warning about the severity of the entitlement crisis facing us, the majority's budget contains no net reductions in mandatory programs. Instead, this budget includes an extremely modest \$1.3 billion reduction in Medicare in 2013 that the Democrats are proposing to comply with the Medicare "trigger." This amounts to a mere 0.05 percent reduction in Medicare spending over the five-year period. Unfortunately, this savings is more than offset by a \$1.7 billion increase in Medicaid spending in 2008 and 2009 that will occur if the resolution's assumption of delaying Medicaid regulations (that are intended to reduce fraud and maintain the integrity of the program) is enacted.

ENFORCEMENT (or lack thereof)

If you listen to the Budget Committee Chairman, you'd get the impression that the Democratic majority was the pillar of fiscal responsibility. We had no choice but to give them the benefit of the doubt last year. But now the record is there for everyone to see. Instead of congratulating themselves for being fiscally responsible, they should congratulate themselves for thinking up budgetary gimmicks and tricks to fool everyone into thinking they actually controlled spending.

In the first session of the 110th Congress, Democrats completely ignored pay-go, or used gimmicks such as adding mandatory spending to an appropriation measure; used early sunsets of programs to make the cost appear smaller; legislated one-time changes to hide spending; and moved mandatory spending outside of the pay-go enforcement window – to the tune of \$143 billion. The Democrats' budget this year does nothing to control the proliferation of pay-go gimmicks. One of my amendments, which tightened the long-term deficit point of order, was accepted and is the only enforcement loophole-closer in the Democrats' budget.

Last year's budget resolution conference agreement included reconciliation instructions to a single committee for savings of \$750 million. The instruction was included in the House-passed resolution last year, but not the Senate-passed resolution. This special budget procedure, which was not intended to be used to expand the size of government, was included in the conference report and then exploded into \$21 billion of new government programs. Needless to say, I have deep reservations about using reconciliation that way.

I will warn my colleagues that the same thing is happening again this year. The House budget resolution includes a \$750 million savings instruction under reconciliation; the Senate resolution contains no such instruction. It is not appropriate for the House to be doing the Senate's dirty work. If there is going to be reconciliation in the conference report on the budget resolution, let's put it on the table and talk about what it is. The issue of whether to use reconciliation is important and should be debated before the full Senate during the 50 hours we have set aside for debate on this resolution.

Those who support this budget resolution should feel comfortable addressing these issues: Why was the \$750 million figure chosen? Is it going to be \$21 billion of new spending like it was last year or is it going to be \$40 billion of new programs? What about the spending savings? Where are they going to come from? Let's have some transparency. We hear a great deal from the Democratic leadership about the integrity and honesty and transparency of the government. Reconciliation in the Senate should be talked about openly, not hidden and protected from scrutiny through action by the House of Representatives.

MORE OF THE SAME: TAX/SPEND/DEBT

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 grab would increase by \$1.2 trillion compared to the tax policy to which taxpayers have become accustomed. 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 higher spending, a larger government, and much higher taxes on our families and small businesses. Congress will have missed the chance to discipline itself in a time when it should be securing the health of our future economy by reducing the threat posed by runaway entitlement programs. Instead of making tough choices, this budget passes the buck to another Congress.