

# THE COMMITTEE ON THE BUDGET

B-71 Cannon House Office Building  
Washington, DC 20515  
Representative Paul D. Ryan, *Ranking Republican*

Phone: (202)-226-7270  
Fax: (202)-226-7174  
Augustine T. Smythe, *Republican Staff Director*

## FAILURES OF THE DEMOCRATS' FIRST BUDGET CBO'S UPDATE FOR FISCAL YEAR 2008

9 September 2008

Today's analysis by the Congressional Budget Office [CBO] is more than a summary of the Federal Government's current fiscal condition. It is a report card on the first budget produced by a Democratically controlled Congress – and it shows a failing grade. After 3 straight years of significant reductions, the deficit under the fiscal year 2008 budget will more than double this year, to \$407 billion, according to CBO's annual mid-year report, *The Budget and Economic Outlook: An Update*. Spending and debt also have increased sharply this year; and the Democrats repeatedly have proposed higher taxes, including the largest tax increase in history.

Numerous factors affect the Federal deficit, and many are outside the control of Congress. But under the same standards Democrats have applied to Republicans since 2001, they are fully accountable for the deficit and debt. In one respect, at least, this *is* fair: the Majority controls the Congress; and Congress, not the President, has the power of the purse.

The Democrats' fiscal policy failures can be summarized as follows:

- They have more than doubled the Federal deficit.
- They have increased the national debt this year by the largest amount in U.S. history.
- They have set in motion the largest tax increase in U.S. history.
- They have chosen, planned for, and all but guaranteed more of the same in the form of higher spending and bigger government – all to be chased by ever-higher taxes.

What's more, the fundamental budget folly in the Democrats' plan is thinking they can balance the budget by raising taxes. The Democrats' budget assumes they can achieve balance by letting all the 2001 and 2003 tax relief provisions expire, resulting in a \$683-billion tax increase over the next 5 years. But according to CBO's estimates today, even this huge tax hike – reflected in the “current-law baseline” shown in Table 1 below – will fail to catch up with spending. *Congress has a spending problem, and the Democrats are doing nothing to solve it.*

**Table 1: CBO's Baseline Budget Outlook**  
(dollars in billions)

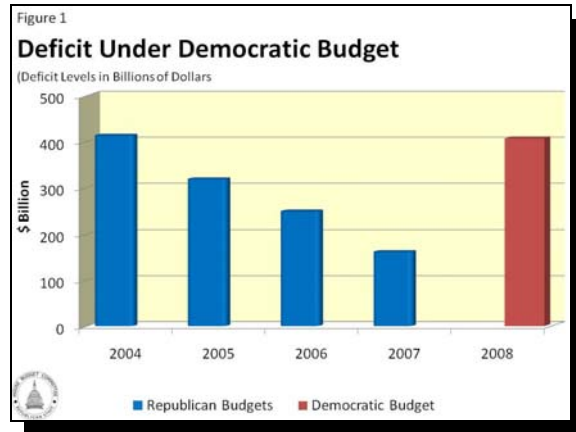
	2007	2008	2009	2010	2011	2012	2013
Total Revenue	2,568	2,548	2,720	2,881	3,178	3,451	3,619
Total Outlays	2,729	2,955	3,158	3,312	3,502	3,577	3,766
Total Deficits (-)	-161	-407	-438	-431	-325	-126	-147

Source: CBO, *The Budget and Economic Outlook: An Update*.

## DEFICIT INCREASE

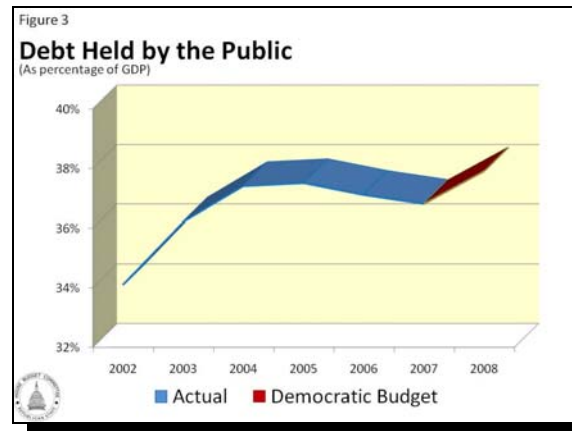
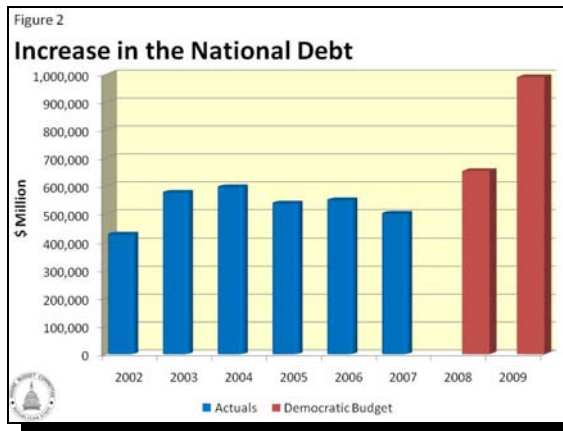
After 3 years of declines, the deficit this year will swell to an estimated \$407 billion, more than twice the gap at the end of fiscal year 2007. This figure reflects the excess of spending over revenue resulting from the first budget under the Democratically controlled 110<sup>th</sup> Congress. It reverses several years of progress against deficits, which had declined (under Republican-led congresses) from \$413 billion in 2004 to \$161 billion in 2007 (see Figure 1 on the next page).

As noted, conditions outside the control of Congress, such as economic factors or natural disasters, often contribute to deficits. But during Republican Majorities, Democrats refused to acknowledge the uncontrollable nature of events such as the economic slowdown of 2000-01, the terrorist attacks of 9-11, and Hurricane Katrina. They blamed all fiscal consequences on Republican policies. Applying the same standard to the Democrats' fiscal year 2008 budget, the Majority has more than doubled the deficit in a single year.



## RECORD DEBT INCREASE

Democrats have frequently criticized Republicans about the debt; but the Majority's budget has produced the largest annual boost in debt subject to limit in U.S. history – from \$8.9 trillion in 2007 to \$9.6 trillion by the end of fiscal year 2008 – an increase (as shown in Figure 2 below) of more than \$600 billion this year. Democrats also have raised the debt ceiling to \$10.28 trillion.



In addition, the Majority's budget policies have increased debt held by the public, a measure of what the government is drawing from the economy. After declining to 36.9 percent of gross domestic product [GDP] last year, the debt will rise to 38.2 percent of GDP this year, according to CBO's projections (see Figure 3).

---

## TAX INCREASES

Even as they complain about a weak economy, House Democrats this year have proposed a series of tax increases likely to stifle growth. These have included (using 10-year projections):

- A tax increase of \$62 billion to “pay for” merely *preventing the scheduled expansion* of the alternative minimum tax [AMT].
- Another \$16-billion tax hike in the Housing Bill.
- A \$52-billion tax increase in legislation expanding GI Bill benefits.
- A \$54-billion tax hike in the Energy Bill.

These proposals represent only the first wave of tax increases Democrats are seeking. Their budget for fiscal year 2009 calls for \$683 billion in tax hikes over the next 5 years, by assuming the automatic expiration of tax relief provisions enacted in 2001 and 2003. The Majority’s budget would increase marginal tax rates, eliminate the 10-percent bracket for lower-income taxpayers, raise taxes on marriage, children, small businesses, and estates, and raise tax rates on investments.

The tax increases occur for two reasons.

- *PAYGO*. The budget operates under the Democrats’ celebrated pay-as-you-go [PAYGO] rule, which *requires* capturing all the additional revenue from these tax increases.
- *The Trigger*. If they waive their PAYGO rule, the budget conference report still contains a “trigger” that requires these tax increases unless surpluses offset the need for them.

But even if the Congress could overcome these two hurdles, the tax increase Democrats admit to is “only” \$347 billion over 5 years – still the largest tax increase in history, and bigger than the \$240.6-billion increase in the Omnibus Budget Reconciliation Act of 1993. This also calls into question the promise of congressional Democrats and their presidential candidate to retain *some* of the 2001 and 2003 tax relief provisions. They have two options: 1) raise other taxes to “pay for” extending these tax “cuts”; or 2) violate their own PAYGO rule.

But as noted above, the biggest folly of the Democrats’ approach is thinking they can balance the budget with their \$683-billion tax increase. According to CBO’s estimates today, they cannot.

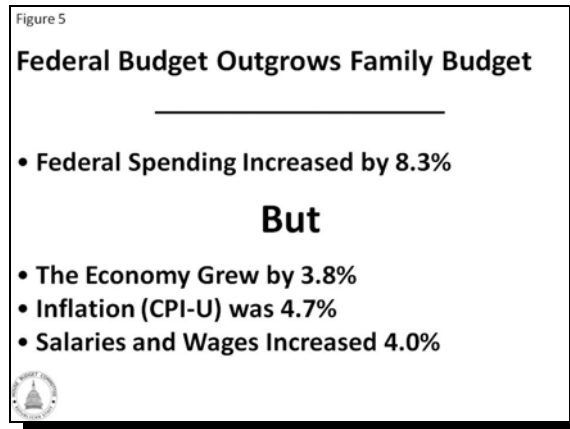
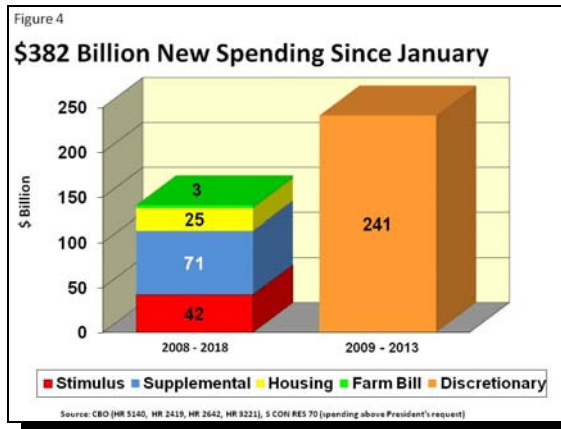
## HIGHER SPENDING, MORE GOVERNMENT

The root cause of all fiscal consequences for the Federal Government is spending – and by this criterion, the Majority’s budget also fails.

- *Spending Increases*. This year, Federal spending will increase by 8.3 percent. For comparison, with soaring gasoline prices and grocery bills, inflation is running at 4.7 percent, so the Democrats’ budget record has increased Federal spending at nearly twice that rate. At every opportunity, Democrats have added to spending: whether it was the stimulus bill, the war supplemental, or the housing bill, their consistent answer has been

more Washington spending.

- *Wasteful Earmarks.* The Democratic budget does nothing to curtail earmarks. Last year, there were 11,234 of such pork-barrel spending items, totaling \$14.8 billion.
- *Entitlements.* The greatest budget problem is the unsustainable growth in entitlement spending; and each year Congress waits, the problem gets worse. The Democrats have



proposed nothing to address this problem during the past 2 years. Instead, they have added to the problem by expanding entitlement spending in the war supplemental.

#### DIM PROSPECTS

The discussion above – and the CBO budget update released today – reflects the record of the Democratic Majority’s first budget. As Americans work through a rough patch in the U.S. economy, the government’s budget is outpacing families’ budgets (see Figure 5 above); and prospects for the coming year look no better.

Chairmen Spratt and Conrad deserve credit for getting their fiscal year 2009 budget resolution adopted. But it is a hollow achievement: it is either being ignored or not implemented.

As the Democratic Leadership made clear in February, they never had any intention to send fiscal year 2009 appropriations bills to the President. According to *The Washington Post*, the Democratic Leadership is busy plotting next year’s legislative agenda under a presumed President Obama. Unfortunately for the people who must rely on the Federal Government for services, the fiscal year is less than a month away and Congress has sent the President none of the bills to fund the government.

The supplemental, the housing bill, and other legislation all exceed the spending limits in their budget resolution; PAYGO is a farce; and the Majority has no intention to move fiscal year 2009 appropriations. Democrats have planned to fail – and regrettably, they are succeeding.