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THE HOUSE DEMOCRATIC BUDGET  
**THE STATUS QUO – AND THEN SOME**  
TAXES, SPENDING, AND A LACK OF REFORM

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The Democratic budget introduced yesterday contains the usual mix of higher taxes and higher spending – only more so. The Majority’s “new” fiscal blueprint, as reported by the Budget Committee, calls for an even larger tax increase than last year, totaling \$683 billion over 5 years. But the budget still manages to soak up the additional revenue with an array of proposals to expand government, setting in motion a vicious cycle of *ever-higher spending* chased by *ever-higher taxes*. Further, the Democrats fail to fully budget for Iraq and Afghanistan – *after criticizing the President’s budget for the same thing*.

The budget also *fails to rescue Social Security and Medicare* from the financial crisis that is now unfolding, despite repeated warnings that these and other entitlement programs are the largest threat to the budget and the U.S. economy.

The following describes key aspects of the Democratic budget for fiscal year 2009.

**HIGHER TAXES**

- **Imposes the Largest Tax Increase in History.** Though Democrats claim otherwise, the budget *raises taxes by \$683 billion over the next 5 years*. This occurs for two reasons.
  - *Assumed in the Revenue Figures.* First, the numbers in the budget include, depend on, and *require* \$683 billion in revenue increases resulting from automatic tax hikes scheduled to occur after 31 December 2010. These include increases in marginal tax rates; elimination of the 10-percent bracket for lower-income taxpayers; higher taxes on marriage, children, small businesses, and estates; and higher tax rates on investments.
  - *Required by PAYGO.* Second, the budget operates under the Democrats’ pay-as-you-go [PAYGO] rule, which *requires* capturing the additional revenue from these tax increases – as if simply retaining current tax laws after 2010 (including provisions enacted in 2001 and 2003) constitutes a new tax “cut.”

Either way, the House Majority’s budget raises taxes by nearly three times the largest enacted tax hike to date: the \$240.6-billion increase in the Omnibus Budget Reconciliation Act of 1993.

- **Spreads Tax Hikes Widely.** These assumed tax increases would hit middle-income families, low-income earners, families with children, small businesses, and a range of others. The budget contains a “reserve fund” and policy language claiming to protect “middle-income” tax benefits; *but even these provisions still require raising the additional revenue, as embraced by the budget’s revenue stream.*

**Democratic Tax Increases**  
(dollars in billions)

Tax Increase <sup>a</sup>	5-Year-Total
Increase in Marginal Rates . . . . .	325.7 billion
Increase in Tax Per Child . . . . .	50.9 billion
Increase in Marriage Penalty . . . . .	25.4 billion
Increase in Death Tax . . . . .	180.6 billion
Increase in Taxes on Investments . . . . .	81.8 billion
Other Tax Increases . . . . .	18.7 billion

<sup>a</sup> Reflects estimated revenue effects only.  
Source: House Budget Committee Republican staff estimates.

Here are some examples of how much the Democratic budget will increase burdens on American taxpayers:

- Some 116 million taxpayers will see an average tax increase of more than \$1,800 per year.
- More than 6 million low-income individuals and couples who currently pay no taxes will no longer be exempt.
- A family of four earning \$50,000 will see their taxes increase by \$2,100.
- Approximately 48 million married couples will face an average tax increase of \$3,000 per year.
- Low-income families with one or two children will no longer be eligible for the refundable child tax credit in 2011.
- Roughly 12 million single women with children will see their taxes increase by \$1,100 per year.
- About 18 million seniors will be subjected to tax increases of more than \$2,100 per year.
- Tax bills for an estimated 27 million small-business owners will increase by more than \$4,000 each.

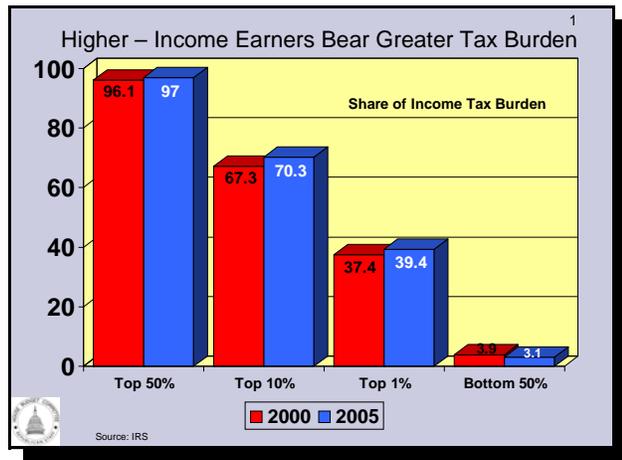
- **Sets the Table for Billions in Further Tax and Spending Hikes.** The budget contains 16 “reserve funds” that call for an unspecified total in spending increases, if offset with commensurate savings or – as is far more likely – higher taxes. The only identified

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spending amount is a proposed \$50-billion increase for the State Children's Health Insurance Program [SCHIP]. Oddly, none of the reserve funds accommodates the health reform proposals of the two Democratic presidential candidates.

- **Offers No Real AMT Fix.** The Democrats recycle last year's distorted logic about the alternative minimum tax [AMT]. The budget employs a reconciliation instruction that "patches" the AMT for 1 year (tax year 2008) – preventing the tax from ensnaring roughly 25 million new taxpayers for whom it was never intended. It then treats this as a new tax "cut," and raises taxes by \$70 billion in the subsequent 4 years to "pay for" it.
- **Ignores Economic Consequences.** With U.S. consumers already anxious over mortgage payments, food and gasoline prices, and spiraling health care expenses, the threatened tax increases only add to their economic worries. These tax hikes likely would reverse the economic gains achieved under the 2001 and 2003 tax laws, which include: 8.3 million new jobs, an average of more than 150,000 per month; a 5.5-percent year-over-year increase in business investment; and real growth in gross domestic product averaging more than 3.0 percent per year (even with the weak fourth quarter in 2007).
- **Reverses 'Stimulus.'** Less than a month after Congress and the President enacted tax relief measures to "stimulate" the economy, the Democratic budget takes back these benefits several times over. The proposed tax increase is more than four times the size of the tax-reducing "stimulus" package.
- **Ignores Fiscal Consequences.** Because these tax increases likely would slow economic growth, they will produce less revenue than expected. But the Democrats' spending proposals will not shrink. This combination will worsen deficits, increase debt, and make it more difficult to balance the budget.

- **Employs Faulty Class Warfare Rhetoric.** When Democrats insist they intend only to "roll back" tax breaks for the "rich," they ignore the fact that upper income earners already bear the largest part of the tax burden; and their share of taxes actually increased after the 2001 and 2003 laws. For example, those in the top 10 percent of income earners already were paying more than two-thirds of the tax burden; today they are paying more than 70 percent.



### HUGE SPENDING INCREASES

- **Proposes a Record-Setting 1-Year Appropriations Increase.** The budget promotes an astonishing 8.8-percent (\$82 billion) year-to-year increase in total nonemergency discretionary spending, which rises from the \$933-billion enacted level in fiscal year

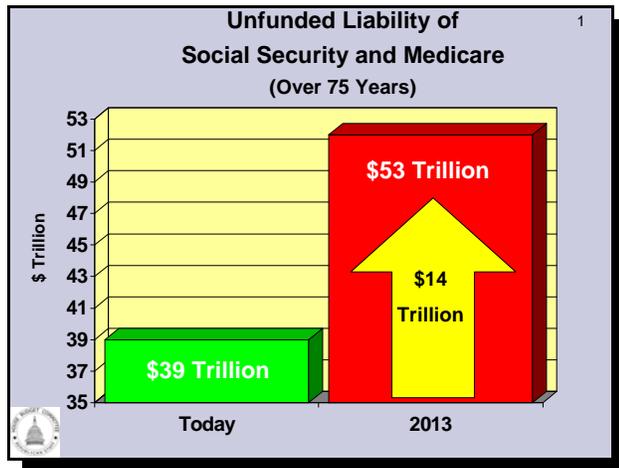
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2008 to \$1.105 trillion in 2009. The figure also reflects a \$23.4-billion increase over the President's request in nondefense, nonemergency discretionary spending – which translates to \$280 billion above the President over 5 years (including cap adjustments).

- **Increases 'Advance Appropriations.'** The budget also increases by \$2 billion, to \$27.588 billion, the amount that can be appropriated in fiscal year 2010 or later. This gimmick builds spending into the base of government that is effectively exempt from budget disciplines.
- **Promises Reckless New Entitlement Spending.** Despite warnings by numerous witnesses about the unsustainable rate of entitlement spending, the budget's reserve funds nevertheless provide for higher mandatory spending if coupled with even more tax increases. As noted above, the budget contains 16 reserve funds that create avenues for higher spending if offset with spending reductions or – as is more likely – higher taxes.

### FAILURE TO RESCUE SOCIAL SECURITY OR MEDICARE

- **Ignores the Entitlement Warnings.** The Budget Committee has been warned repeatedly that Social Security and Medicare cannot be sustained as currently structured, and – along with other entitlements – are growing at rates that will cripple the economy and overwhelm the budget. Yet the budget puts off any significant reform for at least 5 years – causing the problem to worsen. As a result, the unfunded liabilities in Social Security and Medicare will increase by roughly \$14 trillion – from about \$38.7 trillion today to about \$52.5 trillion by 2013.



- **Throws More Words at the Problem.** The resolution's only response to the entitlement challenge is Sense of the House language urging "governmental and nongovernmental experts to develop specific options to reform the health care system." The language contends that "immediate policy action is needed," but says "such action should be bipartisan, bicameral, involve both legislative and executive branch participants, as well as public participation, and be conducted in a manner that ensures full, fair, and timely Congressional consideration."

### NO ACCOUNTABILITY

- **Retains Bias Favoring Higher Spending, Higher Taxes.** As noted, the budget raises taxes by \$683 billion, by assuming all the 2001 and 2003 tax provisions will expire as

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scheduled after 31 December 2010. But at the same time it assumes that *spending* programs whose authorizations expire continue indefinitely.

- **Fails to Strengthen PAYGO.** It retains the weak House pay-as-you-go [PAYGO] rule, which allows Democrats to chase higher spending with higher taxes, and to enact spending increases immediately, offset by gimmicks, or by savings that do not occur until later.
- **Offers No Emergency Provision.** The budget fails to anticipate emergencies, and provides no criteria for domestic emergency spending – which is exempt from budget disciplines.

### GIMMICKS

- **Abuses Fast-Track Reconciliation.** The budget misuses budget reconciliation – which is intended to control spending and preclude any 60-vote hurdle in the Senate – in the following ways:
  - *AMT.* It jams a \$70-billion tax increase to “pay for” a 1-year alternative minimum tax “patch” – as if this patch were a new tax cut. But in fact, the patch only *prevents* exposing 25 million *additional* taxpayers to the AMT. Although the AMT was never intended for these added taxpayers, the budget demands the additional \$70 billion in revenue anyway.
  - *Medicare.* The budget provides a nominal \$750 million in 5-year savings to leverage unspecified Medicare changes, with no real reform.
- **Rests on Straw Man Reserve Funds.** Instead of providing funding for promised initiatives, the budget includes 16 reserve funds that promise extra funding for pet initiatives if offsets are included. The reserve funds have no real effect because budget rules already permit initiatives not assumed in the budget to be financed by offsets.
- **Includes No Defense Firewall.** By not imposing a firewall around defense, the budget allows Democrats to continue moving money from defense to nondefense, a practice they regularly employ.
- **Fails on War Funding.** The Democratic Majority still has not provided all the President’s requested 2008 funding for Iraq and Afghanistan, and now their budget contains only \$70 billion for the troops in fiscal year 2009. When the President submitted his 2009 budget in February, Democrats harshly criticized the administration for including only partial war funding for 2009 – and now they are doing the same.