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Another View

Sen. Judd Gregg and Sen. Mitch McConnell: To fuel spending increases, Democrats propose biggest tax hike ever

Since January, there has been a tremendous amount of public hand-wringing in Washington concerning the government's state of fiscal affairs. The majority party has held numerous hearings on the long-term budget outlook, where expert witnesses have testified that growing entitlement programs, such as Social Security, Medicare and Medicaid, threaten to overwhelm future generations and must be addressed immediately.

So imagine our surprise that the Democrats' budget proposal for fiscal years 2008-2012, which the Senate considers this week, contains not a single proposal that would, on net, reduce the amount of entitlement spending that continues to absorb an ever-greater share of the federal budget. What the budget does contain, however, is significant new spending, taxes and debt. Despite smoke and mirrors used to conceal the facts, it is a tax-and-spend budget that dramatically adds to the bills we are passing along to our children and grandchildren.

Our economic success over the past several years only serves to underscore what a missed opportunity this is. Pro-growth tax policies enacted in 2001 and 2003 turned the economy around, generating five consecutive years of growth, more than 7 million new jobs, a low unemployment rate of 4.5 percent, and federal revenues that have outpaced Congressional Budget Office and Office of Management and Budget projections by nearly \$300 billion. Tax hikes and massive new spending will only reverse those trends.

This economic boon has put us on the path to a balanced budget by 2012, so now is the time to get our long-term fiscal house in order. As Federal Reserve Chairman Ben Bernanke testified before the Senate Budget Committee on January 18, "Unfortunately, we are experiencing what seems likely to be the calm before the storm."

That storm is \$66 trillion in promises made by the government to its citizens with no plan for how to pay for them. The retirement of the massive Baby Boom generation – starting in 2008 – and the skyrocketing cost of health care will combine to create a demographic and fiscal tsunami we are unprepared to handle. The over 65 population will nearly double by 2035 to 75 million people as the worker-to-retiree ratio dwindles to 2 to 1 the same year. Left unchecked, spending on Social Security, Medicare, Medicaid and other

entitlement programs will grow faster than the economy itself, and consume nearly 70 percent of the federal budget in just ten years time.

Instead of outlining proposals to address this gathering thundercloud, the majority party has fallen back on its old tax-and-spend ways. Its budget contains a mysterious \$916 billion in new revenues, but no details on the source of those revenues. Despite vague budget assumptions about “loopholes” and attempts to use a grossly inflated tax gap as a magic offset, it’s increasingly clear that the real source of this \$916 billion will be a massive tax increase on American families and businesses.

This tax hike – the largest increase ever – will not be limited to the wealthy. Rather, it will hit middle-class families, low-income earners and seniors. The average family of four earning \$50,000 per year will see its taxes go up 132 percent to \$3,675 in 2011, equivalent to a six percent pay cut. Low-income taxpayers will pay 33 percent more in taxes, the child tax credit will be cut in half, married couples will pay more just for being married, and 15 million senior citizens will see their taxes go up.

After then-President Bill Clinton raised taxes by more than \$240 billion, he confessed that “I think I raised them too much.” But this budget dwarfs even that massive increase on the taxpayers - if enacted, the Democrat-proposed tax increase would be four times the size of the Clinton tax increase that even he said went too far.

Once the Democrats have that tax revenue in hand, they spend, spend, and spend some more. After campaigning on “fiscal responsibility,” the majority party immediately expands the federal government’s annual appropriations by more than five percent. In fiscal year 2008, they spend \$18 billion more than the President’s request. Total annual spending during 2008-2012 is up a whopping \$205 billion over FY 2007 levels. Entitlement spending grows unfettered, increasing \$411 billion during the budget window. To make matters worse, Democrats raid the Social Security surplus for more than \$1 trillion.

All the spending adds up, so it’s no surprise that under this budget, the nation’s debt will climb higher as well – by a staggering \$2.2 trillion during FY 2008-2012.

A fiscally responsible budget is one that reaches balance through spending restraint and debt reduction. It should extend existing pro-growth tax policies that have expanded the economy and generated a surge in revenues. It should strengthen budget enforcement mechanisms so that wasteful spending is limited. But most importantly to our children and grandchildren, a fiscally responsible budget should use today’s strong economy to take the first important steps toward addressing entitlement reform so that we can pass along an affordable government. In its shadowy attempts to increase taxes, spending and the debt, while ignoring the problems we face, this budget utterly fails both current and future generations.

Sen. Judd Gregg, R-NH, is the ranking member of the Senate Budget Committee and Sen. Mitch McConnell, R-KY, is the Senate Republican Leader.