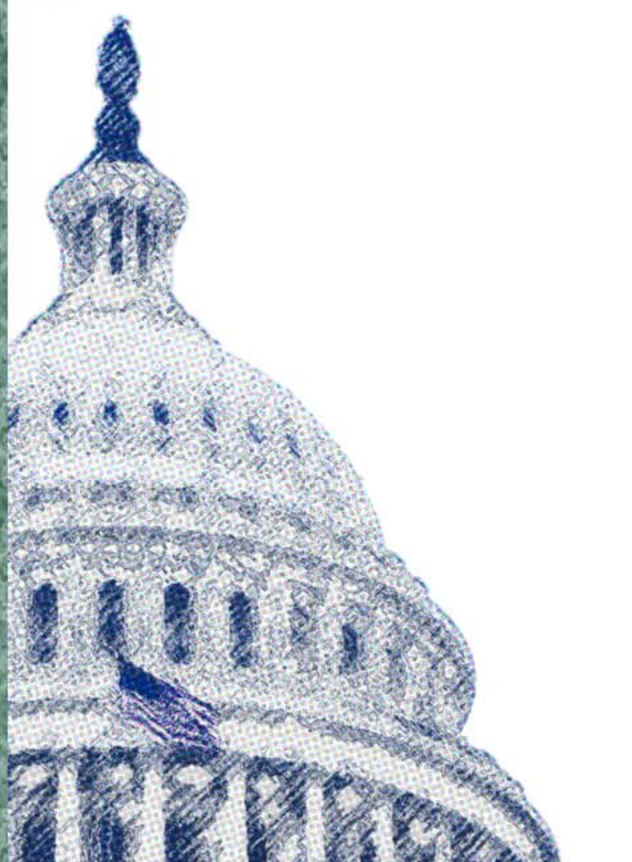
110th Congress
1st Session

Senate Budget Committee August Recess Packet



August 3, 2007
Prepared by the
U. S. Senate Budget Committee
Republican Staff
http://budget.senate.gov/republican

JUDD GREGG
NEW HAMPSHIRE

COMMITTEES:
BUDGET, *Ranking Member*
APPROPRIATIONS
HEALTH, EDUCATION, LABOR
AND PENSIONS

United States Senate
WASHINGTON, DC 20510-6100
(202) 224-3324

OFFICES:
125 NORTH MAIN STREET
CONCORD, NH 03301
(603) 225-7115

41 HOOKSETT ROAD, UNIT 2
MANCHESTER, NH 03104
(603) 622-7979

60 PLEASANT STREET
BERLIN, NH 03570
(603) 752-2604

16 PEARSE BOULEVARD
PORTSMOUTH, NH 03801
(603) 431-2171

August 3, 2007

Dear Republican Colleague:

As we wrap up our legislative business to return home for the August recess, I'd like to outline the positive state of the U.S. economy, which continues to grow and create jobs for American workers. I would also like to share important information about the majority's skirting of its own Pay-Go rules. Through a combination of point of order violations and gimmicks, nearly $90 billion in spending has escaped appropriate scrutiny.

A fair and pro-growth tax system, implemented by the President and a Republican Congress in 2001 and 2003, continues to keep the economy strong. We have enjoyed nearly six uninterrupted years of economic expansion, the creation of more than 8.2 million new jobs, and surging tax revenues that have far outpaced projections.

However, that success is being jeopardized by the Democrats' out-of-control spending. Despite having put in place a pay-as-you-go policy under the guise of fiscal restraint, the majority has violated or gimmicked their own rules on at least nine different occasions in the past six months. I anticipate that they will use Pay-Go as a way to raise taxes, ignoring the obvious benefits of the current tax policies.

In fact, tax increases were the topic of a recent Congressional Budget Office study, a summary of which is included in this packet. This study, which I requested, shows that marginal tax rates would have to skyrocket, to as high as 92% for individuals and corporations, to pay for ballooning entitlement programs and still maintain other domestic priorities such as defense, education and transportation. We have a $66 trillion fiscal crisis looming ahead of us, and clearly we cannot tax our way out of it.

Please contact my staff at 202-224-6011 if you have any questions or need additional information.

Sincerely,

Judd

Judd Gregg

BUDGET COMMITTEE
Judd Gregg, Ranking Member
http://budget.senate.gov/republican
Contact: Betsy Holahan (202)224-6011

Pro-Growth Policies Continue to Keep Economy Strong

Following September 11th, the bursting of the Internet stock market bubble, and corporate scandals, the economy was teetering into recession. A fair and pro-growth tax system, implemented by the President and a Republican Congress in 2001 and 2003, revived the economy. Since then, we have enjoyed nearly six uninterrupted years of economic expansion, the creation of more than 8.3 million new jobs, and surging tax revenues that have far outpaced projections.

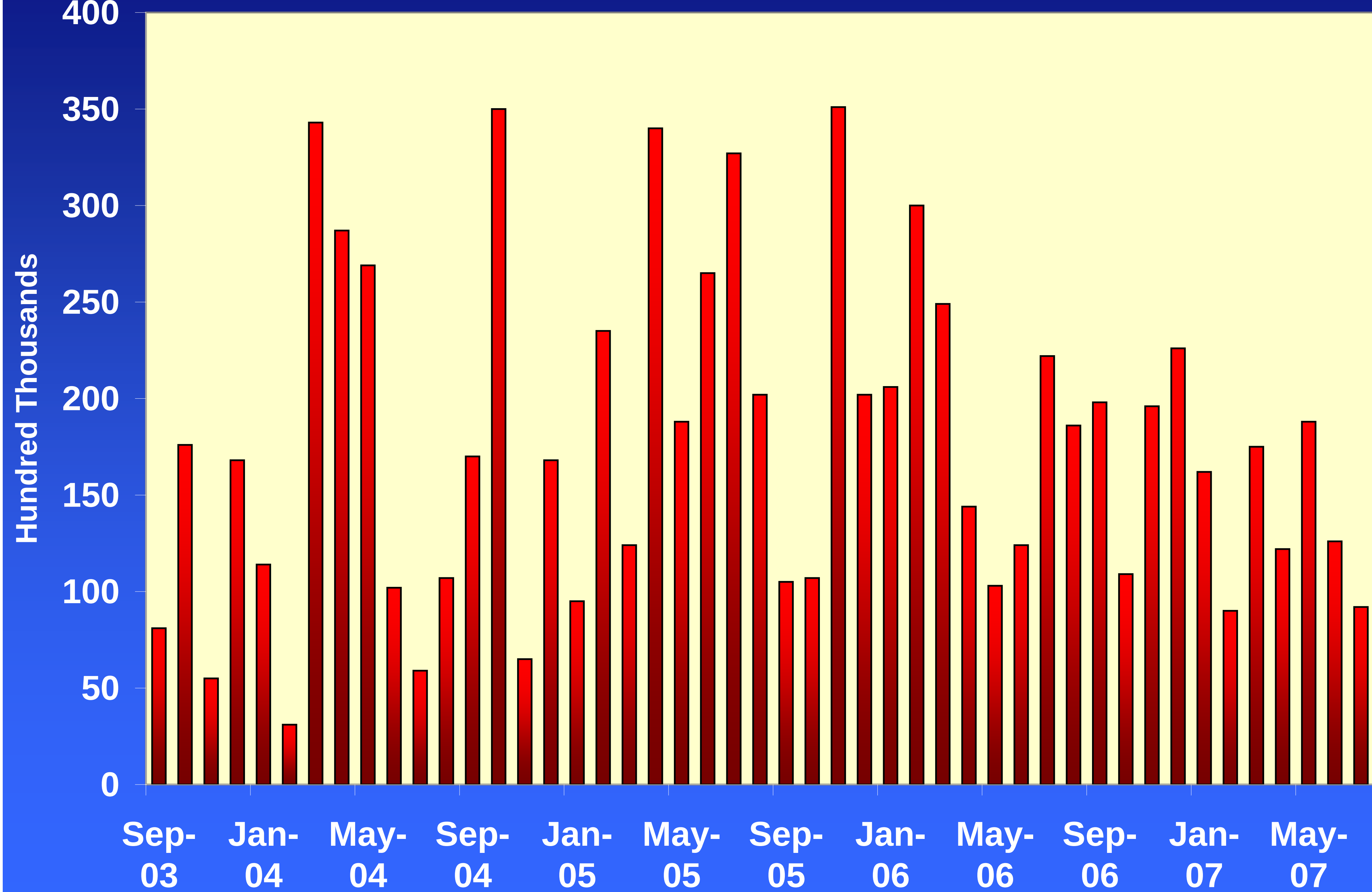
- **ECONOMIC GROWTH IS ROBUST**
  - ✓ U.S. economy is experiencing nearly SIX uninterrupted years of growth.
  - ✓ Since the tax cuts of 2003, rate of economic growth has increased from 2.1 percent to 3.0 percent
  - ✓ Since the tax cuts, the rate of investment has expanded by an average of 5.8 percent over the past 16 quarters.
  - ✓ Dividend income has nearly tripled since August 2003.

- **JOB CREATION REMAINS STRONG**
  - ✓ Created more than 8.3 million jobs during the past 47 months.
  - ✓ Unemployment rate is 4.6 percent - below average of last three decades.
  - ✓ Unemployment rate lower than last recovery.

- **WAGES & BENEFITS HAVE INCREASED**
  - ✓ Real wages and benefits increased more under President Bush (9.8 percent) than under Clinton (7.3 percent).
  - ✓ Low-income workers are doing better – according to CBO, low-income households with children experienced real income gains of 45 percent between 2001 and 2003 (the last year data was available). Within that group, approximately 60 percent of the families experienced gains totaling more than $1,500.

- **FAIR TAX SYSTEM GENERATES SURGING REVENUES**
  - ✓ Robust revenues exceed projection by nearly $300 billion - $300 billion above and beyond growing revenue projection.
  - ✓ Capital gains tax collections are 68 percent higher than originally expected.
  - ✓ Revenues are already above historic average (18.2 percent) – even with extension of existing tax policies, revenues projected to stay above historic average.
  - ✓ High-income taxpayers bear greater tax burden now compared to under Clinton.
  - ✓ Under Republican tax policy, low-income individuals owe no income tax and currently receive greater tax benefits (money via credits) than under Clinton.

Employment Expanded 47 Consecutive Months Generating 8.3 Million Jobs



Source: BLS, Senate Budget Committee Republican Staff

BUDGET COMMITTEE
Judd Gregg, Ranking Member
http://budget.senate.gov/republican
Contact: Betsy Holahan (202)224-6011

Democratic Pay-Go:
Like a Slice of Swiss Cheese, This Policy is Full of Holes

"The other side of the aisle marches behind this banner in budget after budget, claiming that Pay-Go gives us fiscal discipline. Well, they have either waived or gotten around Pay-Go on nine different occasions, representing billions of dollars to the American taxpayer. Here's nearly $90 billion of spending in just six months."

- Senator Judd Gregg, July 31, 2007

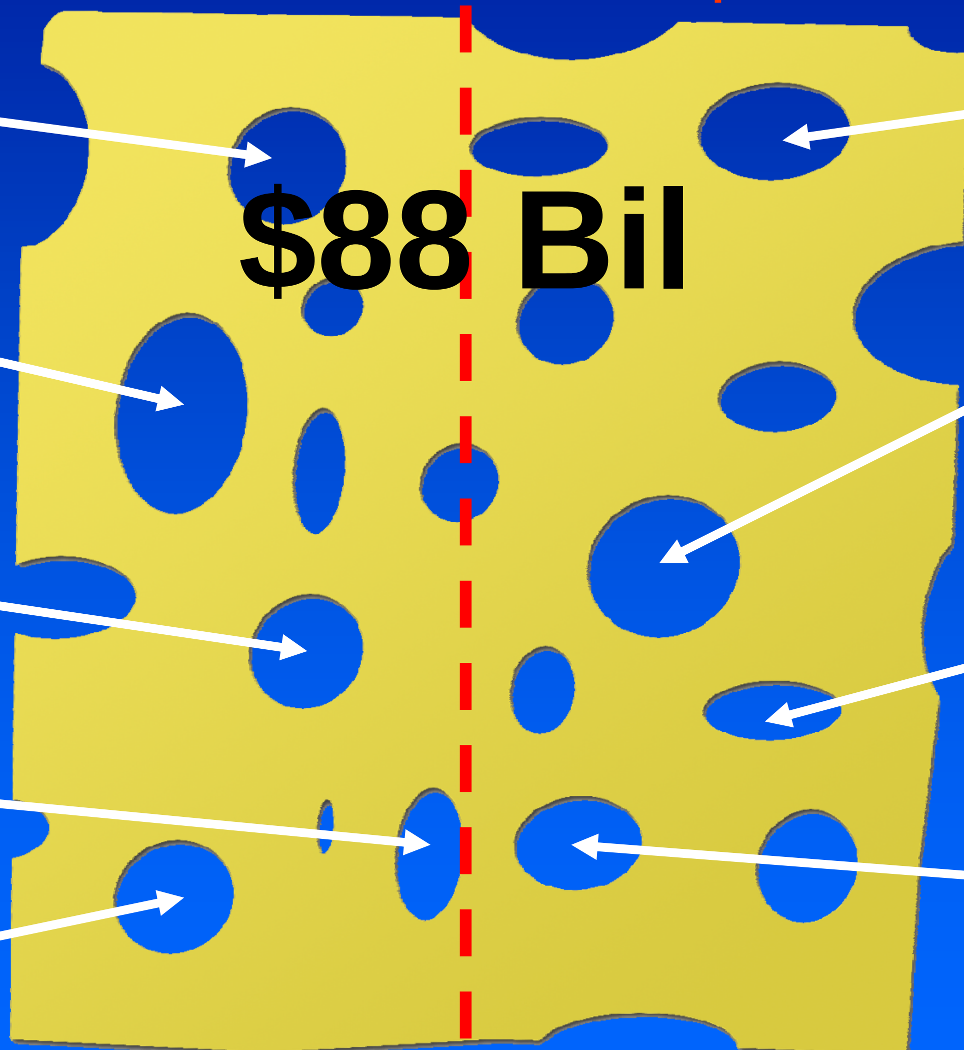
- **The Democrats' Pay-Go Policy is a Fraud** - Instead of paying for new spending, Democrats have violated or gimmicked their own rules, or declared spending an emergency, all in order to avoid finding offsets for their massive expansion of government.
- **Nearly $90 Billion in New Spending Has Not Been Offset** - Instead of reining in federal spending with Pay-Go, Democrats have allowed nearly $90 billion in spending to escape scrutiny, via real Pay-Go violations or gimmicks used to get around the Pay-Go offset requirements.
- **Democrats Will Stick To Pay-Go Only to Raise Taxes** - Despite ignoring Pay-Go when it comes to spending they like, Democrats are sure to use Pay-Go as a means to raise taxes when the existing pro-growth tax policies are set to expire.
- **American Taxpayers Will Foot the Bill** – American families and businesses will ultimately pay for the spending being implemented. Without offsets, the deficit will increase, leaving future generations stuck with the bill.

Used Gimmicks to Avoid Pay-Go	
SCHIP Reauthorization	$41.000 billion
New Mandatory Pell Grant Spending (in HELP reconciliation)	$06.000 billion
County Payments/PILT (in 2007 supplemental)	$04.100 billion
Mandatory spending for MILC (in 2007 supplemental)	$02.400 billion
Real Pay-Go Violations	
Immigration Reform	$30.000 billion
Energy Act of 2007	$04.200 billion
Prescription Drug User Fee Act Amendments	$00.171 billion
Minimum Wage Increase (in 2007 supplemental)	$00.045 billion
Water Resources Development Act	$00.004 billion
TOTAL	**$87.9 billion**

~~Pay-Go~~ Swiss-Cheese-Go

Real pay-go violations

Gimmicks to get around pay-go offset requirements



Minimum Wage Increase
$45 mil

Water Resources Development Act
$4 mil

PDUFA
$171 mil

Immigration Reform
$30 bil

Energy Bill
$4.2 bil

Spending for MILC
$2.4 bil

County Payments/PILT
$4.1 bil

SCHIP Reauthorization
$41 bil

New Mandatory Pell Grant Spending
$6 bil

$34.4 bil | **$53.5 bil**

Source: SBC Republican Staff

BUDGET COMMITTEE

Judd Gregg, Ranking Member
http://budget.senate.gov/republican

Contact: Betsy Holahan (202)224-6011

CBO Study: Without Entitlement Reform, Tax Rates Would Skyrocket

A July 2007 study by the Congressional Budget Office (CBO), requested by Senator Judd Gregg, confirmed that if Medicare, Medicaid and Social Security continue to grow at current rates, income tax rates will need to jump to unprecedented levels in order to pay for them without eliminating all other domestic discretionary spending.

Highlights of the CBO Study

- The economic consequences of maintaining the current growth rates of Medicare, Medicaid, and Social Security, which would push the deficit and debt to unsustainable levels, are greater than the economic effects of alternative policies.

- For example, if health care costs grow one percentage point faster than GDP, marginal tax rates would need to rise a staggering 70% to pay for entitlement programs; if health care costs grow 2.5 percentage points faster than GDP – as they have for the past 40 years - tax rates would need to increase 160% (assuming that the tax code is indexed for real wage growth).

- Under CBO's first scenario (GDP +1%), the projected U.S. economy in 2050 would be 3%-16% smaller than it would have been if the U.S. kept revenues and spending at 2006 levels.

- CBO cannot answer the question of how the U.S. economy would be affected under the second scenario (GDP +2.5%), since no economic models exist that can quantify such an unfeasible scenario. CBO does say that "such tax rates would significantly reduce economic activity" and "would create serious problems with tax avoidance and tax evasion," causing the tax gap to balloon even further.

The table below indicates how much marginal tax rates would need to rise in order to completely offset increased entitlement spending and still maintain other domestic spending priorities.

Current Marginal Income Tax Rates	**Projected Marginal Tax Rates**	
Individual Rates	***GDP + 1%***	***GDP + 2.5% (avg. over past 4 decades)***
10%	17%	26%
25%	43%	66%
35%	60%	92%
Top Corporate Rate		
35%	60%	92%

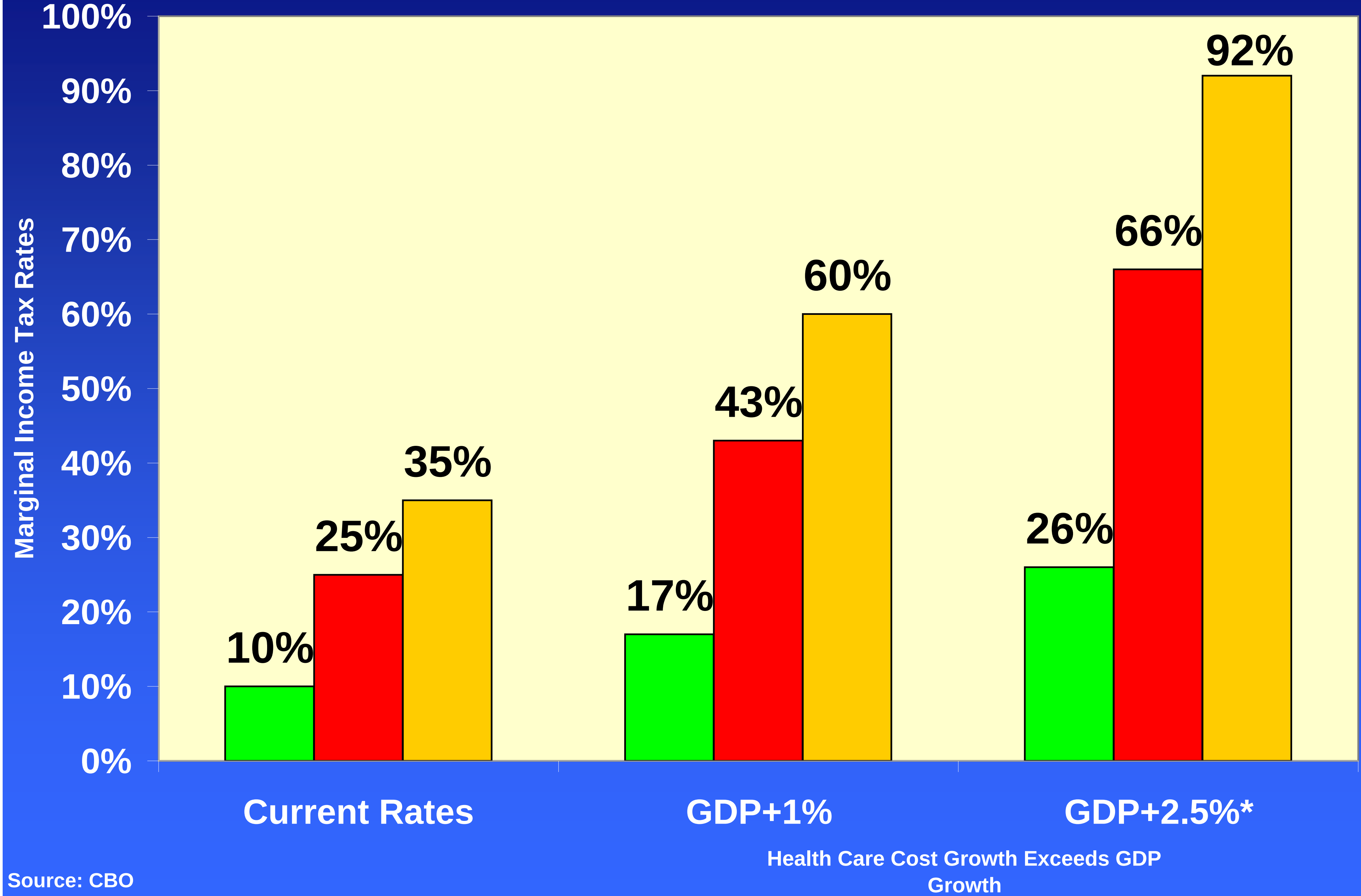
Quotes from the CBO Study

- "If tax revenues as a share of GDP remain at current levels, that additional spending will eventually cause future budget deficits to become unsustainable."
- "To prevent those deficits from growing to levels that could impose substantial costs on the economy, the choices are limited: revenues must rise as a share of GDP, projected spending must fall, or both."
- "No spending path can grow faster than the economy forever; at some point, the costs will exceed the resources than can be extracted from the economy, and changes in policy will have to be made."
- "Unless changes are made to current budget policy, rising health care costs and the aging of the population will put increasing pressure on the budget via three significant federal programs: Medicare, Medicaid and Social Security."
- "Given the nature of the nation's long-term fiscal challenge, constraining the growth of federal health care costs seems a component of reducing the deficit over the next several decades."

The report can be found at: http://www.cbo.gov/ftpdocs/82xx/doc8295/07-09-Financing_Spending.pdf

# # #

Marginal Tax Rates Rise to Absurd Levels Unless Entitlements Addressed



Source: CBO

Note: Excess cost growth has averaged GDP+2.5% over the last four decades.