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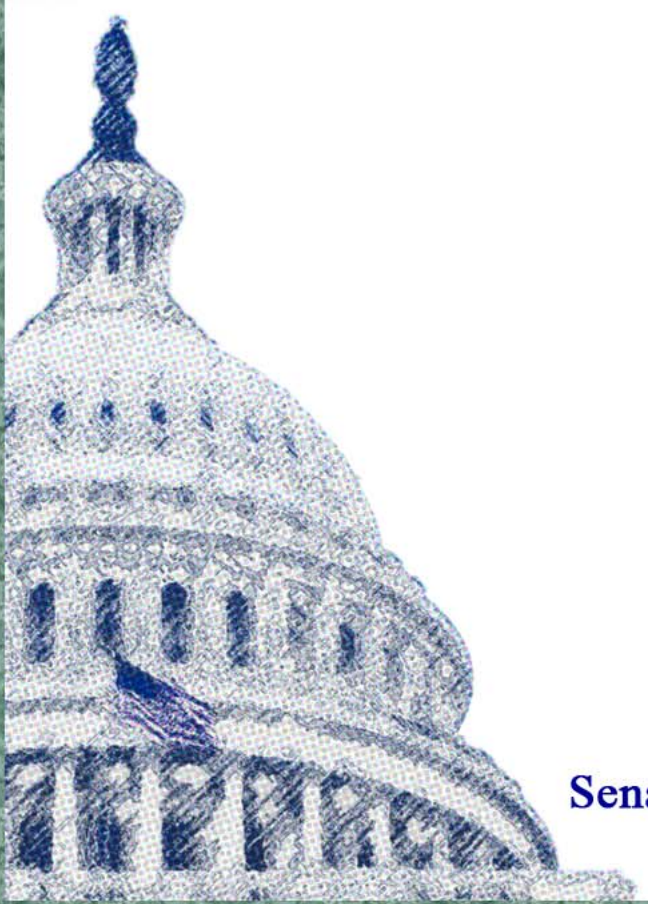
Senate Budget Committee

Independence Day Recess Packet



June 28, 2007
Prepared by the
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

June 28, 2007

Dear Republican Colleague:

As we prepare to return home for the Independence Day recess, I want to give you the latest information about the state of the U.S. economy, as well as a re-cap of the Democratic tax-and-spend budget that threatens our recent economic successes.

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 more than five uninterrupted years of economic expansion, the creation of more than 8 million new jobs, and surging tax revenues that have far outpaced projections.

As you know, this economic success is in jeopardy following passage of the Democrats' fiscal year 2008 budget last month. This tax-and-spend budget contains a $916 billion tax increase – the largest in U.S. history – and hundreds of billions in new spending. It increases the gross debt by an additional $2.5 trillion over five years and does nothing to address the long-term $69 trillion entitlement solvency crisis.

Also included in this packet is information about the Budget Act Points of Order in the Senate used to enforce the FY 2008 budget resolution, which I hope you will find useful as we continue to consider legislation put forth by the Democratic Senate majority.

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

Sincerely,

Judd

Judd Gregg

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 five uninterrupted years of economic expansion, the creation of more than 8 million new jobs, and surging tax revenues that have far outpaced projections.

- **ECONOMIC GROWTH IS ROBUST**
  - ✓ U.S. economy is experiencing more than FIVE uninterrupted years of growth.
  - ✓ Since tax cuts of 2003, rate of economic growth had more than doubled.

- **JOB CREATION REMAINS STRONG**
  - ✓ Created more than 8 million jobs during past 45 months.
  - ✓ Unemployment rate is 4.5% - 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%) than under Clinton (7.3%).
  - ✓ Low-income workers are doing better – according to CBO, low-income households with children experienced real income gains of 45% between 2001 and 2003 (the last year data was available). Within that group, approximately 60% 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.
  - ✓ The most recent information shows continuing trend of higher than expected revenue.
  - ✓ Capital gains tax collections are 68% higher than originally expected.
  - ✓ Revenues are already above historic average (18.2%) – 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.

Contact: Betsy Holahan (202)224-6011
Jeff Turcotte (202)224-2574

The Democrats' FY 2008 Budget: An Anchor on the U.S. Economy

The U.S. economy has grown and prospered over the past several years – with the creation of 7.9 million new jobs and tax revenues that have outpaced projections by $300 billion, the economy has experienced smooth sailing. Now, Democrats have passed a huge, bloated budget that will act as an anchor – weighing down the economy with massive tax increases, spending and debt. The budget employs a myriad of gimmicks to make it easier to spend now and pay later, weakening budget enforcement mechanisms and passing the buck to current and future taxpayers.

Democrats' Budget Imposes Largest Tax Increase in U.S. History

- Despite economic success of 2001/2003 tax relief policies, this budget fails to extend them, thus imposing a $916 billion tax hike over five years on families, seniors and small businesses (the engine of growth for the economy).

Democrats' Budget Embraces Unrestrained Spending

- Budget spends $23 billion over the President's discretionary request for FY 2008, a total of $82 billion over FY 2007.
- Budget spends $205 billion over the President's discretionary request over five years.
- Entitlement spending grows unchecked by $402 billion over five years.
- Budget includes 37 reserve funds that pave the way for hundreds of billions of dollars in new taxes and spending.

Democrats' Budget Racks Up Trillions in Debt

- Spending in budget increases gross debt by $2.5 trillion over five years.

Democrats' Budget Ignores Entitlement Crisis

- Budget makes no attempt to address $69 trillion long-term entitlement obligation facing the nation, shirking the responsibility to protect the economy and effectively passing the burden on to future generations.
- Democrats throw out even the very small savings ($15 billion over five years) in Medicare that was included in Senate-passed version.

Democrats' Budget Manipulates Reconciliation to Expand Entitlements

- Instead of using reconciliation savings for deficit reduction, the budget uses reconciliation as a way to hijack savings to use them for the creation and expansion of new entitlement programs.
- Democrats throw out a bi-partisan point of order in the Senate-passed budget that would have limited any new spending in response to reconciliation instructions to 20%; under this budget, new spending is likely to be as much as 2,900% higher than the savings instruction.

- Under this budget, it is possible that for the relatively small $750 million reconciliation savings instruction, tens of billions will be saved and then used to expand entitlements rather than for deficit reduction.

Democrats' Budget Throws Up Roadblocks to Basic Tax Relief

- A two-step House trigger mechanism requires that any tax relief for 2010 or later be covered by a projected 2012 surplus, creating a complicated obstacle to even the most basic tax relief, such as marriage penalty relief or the child tax credit.
- First step: House Budget Committee Chairman must ensure that tax relief legislation contains a provision making the tax relief contingent on OMB's projection of a surplus.
- Second step: If the contingency provision is not in the tax relief legislation, House Budget Committee Chairman must change the budget resolution to create a revenue-level violation budget point of order against the tax relief legislation in question.
- Democrats make tax relief contingent on a surplus, but they do not hold their spending increases to the same contingency standard.

Democrats' Budget Raids Social Security Trust Fund

- Budget spends 100% of Social Security surplus in every year but 2012.
- The Social Security Trust Fund is raided for more than $1 trillion over five years.
- Democrats throw out all Social Security protections contained in the Senate-passed budget (enforcement mechanisms to prevent raids on the Social Security surplus).

Democrats' Budget Uses "Tax-Go" as Smokescreen for Tax Hikes

- Pay-go, or "Tax-go," is weakened so that it is easy to spend in the short-term, but the offsetting "pay-for" part of the equation is delayed over six and 11 years – charge now and pay later – much later. This is a change from the Senate-passed budget and from every other Pay-go point of order that Senator Conrad has advocated; the first-year deficit-neutrality test was dropped.
- This budget does nothing to address this inconsistency of the budget baseline, which treats expiring mandatory programs and expiring tax relief differently, so that existing spending continues to be assumed while existing tax policy must be offset. This is a smoke-and-mirrors trick for raising taxes.

Democrats' Budget Changes Budget Enforcement Rules, So Spending and Taxing is Easier, But Tax Relief is Impossible

- Pay-go point of order, or "Tax-Go," is watered down to make short-term spending easier, while offsets can be made over the long-term.
- Social Security enforcement is completely undercut – both the Social Security "Circuit Breaker" provision and the "Save Social Security First" point of order, contained in the Senate-passed budget, were thrown out.
- Point of order against raising income tax rates, contained in the Senate-passed budget, is thrown out.
- Requirement for a supermajority to waive unfunded mandates point of order is thrown out, making it easier to burden state and local governments with costs from federal government requirements.
- Point of order against mandatory spending in appropriations bills is weakened, and the 2007 supplemental appropriations bill is exempted altogether from this point of order.
- Bi-partisan point of order in the Senate-passed budget that would have limited any new spending in response to reconciliation instructions to 20% is thrown out; under this budget, new spending is likely to be as much as 2,900% higher than the savings instruction.

How to Capsize the U.S. Economy

The Democrat budget promises hundreds of billions of dollars in new taxes and spending -- more than enough to sink the current prosperity cycle.

By Judd Gregg

The extraordinary success of the U.S. economy over the past several years is evidenced by 22 consecutive quarters of economic expansion, the creation of nearly eight million new jobs, and surging tax revenues that have outpaced projections by $300 billion. Recently, however, an enormous anchor was attached to the economy, in the form of the fiscal-year 2008 budget resolution.

This five-year budget blueprint, a partisan plan designed and passed by congressional Democrats with no input from Republicans, will weigh down the economy with the largest tax increase in U.S. history, hundreds of billions in new spending, and billions of dollars in new debt. Most egregiously, the budget completely ignores the $69 trillion long-term entitlement crisis that threatens to swamp future generations with debt and taxes.

Despite a solid record of success for the fair, pro-growth tax system put in place in 2001 and 2003, this budget chooses not to extend existing policies past 2010. That decision will cost hard-working American families, seniors, and businesses dearly — to the tune of $916 billion in new taxes. In putting us on a path to European tax levels, this budget is just like a French soufflé, except it will be the American economy which will collapse.

Built into the budget are a myriad of roadblocks to extending even basic tax relief, such as the child tax credit or the marriage penalty relief. Tax relief — or allowing taxpayers to keep more of the money they earn — is contingent on a surplus and a Senate supermajority of 60 votes, while the spending increases in this budget are not held to the same standard.

Pay-go, or “tax-go,” is used as a smoke-and-mirrors trick for raising taxes. The budget makes it easy to increase spending next year by offsetting the “pay” part of the equation by alleged savings over many years, while at the same time subjecting all tax extensions to a series of unattainable hurdles. For example, expiring mandatory spending programs and expiring tax relief are treated differently, so that existing spending continues to be assumed in the baseline (even after its expiration) while the extension of existing tax policy must be offset or receive 60 votes.

The budget also is unrestrained in its embrace of new spending on Washington programs. Wasting no time, this budget in fiscal 2008 will spend $82 billion, or 9 percent more than fiscal 2007 levels. In total, discretionary spending jumps $205 billion over the president’s request during the next five years, while entitlement spending grows unchecked by $402 billion during the same period. The budget also includes 37 reserve funds that pave the way for hundreds of billions of dollars in new spending — paid for by new taxes, of course.

To achieve such spending levels, 100 percent of the Social Security surplus — more than $1 trillion — is spent over five years. All Social Security protections that were added by Republican amendments to the Senate-passed budget were discarded in the final Democratic budget.

To compound this fiscal irresponsibility, the budget makes no attempt to address the $69 trillion long-term entitlement obligation that will be triggered by the retirement of the massive Baby Boom generation and spiraling healthcare costs. The over-65 population will double by 2035 as the worker-to-retiree ratio shrinks to just over 2-to-1. The nation is unprepared to handle such an enormous financial burden. Yet Democrats rejected a common-sense proposal by the president to reduce Medicare's long-term liability by nearly 25 percent — without impacting 95 percent of all beneficiaries — by reimbursing health care providers more accurately and by asking only the wealthiest beneficiaries to pay slightly higher Medicare premiums, which are today subsidized by all working Americans.

The budget's only review of entitlement programs is extremely small — a $750 million reconciliation deficit-reduction instruction — and is clearly being used to streamline the enactment of expansions of entitlement programs, including a possible $30 billion growth in spending. Because a reconciliation savings instruction represents a net figure, billions of dollars in entitlement savings can be hijacked and used to finance new entitlement spending instead of deficit reduction, as long as the net savings instruction is met. After throwing out a bipartisan amendment contained in the Senate-passed budget that would have limited any new spending in response to reconciliation instructions to 20 percent of the net instruction, Democrats have created a scenario where new spending is likely to be 2,900 percent greater than the alleged $750 million in deficit savings.

The Democrat budget contains many sleights-of-hand, but closer examination of complicated mechanisms reveals the true nature of what the liberal party is trying to slip past the American taxpayer. Despite the unprecedented tax increases, an even larger spending spree will rack up an additional $2.5 trillion in gross debt over the next five years — certainly an imprudent course of action given the looming demographic and fiscal tsunami.

This partisan budget is based on the basic theme that taxpayer money belongs to Democratic officeholders who can spend it as they see fit. It's a reckless prescription that will only sink today's strong and buoyant economy.

— Senator Judd Gregg (R., N.H.) is ranking member of the U.S. Senate Budget Committee.

313		***The Byrd Rule: Prohibits consideration of extraneous provision(s) in reconciliation legislation.***
202(a) (of S.Con. Res. 21, the FY 2008 Budget Res)		**Reconciliation for deficit reduction only: Prohibits consideration of reconciliation legislation that would cause or increase a deficit or reduce a surplus for the sum of years 1-6 (2007-2012), or sum of years 1-11 (2007-2017).**

All points of order set out in **bold type** require the affirmative vote of 3/5ths of the members duly chosen and sworn in order to waive the Budget Act or to prevail on an appeal of the ruling of the Chair pursuant to section 904(c) or section 904(d) of the Budget Act.

All other points of order require a simple majority for a waiver or appeal.

For all points of order set out in *italic type*, the Presiding Officer may sustain the point of order against one or more provisions without compromising the legislation in its entirety; if the point of order is sustained the offending provision(s) shall be struck from the bill or amendment.

Source: Senate Budget Committee Republican Staff (June 2007)

The United States Senate

BUDGET COMMITTEE

Senator Judd Gregg, Ranking Member

BUDGET POINTS OF ORDER IN THE SENATE FOR ENFORCING S. CON. RES. 21, FY 2008 BUDGET RESOLUTION

(See back panel for explanatory notes)

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Points of order applicable to all legislation under the following sections of the Congressional Budget Act of 1974:

302(c) Appropriations: Prohibits consideration of spending legislation from the Appropriations Committee until the committee files its spending suballocations pursuant to section 302(b).

302(f) Allocations: Prohibits consideration of legislation that exceeds an authorizing committee's section 302(a) allocation for the current year (2007), the budget year (2008), or the sum of the budget year and all subsequent years covered in the most recent budget resolution (2008-2012). For the Appropriations Committee only, prohibits consideration of legislation that exceeds each subcommittee's 302(b) suballocation for the current year (2007) or the budget year (2008).

303(a) New Spending, Revenue, or Debt Limit Legislation: Prohibits consideration of any new spending, revenue, or debt limit legislation for a fiscal year until a budget resolution covering that year has been agreed to.

303(c) Appropriations: Prohibits consideration of any appropriations legislation for 2009 or later years until the budget resolution for each of those years has been agreed to and a section 302(a) allocation has been made to the Appropriations Committee. Exception: does not apply to making of advance appropriations for the 1st or 2nd fiscal year (2009 & 2010) after a year (2008) for which the 302(a) allocation has been made.

306 **Budget Committee Jurisdiction: Prohibits consideration of any legislation within the jurisdiction of the Budget Committee that was not reported (or discharged) from the Budget Committee.**

311(a)(2) **Spending and Revenue Aggregates: Prohibits consideration of legislation that exceeds the aggregate spending levels in the budget resolution for the current year (2007) or the budget year (2008); or causes the aggregate revenue level to fall below the level in the budget resolution for the current year (2007), the budget year (2008), or the sum of the budget year and all subsequent years covered in the most recent budget resolution (2008-2012).**

311(a)(3) **Social Security Aggregates: Prohibits consideration of legislation that would cause a decrease in Social Security surpluses or an increase in Social Security deficits relative to the levels set out in the budget resolution for the current year (2007), the budget year (2008), or the sum of the budget year and all subsequent years covered in the most recent budget resolution (2008-2012).**

401(a) Prohibits consideration of legislation providing new contract authority, borrowing authority, or credit authority that is not limited to amounts provided in advance in an appropriation act.

401(b) Prohibits consideration of legislation providing new entitlement authority that is to become effective during the current fiscal year (2007).

425(a)(1) Unfunded Mandates: Prohibits consideration of any committee-reported legislation unless the CBO estimate of any federal intergovernmental or private sector mandates has been printed in the committee report or the Congressional Record.

425(a)(2) Unfunded Mandates: Prohibits consideration of any legislation that contains an unfunded intergovernmental mandate in excess of the statutory limit ($50 million/year, as adjusted for inflation; currently $66 million for FY '07) for the current year (2007), the budget year (2008), or any of the following four FYs (2009, 2010, 2011 or 2012).

Points of order applicable to all legislation under the following sections of S. Con. Res. 21, the FY 2008 Budget Resolution:

201(a) **Pay-as-you-go: Prohibits consideration of direct spending or revenue legislation that would cause or increase an on-budget deficit for sum of years 1-6 (2007-2012), or sum of years 1-11 (2007-2017).**

203(b) **Long-term Deficits: Prohibits consideration of legislation that would cause a net increase in the deficit in excess of $5 billion in any of the four 10-year periods (2018-2027, 2028-2037, 2038-2047, or 2048-2057).**

204 (a)(5) *Emergency Legislation: Permits Senators to eliminate an "emergency designation" set out in any legislation.*

206(a)(1)(A) ***Advance Appropriations: Prohibits advance appropriations, except those provided for FY2009 and FY2010 for specified accounts, which in total cannot exceed $25.158 billion in budget authority for each year.***

207(a) **Discretionary Caps: Prohibits the consideration of legislation that would exceed the discretionary limits, adjusted for certain purposes, for FY2007 or FY2008 specified in this section.**

209 ***Changes in Mandatory Programs (CHIMPS) in Appropriation Acts: Prohibits provision(s) in appropriation measures, which would have been scored as mandatory in any other legislation, if all of the following conditions are met – it would increase BA in at least one of the 9 FYs after the budget year (2008) and over the total of the 10 FYs (2008-2017); it would increase net outlays over the 9 FYs (2009-2017) following the budget year; AND the sum of all such provisions would increase net outlays over the 9 FYs (2009-2017). Exemption: not applicable to any provision enacted in each of the 3 fiscal years prior to the budget year (2008).***

Points of Order Applicable to Budget Resolutions and/or Reconciliation Bills only under the following sections of the Congressional Budget Act of 1974 or S.Con.Res.21:

301(g) Assumptions: Prohibits more than one set of economic and technical assumptions in a budget resolution.

301(i) **Social Security: Prohibits consideration of a budget resolution that would decrease the Social Security surplus in any year covered by the resolution.**

305(b)(2) **Germaneness: Prohibits the consideration of non-germane amendments to a budget resolution and, by cross reference in section 310(e), to reconciliation legislation. An amendment is germane *per se* if it: (i) changes numbers; (ii) changes dates; (iii) is a motion to strike. Other amendments determined on a case-by-case basis. See section 204 of H.Con.Res. 290, FY '01 budget resolution: amendment is not germane if it contains predominately precatory language.**

305(c)(4) **Germaneness: Prohibits the consideration of non-germane amendments to amendments reported in disagreement between the House and the Senate with respect to a budget resolution and, by cross reference in section 310(e), to reconciliation legislation.**

305(d) Mathematical Consistency: Prohibits a vote on the adoption of a resolution that is not mathematically consistent.

310(d)(2) **Noncompliance: Prohibits consideration of amendments to reconciliation legislation that, on net, would increase the deficit relative to the applicable reconciliation instruction. Exception: a motion to strike, regardless of its budgetary effect, is always in order.**

310(g) **Social Security: Prohibits consideration of reconciliation legislation that contains changes in the Social Security program.**