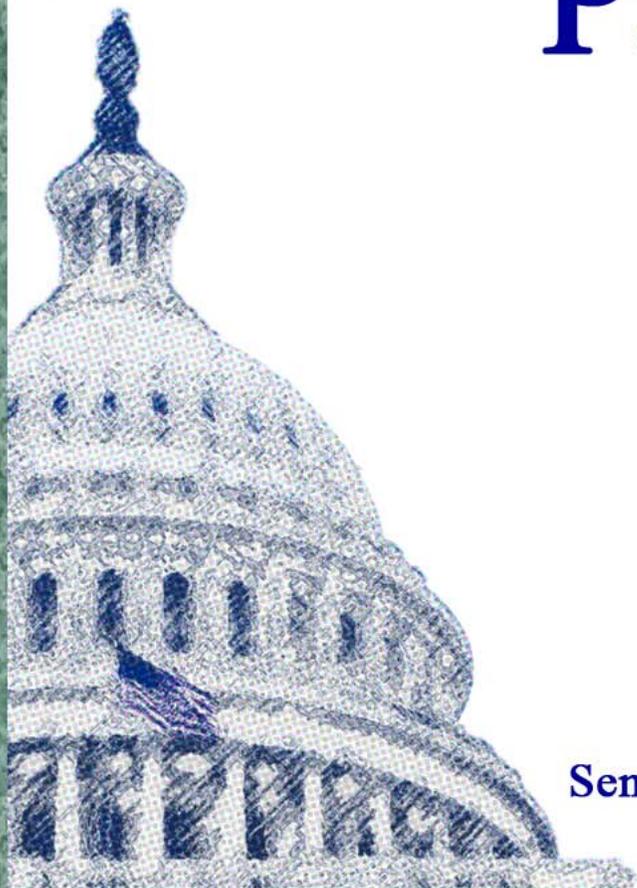


110th Congress
1st Session



Memorial Day Recess Packet



May 24, 2007
Prepared by the
Senate Budget Committee, Republican Staff
<http://budget.senate.gov/republican>

JUDD GREGG
NEW HAMPSHIRE

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BUDGET, *Ranking Member*

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May 24, 2007

Dear Republican Colleague:

As we return to our home states for the Memorial Day recess, I want to share with you some important information about the state of the U.S. economy, as well as some of the highlights of the Democratic budget that threatens to derail the extraordinary economic successes we have experienced in recent years.

On May 15th, we marked the fourth anniversary of Senate passage of the 2003 tax relief package, which revived an economy reeling from the combined blows of September 11th, bursting of the stock market bubble, and corporate scandals. A fair and pro-growth tax system, implemented by the President and a Republican Congress in 2001 and 2003, turned around the economy. Since then, we have enjoyed five uninterrupted years of economic expansion, the creation of nearly 7.9 million new jobs, and surging tax revenues that have far outpaced projections.

This economic success is in serious jeopardy following passage of the Democrats' fiscal year 2008 budget last week. 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.

In an attempt to counter such a partisan package of fiscal irresponsibility, I have been joined by Republican Leader McConnell and 25 other Senate co-sponsors in introducing *The Stop Over-Spending Act of 2007*. This measure is designed to restrain spending, reduce the deficit and find a bi-partisan solution to the looming crisis of entitlement insolvency that threatens to overwhelm our children and grandchildren's resources. With Democrats trying to return to an era of big government, *S.O.S.* offers some common-sense solutions for getting back on the right fiscal track.

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

Sincerely,



Judd Gregg



BUDGET COMMITTEE



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

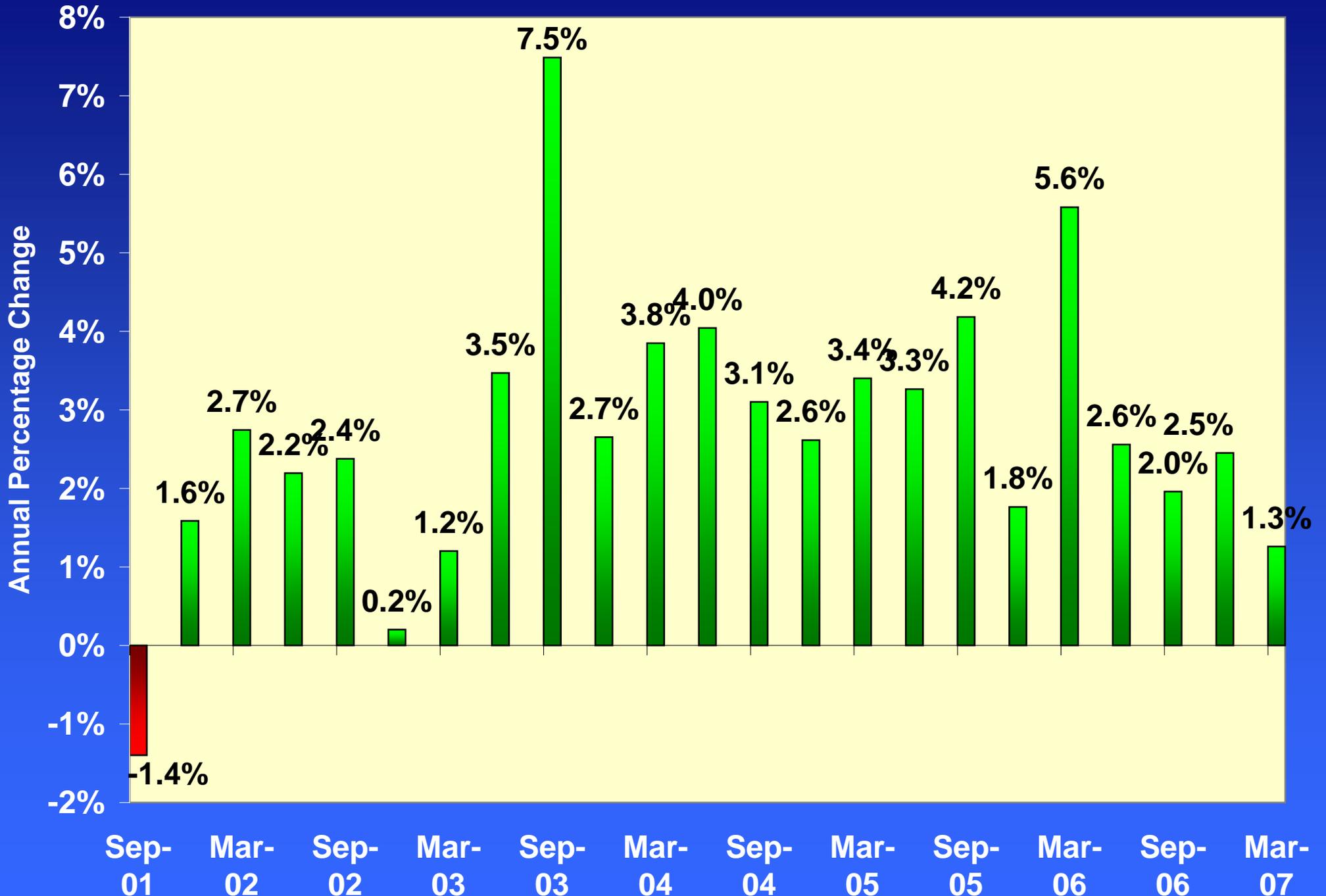
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Tax Relief Has Worked To Help Economy Recover and Grow

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 nearly 7.9 million new jobs, and surging tax revenues that have far outpaced projections.

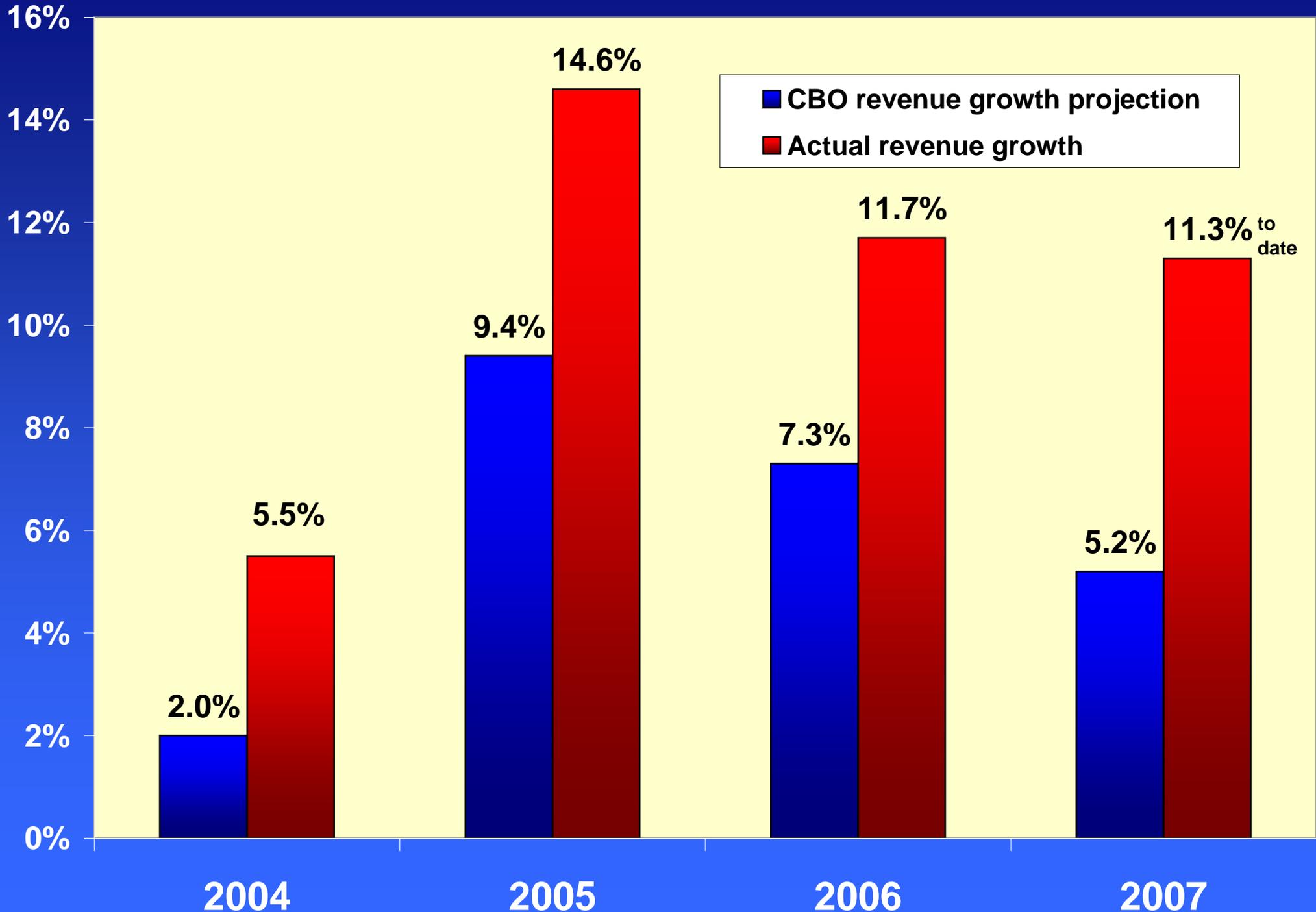
- **ECONOMIC GROWTH IS ROBUST**
 - ✓ U.S. economy is experiencing FIVE uninterrupted years of growth.
 - ✓ Since tax cuts of 2003, rate of economic growth had more than doubled.
- **JOB CREATION REMAINS STRONG**
 - ✓ Created nearly 7.9 million jobs during past 44 months.
 - ✓ Unemployment rate is 4.5% - 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 (8.2%) than under Clinton (8.0%).
 - ✓ 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.

Economy Expands 22 Consecutive Quarters



Source: BEA, Senate Budget Committee Republican Staff

GROWTH EXCEEDS PROJECTIONS



Source: OMB, Senate Budget Committee Republican Staff



BUDGET COMMITTEE



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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).

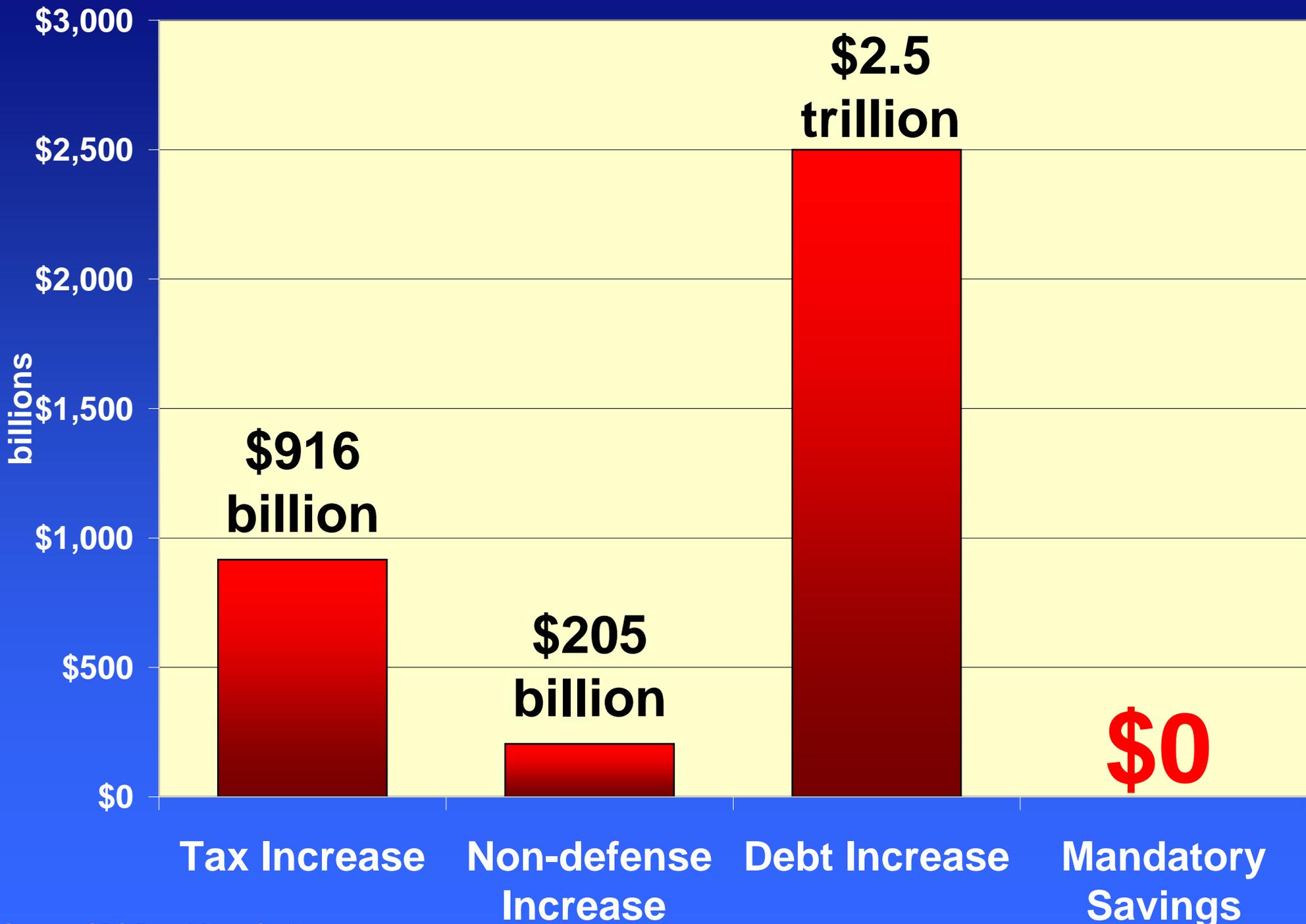
Democrats' Budget Uses "Tax-Go" as Smokescreen for Tax Hikes

- 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.

DEMOCRATIC BUDGET HIGHLIGHTS



Source: SBC Republican Staff



S.O.S.:



STOP OVER-SPENDING ACT OF 2007

SPENDING RESTRAINT - DEFICIT REDUCTION - BUDGET ENFORCEMENT - FISCAL RESPONSIBILITY

THE PROBLEM: SPENDING IS OUT OF CONTROL

Democrats Have Passed a Tax-and-Spend Budget

- Instead of exercising fiscal discipline as they promised, Democrats increase spending on Washington programs dramatically – their FY 2008 budget increases discretionary spending by \$205 billion over the President’s budget request for FY 2008-2012.
- Under the Democrats’ FY 2008 budget, entitlement spending grows unchecked by \$402 billion during FY 2008-2012.
- Democrats’ FY 2008 budget raids the Social Security surplus for more than \$1 trillion.
- Democrats’ FY 2008 budget increases the gross debt by \$2.5 trillion.
- By not extending existing tax policies in the FY 2008 budget, Democrats raise taxes by \$916 billion – the largest tax hike in U.S. history.

Budgetary Gimmicks and Lack of Fiscal Discipline Contribute To Unrestrained Spending

- In recent years, nearly 20% of all discretionary spending has been designated as emergency and is outside the caps. Emergency spending is not offset – it is pure deficit spending and has led to “shadow budgets,” or two sets of books.
- The Democrats’ FY 2008 budget includes a \$2 billion increase in the cap on advance appropriations, which allows \$2 billion more in discretionary spending in 2008, and diverts the budget impact into 2009.
- The Democrats’ FY 2008 budget contains at least 37 reserve funds that would increase spending by billions over five years by increasing taxes by the same amount, although neither the spending nor the tax increases are reflected in the actual budget.
- In their FY 2008 budget, Democrats use grossly-overstated tax gap and “tax loopholes” as a stalking horse for increased spending, and a way to camouflage increasing taxes to pay for all the spending they promise.
- The spending reconciliation process, a process designed to save money, has been manipulated to expand and launch new mandatory spending programs, rather than create any substantive savings.

Democrats’ Budget Does Nothing to Address Looming Entitlement Crisis Threatening Future Generations

- The pending retirement of Baby Boom generation, which will effectively double the over-65 population by 2035, and the dwindling worker-to-retiree ration (2.1:1 in 2035 from 5.1:1 in 1960s) combined with skyrocketing healthcare costs, creates a demographic and fiscal tsunami the U.S. government is unprepared to handle.
- Left unchecked, total unfunded liabilities over next 75 years will reach \$69 trillion (Social Security: \$4.7 trillion and Medicare: \$33.9 trillion).
- The partisan FY 2008 Budget Resolution does nothing to address this looming crisis, leaving our children to shoulder the fiscal burden.
- President’s reasonable plan to slow Medicare growth by 1.5% in FY2008-2012 would have reduced Medicare’s long-term unfunded obligation by \$8 trillion without impacting the vast majority (95%) of beneficiaries, but was flatly rejected by Democrats.

THE SOS SOLUTION: A “BIG BANG” APPROACH TO SPENDING RESTRAINT

Reduces Deficit as Share of GDP and Balances the Budget by 2012

- The SOS Act establishes a new, comprehensive deficit reduction mechanism. The automatic reconciliation mechanism addresses entitlement spending – the largest share of the budget.
 - ✓ Defines deficit reduction targets, as a share of the U.S. economy (GDP).
 - ✓ Achieves a balanced budget by 2012.

Brings Back Budget Discipline And Eliminates Gimmicks

- The SOS Act reinstates statutory discretionary caps for FY 2008-2010 – caps that both the President and Congress would be required to abide by.
- The SOS Act builds in Global War on Terror funding assumptions under those caps, plus cap adjustments for FY 2008-2010 emergency spending. No longer will emergency spending be “off the books” deficit spending, creating shadow budgets.
- The SOS Act prevents reconciliation from being misused as a mechanism to dramatically expand mandatory spending.

Establishes Consequences For Overspending

- The SOS Act establishes across-the-board reductions in discretionary spending if Congress fails to adhere to the statutory caps.
- The SOS Act requires Congress, if deficit reduction targets are not met, to reduce the rate of growth of mandatory spending, either through an automatic, expedited reconciliation process, or if Congress fails to act on reconciliation, through an across-the-board reduction in mandatory spending.
- The SOS Act creates a new point of order against mandatory spending, if the Medicare program (the first of the three major entitlement programs expected to reach insolvency thresholds) is projected to become insolvent within the next 7 years.

Eliminates Wasteful Spending

- The SOS Act gives the President and Congress a Second Look at Wasteful Spending/Expedited Rescission process to quickly and effectively eliminate wasteful spending, while maintaining Congress’ power of the purse.
- The SOS Act establishes a bi-partisan Commission on Accountability and Review of Federal Agencies to look for fraud, waste, abuse, and duplication across federal agencies and programs and requires Congress to act on the recommendations of the Commission regarding programs that should be eliminated or realigned.

Seeks Bi-Partisan Solution to Long-Term Entitlement Insolvency Issues

- The SOS Act creates a bi-partisan, 16-member Entitlement Solvency Commission and requires the Commission to make legislative recommendations to save the entitlement programs from financial ruin; requires Congress to act upon those recommendations under expedited fast track procedures.

Strengthens Budget Process

- The SOS Act includes biennial budgeting, converting annual budget, appropriations, and authorizing budget process into a two year cycle.
- The SOS Act includes a Social Security “Circuit Breaker” point of order against budgets that fail to reduce the on-budget deficit (excluding Social Security) and balance budget within 5 years.
- The SOS Act includes a supermajority tax increase point of order against any measure that includes a federal income tax rate increase.
- The SOS Act includes a budget-based Pay-go point of order against any direct-spending or revenue bill that would increase the deficit or reduce the surplus by more than amount assumed in budget resolution.
- The SOS Act ensures that expiring tax relief and expiring mandatory programs are treated the same in the budget baseline.



S.O.S.:



STOP OVER-SPENDING ACT OF 2007

SPENDING RESTRAINT - DEFICIT REDUCTION - BUDGET ENFORCEMENT - FISCAL RESPONSIBILITY

- 1. Reinstates Statutory Caps on Discretionary Spending for FY08-10**
- 2. Reduces Deficit as Percentage of GDP Through Automatic Reconciliation Mechanism, Achieving Balanced Budget by 2012**
- 3. Allows Congress a Second Look at Wasteful Spending Via Expedited Rescission Process**
- 4. Creates a New Medicare Trigger in Law**
- 5. Creates Bi-Partisan Commission on Accountability and Review of Federal Agencies**
- 6. Creates Bi-Partisan Commission on Social Security, Medicare and Medicaid Solvency**
- 7. Includes Biennial Budgeting**
- 8. Reforms and Improves Budget Resolution and Reconciliation Processes**