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The Senate Budget: A $2,641 Per Household Tax Increase and No Entitlement Reforms

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The Senate Democrats, writing their first budget resolution since winning control in Congress last fall, have produced a budget blueprint that:

- Raises taxes by $900 billion over five years and a projected $3.3 trillion over ten years;
- Translates into a tax increase of $2,641 per household annually over the next decade;
- Includes 22 reserve funds that could be used to raise taxes by hundreds of billions more;
- Increases discretionary spending by nearly 9 percent in FY 2008 and does not terminate a single program;
- Completely ignores the impending tsunami of Social Security, Medicare, and Medicaid costs;
- Creates rules that bias the budget toward tax increases; and
- Employs the same gimmicks that Congress criticized the President for using in his budget proposal.

The House budget resolution projects nearly the same 2008–2012 tax revenue as the Senate and would increase discretionary spending by an additional $69 billion. This paper focuses on the Senate's irresponsible budget blueprint.

$2,641 Per Household Tax Increase. The Senate budget projects 2008–2012 tax revenues of $15,007 billion—$899 billion higher than the $14,108 that would be collected under today's tax rates. The Senate Budget Committee does not specify the source of these higher revenues. However, the total almost exactly matches the Congressional Budget Office (CBO) estimate of 2008–2012 tax revenues if the Bush tax cuts expire, all other temporary tax cuts expire, and the alternative minimum tax (AMT) is not fixed ($15,002 billion).[1]

Senate Budget Committee Chairman Kent Conrad (D–ND) has stated that his budget would allow some of the current tax cuts to be extended as long as they are offset (specifically, fixing the AMT through 2008). However, increasing some tax rates as the price of keeping other tax policies unchanged is still a tax increase. And while Senator Conrad has also asserted that large amounts of revenue could be found by closing the tax gap, anything more than a few billion dollars annually seems overly optimistic considering the harsh methods needed to increase compliance. Either way, the Senate budget would seize $899 billion more from Americans than is taken under today's tax rates.

That's just the five-year total. Projected over the ten-year period, the expiration (or required offset) of all existing tax cuts would raise projected revenues by $3,268 billion[2]—easily the largest peacetime tax increase in American history.[3] Over the ten-year period, the average household's taxes would increase by $2,641 annually, or 12 percent above current tax levels. Tax revenues would spike

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www.heritage.org/research/budget/wm1405.cfm

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from 18.5 percent of GDP today to 19.8 percent by 2012 and then 20.1 percent in 2017—the second highest level since World War II.

And even that may not be all. The Senate budget contains 22 "reserve funds" that would give Congress virtually unlimited authority to raise taxes further if Members decide to increase spending above the budget resolution's spending targets. By the time Congress is finished, the tax increase could easily top $1 trillion over five years and $4 trillion over ten years.

Of course, lawmakers have denied that their budget raises taxes, arguing that its revenue projections are tied to "current law." But current law assumes that tax rates will increase in 2011 and that the AMT will catch 19 million more Americans this year alone. That these future tax increases are already scheduled as part of current law does not make them even less of a tax increase. Even Senator Conrad once said that "a tax increase to me is when you increase the taxes that people are paying now."[4] By his own standard, the Senate budget will raise taxes.

Lest any Senator try to avert these tax increases, the budget contains a multitude of new rules designed to make sure that they occur. Any Senator offering legislation to extend current tax rates would be "violating" four different Senate budget rules, each of which would require 60 votes to overcome before the Senate would even be allowed to vote on the legislation itself. These obstacles would apply to merely keeping current tax rates in place. By contrast, current entitlement spending formulas, which are forcing entitlement spending up by 6 percent to 7 percent annually, would continue automatically without any restraints.

Ignoring the Entitlement Crisis. The coming collision of 77 million retiring baby boomers with Social Security, Medicare, and Medicaid represents the greatest economic challenge of our era. What Federal Reserve Chairman Ben Bernanke has recently called the "calm before the storm" will end abruptly on January 1, 2008—less than one year from now—when the first baby boomers become eligible for early Social Security benefits.[5] Three years later, they will become eligible for Medicare. Over the following decades, the cost of these programs will leap from 8.7 percent of GDP to 19.0 percent. Without reform, this 10.3 percent of GDP cost increase would require either raising taxes by the current equivalent of $11,651 per household or eliminating every other government program. Even these changes would not solve the problem over the long term as Social Security, Medicare, and Medicaid spending continues to grow.[6]

Senator Conrad acknowledged this crisis recently on CBS's "60 Minutes." He said, "They know in large measure here, Republicans and Democrats, that we are on a course that doesn't add up" but that Congress does not address the issue "[b]ecause it's always easier not to. [I]t's always easier to defer, to kick the can down the road to avoid making choices. You know, you get in trouble in politics when you make choices."[7]

1. The revenue that would be collected without raising tax rates is calculated by taking the Congressional Budget Office's January 2007 revenue projection for 2008 through 2017 and then netting out the revenue raisers from scheduled tax rate increases. See Congressional Budget Office, "The Budget and Economic Outlook: Fiscal Years 2008 to 2017," January 2007, Tables 1.3 and 1.5, at *www.cbo.gov/ftpdocs/77xx/doc7731/01-24-BudgetOutlook.pdf.*
2. This is the ten-year revenue increase if all tax cuts expired. The Senate budget roughly matches those annual numbers over its five-year window. See Congressional Budget Office, "The Budget and Economic Outlook: Fiscal Years 2008 to 2017," Tables 1.3 and 1.5. Projected revenues would rise by approximately 2.5 percent of GDP by 2017.
3. For a historical perspective, see Jerry Tempalski, "Revenues Effects of Major Tax Bills," U.S. Department of the Treasury, Office of Tax Analysis *Working Paper* No. 81, revised September 2006, at *www.ustreas.gov/offices/tax-policy/library/ota81.pdf.*
4. Bud Newman, "Conrad Leaning Toward Including Tax Cut Trigger in Budget Resolution," BNA *Daily Report for Executives*, February 7, 2002.
5. Ben Bernanke, Chairman, Federal Reserve, "Long-Term Fiscal Challenges Facing the United States," Testimony before the Senate Budget Committee, January 18, 2007, at *www.federalreserve.gov/boarddocs/testimony/2007/20070118/default.htm.*
6. Brian M. Riedl, "Federal Spending by the Numbers," Heritage Foundation *WebMemo* No. 1390, March 8, 2007, at *www.heritage.org/Research/Budget/wm1390.cfm.*

Yet kicking the can down the road and avoiding choices is exactly what the Senate budget blueprint does. Specifically, it fails to offer a single reform to pare the $39 trillion in unfunded Social Security and Medicare costs over the next 75 years. Worse, the Senate rejects the President's commonsense proposal to shave $8 trillion off this obligation by reducing Medicare Part B and D subsidies for the wealthiest seniors and tweaking payment formulas. By delaying the inevitable reforms, the Senate budget will drive up ultimate costs by hundreds of billions of dollars and give near-retirees less time to adjust their retirement strategies to the coming fiscal realities.

Spending Increases. While ignoring the entitlement crisis, the Senate budget would increase FY 2008 non-emergency discretionary spending by $18 billion over the President's proposal of $932 billion—a nearly 9 percent increase in discretionary spending over the FY 2007 level.[8] Over five years, the Senate would increase spending by $193 billion over the President's proposed level. That does not even include the $21 billion in additional FY 2007 spending the Senate is proposing to add to the national security emergency bill that was intended to fund the troops serving in Iraq and Afghanistan.[9]

Most of the increase would be in domestic discretionary spending, but these programs have hardly been starved for funding. From 2001 trough 2006, non-security discretionary spending increased by 40 percent (21 percent after inflation). In fact, since 1990, non-security discretionary spending has increased three times as fast as defense and homeland security spending.[10] In particular, recent discretionary spending increases for education and health have been among the largest ever. Furthermore, Congress continues to appropriate money for wasteful and unnecessary programs like the Advanced Technology Program, which spends much of its $150 million budget subsidizing *Fortune* 500 companies.[11] The combination of recent spending increases and wasteful spending means that Congress should be able to work within the President's proposed discretionary spending total.

Gimmicks. In January, Senate Majority Leader Harry Reid (D–NV), House Speaker Nancy Pelosi (D–CA), House Budget Committee Chairman John Spratt (D–SC) and Senator Conrad send a letter to President Bush urging him to resist the use of gimmicks in his budget request.[12] The letter called on the President to "reasonably account…for...predictable costs that have been omitted in past budgets," likely referring to the costs in Iraq and Afghanistan as well as fixing the AMT. The group also urged that the President's budget "realistically project" budget deficit levels and "be based on fiscal discipline that is sustained over the long-term." When the President released his budget proposal, these lawmakers criticized the President for failing these standards and relying on "deception" to balance the budget by 2012.[13]

Yet the Senate Democrats' budget employs the same sort of gimmicks the Democrats decried. It balances the budget by 2012, assuming no Iraq and Afghanistan spending after 2009. Nor does the Senate budget account for fixing the AMT after 2008. Thus, the Senate budget relies on the same gimmicks they earlier opposed. In regard to the group's call for long-term fiscal discipline, the Senate budget ignores the issue completely. By the Congress's

7. "U.S. Heading For Financial Trouble?" CBSnews.com, March 4, 2007, at *www.cbsnews.com/stories/2007/03/01/60minutes/printable2528226.shtml.*
8. The Senate would add $16 billion in regular discretionary spending, plus $2 billion in advanced appropriations.
9. Brian M. Riedl, "Congress Hijacks Troop Funding for Pork," Heritage Foundation *WebMemo* No. 1397, March 15, 2007 at *www.heritage.org/Research/Budget/wm1397.cfm.*
10. Riedl, "Federal Spending by the Numbers."
11. Brian M. Riedl, "Congress Should Follow the President and Eliminate the Advanced Technology Program," Heritage Foundation *Backgrounder* No. 1828, March 1, 2005, at *www.heritage.org/Research/Budget/bg1828.cfm.*
12. Jonathan Nicholson, "Democratic Leaders Beseech Bush to Send Realistic Budget Estimates," BNA *Daily Report for Executives*, January 29, 2007.
13. Michael Abramowitz and Lori Montgomery, "Bush Plan Reins in Domestic Spending," *The Washington Post*, February 6, 2007.

own standards, the Senate budget proposal is fiscally irresponsible.

Conclusion. The Senate budget relies on massive tax increases while ignoring the coming tsunami in Social Security, Medicare, and Medicaid spending. This classic tax-and-spend budget would likely assure the expiration of the tax cuts that have helped to create jobs and promote economic growth.[14] The result of the Senate budget would likely be higher tax rates on families and businesses, slower economic growth, and a nation woefully unprepared to fund the coming retirement benefits of 77 million baby boomers. Lawmakers should go back and write a budget that deals realistically with coming entitlement costs and does not raise taxes to fund more government spending.

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14. Brian M. Riedl, "Ten Myths About the Bush Tax Cuts," Heritage Foundation *Backgrounder* No. 2001, January 29, 2007, at *www.heritage.org/Research/Taxes/bg2001.cfm.*