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Budget Resolution Calls for Massive Tax Hikes and Spending Increases

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With federal spending surging above $24,000 per household per year, the incoming Democratic majority of Congress promised to restore fiscal responsibility in Washington. Instead of paring back the growth of government, however, Congress came to agreement in conference on a budget resolution that:

- Raises taxes by $721 billion over five years, and a projected $2.7 trillion over 10 years, or more than $2,000 per household;
- Includes 23 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 wasteful program;
- Completely ignores the impending explosion of Social Security, Medicare, and Medicaid costs; and
- Creates rules that bias the budget toward tax increases.

For these reasons, the White House, via Office of Management and Budget (OMB) Director Rob Portman, is right to threaten a veto of any budget bills that hew to Congress's budget resolution. Congress should start over on a budget that is in line with the President's spending proposals, addresses the coming entitlement tsunami, and does not raise taxes to finance new government spending. Anything short of that would prove that the pledges of fiscal responsibility that the new congressional leadership made at the beginning of the year have lost out to the tax-and-spend reality of the budget resolution.

A Bad Start. Congress's budget resolution is consistent with the Democratic majority's budget agenda so far. In just a few months in Washington, the Democratic Congress has tacked $21 billion in unrelated deficit spending onto the Iraq war emergency bill; passed a $7 billion farm bailout—without any offsets—that violates the majority's own pay-as-you-go (PAYGO) rules by adding new mandatory spending;[1] and waived its own PAYGO rules in order to add new mandatory spending as part of a bill to expand the House of Representatives.[2] Coming on the heels of these initiatives, Congress's irresponsible budget resolution is hardly a surprise.

Spending Increases

Statement: "After years of historic deficits, this new Congress will commit itself to a higher standard: pay as you go, no new deficit spending. Our new America will provide unlimited opportunity for future generations, not burden them with mountains of debt."

—House Speaker Nancy Pelosi (D-CA), January 4, 2007[3]

Fact: The House and Senate budgets would hike discretionary spending 9 percent. The House has

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already waived its PAYGO rules, and Congress has already voted for over $20 billion in un-offset spending hikes.

Ignoring the entitlement crisis, the House and Senate budget would boost FY 2008 discretionary spending (excluding that for emergencies) $22 billion above the President's proposal of $932 billion. This would be a 9 percent increase over the FY 2007 level.[4] If Congress's larger budget becomes part of the spending baseline, it would translate into approximately $250 billion in new spending over 10 years. And that does not even include the $21 billion in additional FY 2007 spending that Congress added to the national security emergency bill intended to fund the troops serving in Iraq and Afghanistan.[5] President Bush vetoed that excessive spending, but Congress is now attempting to attach it to new versions of the bill.

And even that may not be all. The budget's 23 reserve funds give Congress virtually unlimited authority to increase spending above the budget resolution's spending targets as long as it raises taxes accordingly. Combined with the tax increases already assumed in the budget, this new spending could push the total tax increase above $1 trillion over five years and $4 trillion over 10 years.

Regrettably, the budget agreement does not propose any significant offsets for this new spending. Nor does it propose eliminating a single wasteful federal program. Not even wasteful and unnecessary programs like the Advanced Technology Program, which spends much of its $150 million budget subsidizing Fortune 500 companies, would be reduced.[6] In failing to offer spending reductions, congressional budget writers ignored:

- The approximately $40 billion to $100 billion in annual program overpayments;
- The 38 percent of all federal programs that show no evidence of success, according to government auditors;
- The $140 billion in potential budget savings identified by the Congressional Budget Office (CBO) in its "Budget Options" books; and
- Massive program duplication, such as the 342 economic development programs, the 130 programs serving the disabled, the 130 programs serving at-risk youth, and the 90 early childhood development programs.[7]

These large proposed spending increases stand in direct conflict with the fiscal responsibility and PAYGO budgeting promised by the new Democratic majority. The majority has already waived PAYGO rules and pushed through billions in dubious "emergency" spending. Furthermore, most of this new spending will occur within the domestic discretionary budget, which has hardly been starved for funding. From 2001 through 2006, non-security discretionary spending increased by 40 percent (21 percent after inflation). By writing a budget that promises billions in non-offset spending increases and waiving their own PAYGO rules, Democratic lawmakers are violating their own pledges to bring fiscal responsibility to Washington.

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1. See Brian M. Riedl, "Lawmakers Should Reject Another Irresponsible Supplemental Farm Bailout," Heritage Foundation *WebMemo* No. 1452, May 10, 2007, at *www.heritage.org/Research/Budget/wm1452.cfm*.
2. Jonathan Nicholson, "Democrats to Waive Pay-Go Rule For Consideration of D.C. Vote Bill," *BNA Daily Report for Executives*, April 19, 2007.
3. "Pelosi Calls for a New America, Built on the Values that Made Our Country Great," January 4, 2007, at *www.house.gov/pelosi/press/releases/Jan07/FloorSpeech.html*.
4. The Senate budget would add $16 billion in regular discretionary spending, plus $2 billion in advanced appropriations.
5. 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*.
6. 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*.
7. These and many more examples can be found in Brian M. Riedl, "Federal Spending by the Numbers," Heritage Foundation *WebMemo* No. 1390, March 8, 2007, at *www.heritage.org/Research/Budget/wm1390.cfm*.

Massive Tax Increases

Statement: "[W]e include no assumption of a tax increase."

—Senate Budget Committee Chairman
Kent Conrad (D-ND)[8]

Fact: Congress's budget assumes trillions of dollars more in tax revenues than would be collected under current tax policies.

Under current tax rates, the CBO projects that $14.107 trillion in tax revenues would be collected between 2008 and 2012. The conference agreement, however, assumes $14.828 trillion in revenues. The conference report does not specify the source of the additional $721 billion.

But this revenue target is not arbitrary. The conference report explicitly calls for extending a few of the 2001 and 2003 tax cuts: marriage penalty relief, the child tax credit expansion, the 10 percent income tax bracket, and a scaled-down version of estate tax relief. The additional $721 billion in revenues matches the CBO estimate of 2008–2012 tax revenues if all of the other 2001 and 2003 tax cuts, as well as all other temporary tax cuts, are allowed to expire and the alternative minimum tax (AMT) is not fixed.[9] Thus, Congress has revealed its hand: allowing most of the 2001 and 2003 tax cuts to expire and raising other taxes to balance the AMT fix.

Implausibly, Democratic lawmakers have denied that their budget raises taxes. The overview of the plan released by the House and Senate Budget Committees states that it would allow some of the current tax cuts to be extended as long as they are offset, including fixing the AMT through 2008.[10] However, increasing some tax rates as the price of keeping other tax policies at current levels is still a tax increase. Lawmakers will still tax trillions of dollars more from taxpayers, regardless of which pocket they decide to take it from.

Some lawmakers have even declared that, because it is already written into current law, allowing the tax cuts to expire does not constitute a tax increase. However, a tax increase is still a tax increase, even if lawmakers schedule it years in advance. Telling the millions of Americans whose marginal income tax rates will leap from 25 percent to 28 percent or the widows whose estate tax rate will surge from zero to 55 percent that their taxes have not been raised may be a tough sell.

Democratic budget writers are also contradicting their own rhetoric. On March 14, Senator Conrad released a budget summary denying that his budget raises taxes, thus employing the argument that future tax increases scheduled to occur as part of current law are not really tax increases.[11] In contrast, the day before, his committee released a document criticizing President Bush for not replenishing the "automatic cuts to [Medicare] physician payments" that are scheduled to occur in the future as part of current law.[12] It is not clear why previously scheduled reductions in spending are "cuts" but previously scheduled tax rate changes are not "increases."

Overall, the budget resolution would raise taxes by over $2,000 per household annually, or nearly 10 percent above current levels. Tax revenues would spike from 18.5 percent of GDP today to 19.2 percent by 2012 and then 19.6 percent in 2017, far above the 18.3 percent historical average.

8. Senator Kent Conrad, Chairman, Senate Budget Committee, Opening floor statement on the FY 2008 Senate Budget Resolution, March 20, 2007, at *http://budget.senate.gov/democratic/statements/2007/conrad032007floor.pdf*.
9. 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*.
10. "A Fiscally Responsible Budget Plan" Senate Budget Committee, May 16, 2007, at *http://budget.senate.gov/democratic/documents/2007/Budget_Conference_Agreement_Overview051607.pdf*.
11. "President Bush's FY 2008 Budget Cuts Health Funding Without Needed Reform," Senate Budget Committee, March 13, 2007, at *http://budget.senate.gov/democratic/documents/2007/healthbudgetfactsheet021307.pdf*.
12. "FY 2008 Senate Budget Resolution: Meeting Priorities While Restoring Fiscal Responsibility," Senate Budget Committee, March 14, 2007, at http*://budget.senate.gov/democratic/documents/2007/BudRes08summary031407.pdf*.

Lest any senator try to avert these tax increases, the budget contains a multitude of new rules designed to ensure that they occur. Any senator offering legislation to extend current tax rates would "violate" three different Senate budget rules, each of which would have to be overcome with 60 votes before the Senate is even 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 to rise by 6 percent to 7 percent annually, would continue automatically without any restraints.

Ignoring the Entitlement Crisis

Statement: "They know in large measure here, Republicans and Democrats, that we are on a course that doesn't add up…. [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."

—Senator Conrad, CBS's "60 Minutes," March 3, 2007, referring to the $39 trillion in unfunded Social Security and Medicare costs over the next 75 years[13]

Fact: The budget resolution does not contain a single reform to address the coming fiscal tsunami of entitlement spending.

The coming collision of 77 million retiring baby boomers with Social Security, Medicare, and Medicaid represents the greatest economic challenge of the present era. What Federal Reserve Chairman Ben Bernanke has recently called the "calm before the storm" will end on January 1, 2008—less than one year from now—when the first baby boomers become eligible for early Social Security benefits.[14] Three years later, they will become eligible for Medicare. Over the following decades, the cost of these programs will leap from 8.7 percent to 19.0 percent of GDP. 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.[15]

The budget resolution simply ignores this coming crisis. Worse, it 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. This abdication of Congress's responsibility to confront entitlements will have serious, negative consequences for nearly all Americans. During every year of delay, the 77 million baby boomers move a year closer to retirement and the price tag of the inevitable reforms increases by hundreds of billions of dollars. Yet Congress is refusing to address the most important economic issue today.

Conclusion. Congress's budget resolution relies on massive tax increases while ignoring the coming explosion in Social Security, Medicare, and Medicaid spending. It pushes up discretionary spending and sets a clear path for more of the same on the mandatory side. This classic tax-and-spend budget assumes the expiration of the tax cuts that have helped to create jobs and promote economic growth.[16] It would lead to higher tax rates for families and businesses, slower economic growth, and a nation woefully unprepared to face the coming retirement of 77 million baby boomers. The White House has rightly drawn a veto line in the sand for any budget bills that emerge from this budget resolution. Lawmakers should go back to the drawing board and write a budget that meets the President's spending targets, deals realistically with coming entitlement costs, and does not raise taxes to fund more government spending. If they do not, the President should keep his veto pen ready.

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13. "U.S. Heading For Financial Trouble?" CBSnews.com, March 4, 2007, at *www.cbsnews.com/stories/2007/03/01/60minutes/printable2528226.shtml.*

14. 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.*

15. Brian M. Riedl, "Federal Spending by the Numbers," Heritage Foundation *WebMemo* No. 1390, March 8, 2007, at *www.heritage.org/Research/Budget/wm1390.cfm*.

16. 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*.