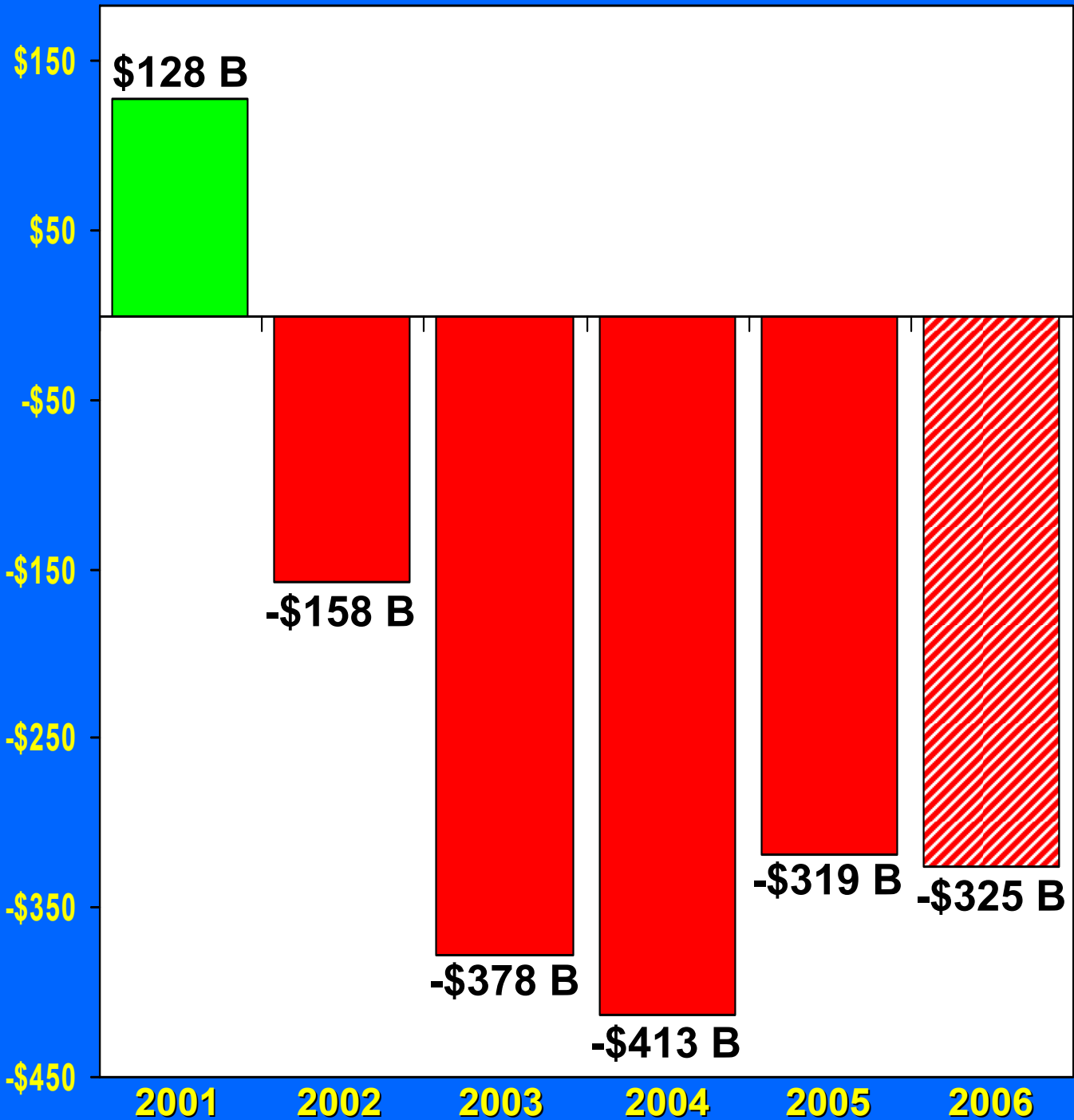


Budget Process Alternative

- Restore strong Senate paygo rule and statutory paygo enforced with sequestration
- Allow reconciliation for deficit reduction only
- Budget for the war - require President to include war cost in his budget
- Reaffirm protection for Social Security – ensure off-budget status and prohibit fast-track changes
- Save Social Security first - 60-vote point of order against new mandatory spending or revenue legislation increasing deficit until 75-year Social Security solvency restored
- Restore for 2006 the 60-vote point of order against considering tax, spending, and debt limit legislation without a new budget resolution
- Allow Congress to strip earmarks and other items inserted in conference reports
- Require 48-hour layover period and CBO score of conference reports
- Require CBO/JCT longer-term revenue and outlay scores to enforce Byrd rule for reconciliation, and to show fully-phased-in ten-year cost of legislation
- Enforce the discretionary spending limit
- Initiate real bipartisan effort to reduce deficit with President and lawmakers

Dramatic Deterioration in Budget Picture

(Deficit in billions of \$)

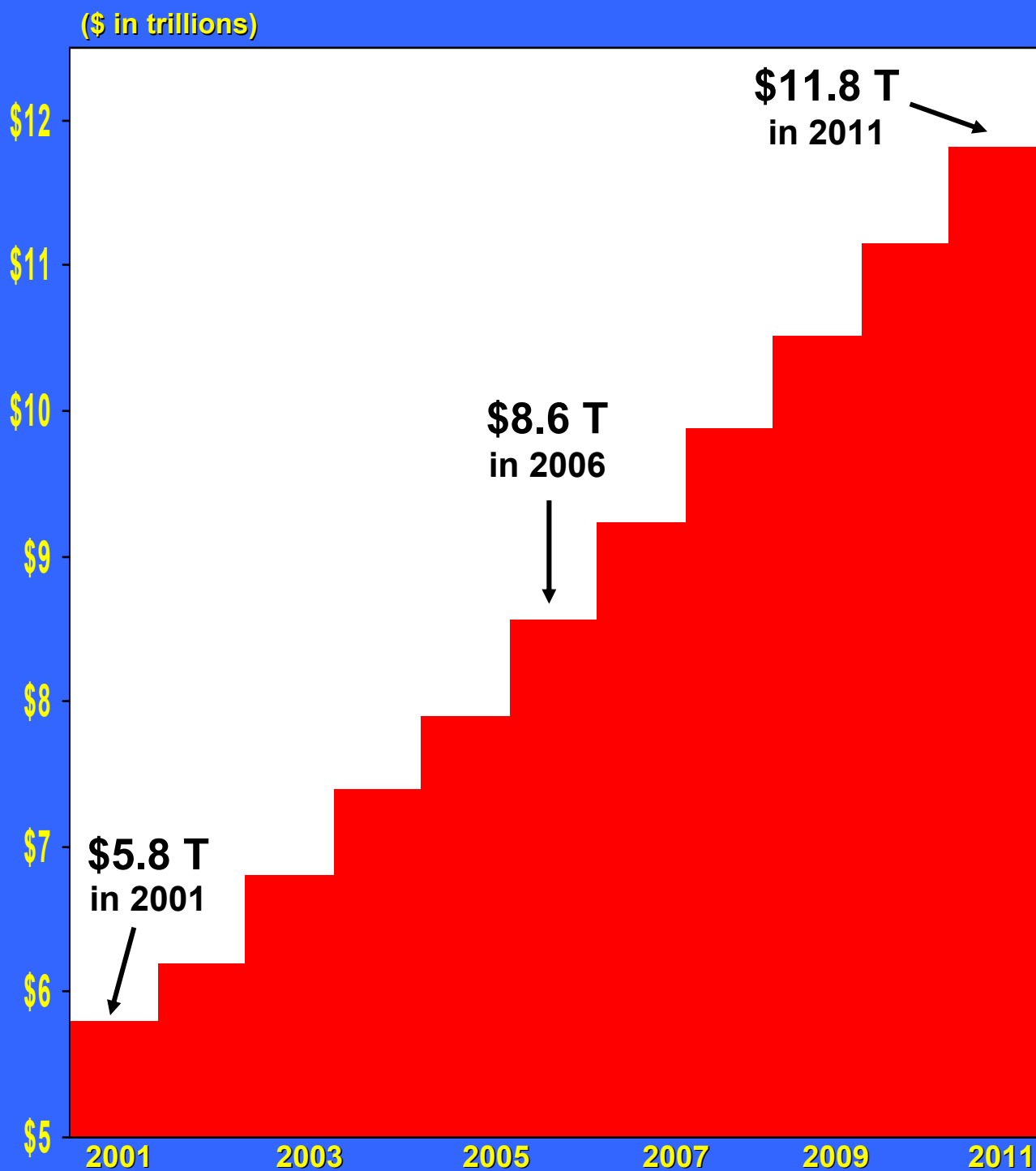


Source: CBO, OMB, and SBC Democratic staff

Note: 2006 estimate based on May 2006 CBO Monthly Budget Review

Building a Wall of Debt

Gross Federal Debt Soars



Source: CBO and SBC Democratic staff

Note: CBO reestimate of President's FY 2007 Budget with AMT reform and ongoing war costs.

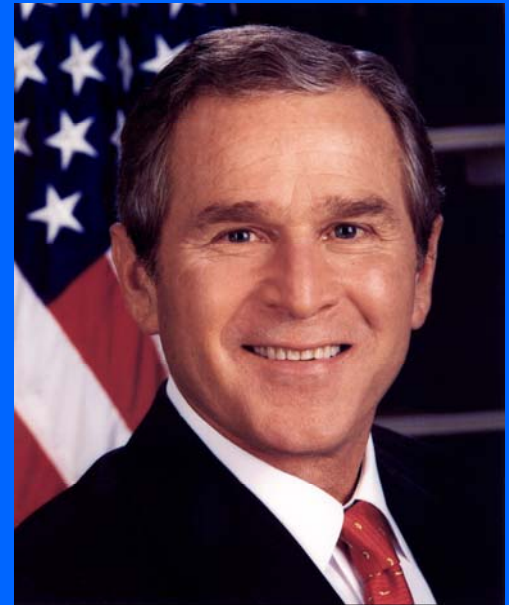
President Bush More than Doubles Foreign-Held Debt in 5 Years

It Took 42 Presidents 224 Years to Build Up Same Level of Foreign-Held Debt



\$1.01 T

224 Years
(1776-2000)



\$1.06 T

5 Years
(2001-2006)

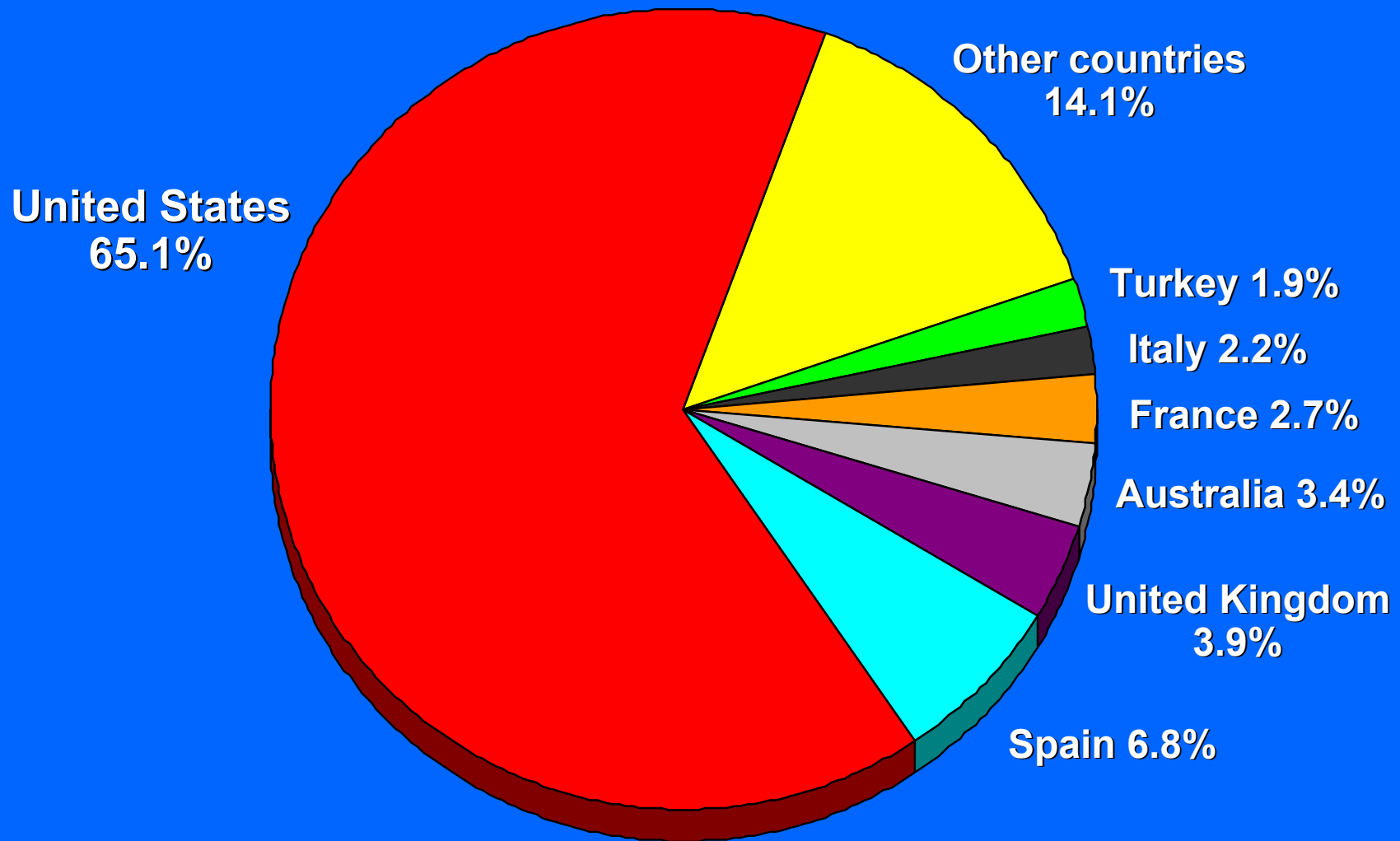
Top Ten Foreign Holders of Our National Debt

| | |
|-----------------------------|---------|
| Japan | \$639 B |
| China | \$323 B |
| United Kingdom | \$167 B |
| “Oil Exporters” | \$99 B |
| South Korea | \$71 B |
| Taiwan | \$69 B |
| “Caribbean Banking Centers” | \$61 B |
| Hong Kong | \$49 B |
| Germany | \$47 B |
| Mexico | \$42 B |

Source: Department of Treasury

Note: As of April 2006

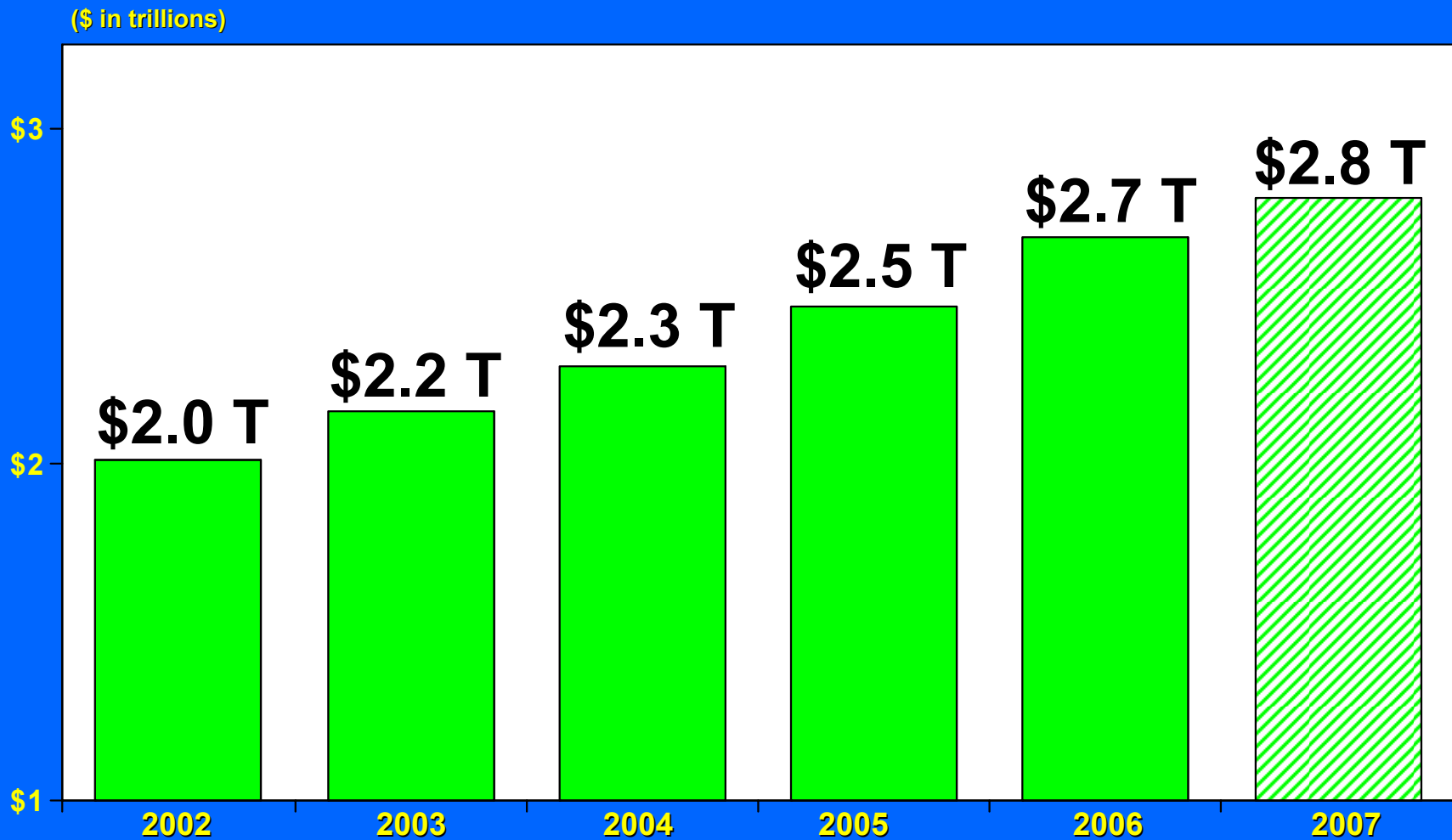
World's Biggest Borrowers



Note: Percent of world borrowing by country.
Source: IMF

Who Has Been “Overspending?”

Spending Has Increased 40% Under GOP Control



Source: OMB and 2007 Senate-passed GOP budget resolution for fiscal years 2006 and 2007
Note: Spending totals are outlays.

GOP Has Already Repealed Budget Enforcement Provisions and Repealed and Increased Spending Caps Put in Place Last Year

CONCURRENT RESOLUTION ON THE BUDGET FOR FISCAL YEAR 2006

SEC. 403. EXTENSION OF SENATE ENFORCEMENT.

(a) *EXTENSION.*—Notwithstanding any provision of the Congressional Budget Act of 1974, subsections (c)(2) and (d)(3) of section 904 of the Congressional Budget Act of 1974 shall remain in effect for purposes of Senate enforcement through September 30, 2010.

(b) *IN GENERAL.*—

(1) *UNFUNDED MANDATES.*—Section 425(c)(1) and (2) of the Congressional Budget Act of 1974 shall be subject to the waiver and appeal requirements of subsections (c)(2) and (d)(3) of section 904 of the Congressional Budget Act of 1974.

(2) *CONSIDERATION OF BUDGET LEGISLATION.*—Section 303 of the Congressional Budget Act of 1974 shall be subject to the waiver and appeal requirements of subsections (c)(2) and (d)(3) of section 904 of the Congressional Budget Act of 1974. For the purpose of Section 303, the year covered by the resolution shall be construed as the upcoming fiscal year only.

SEC. 404. DISCRETIONARY SPENDING LIMITS IN THE SENATE.

(a) *DISCRETIONARY SPENDING LIMITS.*—In the Senate and as used in this section, the term “discretionary spending limit” means—

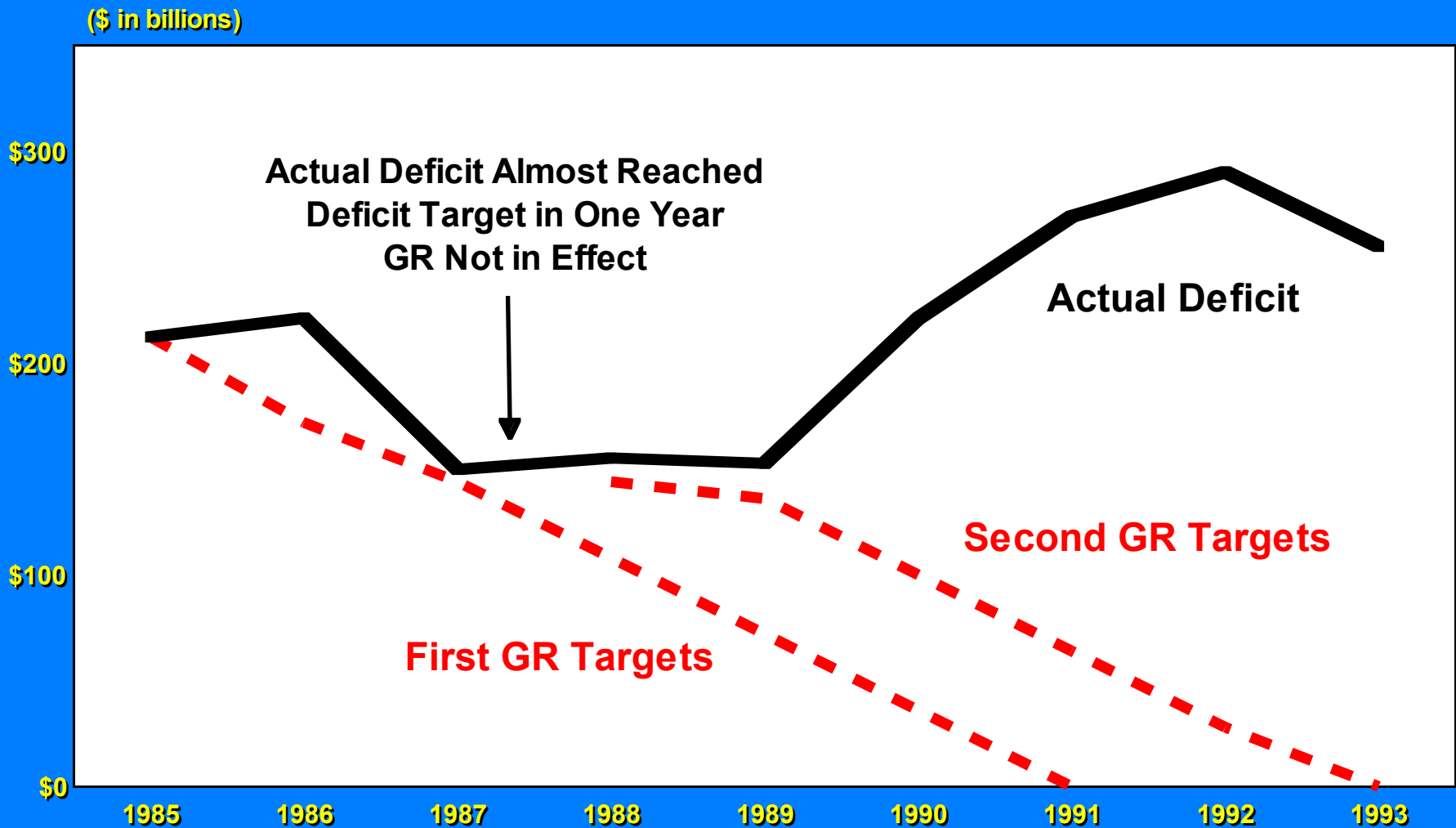
(1) for fiscal year 2006, \$842,250,000,000 in new budget authority and \$976,001,000,000 in outlays for the discretionary category;

(2) for fiscal year 2007, \$866,078,000,000 in new budget authority for the discretionary category; and

(3) for fiscal year 2008, \$887,005,000,000 in new budget authority for the discretionary category;

as adjusted in conformance with the adjustment procedures in subsection (d).

Gramm-Rudman: Actual Deficits Always Exceeded Target Deficits



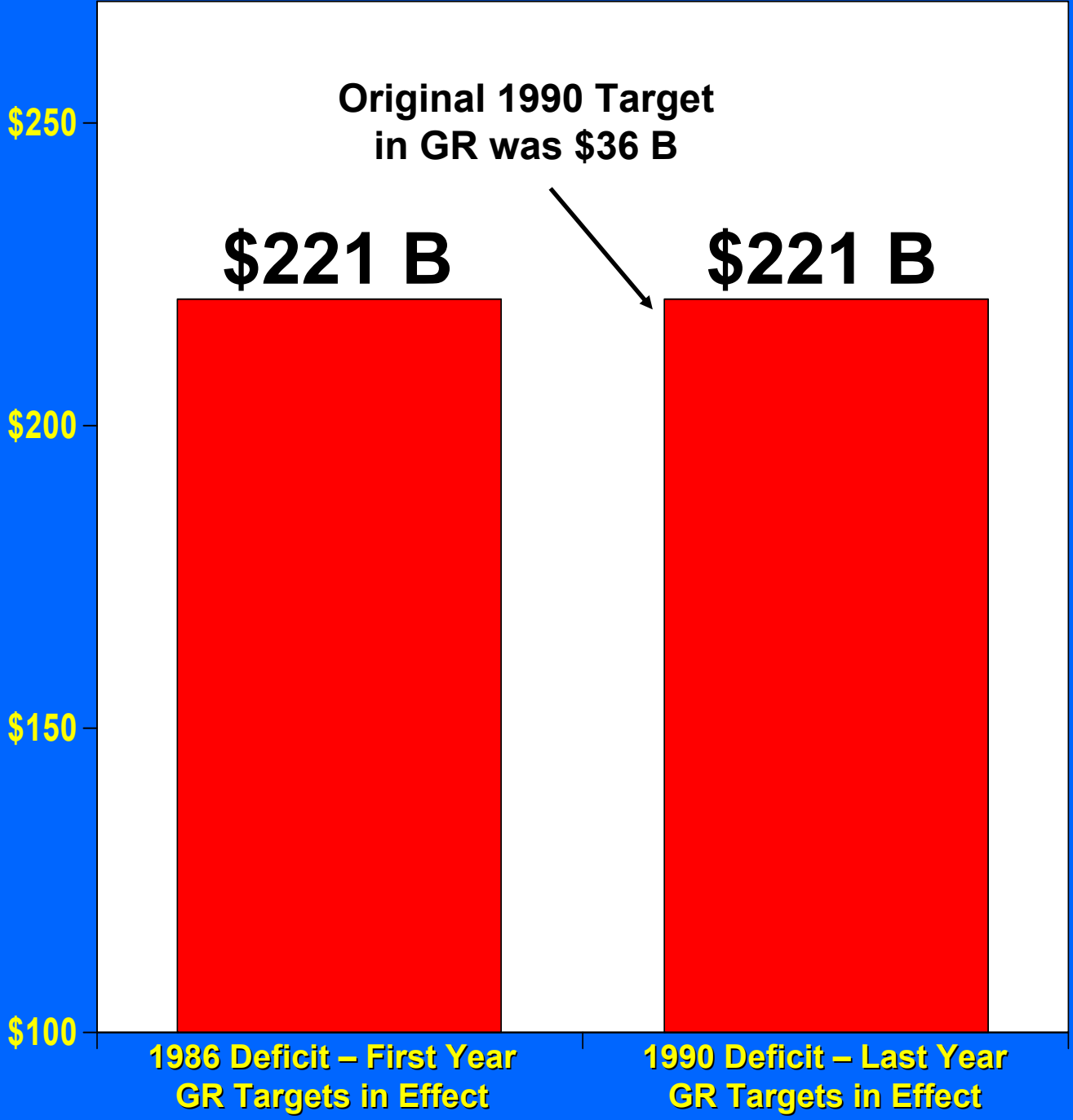
Source: OMB, CRS

Note: 1986 tax reform caused one-time jump in revenues.

Gramm-Rudman Targets Failed to Reduce the Deficit

Deficit was Same Amount in Last Year as it Was in First Year

(\$ in billions)



Source: OMB, CRS

GAO Concluded That Gramm-Rudman Was Ineffective

“GAO has criticized the [Gramm-Rudman] procedures for leading not to meaningful deficit reduction, but rather to a whole generation of off-budget and other misleading practices that hid the true magnitude of the deficit problem. When even these practices failed to avoid sequestration, the deficit targets were simply revised, and the date for achieving a balanced budget was postponed. Thus, instead of the government reaching a balanced budget in fiscal year 1991, the original [Gramm-Rudman] target, the deficit reached record levels.”

**– GAO Report
June 5, 1992**

Former Senator Hollings Believes Gramm-Rudman Was a Failure

“...[W]e failed with Gramm-Rudman-Hollings. ...[I]nstead of using Gramm-Rudman-Hollings to cut back some \$35 billion in spending each and every year, we were using it as a cover to increase spending \$35 billion each and every year. So I said give me a divorce from that. I don't want my name connected with it.”

**–Former Senator Fritz Hollings, (D-SC)
Senate Floor Statement
September 15, 2003**

Problems with Biennial Budgeting

- **Too little attention is paid to our nation's fiscal condition now; biennial budgeting would further reduce it.**
- **Would lead to more supplemental spending, especially in the second year.**
- **While the President is calling for biennial budgeting, his own budgets for 2006 and 2007 failed to provide discretionary spending policy details beyond the first year.**
- **Would require Congress to rely on more speculative, long-term projections, resulting in less accurate forecasts and outdated assumptions.**
- **Would reduce Congressional ability to respond to changing budget, economic, and fiscal conditions.**
- **Would weaken Congressional oversight of the Executive Branch through the budget and appropriations process.**

Problems with Line Item Veto Proposal

- Represents abdication of congressional responsibility
- Shifts too much power to Executive Branch and likely to have little impact on deficit
- Requires Congress to vote on President's proposals within 10 days
- Provides no opportunity to amend or filibuster proposed rescissions
- Allows President to cancel new mandatory spending proposals passed by Congress, such as those dealing with Social Security, Medicare, veterans, and agriculture
- Tax provisions are narrowly drawn, allowing President to rescind only those tax measures JCT specifies treat taxpayers differently; spending provisions are broadly drawn, allowing President to rescind any spending increase

CBO Director Believes Bush Line Item Veto Unlikely to Greatly Affect Bottom Line

“Such tools, however, cannot establish fiscal discipline unless there is a political consensus to do so.... In the absence of that consensus, the proposed changes to the rescission process ... are unlikely to greatly affect the budget’s bottom line.”

**— Acting CBO Director Donald Marron
Testimony before House Rules Committee
March 15, 2006**

“No President Needs the Line-Item Veto”

“...[T]he president already has the only tool he needs: The veto. That Bush has declined to challenge Congress in five-plus years is his choice. The White House no doubt sees reviving this debate as a means of distracting people from the missteps, miscalculations, mistruths and mistakes that have dogged Bush and sent his approval rating south.

“The current problems are not systemic; they are ideological. A line-item veto will not magically grant lawmakers and the president fiscal discipline and economic sense.”

**– *The Roanoke Times (Virginia)*
March 7, 2006**

Conservative Columnist George Will Believes Line Item Veto Proposal Shifts Too Much Power to Executive Branch

“It would aggravate an imbalance in our constitutional system that has been growing for seven decades: the expansion of executive power at the expense of the legislature.”

**– George F. Will
Washington Post, “The Vexing
Qualities of a Veto”
March 16, 2006**

American Enterprise Institute Scholar Calls Line Item Veto Proposal “Shameful”

“The larger reality is that this [line item veto proposal] gives the president a great additional mischief-making capability, to pluck out items to punish lawmakers he doesn’t like, or to threaten individual lawmakers to get votes on other things, without having any noticeable impact on budget growth or restraint.

“More broadly, it simply shows the lack of institutionally integrity and patriotism by the majority in Congress. They have lots of ways to put the responsibility on budget restraint where it belongs – on themselves. Instead, they willingly, even eagerly, try to turn their most basic power over to the president. Shameful, just shameful.”

**– Norman Ornstein, Resident Scholar
at the American Enterprise Institute
Roll Call column
April 5, 2006**