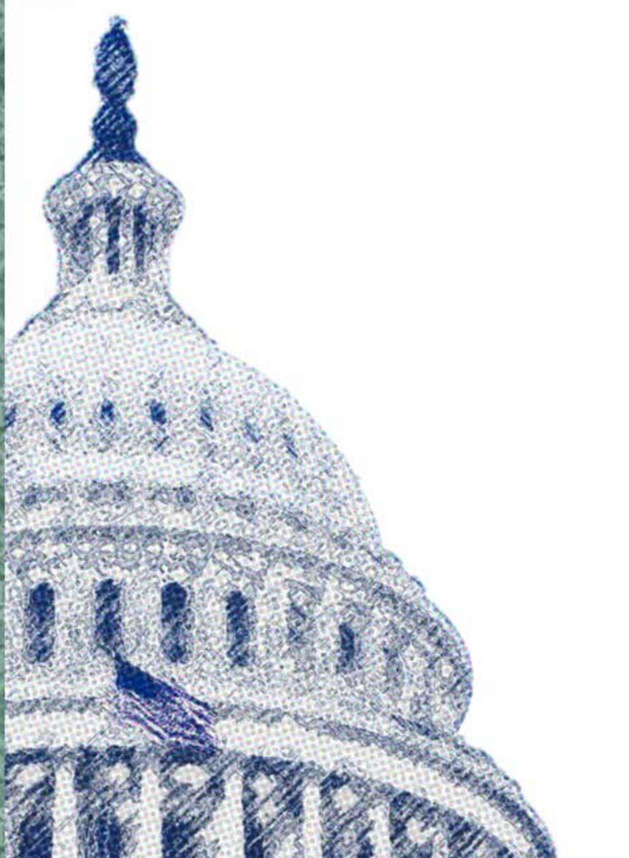
111th Congress
2nd Session

August Recess Packet



August 5, 2010
Prepared by the
U.S. Senate Budget Committee
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August 5, 2010

Dear Republican Colleague:

As we wrap up our legislative business to return home for the August recess, it is worrisome to see that our long-term fiscal situation continues to deteriorate while there is a definitive lack of action on behalf of the Obama Administration and the Democratic Congress.

The Administration's own mid-year budget review in July showed the 2010 deficit will be $1.5 trillion and deficits for the next three years will be higher than previously projected. That bleak outlook came as no surprise, given that grim projections in February were followed by the President's $2.5 trillion health care package. Plus the President has proposed $34 billion in new mandatory spending since putting out his budget in February, and the majority has excluded $69 billion of deficit spending from the official Pay-Go ledger.

This week saw the release of the Social Security and Medicare Trustees' 2010 annual reports, which showed serious cash shortfalls in both programs, something that will only increase government borrowing and debt accumulation – despite our current debt of $13 trillion. Despite claims that Social Security and Medicare insolvency is down the road, the cash flow situation shows that the entitlement crisis is truly on our doorstep.

In short, spending and borrowing continue unabated under the majority, and our fiscal situation is worsening by the month. As a member of the President's Fiscal Commission, I can attest the group is working hard to develop bipartisan recommendations to Congress on how to make inroads towards stabilizing our staggering levels of debt.

However, that cannot be the only action taking place. The President and the Democratic Congress should be asserting leadership on this issue and seeking other, more immediate avenues for debt reduction as well. The Administration still lacks a definitive plan to address the debt – nothing was included in either of the last two budget blueprints – and is instead relying solely on the Commission for guidance that won't come until the end of this year.

I hope you find the information in this packet helpful. Please contact my staff at 202-224-6011 with any questions or if you need any additional information.

Sincerely,

Judd

Judd Gregg

Summary of Mid-Session Review (MSR) of President's 2011 Budget

August 5, 2010

The President's Mid-Session updated estimate of his budget proposals follows the well worn path of showing a lower deficit estimate for the current year than the President estimated not even six months ago: the 2010 deficit is expected to be $85 billion less in 2010 than he estimated in February (though still 10% of GDP). This is not new news, however, since CBO's estimate in March of the President's budget proposals indicated a 2010 deficit of $1.500 trillion.

President's 2011 Budget Proposal
Deficits and Debt According to President's Estimates

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Deficits ($ trillions)													
February	0.459	1.413	**1.556**	1.267	0.828	0.727	0.706	0.752	0.778	0.778	0.785	0.908	1.003
July MSR	0.459	1.413	**1.471**	1.416	0.911	0.736	0.698	0.762	0.758	0.721	0.749	0.822	0.900
Debt Held by public													
% of GDP	41%	53%	63%	69%	72%	73%	73%	74%	75%	75%	76%	76%	77%

For 2011 and 2012, however, the President has increased his deficit estimates by a total of $233 billion for those years – 11 percent higher than in February. Here again, the MSR is catching up to what CBO already told us in March about how much higher deficits would be over the next two years if we enact all the President's policies. But by estimating lower deficits over the latter part of the next ten years (2011-2020), the MSR shows cumulative deficits and debt would be unchanged from the President's February estimate – $8.5 trillion in deficits and debt held by the public at 77% of GDP (remember that in March CBO said instead that the President's policies would increase the debt held by the public to **90% of GDP**).

The annual MSR is essentially a re-presentation of all the policies the President asked for in February, updated for any legislation enacted since then and any revised economic assumptions based on new economic data, sometimes with any additional policies the President has requested since his initial budget request. This MSR does reflect that the President is now proposing additional policies resulting in $34 billion more in deficits since his budget came out in February: $6 billion for energy efficient home rebates, $3 billion for small business lending, and $25 billion to prevent firing of teachers, firefighters and police officers.

Economic Assumptions

As with the February budget, the MSR continues to be considerably more optimistic than CBO about the country's economic growth prospects. The Administration now assumes cumulative real GDP will total nearly $4.7 trillion more than CBO estimates. That represents 3% more output over 2011-2020. In addition, the MSR is even slightly more optimistic in its economic assumptions than the President's February budget. The rosier economic scenario in the Administration's forecast results in an understatement of the likely annual budget deficits that would result from the President's policies.

Items of Note

War. The President continues to maintain in the Mid-Session Review that war costs after 2011 ($50 billion/year)will suddenly plunge to less than a third of what the President has requested for the war for 2011 ($159 billion), even as we are only a few months away from the roll-out of the 2012 budget.

Climate Legislation. Even though CBO has estimated various climate bills as generating massive revenues (Kerry-Lieberman – $765 billion, Waxman-Markey – $873 billion, and Boxer-Kerry – $860 billion), the Administration's Mid-Session Review continues to show no effect on federal revenues from its cap-and-trade agenda, instead opting to insert a placeholder of zero in the form of a "deficit-neutral reserve fund."

BUDGET COMMITTEE
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Cash Shortfalls in Social Security and Medicare Programs
Put Entitlement Crisis on Our Doorstep
U.S. Borrowing To Cover Programs' Costs Will Bankrupt Future Generations
August 5, 2010

- The Social Security and Medicare Trustees, issued on August 5, show both programs have very serious cash flow problems.
- Social Security Trustees estimate that program costs exceed revenues this year for the first time since the early 1980s, and will permanently exceed tax revenues beginning in 2015.
- Meanwhile, the Medicare program has been operating with a cash shortfall since 2008.
- The Administration has no plan in place to address Medicare and Social Security's cash shortfalls, except to borrow more money from other countries and dig our children further into debt.
- With a current debt of $13 trillion and annual deficits averaging $1 trillion for the next decade, there is simply no excuse for the Democratic Congress not to address the entitlement crisis.

Social Security

- Social Security will be in cash deficit this year – Revenues will fall short of program costs by $41 billion in 2010. Social Security will run a cash deficit of $7 billion in 2011 before returning to small surpluses through 2014, and then entering a permanent cash deficit in 2015.
- The unfunded obligation of the program increased by $100 billion, to $5.4 trillion, relative to last year's Trustees Report. Trustees report that the outstanding financial commitment of the program is now $8.3 trillion.
- The date of trust fund insolvency remains unchanged from last year's report. That means after 2037, Social Security will only be able to pay 78 percent of the earned value of the monthly benefits to retirees.

Medicare

- The trustees report projected Medicare's hospital insurance (HI) trust fund will become insolvent in 2029. While on paper the new health care law appears to have improved trust fund balances, it is important to note that, in reality, the law will do little to improve the long-term budget outlook for the federal government as a whole-- because the Medicare savings are being used to partially offset new entitlement spending instead of being used to shore up the Medicare program.

- The difference between Medicare's total outlays and its "dedicated financing sources" will reach 45 percent of outlays in fiscal year 2010. Thus, for the fifth consecutive year, the trustees made an "excess general revenue Medicare funding" determination, which triggered yet another "Medicare funding warning." This means the President will have to submit legislation to respond to the warning within 15 days of submitting a budget next year.
- The report includes an important caveat about this year's Medicare projections. In particular, it notes that, "the effects of some of the new law's provisions on Medicare are not known at this time, with the result that the projections are much more uncertain than normal, especially in the longer-range future."
- The end of the report includes an especially important "Statement of Actuarial Opinion" written by Rick Foster, the Medicare chief actuary. Foster explains that the productivity adjustments for hospitals and other Medicare providers imposed under the new health care law, as well as the 30 percent cut in physician reimbursements scheduled to take effect over the next three years, are "implausible." He goes on to say that:

> "For these reasons, the financial projections shown in this report for Medicare do not represent a reasonable expectation for actual program operations in either the short range (as a result of the unsustainable reductions in physician payment rates) or the long range (because of the strong likelihood that the statutory reductions in price updates for most categories of Medicare provider services will not be viable). I encourage readers to review the 'illustrative alternative' projections that are based on more sustainable assumptions for physician and other Medicare price updates. These projections are available at
> http://www.cms.gov/ActuarialStudies/Downloads/2010TRAlternativeScenario.pdf ."

Democrats Fail to Abide by Their Budget and Increase the Debt by Over $1 Trillion
August 5, 2010

Republicans have repeatedly raised budget enforcement points of order to remind the Democratic majority to live within the budgets they have passed. (Maybe that's why the Sen. Reid did not even allow a budget resolution to come up for a vote in the Senate this year.)

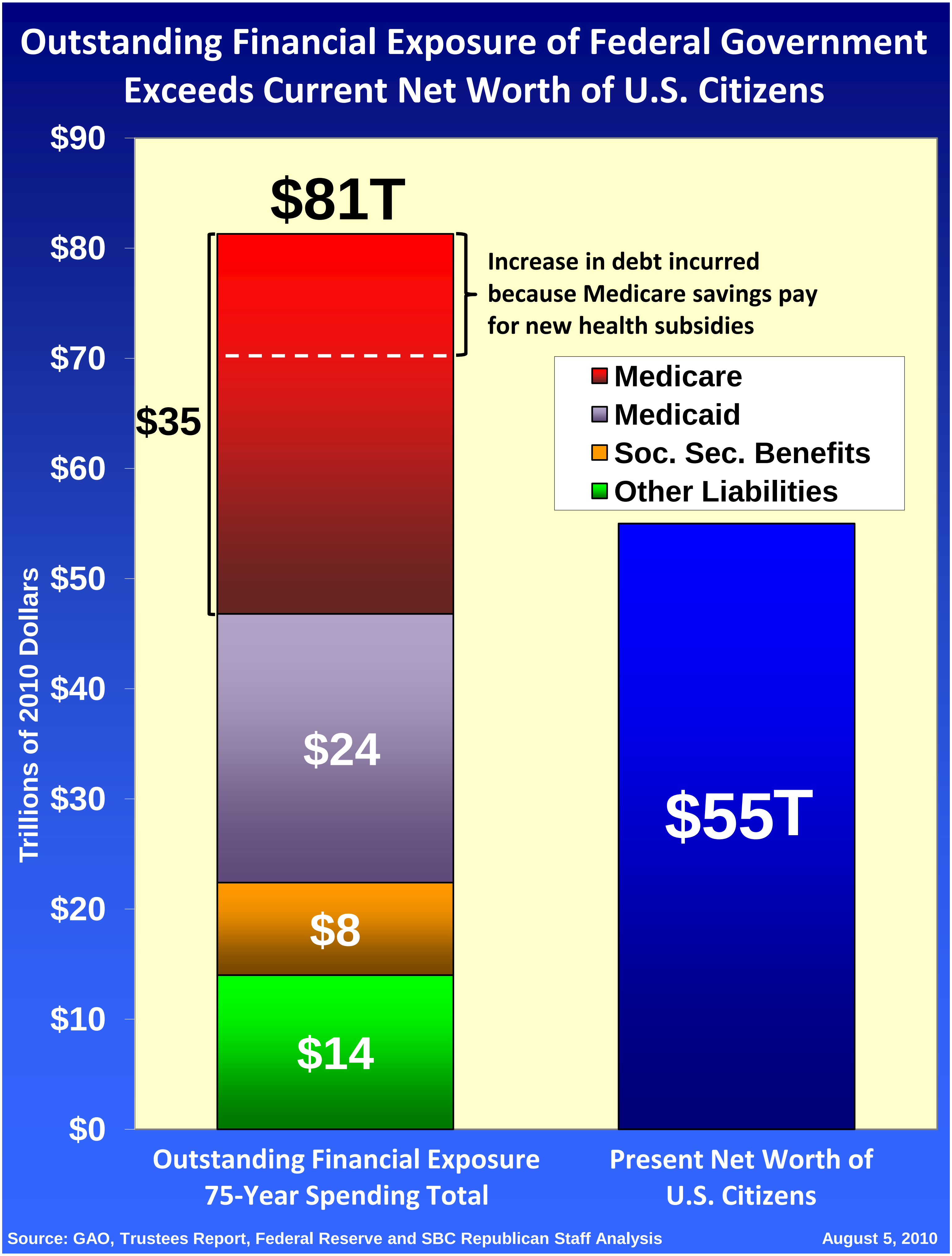
Republicans have raised budget points of order 24 times in the 111th Congress. These points of order applied to 14 different pieces of legislation. **Democrats have voted consistently to waive the Budget Act and other budgetary disciplines required by their own budget resolutions.**

- Democrats voted to waive budget points of order 15 times for nine different pieces of legislation.
- Of those 15 votes to waive, Democrats have voted eight times to waive points of order that were created by budget resolutions that passed with only Democratic votes.
- Deficit increases made possible by **waivers of the budget rules will increase the debt by over $1 trillion,** as detailed in the table below.

Debt Increases from Budget Violations Waived by the Democrats

Bill Number	Subject	$ Billions
HR 1	2009 Stimulus	862.0
HR 3357	Transfers to Highway Trust Fund	7.0
HR 2297	Dairy Price Support	0.4
HR 3435	Cash For Clunkers	2.0
HR 2918	Postal Service Benefit Accruals	4.0
HR 2847	HIRE Act (Highway "Jobs" Spending)	46.0
HR 4213	UI and Tax Extenders	97.3
HR 4173	Dodd-Frank Wall Street "Reform"	5.0 [1]
HR 1586	State Fiscal Relief (Teachers/FMAP)	22.4
	TOTAL	1,046.0
	TOTAL, Excluding Stimulus	184.0

Note: [1]--Minimum Cost since cost estimate only indicates that the violation exceeds a threshold level.


Outstanding Financial Exposure of Federal Government
Exceeds Current Net Worth of U.S. Citizens
$90
$80
$70
$60
$50
$40
$30
$20
$10
$0
Trillions of 2010 Dollars
$81T
Increase in debt incurred
because Medicare savings pay
for new health subsidies
$35
$24
$8
$14
$55T
Medicare
Medicaid
Soc. Sec. Benefits
Other Liabilities
Outstanding Financial Exposure
75-Year Spending Total
Present Net Worth of
U.S. Citizens
Source: GAO, Trustees Report, Federal Reserve and SBC Republican Staff Analysis
August 5, 2010