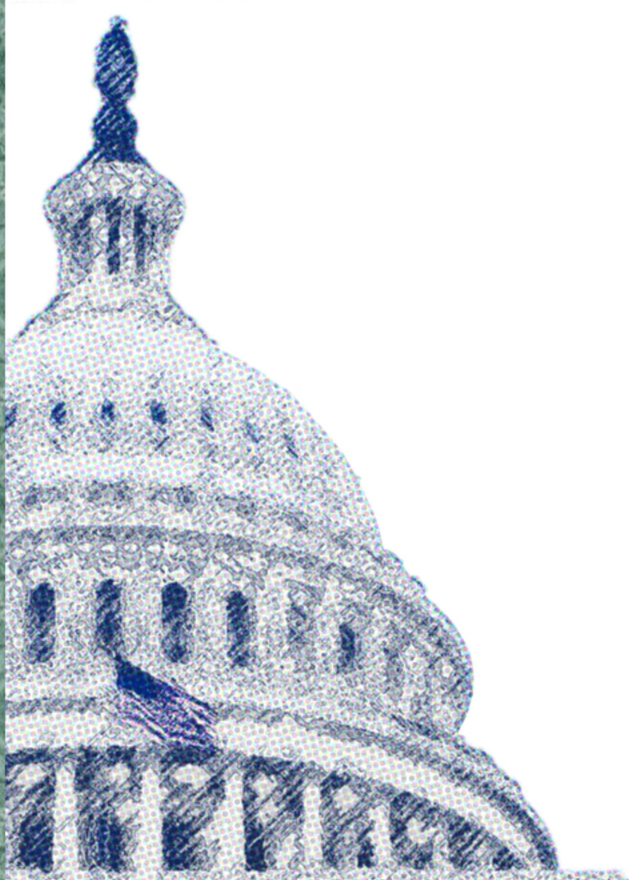
111th Congress
2nd Session

Independence Day Recess Packet



July 1, 2010
Prepared by the
U.S. Senate Budget Committee
Republican Staff
http://budget.senate.gov/republican

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NEW HAMPSHIRE

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July 1, 2010

Dear Republican Colleague:

As we wrap up our legislative business to return home for the Independence Day recess – the midpoint of the year – it is important that we continue to raise awareness about the unrestrained spending, borrowing and debt accumulation that is occurring under the Democratic majority. The country's long-term fiscal outlook is grim, and without a change in course, our children will be left in dire economic straits.

The Congressional Budget Office (CBO), in its annual Long-Term Budget Outlook issued this week, confirmed that under current budget plans, U.S. debt will soon reach unsustainable levels and will continue to rise over the next several decades. Publicly-held debt was 40% of GDP in 2008 – it will exceed 60% of GDP this year and under the most realistic assumptions, CBO predicts it will reach 87% by 2020 and 185% by 2035.

CBO Director Doug Elmendorf affirmed that "growth in spending on health-care programs remains the central fiscal challenge," in a presentation to the President's Fiscal Commission this week. The President's new health care entitlement programs represent $2.5 trillion added to the debt, which comes on top of an expected explosion in existing health care and retirement entitlement spending as the Baby Boomers retire.

This packet includes a summary of CBO's Long-Term Budget Outlook; charts and facts on the majority's unchecked spending, borrowing and debt, and its impact on our future; and a recent op-ed on the debt. Please contact my staff at 202-224-6011 with any questions or if you need any additional information.

Sincerely,

Judd

Judd Gregg

CBO LONG-TERM BUDGET OUTLOOK

HIGHLIGHTS FROM THE JUNE 2010 REPORT

- CBO produced the report based on two scenarios:
  - ✓ **Extended-baseline scenario** - assumes all provisions of current law take effect, essentially extending the CBO baseline unchanged into the future.
  - ✓ **Alternative fiscal scenario** - assumes extension of 2001 and 2003 tax cuts for earners making less than $250,000 per couple, AMT is indexed, SGR "doc fix" continues to prevent reductions in Medicare reimbursement rates, and savings provisions from recently enacted health care reform legislation including reductions in updates to Medicare payments, reductions in Medicare spending imposed by the Independent Payment Advisory Board, and cost restraints on new insurance subsidies *do not* remain in effect after 2020.

OVERVIEW

- Under both scenarios, spending on mandatory health programs (Medicare, Medicaid, CHIP and health insurance exchanges) will grow from 5 percent of GDP today to 10 percent in 2035 and will continue to increase thereafter. This includes the effects of recently enacted health care legislation.

- Under both scenarios, Social Security spending will increase from 5 percent of GDP today to 6 percent of GDP by 2035, and then remain roughly stable at that level through 2084.

- If current laws remain unchanged, aging of the population and the rising cost of health care will cause spending on the mandatory health programs and Social Security to grow from 10 percent of GDP today to 16 percent of GDP by 2035. In comparison, spending on ***all*** of the federal government's programs and activities, excluding interest, has averaged 18.5 percent of GDP for the past 40 years.

- Under both scenarios, growth in non-interest spending as a share of GDP is entirely driven by mandatory health programs and Social Security. **More than 75 percent of the total spending increase over the next 25 years is due to the health programs.**

- Under the extended baseline scenario, interest payments rise from 1 percent of GDP today to 4 percent of GDP (or one-sixth of federal revenues) by 2035, and reach 5 percent by 2080. Under the alternative scenario, interest payments climb to 9 percent of GDP by 2035, and continue rising dramatically thereafter. **By 2055, interest payments alone would exceed that year's total federal revenues.**

HEALTH

- The health care reform legislation "is expected to increase federal spending in the next 10 years and for most of the following decade." However, by 2030, it "will slightly reduce federal spending for health care *if all of its provisions are fully implemented*." The reduction in the level of spending in 2030 "yields lower projections of health care spending in the longer term – even though, owing to the great uncertainties involved in projecting such spending many decades in the future, enactment of the legislation did not cause CBO to change its estimates of longer-term growth rates for spending on the government's health care programs." (Summary, page IX)

- CBO notes "the current health care system does not provide incentives for doctors, hospitals, and other providers of health care – or their patients – to control costs. Although the recent legislation took some initial steps toward modifying those incentives, more substantial changes will probably be needed to significantly lower the future trajectory of health care spending." (Page 44)

SOCIAL SECURITY

- The ratio of workers to Social Security recipients is expected to drop from 2.9 in 2010 to 2.0 in 2035, and then continue to drift downward, absent changes in immigration, fertility or mortality rates.

- Aging of the population is the sole cause of cost growth as a share of GDP in the Social Security program.

FISCAL GAP

- In present value terms, if Congress acted today to ensure that debt as a share of GDP did not rise above today's level under the two scenarios over the next 25 years, tax increases and spending cuts would need to equal 1 percent of GDP under the extended baseline scenario and nearly 5 percent of GDP under the alternative scenario. The policy change needed today to wipe out the "fiscal gap" over the next 25 years in the alternative scenario is equivalent to $700 billion in this year's federal budget.

- Over the longer term, the present value of policy change needed to eliminate the fiscal gap through 2080 is under 1 percent for the extended baseline scenario and 8.7 percent of GDP for the alternative scenario.

TAXES

- Under the extended baseline scenario, revenues grow faster than the economy due to a larger share of persons impacted by the AMT over time, increased revenues resulting from the recently enacted health insurance excise tax, and overall wage growth in the economy moving people into higher tax brackets. Under this scenario, revenues rise to a share of GDP higher than ever in recorded US history. **The report projects revenues under the extended baseline to grow from 15 percent of GDP in 2010 to a post-recession 19 percent in 2012, 23 percent by 2035 and 30 percent by 2084.**

- Under the alternative (current policy) scenario, revenues rise to 19 percent of GDP by 2020 and remain at that level through the end of the projection period.

DEBT

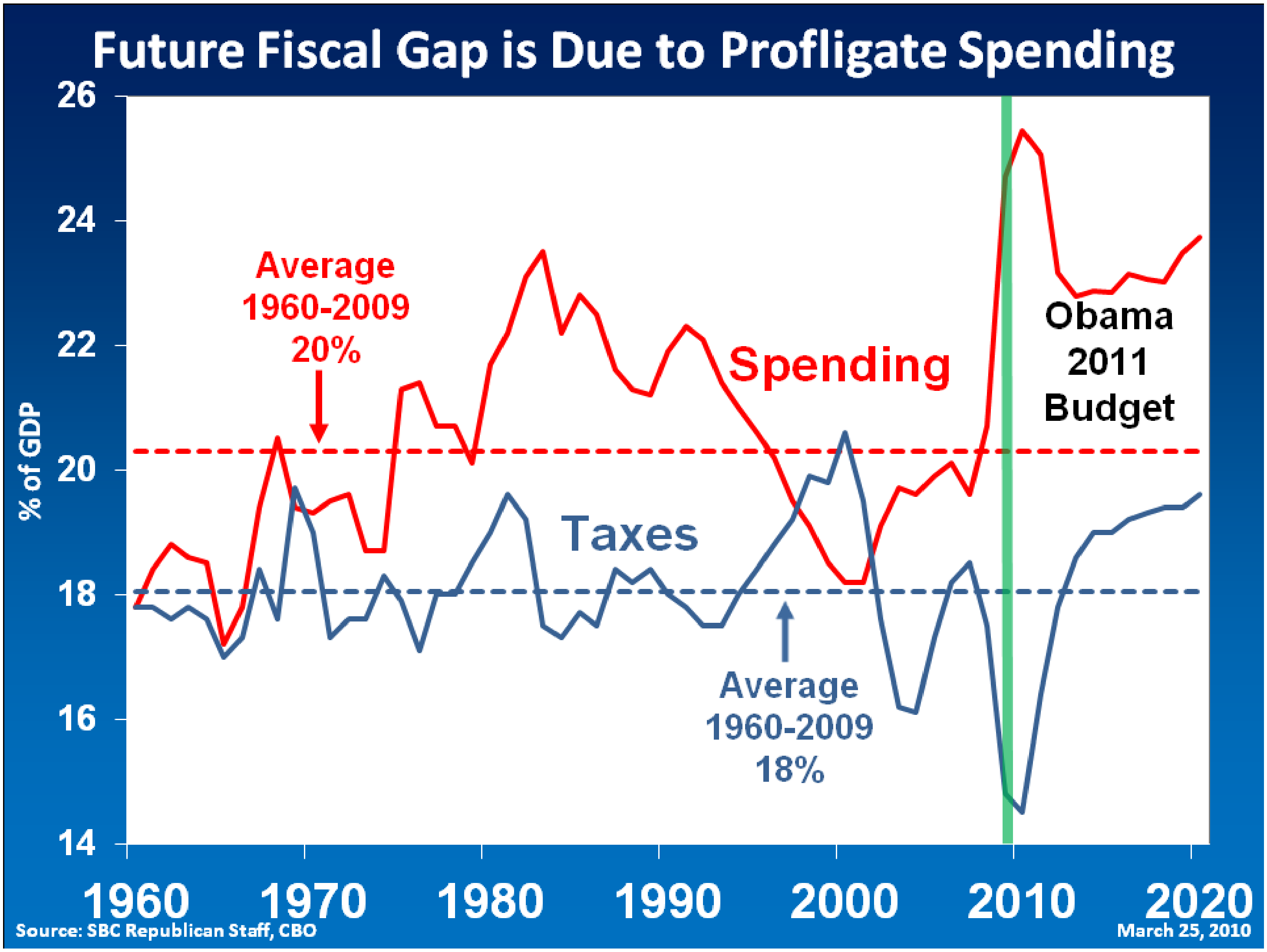
- Under the extended baseline scenario, the ratio of debt held by the public to GDP rises from 62 percent in 2010 to 79 percent by 2035, and exceeds 100 percent by 2080.

- Under the alternative scenario, debt reaches 100 percent of GDP in 2023 and 200 percent by 2037.

- "CBO's projections understate the severity of the long-term budget problem because they do not incorporate the significant negative effects that accumulating substantial amounts of additional federal debt would have on the economy:

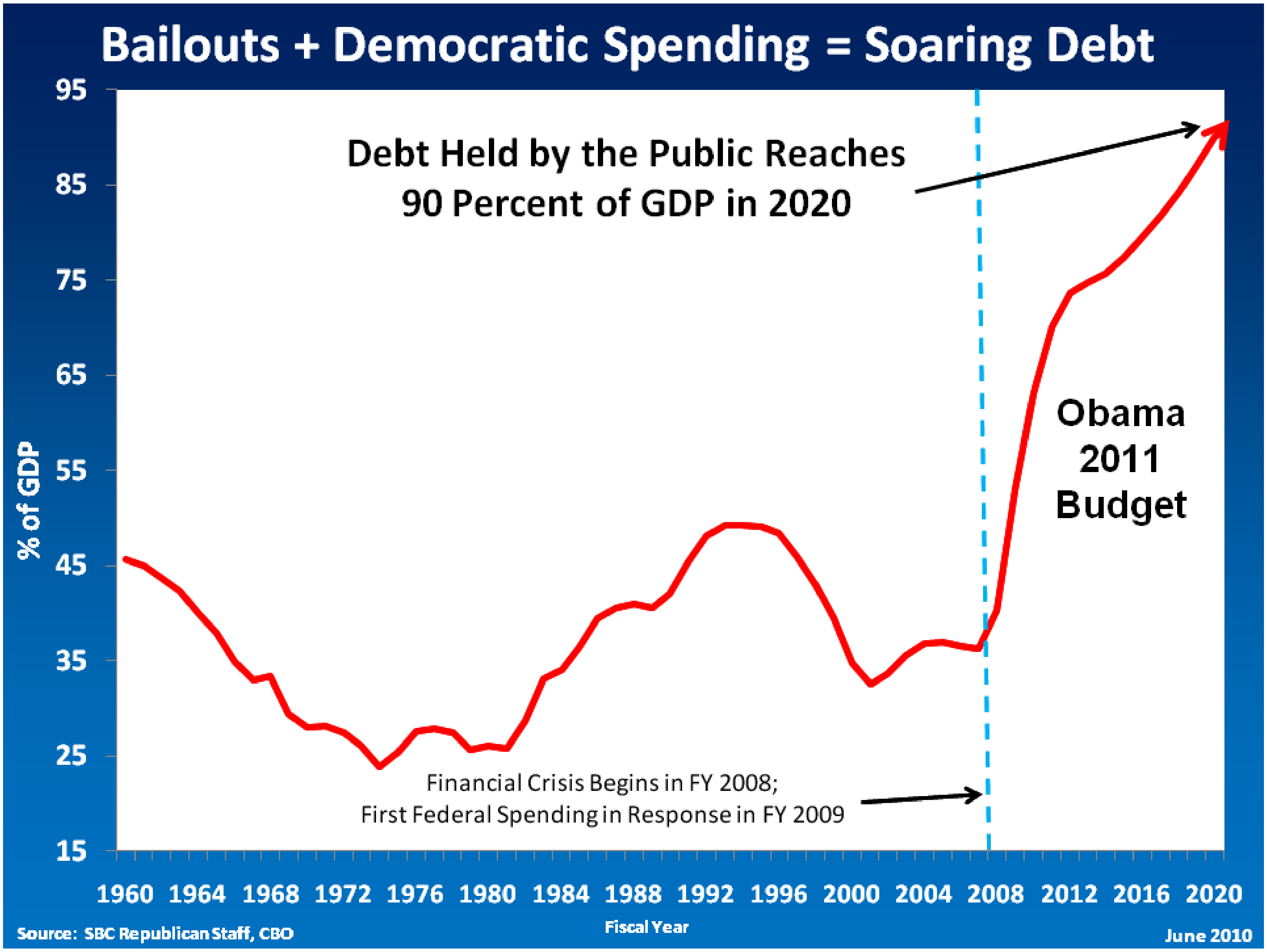
    - Large budget deficits would reduce national saving, leading to higher interest rates, more borrowing from abroad, and less domestic investment – which in turn would lower income growth in the United States.

    - Over time, higher debt would increase the probability of a fiscal crisis in which investors would lose confidence in the government's ability to manage its budget, and the government would be forced to pay much more to borrow money." (Summary, Page XI)



- The split between revenues and outlays widened during the recent recession and financial crisis. Under the Obama budget, revenues are projected to recover and then rise to 19.5% of GDP, far above the historical average of 18% of GDP.

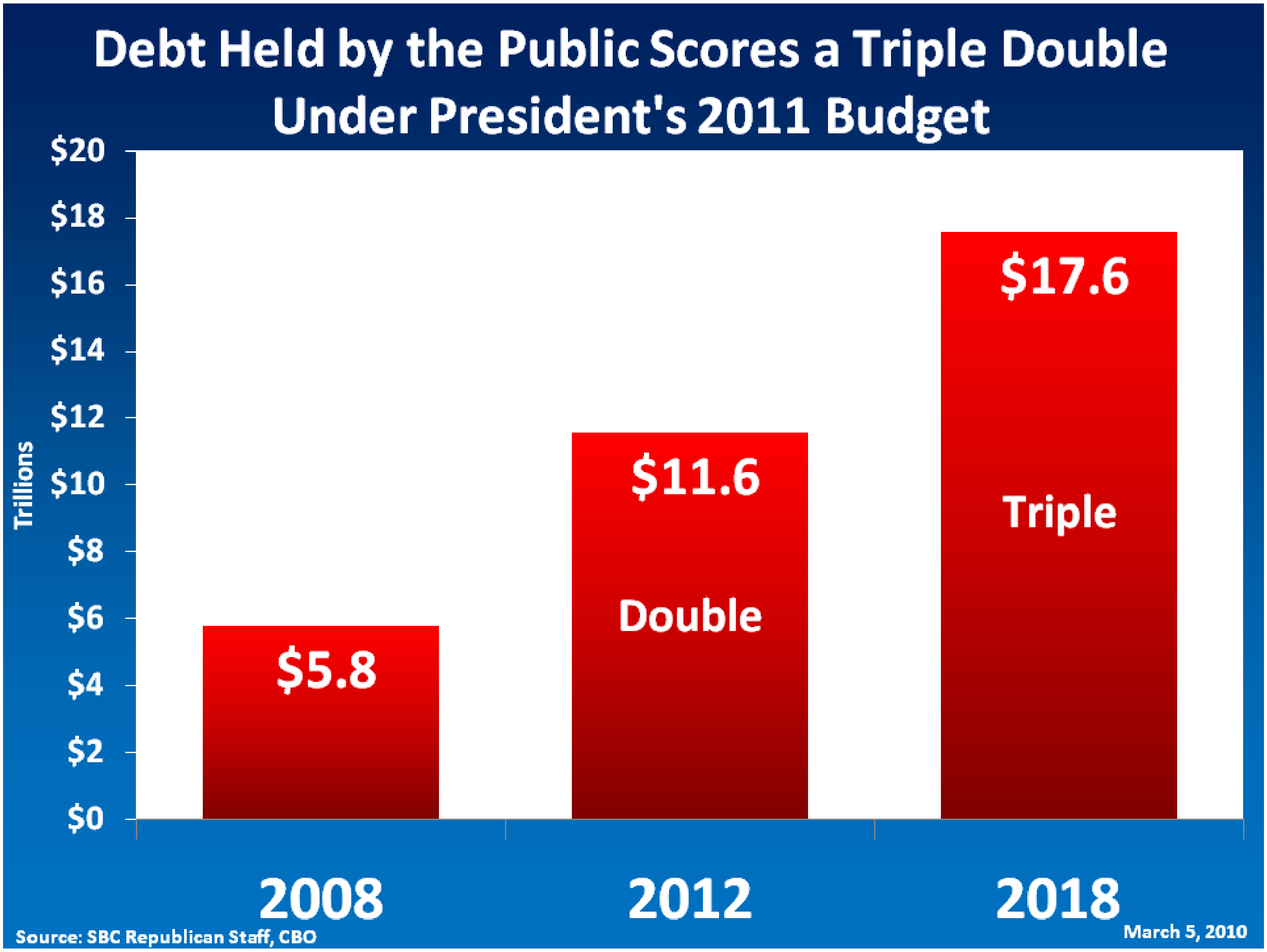
- Spending, on the other hand, continues to rise to 24% of GDP. The future fiscal gap is due to the Obama Administration's plans for profligate overspending.



- **This chart shows federal debt held by the public—that is, the financial resources the government is diverting from productive use in the private sector—as a share of the economy.**

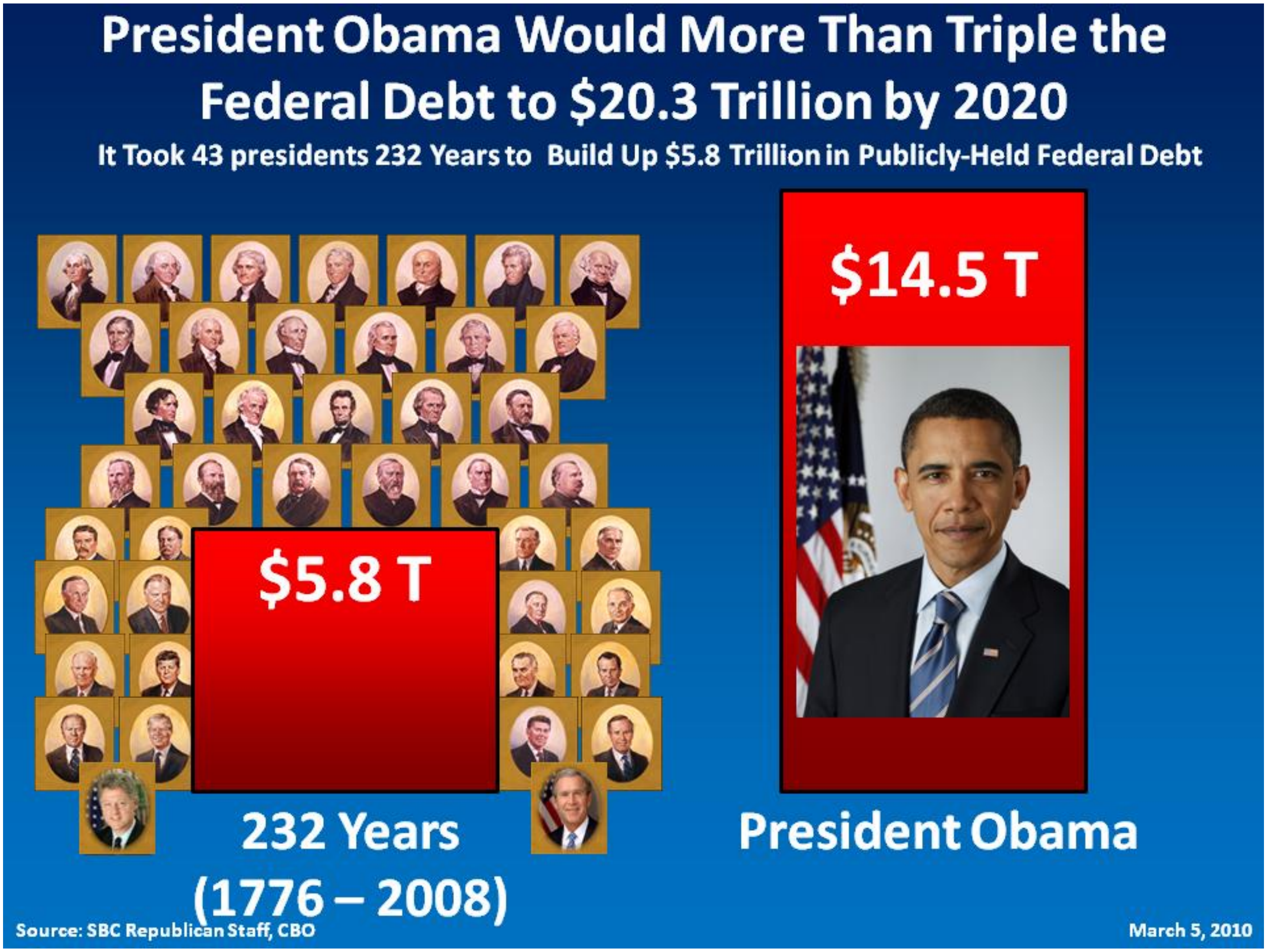
- **Over the 30 years before the 2008 financial crisis, federal borrowing from the public had been fairly stable, averaging about 38 percent of GDP.**

- **The response to the financial crisis, "temporary" stimulus spending that continues to be extended, plus the Obama Administration's plan for even more spending all cause the debt to skyrocket to 90 percent of GDP by the end of this decade.**



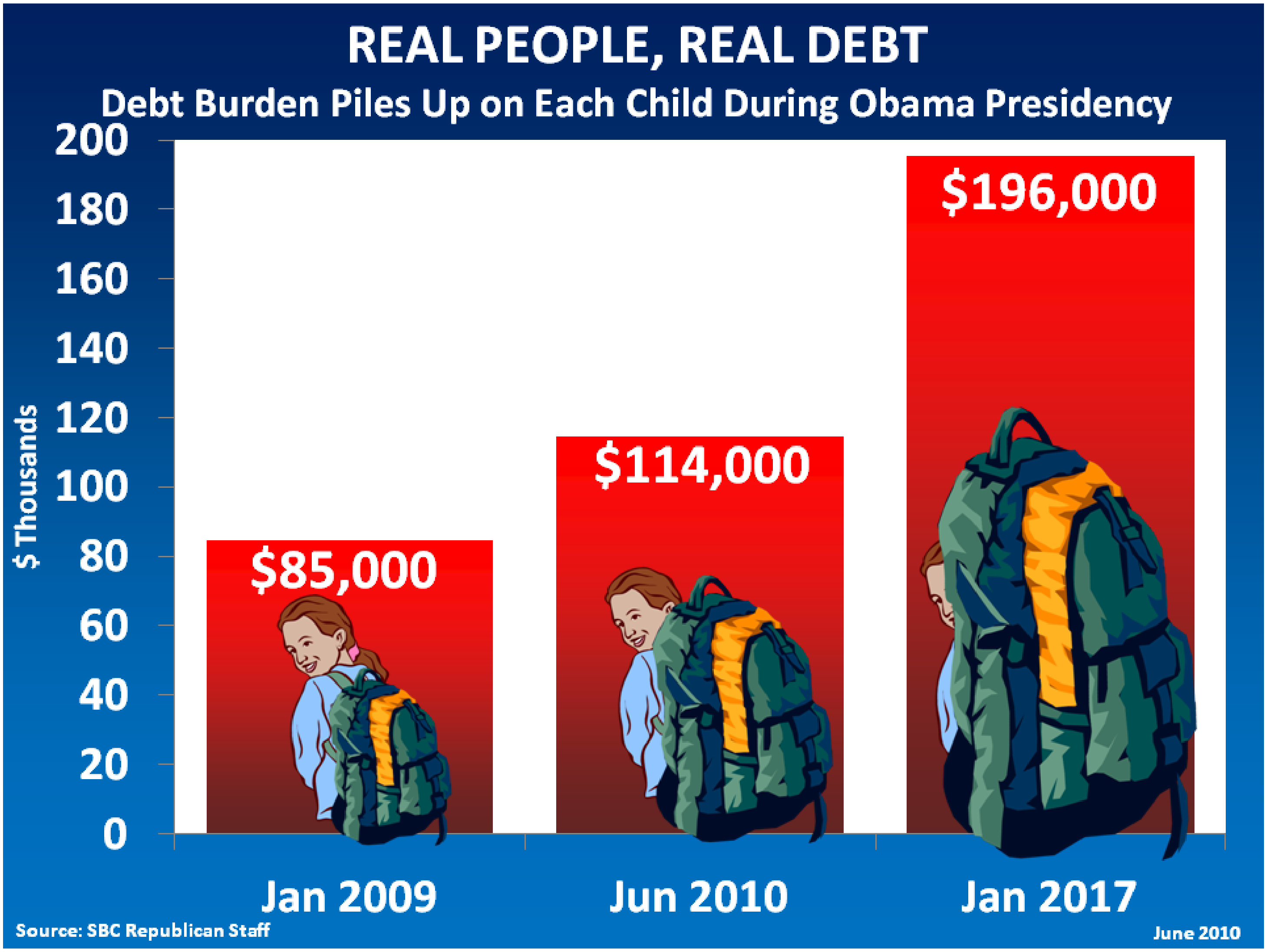
- **According to CBO, under the president's budget, debt held by the public will reach $11.6 trillion in 2012 and $17.6 trillion by 2018.**

- **Obama's 2011 budget continues his policy begun in 2009 to double the debt held by the public by 2012 and triple it by 2018.**



- **Debt held by the public was $5.8 trillion at the end of FY 2008, reflecting the accumulated debt of every president's policies going back to George Washington. It took 43 presidents 232 years to build up $5.8 trillion in publicly-held federal debt.**

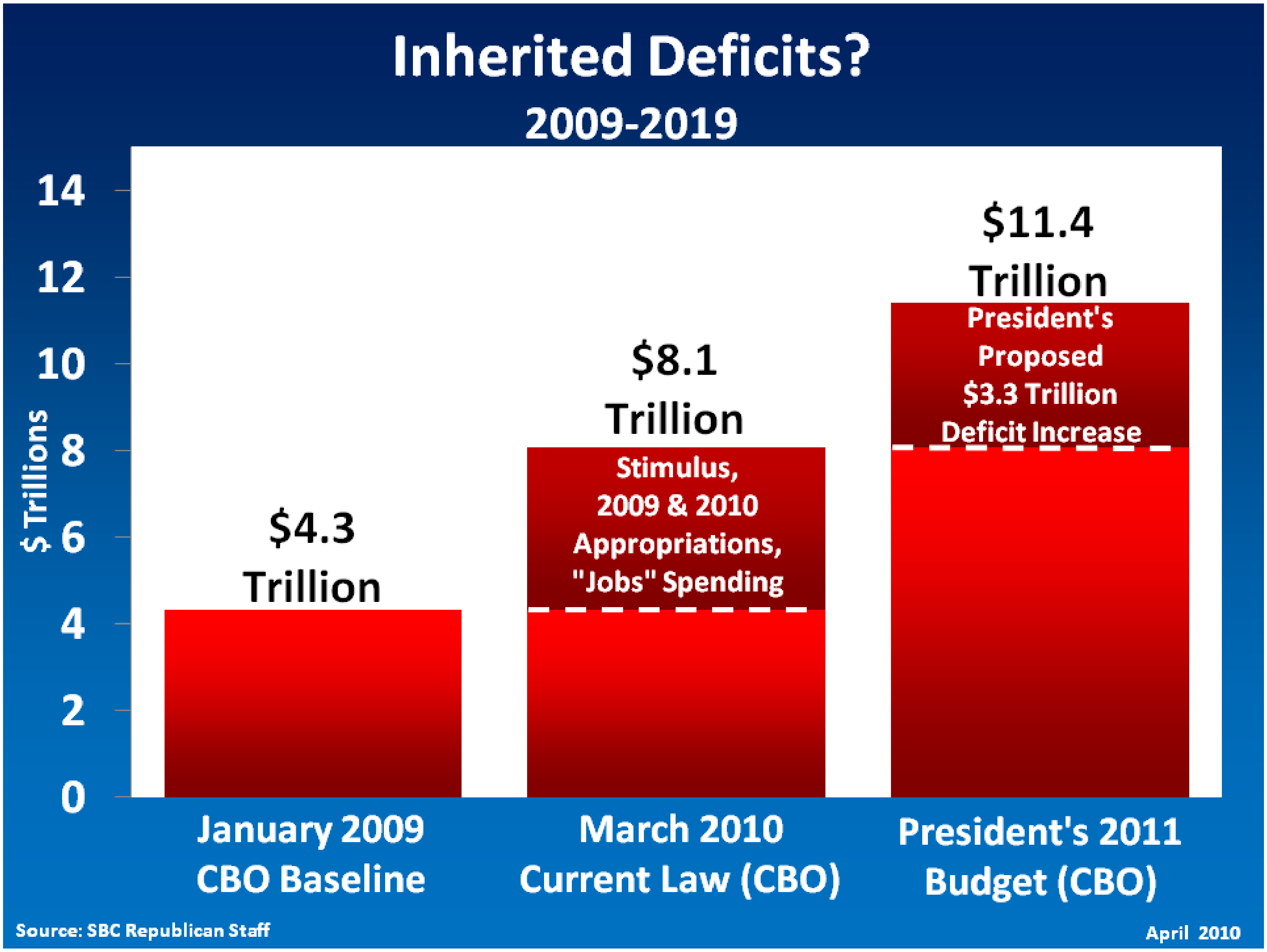
- **President's Obama's budget will more than triple this level of indebtedness by 2020.**



- **When the President took office in January 2009, federal debt held by the public was $85,000 per U.S. child under age 18.**

- **A year and a half later, that number has risen to $114,000 per child.**

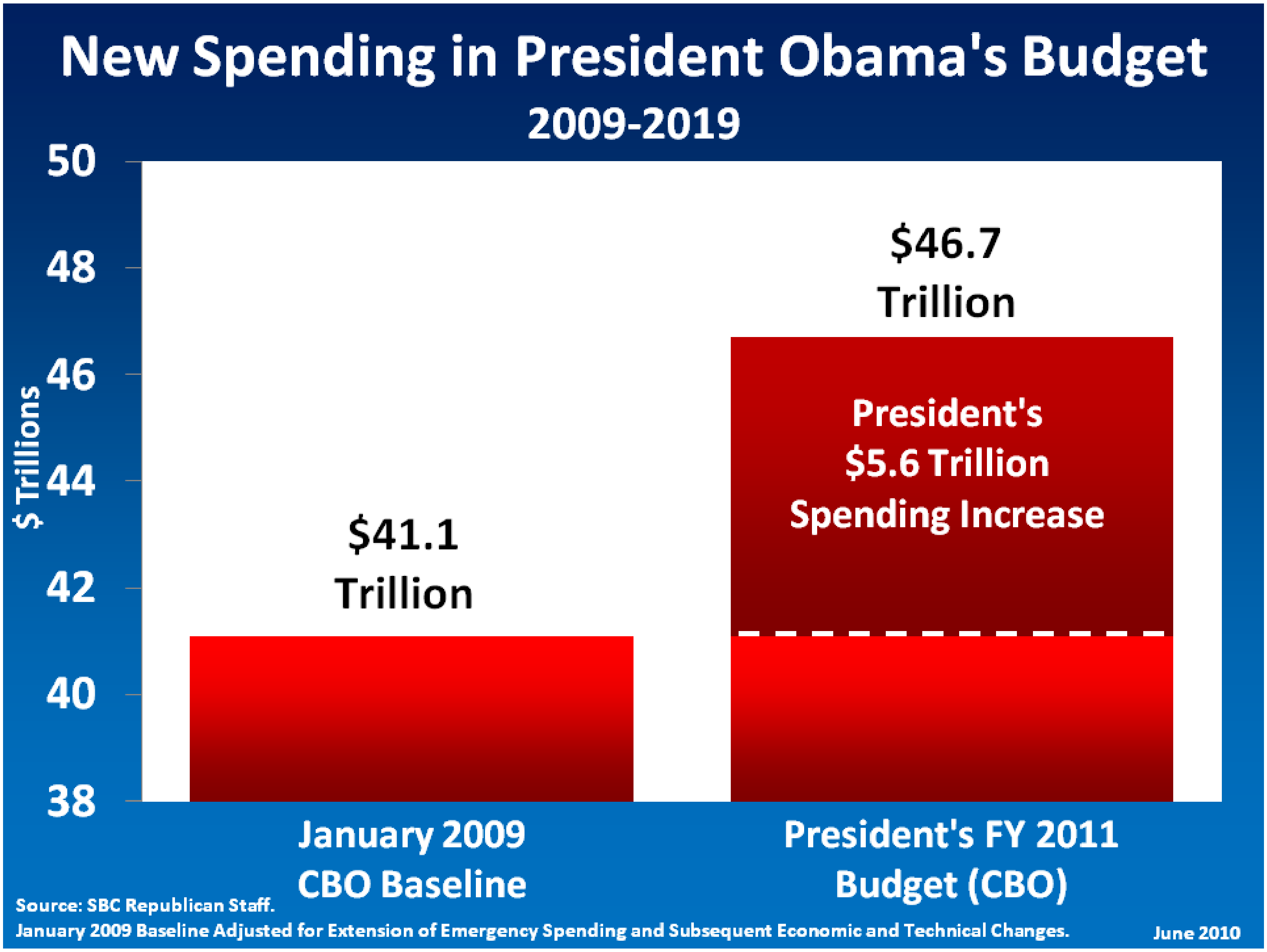
- **An eight-year Obama presidency would leave a legacy of indebtedness per U.S. child of $196,000 by the time he leaves office.**



- **When President Obama assumed office in January of 2009, the CBO baseline deficit projection was $4.3 trillion over 2009-2019.**

- **Just over a year later, CBO's March baseline deficit is projected to be $8.1 trillion over the same period. After a little more than a year in office, the projected deficit has nearly doubled. In addition to economic and technical changes, this increase is due to deficit-hiking policies advocated by the administration.**

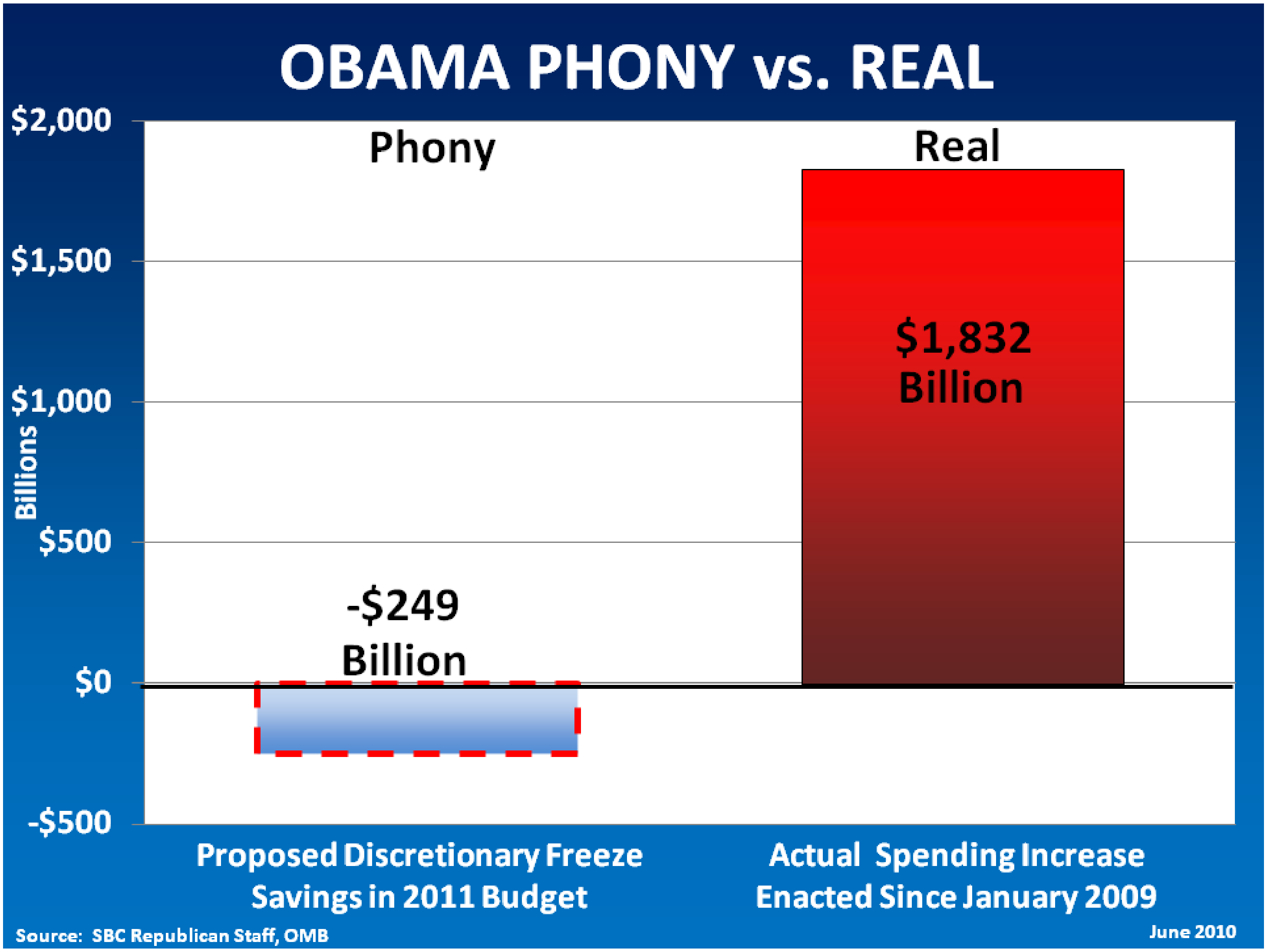
- **The president's 2011 budget would further worsen this trend, increasing the deficit over the baseline by an additional $3.3 trillion over 2009-2019.**



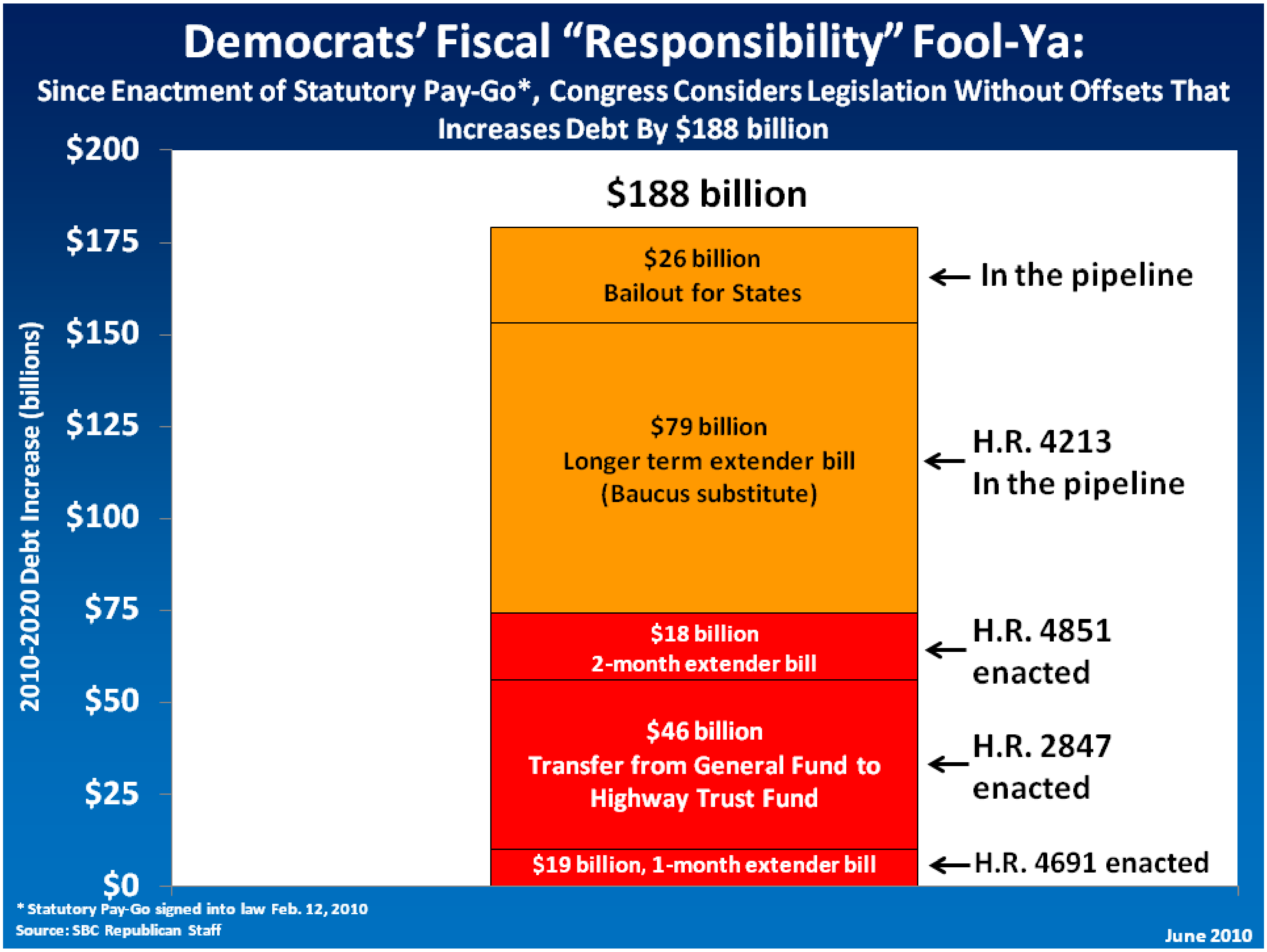
- **This chart shows a simple comparison of what spending would have been if the Congress and President did nothing but continue the existing ongoing operations of the federal government when President Obama took office in January 2009 vs. what spending would be if Congress adopted wholesale the President's latest budget.**

- **The left hand bar gives the current estimate of the cost of the government that existed when CBO prepared its January 2009 baseline: $41.1 trillion—that's what it would cost to run the government that was in place when Barack Obama assumed the Presidency.**

- **The right hand bar gives CBO's latest estimate of the total spending in President Obama's budget for the period 2009-2019 (the same period covered by CBO's 2009 baseline). That figure is $46.7 trillion—for a proposed increase in spending of $5.6 trillion, or an increase in spending about 14 percent.**



- **President Obama's 2011 budget request claims it will "freeze" (with an adjustment for inflation) "non-security" spending at 2010 levels for three years (2011-2013), and claims that will save $249 billion over 10 years.**
- **But the President's budget gimmicks the numbers, and spends 2.7 percent <u>more</u> in 2011 than enacted for 2010 for non-security programs.**
- **The President's freeze is phony.**
- **Meanwhile, since January 2009, Congress <u>has</u> already enacted real legislation, proposed and signed into law by President Obama, that has <u>increased</u> spending by $1.8 trillion over 2009-2019.**
- **The principal causes of the higher spending are the so-called stimulus bill ($0.8 trillion) and the 10-year impact of "mission creep" in discretionary programs ($1 trillion).**



- **When President Obama asked for statutory PAYGO in June 2009, he stated, "I am committed to returning our Government to a path of fiscal discipline, and PAYGO represents a key step back to the path of shared responsibility."**

- **When statutory PAYGO passed the House in February 2010, President Obama stated, "Statutory PAYGO would hold us to a simple but bedrock principle: Congress can only spend a dollar if it saves a dollar elsewhere. Mandatory spending increases and tax cuts must be paid for; they're not free, and borrowing to finance them is not a sustainable long-term policy."**

- **What has happened since then?**
  The Democratic Congress and the President have fooled a lot of people with their claims for fiscal responsibility. They've enacted legislation that will increase our debt by $74 billion, and have legislation in the pipeline to increase the debt by $105 billion more – for a total of $188 billion more debt in four months.

THE HILL

US debt portends a sea of red ink for nation's children

By Sen. Judd Gregg (R-N.H.) - 06/17/10 07:03 PM ET

The United States is drowning in debt. The 2010 deficit is expected to reach $1.5 trillion, and the president's budget dictates deficits will average $1 trillion annually for the next ten years.

Annual deficits contribute to total national debt, now at $13 trillion. A portion of that amount – debt held by the public – is no less staggering. Publicly held debt amassed over 232 years of government was $5.8 trillion in 2008. Under the president's budget, it will double by 2012, triple by 2018, and rise to 90 percent of GDP by 2020.

Americans understand that our debt will have severe consequences for future generations. If President Obama spends eight years in office, each American child's share of the publicly held debt jumps from $85,000 in January 2009 to nearly $200,000 by 2017. Our children will have less money for hallmarks of the American dream — a home purchase, a college education, a secure retirement — and a lower quality of life.

How should the president and Congress address this crisis? By putting the brakes on reckless spending that is driving the nation deeper into debt. The majority argues spending is not the culprit, but that is an exercise in denial.

Federal spending during 1960-2008 averaged 20 percent of GDP. Following the financial crisis of 2008, spending immediately spiked in order to stabilize the economy. The problem is that spending doesn't abate once we are past the financial crisis. Instead, under the president's budget, federal spending is permanently inflated to a new average of 24 percent of GDP.

Tax revenue has averaged 18 percent of GDP since 1960, and even though the president's budget assumes higher levels going forward, revenue cannot keep pace with the majority's spending. The ever widening gap between revenues and outlays must be borrowed from China and other countries, to be paid back by our children.

The root cause of our growing fiscal calamity is spending, and slowing it is our only hope of getting back on firmer fiscal ground. The Democratic Congress, the keeper of the nation's purse strings, does not have the best track record in this area. However, the debt crisis, now a pressing issue for most Americans, is giving many Congressional members pause in an election year.

For example, this past week saw the defeat of the Baucus amendment to the extenders' bill when 52 senators stood together and refused to waive the point of order I raised against the amendment for spending more than the budget allowed.

Senator Russ Feingold (D-Wis.) recently offered a proposal to give Congress a second look at wasteful spending, legislation that I co-sponsored after it was modified to ensure all rescinded funds go toward deficit reduction instead of being spent elsewhere.

Unfortunately, many enforcement tools — notably pay-as-you-go rules — are often cast aside by the majority when inconvenient. One of the most effective ways to control spending is to allow the budget enforcement tools to work as they were intended.

The Congress should adopt a new budget blueprint that takes serious steps to put the nation back on the right fiscal path. New spending should be paid for with legitimate offsets. Non-defense discretionary spending should be frozen, without a myriad of exemptions. TARP should be ended, not extended to serve as a piggy-bank for the Administration.

The elephant in the room is $77 trillion in unfunded obligations in the entitlement programs. As Baby Boomers retire, we will face a much more serious crisis than the one we are now emerging from. Bipartisan solutions — insulated from special interest groups, expedited in Congress, and guaranteed a vote — are needed to reassure all Americans that reforms are fair and necessary. Hopefully the president's Fiscal Commission, on which I serve, will achieve bipartisan recommendations to Congress, where leaders have promised a vote by year's end.

Our nation has a long history of being the engine of global economic growth, but it cannot uphold that tradition if Congress continues its risky spend-tax-and-borrow ways. The path back to fiscal responsibility and economic prosperity requires committed spending restraint, adherence to budget enforcement and an open-minded effort to tackle entitlement issues. Without those steps, our children will be cast adrift in a sea of red ink.

Sen. Gregg is the ranking member of the Senate Budget Committee and a senior member of the Senate Appropriations Committee.

Source:
http://thehill.com/special-reports/appropriations-june-2010/104019-us-debt-portends-a-sea-of-red-ink-for-nations-children