RSC Republican Study Committee

Rep. Jim Jordan (R-OH), RSC Chairman
Paul Teller, Executive Director

Budget and Spending Task Force
Weekly Report

Congressman Scott Garrett (R-NJ), Chairman

February 16, 2011

CR Spends $61 Billion Less Than Last Year, $99.6 Billion Less Than President

Last week, the House Appropriations Committee approved a 302(b) allocation of $420 billion for non-security spending. The FY 2011 continuing appropriations bill being considered this week is below this amount. It specifically provides **$396.6 billion** for non-security spending (compared to the $378 billion FY 2008 non-security funding level) and $631.9 billion for security spending (compared to the $554 billion FY 2008 security funding level). Overall, this is a **$99.6 billion** reduction compared to the President's budget—**$81 billion** of the reduction is non-security spending, $18.6 billion security spending.

FY 2011 CR By the Numbers

In billions

Bill	FY 08	FY 10	President's Request	H.R. 1	Savings from Request
Agriculture	18.1	23.3	23.1	18.1	-5.0
CJS	51.8	64.3	60.5	52.7	-7.8
Defense	459.3	508.1	530.9	516.2	-14.7
Energy and Water	30.9	33.5	35.3	29.9	-5.4
Financial Services	20.6	24.2	25.3	20.4	-4.9
Homeland Security	34.9	42.5	43.6	41.5	-2.1
Interior	26.6	32.2	32.4	27.8	-4.6
Labor-HHS	144.8	163.7	170.6	-146.0	-24.6
Legislative Branch	4.0	4.7	5.1	4.4	-0.7
Military Construction-VA	60.2	76.6	76.0	74.2	-1.8
State-Foreign Operations	32.8	48.8	56.6	44.9	-11.7
T-HUD	48.8	67.9	68.7	52.4	-16.3
Total Spending	**932.8**	**1,089.8**	**1,128.1**	**1,028.5**	**-99.6**

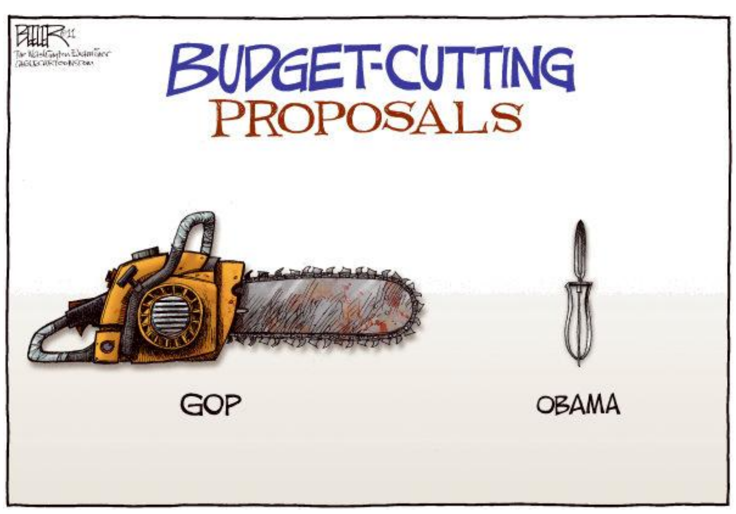
RSC Amendment to Reduce Non-Security Spending to FY 2008 Levels

The RSC, led by Representatives Blackburn (TN), Flake (AZ), Jordan (OH), Garrett (NJ), Pence (IN), Duncan (SC), Guinta (NH), Southerland (FL), and Walsh (IL) will offer an amendment to the CR that would get us back to FY 2008 non-security discretionary spending levels (i.e. get us to the full $100 billion in non-security savings) via:

- A *5.5%* across-the board cut of all accounts in 8 non-security divisions of the CR
- An *11%* across-the-board cut of all accounts in the Legislative Branch bill
- A *0%* cut for Israel (i.e. no cut to Israel funding)

President's Budget Proposes $8.9 Trillion Deficits

On Monday, the President submitted his budget request for FY 2011-2021. Total proposed deficit spending amounts to more than $8.9 trillion over the period covered by the budget submission. The President's budget specifically proposes a ***$1.65 trillion*** deficit in FY 2011, and then a $1.1 trillion deficit in FY 2012. (This follows a $1.29 trillion deficit in FY 2010, a record-breaking $1.41 trillion deficit in FY 2009, which in turn followed a then record-breaking $459 billion deficit in FY 2008). Even in the last year of the budget (2021), the deficit would be $774 billion—which means there is no effort to balance the budget even after the current recession, and the wars in Afghanistan and Iraq, are long over. *If the deficit figures proposed by this budget are realized, all fourteen of the highest deficits in U.S. history will have occurred from FY 2008-2021.*



The President's budget proposes to increase the national debt from today's level of $14.2 trillion to $26.4 trillion in FY 2021—an increase of $12.2 trillion or 86.0%. **The amount of *new* debt proposed by this budget is larger than the total amount of debt accumulated by the federal government from 1789 until January 20, 2009.**

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After Obama's Budget, Republicans Need a New Strategy

The big spenders are setting the GOP up for another phony debt ceiling debate. The party should unify around a proposal to put a ceiling on debt as a share of the economy.

By DAVID MALPASS

It's hard to feel personal outrage at federal budgets, but we should. We live in a country where Washington is an all-out boom town. The federal government is happily spending \$300 billion every month. Of that, \$120 billion is borrowed and added to the national debt backed by the full faith and credit of our children and grandchildren.

The "independent" Federal Reserve is artificially funding over half the deficit and has overtaken China as the biggest holder of Treasury bonds. This is wrong and dangerous, creating a precedent for future unelected officials to buy anything on the pretext that it will add to economic growth.

After a national election that demonstrated public outrage over Washington's out-of-control spending and taxes, President Obama's new budget is simply galling. Over the 10-year budget window, the president plans for Washington to extract \$39 trillion in taxes and spend \$46 trillion. The debt limit, currently \$14.3 trillion, would have to grow to over \$26 trillion.

Making matters worse, these horrendous spending, taxing and debt numbers would be even grimmer if not for the budget's rosy assumptions. The budget assumes that real growth will climb from an already wishful 4% in 2012 to 4.5% in 2013 and 4.2% in 2014—despite plans for sweeping tax increases. The assumed GDP growth is well over any growth rate achieved in the Bush expansion. The budget also reflects the unrealistic assumption that the Federal Reserve will be able to keep interest rates very low and generate \$476 billion in profits through highly leveraged financial speculation.

Mr. Obama's budget also assumes that wages and salaries will grow 6.6% per year in 2013 and 2014, when inflation is assumed to be only 2%. This implies big raises for workers, even though the budget expects high unemployment at 6%-8% in that period.

On top of no recessions, no inflation and big tax increases, the administration's budget assumes no wars. Defense spending is held to \$553 billion next year and then grows only \$100 billion through 2021—while interest costs alone increase by \$600 billion. Under the president's proposal, defense spending would fall to 2.7% of GDP in 2021, half the normal peacetime rate. For the first time, Americans would be paying more to creditors than for defense, a sorry state of affairs.

The budget mentions corporate tax reform but doesn't provide details or leadership. Likewise, the severe problem with growth in Medicare and Medicaid spending is mentioned without any proposed solutions. There is even talk that Washington wants to begin issuing 100-year bonds—the government gets the money now by promising that our great-great-grandchildren will pay it back.

Meanwhile, Republicans have fractured. They know they are supposed to do something about this, and they have proposed welcome spending cuts. But they don't have the power to force lasting fiscal sanity. Some want a grand compromise where everything is on the table. This would inevitably lead to tax increases rather than spending cuts.

Others oppose an increase in the statutory debt ceiling. Since we're already running huge deficits, a debt ceiling would lead to a shutdown of other government functions. The GOP tried this under Newt Gingrich in 1995—producing a big political win for President Bill Clinton. Other Republicans want to amend the Constitution to force a balanced budget. The problem with an annual spending limit is that Congress will often violate it and never look back.

Excess federal spending has been such an intractable problem since the 1970s that a lasting new check and balance is clearly in order. One approach that would reassure financial markets would be legislation to place a ceiling on the debt-to-GDP ratio with a parallel track to put this type of limit in the Constitution. The U.S. desperately needs a cumulative limit on government spending that creates confidence that the government might break the rules in one year but will then have to get back on track.

The battle over curbing big government will be intense. Big spenders in both parties will stall the debate, hoping to turn the vote on the debt ceiling into an up-or-down decision on default. And of course the bill to raise the debt ceiling will eventually have to pass. Then they'll propose a comprehensive deficit-reduction negotiation—code words for big tax increases and few near-term spending cuts.

The sooner Republicans take a unified proposal to the public to create a lasting ceiling on marketable debt, with penalties for noncompliance, the more chance it has of becoming law as part of the debt-limit increase. A fractious GOP attempt to block an increase in the statutory debt ceiling might please a few, but it is a sideshow. It won't have the broad public support vital for breaking Washington's culture. And it won't succeed.

The president should be leading now. He should be deeply involved in the spending-reform efforts the way governors are in New York, Wisconsin, New Jersey, Indiana and elsewhere. Instead, his administration's budget is filled with dodges, scoring gimmicks and unrealistic assumptions. With our economic future at risk, that's an outrage.

Mr. Malpass, a deputy assistant Treasury secretary in the Reagan administration, is president of Encima Global LLC.