



BUDGET COMMITTEE



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For Immediate Release

March 5, 2008

**Colloquy by Senators Judd Gregg and John Cornyn
on Democrats' FY 2008 Budget
March 5, 2008
(statements submitted for the record)**

Sen. Cornyn: As we await the FY09 budget today, I remember Democrats last year were very proud to announce a surplus...how did that turn out?

Sen. Gregg: Unfortunately, the FY08 budget included a \$900-plus billion tax increase over five years to create this projected surplus.

Then Democrats agreed to the Baucus amendment to extend middle-class tax relief, which got rid of the surplus.

Sen. Cornyn: Really? What middle class tax cuts did the Baucus amendment extend?

Sen. Gregg: They promised to extend the child tax credit, marriage penalty relief, the 10% individual tax bracket, and estate tax relief.

That would have been great, but believe it or not, once their FY08 budget passed, Democrats did not take a single step to prevent middle-class tax increases.

Even the AMT patch, one of their "top priorities" according to Finance Committee Chairman Baucus, was put off all year, until the last possible moment.

Sen. Cornyn: I remember Budget Committee Chairman Conrad saying in a "60 Minutes" interview last March that "We need to be tough on spending." Surely as the architect of the FY08 budget, he was able to do that, correct?

Sen. Gregg: No, unfortunately, this toughness on spending has not materialized.

In fact, the Democrats' FY08 budget increased discretionary spending by \$23 billion more than the President's budget, which already

included a \$60 billion increase for FY08. That's \$205 billion compounded over five years and \$350 billion over ten years.

Democrats also pushed for an additional \$21 billion for domestic programs in the spring "emergency" supplemental bill, of which they got \$17 billion, which will cost \$250 billion over ten years.

Sen. Cornyn: That is not good at all. What about mandatory spending, which grows higher and higher each year and is a very serious real long-term fiscal problem?

As you know, this country's unfunded entitlement obligations add up to \$66 trillion over 75 years, due to the retirement of the Baby Boomers and the skyrocketing costs of health care.

I remember Chairman Conrad saying at last year's Budget Committee hearing with the OMB Director that "I am prepared to get savings out of long-term entitlement programs." How did he follow up on that statement?

Sen. Gregg: Despite their statements, Democrats took no action to address this problem in their FY08 budget, and even rejected reasonable proposals from the President to slow the rate of growth of Medicare and Medicaid. That would have reduced the long-term liability of Medicare by one-fourth. Sadly, their lack of action allows entitlements to grow by \$466 billion over the next five years.

We are hearing similar statements about entitlement reform proposals this year, and even comments that the Administration has somehow "trumped up" a "phony crisis" in Medicare. Considering that all this debt will be passed along to our children and grandchildren, it is pretty shocking to see such inaction from the majority party.

Sen. Cornyn: I remember when you were Budget Chairman, Senator Gregg, we worked under the reconciliation process in FY06 to reduce spending by nearly \$40 billion over five years. Didn't the Democrats use reconciliation last year, too?

Sen. Gregg: Yes, they definitely "used" it. In my view, the Democrats manipulated the reconciliation process to increase gross spending by \$21 billion, while saving a paltry net \$750 million over six years.

Sen. Cornyn: I do remember Chairman Conrad insisting that closing a portion of the tax gap – in other words, collecting unpaid taxes that are owed - would give us about \$300 billion in revenues to pay for all this new spending. How much was recovered?

Sen. Gregg: Actually, none. The Democratic Congress last year passed up an opportunity to close tax gap, failed to fund IRS enforcement efforts and passed bills that would actually expand the tax gap.

Sen. Cornyn: Well, as a member of the Budget Committee, I've heard a lot from Chairman Conrad on the state of the gross federal debt. I've heard lots of press-friendly sound-bites from him like "the debt is the threat." Surely Democrats took some action to reduce the debt?

Sen. Gregg: No, again, no action. The FY08 budget allows the gross debt to grow dramatically, by \$2.5 trillion over five years, and spends all of the Social Security surplus, which is more than \$1 trillion.

It's important to remember that this debt will be paid back by our children, so that \$2.5 trillion increase basically adds another \$34,000 to amount already owed by every American child under the age of 18.

Sen. Cornyn: What about budget enforcement mechanisms? For example, Democrats have claimed their Pay-Go will ensure fiscal discipline, and I have heard Budget Chairman Conrad say that it is working. Is that true?

Sen. Gregg: No, it is not true. Democrats have waived, gimmicked or ignored their own Pay-Go rules to the tune of \$143 billion in deficit spending.

Sen. Cornyn: I'd like to learn more about this. To go back, when the Democrats took the majority, one of the first things they did was to restore tough Pay-Go, correct?

Sen. Gregg: It started out that way, but took a left turn.

Democrats in the Senate ended up with a watered-down version of Pay-Go. It included no first year deficit-neutrality test, no deficit-neutrality test for the second five years, and was all about spending now, paying much later

Sen. Cornyn: But I thought that the Democrats were congratulating themselves for the hard choices they had to make in order to comply with Pay-Go.

Sen. Gregg: They did congratulate themselves. They even boasted about the "Pay-Go surplus" on the Pay-Go scorecard.

But they shouldn't congratulate themselves for hard choices – they should congratulate themselves for thinking up gimmicks and machinations to fool people into believing they made hard choices.

Sen. Cornyn: I've heard about a gimmick where the Democrats were able to increase mandatory spending for free by including it in an appropriations bill.

Sen. Gregg: Can you believe that? They included a one-month extension of the mandatory MILC program in the 2007 emergency supplemental. Then the Chairmen of the Senate and House Budget Committees told CBO to put the spending into the baseline – which covers ten years of the program – to the tune of \$2.4 billion.

The topper is that they included an enforcement mechanism in their budget resolution that prohibited this practice, but they exempted the 2007 supplemental.

Sen. Cornyn: I've also heard about early sunsets as a gimmick to avoid Pay-Go. How does that work?

Sen. Gregg: In the SCHIP bill, the Democrats reduced funding from \$14 billion per year to \$3.5 billion in the last year, 2012. The gimmick hides \$45 billion in spending.

The Farm bill in the Senate also used this early sunset tactic to hide \$18 billion in costs.

Sen. Cornyn: Wow...are there more tricks?

Sen. Gregg: You bet. The student loan reconciliation bill phased down interest rates to 3.4% in 2011, then snap them back up again to 6.8% in 2012 – This kept \$17 billion in costs hidden.

The student loan bill turned off mandatory Pell Grant spending in one of the 10 years – hiding \$9 billion in spending.

\$10 billion in farm bill spending is pushed out beyond 2017 – totally escaping Pay-Go enforcement.

I haven't even mentioned all of the corporate estimated tax shifts they've used, which move revenues from one fiscal year into another. Even Budget Chairman Conrad himself called this “funny-money financing” during debate on the last highway bill.

Sen. Cornyn: Sounds like these gimmicks and violations add up to a pretty hefty total.

Sen. Gregg: \$143 billion, which is quite a chunk of change.

Sen. Cornyn: Is there anything we can do about it?

Sen. Gregg: We can try and re-institute a first year deficit test, and we can try and re-institute a second five years deficit test. We can adopt a scoring rule that prohibits shifts such as the corporate estimated tax shift from being used to satisfy pay-go.

But I am not confident they will accept such changes. They seem determined to keep up what the Wall Street Journal called “a con game from the very start.”

Sen. Cornyn: This is very disheartening. Are there other examples of Democrats weakening budget enforcement rules?

Sen. Gregg: Yes, in last year’s budget, the Democrats:

- Failed to Protect Social Security for Seniors
Democrats, in their FY08 budget, threw out both the bipartisan Social Security “circuit breaker” and the bipartisan “Save Social Security First” budget point of order contained in the Senate-passed version, thus removing crucial tools to eliminate the practice of spending the Social Security surplus on other programs. Under the Democrats’ FY08 budget, every dollar of the Social Security surplus, or \$1 trillion, was spent.
- Failed to Protect Workers Against Tax Increases
Democrats, in their FY 08 budget conference report, threw out a bipartisan budget point of order against raising income tax rates that had been included in the Senate-passed version.
- Failed to Protect Integrity of Reconciliation Process
Democrats threw out a bi-partisan point of order in the Senate-passed version that would have limited any new spending in response to reconciliation instructions to 20%. By converting reconciliation to a spending exercise, Democrats allowed new spending that was 2,900% larger than the savings instruction in their budget.
- Failed to Protect State & Local Governments from Expensive Mandates
Democrats threw out a Senate rule requiring a supermajority to waive the unfunded mandates budget point of order, thus making it much easier to burden state and local governments with costs from federal government requirements.

- Failed to Protect Firewall Between Mandatory & Discretionary Spending Democrats weakened a budget point of order against mandatory spending in appropriations bills, and exempted the 2007 supplemental appropriations bill from the requirement altogether, thus allowing no enforcement protection against the \$2.4 billion MILC program enacted last year.

Sen. Cornyn: Well, I certainly hope that we do not see a repeat of this outrageous tax-and-spend budget this year, and that there is a great deal more honesty and transparency about what the government is spending and how. I hope to see a return to fiscal discipline, with an eye on how today's budget will impact future generations.

Sen. Gregg: I completely agree. As Republicans, our top priority is to pass on prosperity and a strong economy to the next generation. We need to keep spending in check, take the needed steps to address entitlement reform, and keep the economy growing with a fair, pro-growth tax system in place. It is unconscionable to leave behind this kind of fiscal mess the majority is making.