

Memorandum

To: Republican Members of the House Budget Committee
From: Paul Ryan, Chairman
Subject: Debt Negotiations and Taxes
Date: July 11, 2011

With the White House spinning that Republicans are opposed to a “balanced plan” to reduce the deficit, I wanted to highlight some key points:

- As Speaker Boehner stated earlier today: “*Most Americans would say that a ‘balanced’ approach is a simple one: the Administration gets its debt limit increase, and the American people get their spending cuts and their reforms. And adding tax increases to the equation doesn’t ‘balance’ anything.*”
- The House [already passed](#) a budget that puts us on the path to **balance**, and will vote next week on a **Balanced** Budget Amendment.
- To get to fiscal balance, the two critical elements required: spending restraint and economic growth. Tax hikes adversely undercut both of these key ingredients.

Some additional background information on these points follows.

A “Balanced Plan”?

- During the past two years Democrats enacted huge tax increases (see today’s [Wall Street Journal editorial, “Taxes Upon Taxes”](#)), which were accompanied by unprecedented increases in spending, deficits, and debt.
- While insisting on additional tax increases, the Obama Administration opposed revisiting the huge spending increases in the new health care law or implementing [fundamental entitlement reform](#) that would get spending on these programs under control.
- The last time there was a [bipartisan budget agreement](#), it balanced the budget by cutting spending and *cutting* taxes. The 1997 bipartisan budget agreement between President Clinton and a Republican Congress balanced the budget by bringing spending down to 18.2% of gross domestic product.

Taxes and Revenues (Americans are not under-taxed)

- *Expiration of 2001/2003 Tax Relief.* Taxes will rise by \$3.5 trillion if the 2001/2003 tax relief, the AMT patch, and the estate tax compromise expire at the end of 2012 as scheduled under current law.
- *Health Care Law’s Tax Increases.* The health care bill adds another \$813 billion in taxes over 10 years. In addition to these taxes, other legislation has increased taxes (the SCHIP extension law included tax increases of \$75 billion).
- *Tax Engineering.* The Obama Administration wants to extend the one-year temporary payroll tax cut (total cost of \$112 billion), while increasing taxes on small businesses.
- *Tax Increases and the Top Rate.* As a result, these tax increases push the effective top rate from 35% today to 44.8%.
- *Current Tax Burden.* Under current law (before expiration of 2001/2003 tax relief and implementation of the new health care taxes), the top 1% of income taxpayers (over \$380,000 in annual income) already pay 38% of income taxes. The bottom half of income taxpayers pay 3% of income taxes.

- *Revenues Growing Without Tax Increases.* Despite a weak economy and the temporary reduction in Social Security taxes, according to CBO, revenues grew by 8.5% through the first 9 months of this year and expect revenues in 2011 will be \$75 billion to \$85 billion higher than they estimated in March.
- *Republican Budget & Revenues.* Under the House Republican budget, which extended tax relief and repealed tax increases in the new health care law, revenues still grow by nearly \$2 trillion over the next 10 years.
- *President's Budget & Tax Increases.* The President's budget increases taxes by \$1.2 trillion.

Spending is the Problem

- *24% Increase in Base Spending.* Non-defense discretionary spending grew by 24% for the first two years of the Obama Administration, adding \$734 billion in spending over the next 10 years.
- *Health Care Law Spending Increases.* The new health care law included \$1.4 trillion increase in spending, including expanding eligibility in Medicaid by one-third and creating a brand new health care entitlement.
- *Stimulus.* CBO currently puts the stimulus bill's cost at \$821 billion.
- *Record Total Spending.* The Federal government will spend \$3.6 trillion this year, 24% of gross domestic product (GDP) and the highest burden on the economy since World War II. Spending has historically averaged a little over 20% of GDP.
- *President's Budget & Spending.* According to CBO, the President's budget never spends below 23% of GDP and by the end of the decade is right back at 24% of GDP.
- *Republican Budget.* The House Republican Budget would cut \$6.2 trillion in spending from the President's budget.

Deficits and Debt

- *\$1 Trillion Deficits.* The deficit is on track to exceed \$1 trillion this year, the third year in a row that deficits have exceeded \$1 trillion.
- *President's Budget & "Framework."* According to CBO, under the President's budget, annual deficits never fall below \$700 billion and end the decade exceeding \$1 trillion. When asked about the President's April 13th new budget framework, Director Elmendorf testified, "We don't estimate speeches."
- *Debt Explosion.* Since President Obama took office, the total debt has grown from \$10.6 trillion to \$14.3 trillion, nearly a \$4 trillion increase. This year total debt will exceed the size of the economy.
- *Republican Budget.* The Republican budget reduces the deficit by \$4.4 trillion, puts the budget on a path to balance, and begins to reduce debt held by the public as a burden on the economy by 2014.

Attachments:

- *Wall Street Journal* editorial: "[Taxes Upon Taxes Upon...](#)"
- Jim Capretta on the need for fundamental entitlement reform: "[Budget Danger Ahead](#)"
- Keith Hennessey: "[The 1997 Bipartisan Budget Agreement Cut Spending and Cut Taxes](#)"
- [Charts:](#)
 - o President's Tax Hikes
 - o Tax Relief Made Tax Code More Progressive
 - o Tax Rates Do Not Correlate Well with Tax Rates
 - o Tax Revenues are Highly Correlated with GDP
 - o Chasing Higher Spending with Taxes (CBO on tax hikes needed to keep pace with spending explosion)