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THE HOUSE DEMOCRAT BUDGET **HIGHER SPENDING, NO REFORM: THE DEMOCRATS' ENTITLEMENT FAILURE**

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Despite repeated warnings that government entitlements must be reformed to be saved, the Democrat budget deliberately puts off reform for at least 5 years – inviting a fiscal and economic crisis for these programs.

THE NEED FOR REFORM

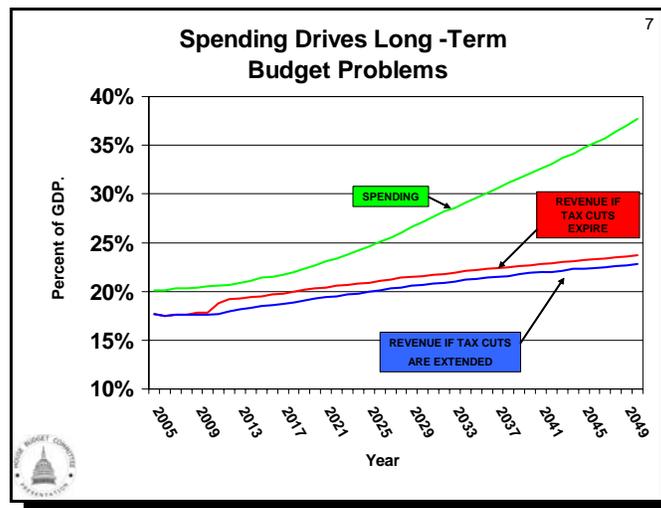
During committee hearings over the past several weeks, a series of expert witnesses testified to the unsustainable growth of entitlement programs – especially Medicare and Medicaid – and the urgent need to begin reforming them. Among the most significant statements from these hearings were the following:

- Without “early and meaningful action” to address the rapid growth of entitlements, “the U.S. economy could be seriously weakened, with future generations bearing much of the cost.” – *Federal Reserve Chairman Ben S. Bernanke, Budget Committee hearing, 28 February 2007.*
- “Health care is the number one fiscal challenge for the Federal and State governments. . . it is the number one competitiveness challenge for American business; and . . . it is a growing challenge for American families. If there is one thing that can bankrupt America, it is health care. We need dramatic and fundamental reforms.” – *Comptroller General David M. Walker, Budget Committee hearing, 23 January 2007.*
- The rising costs of government entitlements are a “fiscal cancer” that threatens “catastrophic consequences for our country” and could “bankrupt America.” – *Comptroller General Walker on 60 Minutes, 4 March 2007.*

Yet even the Democrat Chairman of the Senate Budget Committee has acknowledged: “It’s always easier to defer, to kick the can down the road to avoid making choices.” – 60 Minutes, 4 March 2007.

FACTS ABOUT THE ENTITLEMENT CHALLENGE

- Even if taxes were increased by \$392.5 billion in the next 5 years, as proposed in the Democrat budget, Federal spending at its current rate will outpace Federal revenue by increasing amounts over the next several decades.
- This problem is mainly due to the Federal Government's entitlement programs, which are growing at an average of 6 percent per year – twice as fast as inflation, and faster than the entire economy.
- The principal drivers of this problem are Medicare and Medicaid, which are growing at 7 percent to 8 percent per year. Even if the budget were balanced today, these two programs *alone* would drive it right back into deficit. With the forthcoming retirement of the baby boomers, the situation will only get worse.
- By 2040, three entitlement programs – Social Security, Medicare, and Medicaid *alone* – will consume 20 percent of the Nation's economy. That is equivalent to the cost of the *entire Federal Government* today; and it will take twice the current rate of taxes *just to maintain the current level of entitlement benefits*.
- In less than a decade, entitlements will take up 62 percent of the entire Federal budget – and they will keep growing until they crowd out all our other spending – including education, science, the environment, agriculture, and even homeland security and defense.
- But this challenge is also an *opportunity* – an opportunity to make these programs better, more efficient, more responsive, more sustainable for the future.



LACK OF REFORM IN THE DEMOCRAT BUDGET

- **Democrat Budget Ignores the Warnings.** But the Democrat budget ignores the repeated warnings about the unsustainable rate of entitlement spending growth, and puts off any significant reform for at least 5 years – allowing the problem to worsen.
- **No Reform.** The only savings in the budget are a negligible \$75 million reconciled to the Education and Labor Committee (which is merely a lever to get higher education reauthorization considered under reconciliation procedures); and \$410 million in receipts from selling defense commodities such as Tungsten. These are not reforms, and they do nothing to address the massive entitlement problem. In contrast, the Deficit Reduction Act of 2005 saved nearly \$40 billion over 5 years, and the President’s budget for fiscal year 2008 proposed \$96 billion in mandatory savings.
- **Reckless Entitlement Spending Increases.** Indeed, the budget provides channels for higher spending. Ten of the budget’s 12 “reserve funds” create avenues for more than \$115 billion in higher spending if offset with spending reductions or – as is more likely – higher taxes.
 - The reserve funds have no real effect because budget rules already permit initiatives not assumed in the budget to be financed by offsets.
 - In addition, as noted above, the offsets are likely to come from tax increases heaped on top of the Democrats’ already-historic tax hike.

