

WebMemo



Published by The Heritage Foundation

No. 1298
January 5, 2007

Bush's Call for Fiscal Restraint: Entitlement Control Is the Key

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President George Bush's call for a balanced budget and earmark reform is a welcome commitment to fiscal restraint in Washington. It echoes recent commitments from leaders in Congress to tackle the long-term budget problem. If these promises actually lead to serious spending control and a reordering of federal spending priorities, it will be good for the economy and for American families. The key is reforming the big entitlement programs, not raising taxes to reduce the deficit or to finance new and unwise spending programs.

If budget proposals, such as the President will soon release, are to lead to real economic benefits for Americans, there must be clarity about the proper strategic goals. That means recognizing the true fiscal threat. And President Bush can and should take some immediate actions in line with his proposal to increase the pressure on Congress to recognize the proper goals.

While the goal of balancing the budget in five years has a popular ring to it, the real threat to the economy and families is not the deficit but the relentless projected rise in future spending—driven by entitlements—and taxes rising as a percent of the national paycheck. Today's deficit as a percent of gross domestic product (GDP) is not especially high by historical or international standards, nor is there convincing evidence that such deficits are economically harmful.

The real problem is the tsunami of retirement spending about to engulf us as the Baby Boomers

begin to retire over the next few years. The cost of Medicare and Social Security will surge from about 7 percent of GDP today to almost 10 percent by 2020 and to 14 percent of the entire economy by 2050, when today's college students retire.

That is why the President's call for confronting these unsustainable entitlements is so important. He and Congress must begin to take action now, before the problem gets worse.

In addition to his budget proposal, the President may have a concrete opportunity to start on restructuring Medicare this spring. If the Medicare trustees report that general-fund revenues make up more than 45 percent of Medicare outlays over a seven-year period, he must submit a proposal to Congress to curb the taxpayer cost, and Congress must take prompt action on the plan.

The President should, in any case, press members of both parties to work with him to design a plan to reform and curb entitlements. He can also draw more attention to the entitlement problem by insisting on changes in the budget process to highlight unfunded obligations and to force Congress to reduce those obligations as part of the annual budget cycle.

This paper, in its entirety, can be found at:
www.heritage.org/research/budget/wm1298.qfm

Produced by the Domestic Policy Studies Department

Published by The Heritage Foundation
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Washington, DC 20002-4999
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And while the recent surge in tax revenues shows the wisdom of tax rate reductions that power faster growth, increasing the amount of money taxpayers send to Washington is not the way to secure the nation's economic future. The President thus must also be clear that raising taxes to reduce the deficit is unacceptable. One reason for drawing this line in the sand is that insufficient tax revenue is not the problem—spending is. The new Congress is itching to spend money on new programs that its Members committed themselves to during the election. Accepting tax increases will merely finance that new spending.

Another reason is that the Bush Administration's tax cuts only slightly slowed a long-term rise in federal taxes as a percent of the economy. Today the federal government takes about 18 percent of GDP in taxes, roughly the average for the last 50 years. Yet under current law, thanks to tax hikes enacted before Bush came into office, taxes are slated to rise to a record high of over 20 percent within a decade and to over 22 percent within 20 years. So Americans are scheduled for massive tax increases if Congress does nothing. Thanks in part to the Alternative Minimum Tax, and in part to tax bracket creep, even extending the Bush tax cuts shaves only one percentage point off this tax increase.

Thus, holding the line on taxes and continuing to press for an extension of the Bush tax cuts is critical just to stop the tax burden rising any faster. That means, in turn, that a commitment to balance the budget will be a damaging pledge if it triggers pressure for new taxes.

Finally, the President is right to call for tough action on earmarks, including a line-item veto. Earmarks corrupt the budget process. In addition, the President can and should take steps immediately to blunt the growth of earmarks. In particular, since most earmarks are in report language rather than legislation, he can order agencies to ignore them. For these informal earmarks, the President already has a "virtual" line-item veto. He should use it.

The President is right to call for fiscal restraint, and he should continue do so while pressing Congress to reduce the rising burden of taxation. Most importantly, he should also urge Congress and the American people to focus on the true underlying problem—ever-rising entitlement spending—and not on closing the deficit.

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