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House Republican Budget Would Confront Hard Choices and Rein in Budget Deficits

Brian M. Riedl

Answering President Obama's challenge for critics to present alternatives, the House Republicans have offered a responsible budget blueprint that:

- Borrows \$3.6 trillion less than the President's budget;
- Would create \$23,000 less debt per household than the President's budget;
- Keeps federal spending just above 20 percent of the gross domestic product (GDP)—the same level as before the recession;
- Avoids all tax increases and even simplifies the overly complex tax code;
- Includes a temporary moratorium on earmarks; and
- Begins reforming the unsustainable costs of Social Security, Medicare, and Medicaid.¹

Confronting the Hard Choices on Spending and Deficits. President Obama has spoken about making the “tough choices,” yet his budget is an exercise in ducking them. Rather than bring spending in line with tax revenues, President Obama would push spending to its highest peacetime level in American history.² As a result, his budget would dump a staggering \$9.3 trillion in new debt—\$68,000 per household—into the laps of America's children and grandchildren. This is more debt than has been accumulated by all previous Presidents in American history from George Washington to George W. Bush—combined.

Rather than merely talk about “tough choices,” the House Republican budget actually makes

them. It would keep federal spending at just over 20 percent of GDP, which is roughly the spending level before the recession. Instead of creating expensive new programs that taxpayers cannot afford, this budget:

- Freezes non-defense, non-veterans discretionary spending at its current level for five years—which should be affordable for domestic programs whose budgets have significantly expanded since 2001;
- Reforms entitlement programs like Medicare and Medicaid, which are currently growing at 8 percent annually;
- Takes back stimulus spending that would be spent in 2010 and beyond, when the recession is expected to be over; and
- Places a moratorium on earmarks until the system can be cleaned up.

None of this will be easy. Freezing programs and reforming entitlements are not popular ideas in Washington. But to avert the permanent \$1 trillion budget deficits that President Obama has proposed, lawmakers must make these kinds of tough decisions.

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www.heritage.org/Research/Budget/wm2377.cfm

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214 Massachusetts Avenue, NE
Washington, DC 20002-4999
(202) 546-4400 • heritage.org

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To their credit, Democrats in the House and Senate slightly trimmed some of the President's proposals from their budget resolutions. They reduce a few billion dollars off the President's discretionary spending total and exclude his request for another round of financial bailouts. However, these minor changes do not provide significant savings against the massive spending and deficits in the President's budget.

And although the House and Senate budgets exclude the future costs of fixing the Alternative Minimum Tax (AMT) and creating a permanent Making Work Pay credit, it is assumed that Congress will enact those policies down the road anyway. Congress is also expected to follow the President's lead in passing expensive climate and health legislation. Overall, the House and Senate budgets are only marginally less irresponsible than the President's blueprint.

Addressing Long-Term Entitlements. In the absence of reform, the costs of paying Social Security, Medicare, and Medicaid benefits to 77 million retiring baby boomers will overwhelm the federal budget. Lawmakers would have to either permanently raise taxes by the current equivalent of \$12,000 per household or eliminate all other federal programs just to pay these added costs. And every year of delay, the baby boomers move closer to retirement and the cost of reform increases by over \$1 trillion.³

President Obama's budget offers no solution to this urgent problem. In fact, his proposal of expanding government-run health care programs would worsen the problem by adding even more government costs. Also, these budgets irresponsibly ignore the long-term implications of their proposals. The President's budget ignores all costs beyond its 10-year window, and the House and Senate budgets cover only five years.

The House Republican budget not only uses a full 10-year budget window, but it also addresses the \$43 trillion, 75-year unfunded liability in Social Security and Medicare. Specifically, it would slowly transition Medicare into a premium support program for individuals who are currently below age 55. This would provide seniors with a health plan similar to the one that Members of Congress and federal employees currently enjoy—one based on consumer choice and competition. The House GOP budget would also allow future adjustments to Social Security benefits for upper-income seniors and provide states with more Medicaid flexibility by converting its acute services budget into a set state allotment.

Regardless of whether one agrees with these proposals, everyone should credit the House Republicans for at least offering a blueprint to deal with long-term entitlements. Rather than ignore the budget implications of their policies beyond 2014 (which the congressional Democrats' budgets do) and 2019 (which the President's budget does), the House Republicans' budget ensures that future generations will not be buried in debt by today's lawmakers.

Reforming Taxes. President Obama has proposed to raise taxes by \$1.4 trillion over 10 years. The House and Senate budgets would likely raise taxes by similar amounts.⁴ And even these large tax hikes would not be enough to finance the President's long wish list of new spending initiatives.

Over 10 years, President Obama would raise taxes by an average \$300,000 apiece for the 3.2 million individuals and small businesses with the highest incomes. With the economy already in recession, this is downright reckless; President Herbert Hoover's tax increases, after all, helped turn a recession into the Great Depression. And delaying these tax increases until 2011 will not stop forward-

1. The Path to American Prosperity Act, an amendment to H.R. 85, 111th Cong., 1st Sess.
2. See Brian M. Riedl, "The Obama Budget: Spending, Taxes, and Doubling the National Debt," Heritage Foundation *Backgrounder* No. 2249, March 16, 2009, at <http://www.heritage.org/Research/Budget/bg2249.cfm>.
3. Brian M. Riedl, "A Guide to Fixing Social Security, Medicare, and Medicaid," Heritage Foundation *Backgrounder* No. 2114, March 11, 2008, at <http://www.heritage.org/Research/Budget/bg2114.cfm>.
4. If Congress drops the proposed Making Work Pay tax credit and the proposed tax increase limiting itemized deductions, the total tax increase would come to approximately \$1.3 trillion.

looking businesses from immediately scaling back any investment and hiring plans in anticipation of the painful tax bite.

Everyone else's taxes would rise, too. Despite his promise that "if your family earns less than \$250,000 a year, you will not see your taxes increased a single dime. I repeat: not one single dime,"⁵ the President has proposed an (at least) \$646 billion cap-and-trade energy tax. This tax would immediately be passed onto all consumers at a cost that could average anywhere from \$650 to \$2,000 per household annually.

The House Republican alternative rejects all tax increases. It would permanently extend the 2001 and 2003 tax cuts, as well as the AMT patch. It would also finally reform the complex income tax code by allowing individuals the choice of opting into a simplified tax system with a 10 percent marginal tax rate on incomes below \$100,000 and a 25 percent marginal tax rate on incomes above \$100,000. It would also encourage economic growth by reducing the corporate tax rate from 35 percent to 25 percent and suspending capital gains taxes through 2010.

These tax proposals would increase incentives to work, save, invest, and be productive. They also reject the President's dangerous move of proposing tax increases during a recession. And by simplify-

ing the tax code, the House Republican budget would reduce the ability of lobbyists and interest groups to game the tax code, and it would help busy Americans complete their tax forms in a matter of minutes.⁶

Even with all those benefits, the House GOP budget proposal would bring in revenues averaging just below 18 percent of GDP, which is near the historical average and just 1 percent of GDP less than the President's painful tax proposals. When combined with its spending restraints, the House GOP proposal provides more tax relief and lower budget deficits than the President and congressional Democrats would. This is a win-win for taxpayers.

A Better Vision. The House Republican blueprint provides a strong contrast to President Obama's plan to saddle Americans with historic tax increases, runaway spending, and a doubling of the national debt. It would rein in spending, simplify taxes, and lessen the debt burden on American families. This plan also confronts the long-term costs of Social Security, Medicare, and Medicaid. It should be taken seriously by anyone concerned with rising government spending and debt.

—Brian M. Riedl is Grover M. Hermann Fellow in Federal Budgetary Affairs in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation.

5. Barack Obama, "Address to Joint Session of Congress," the White House, February 24, 2009, at http://www.whitehouse.gov/the_press_office/remarks-of-president-barack-obama-address-to-joint-session-of-congress (April 1, 2009).
6. For more on the economic effects of the tax provisions in the Republican alternative budget, see Karen Campbell, "Economic Analysis of the House Republican Budget Alternative (H.R. 85): 'Report on the Path to American Prosperity,'" Heritage Foundation *White Paper*, April 1, 2009, at <http://www.heritage.org/Research/Budget/wp040109a.cfm>.