The Budget and Entitlements: Time to Take Action

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Entitlements will crowd out everything else and collide with historical level of taxes

Historical Level of Tax Revenues

Source: Congressional Budget Office; 2007 Social Security and Medicare Trustees Reports.
Projected Federal Tax Revenue for Four Tax Policy Scenarios

Percentage of GDP

1995 2005 2015 2025 2035 2045

Historical Average Tax Burden, 18.3%

Highest Tax Burden in History, 20.5%

Balanced Budget w/o policy changes

Congress Does Nothing ('01 and '03 Cuts Expire)

'01 and '03 Tax Cuts Extended

AMT Fix and Tax Cuts Extended

Source: CBO Long-Term Budget Outlook (2005); Budget and Economic Outlook (2007); Heritage Foundation calculations
What does this mean for projected tax rates?

Source: Congressional Budget Office; (assumes healthcare costs grow 1% faster than GDP)
Time to Rethink Retirement Entitlements

• Fix the way Washington spends your money
  - Show long-term obligations in the annual federal budget
  - Require an explicit vote to raise obligations
  - Transform entitlements into 30-year budgeted programs, weighed against other needs

• Make retirement programs fair but affordable
  - Strengthen guarantees for modest income Americans
  - Income-adjust all Medicare and Social Security benefits
  - Raise the age for early/normal retirement benefits

• Encourage more savings/insurance for middle-income workers