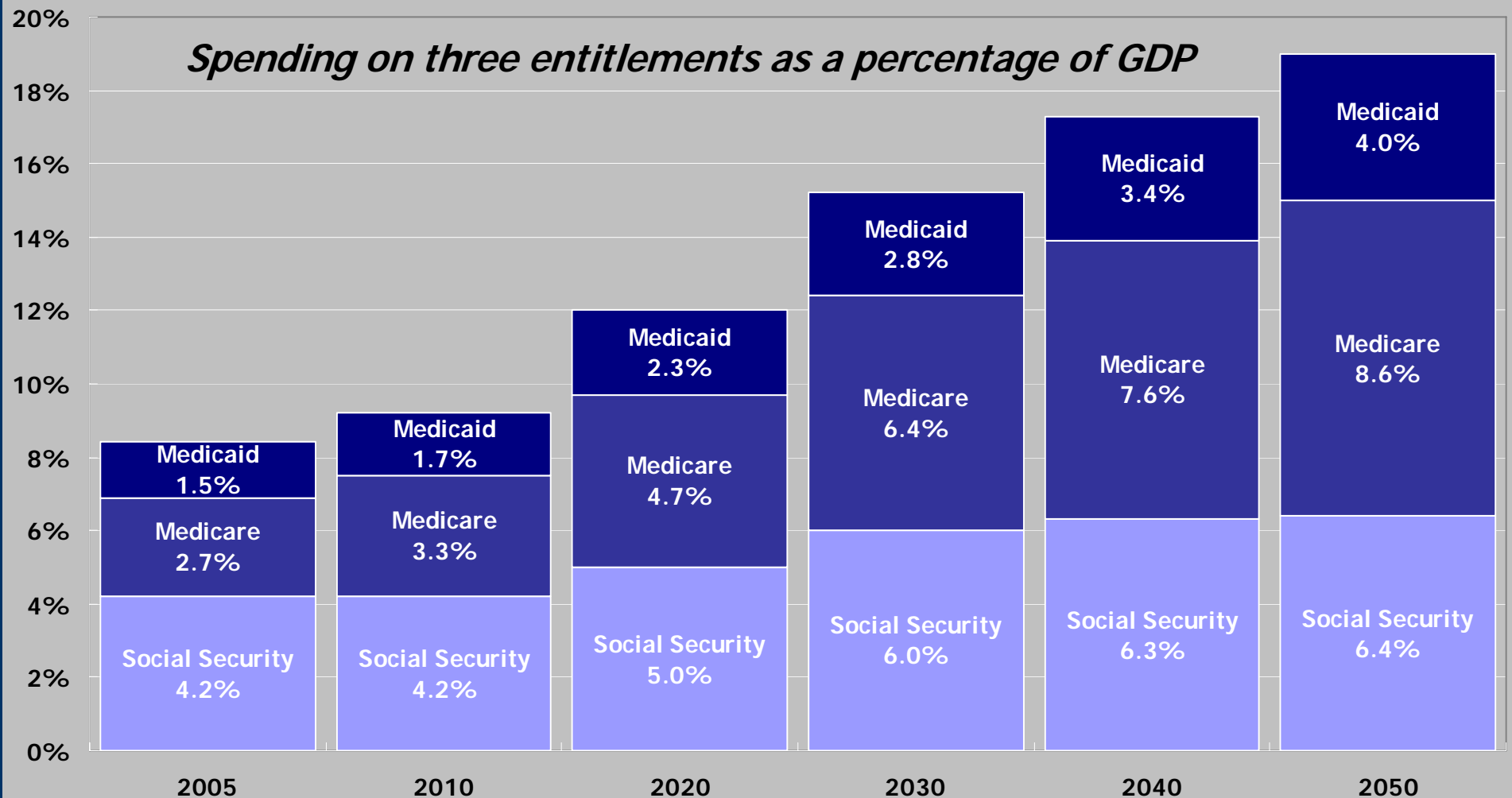


The Budget and Entitlements: Time to Take Action

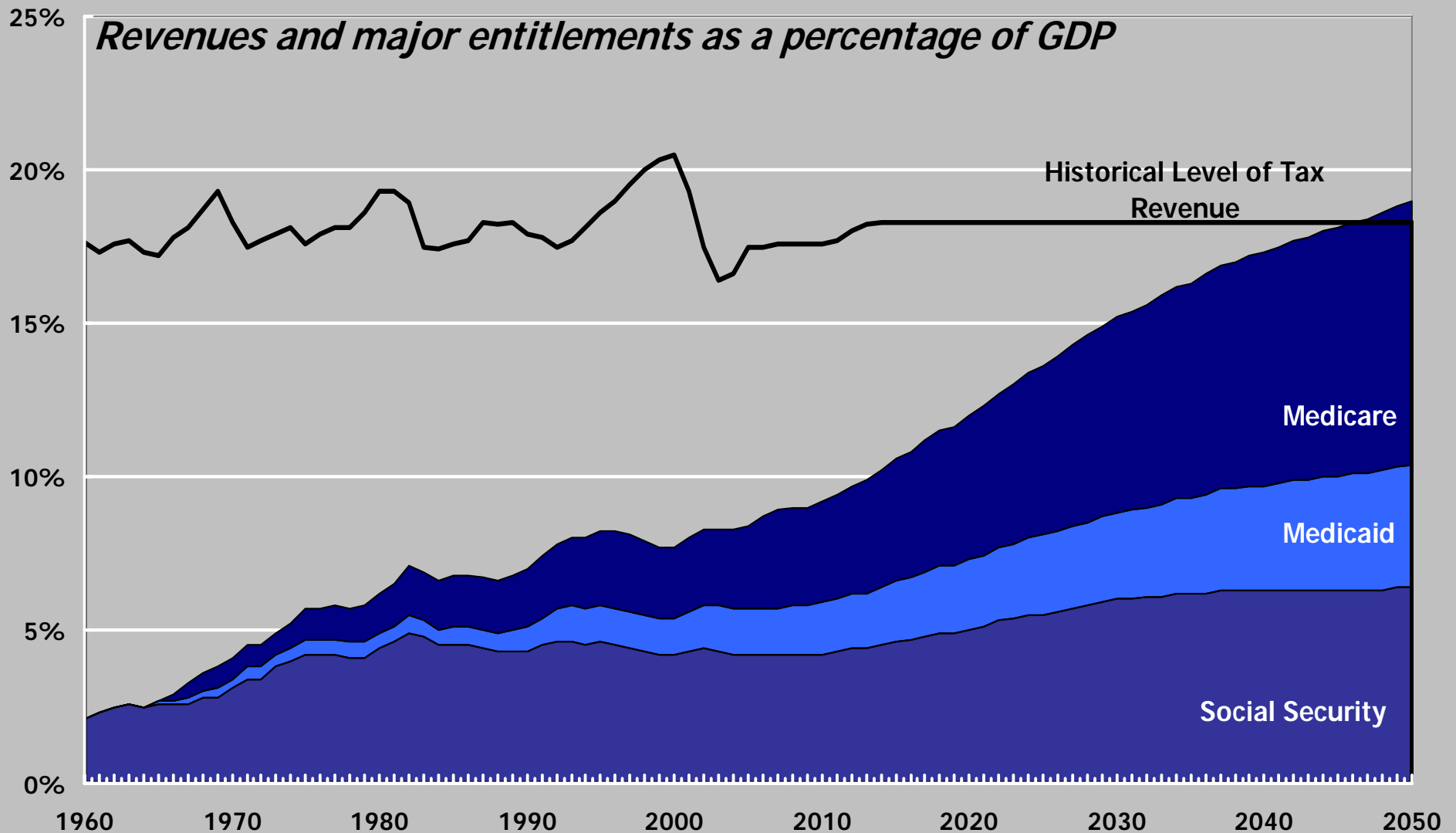
Stuart Butler
The Heritage Foundation

The "Big Three" Entitlements Will Grow Dramatically As Nation Ages



Source: CBO Long-Term Budget Outlook, December 2005
Scenario 2 Data - Intermediate Spending and Lower Revenues

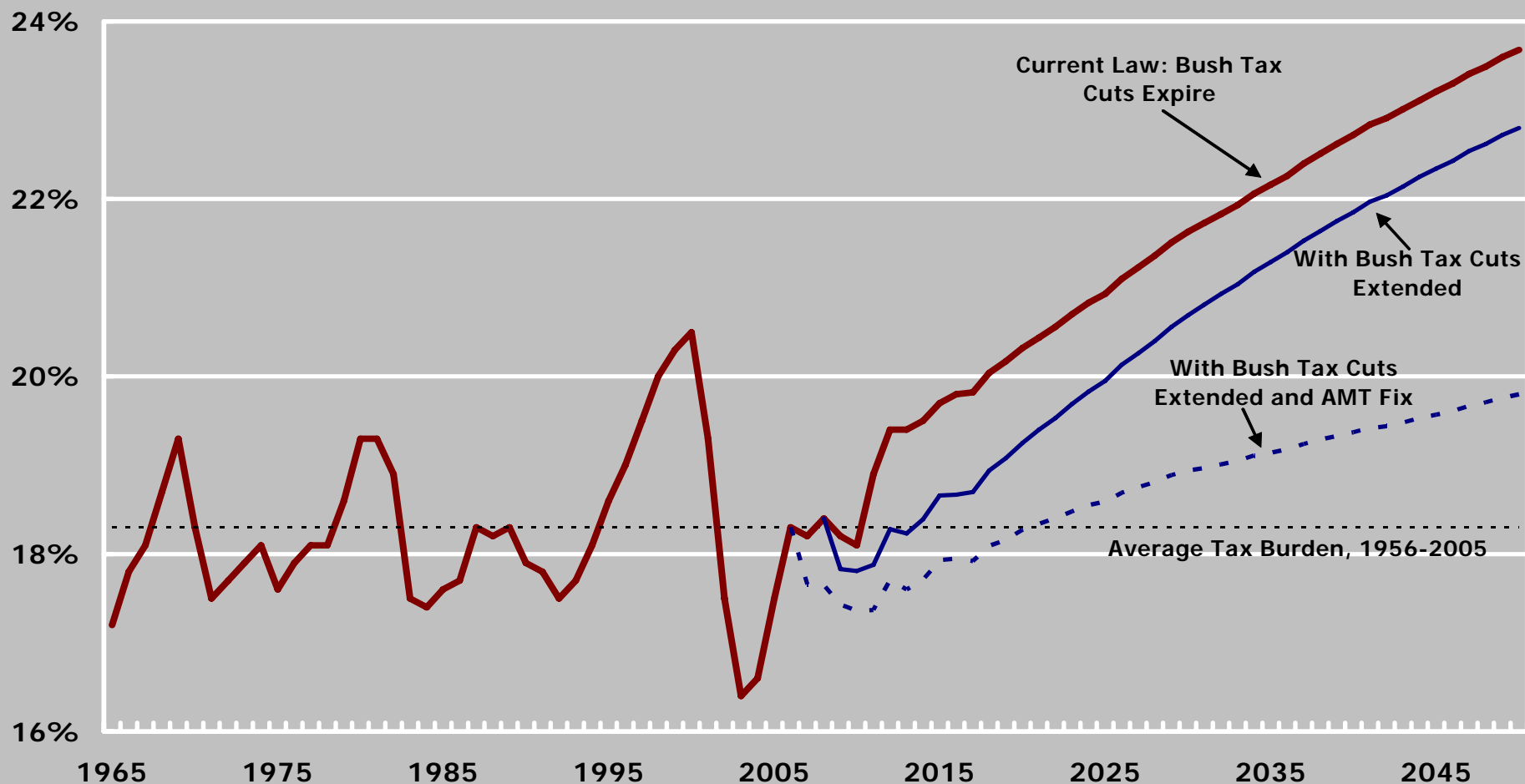
Entitlements will crowd out everything else and collide with historical long-term level of taxes



Source: CBO Long-Term Budget Outlook, December 2005
Scenario 2 Data - Intermediate Spending and Lower Revenues

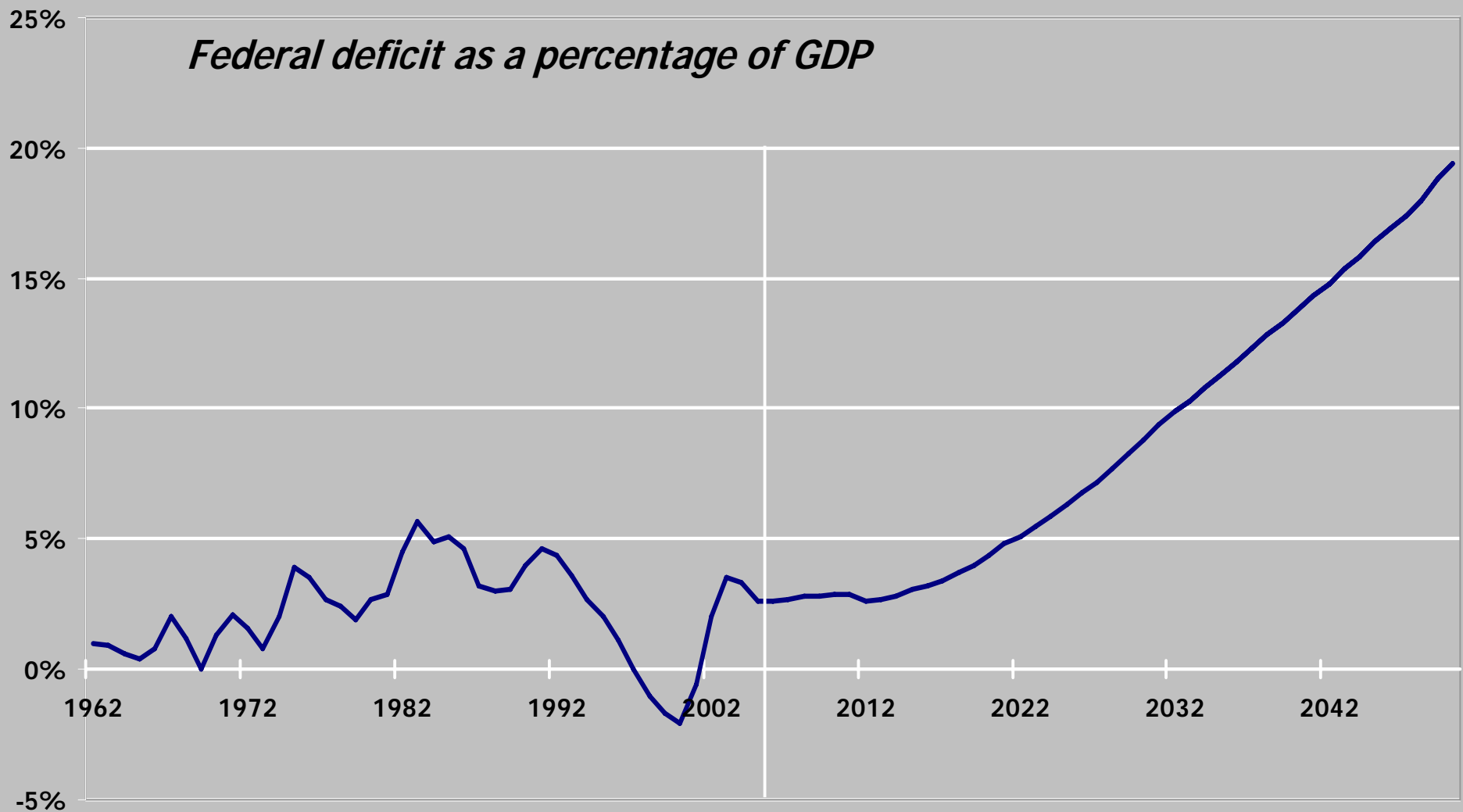
But under current law taxes will rise sharply thanks to pre-Bush laws, despite Bush tax changes

Projected Federal Tax Revenue for Three Tax Policy Scenarios as a Percentage of GDP (1965-2050)



Source: CBO Long-Term Budget Outlook, December 2005 and Budget Update, August 2006.

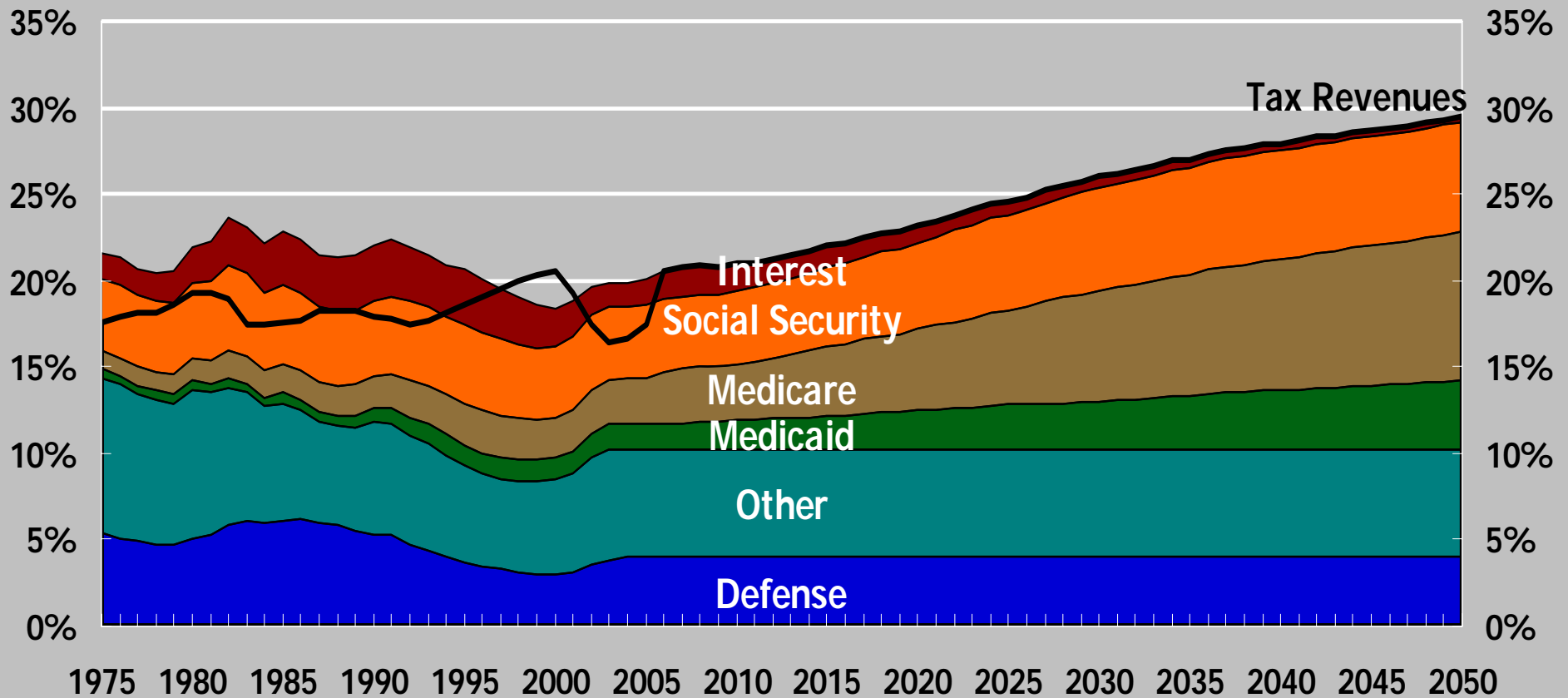
Absent action under current law deficits not a problem soon- but then skyrocket to unprecedented levels



Source: CBO Long-Term Budget Outlook, December 2005
Scenario 2 Data - Intermediate Spending and Lower Revenues

If entitlements are not sharply curbed, balancing the budget means raising taxes up to European levels

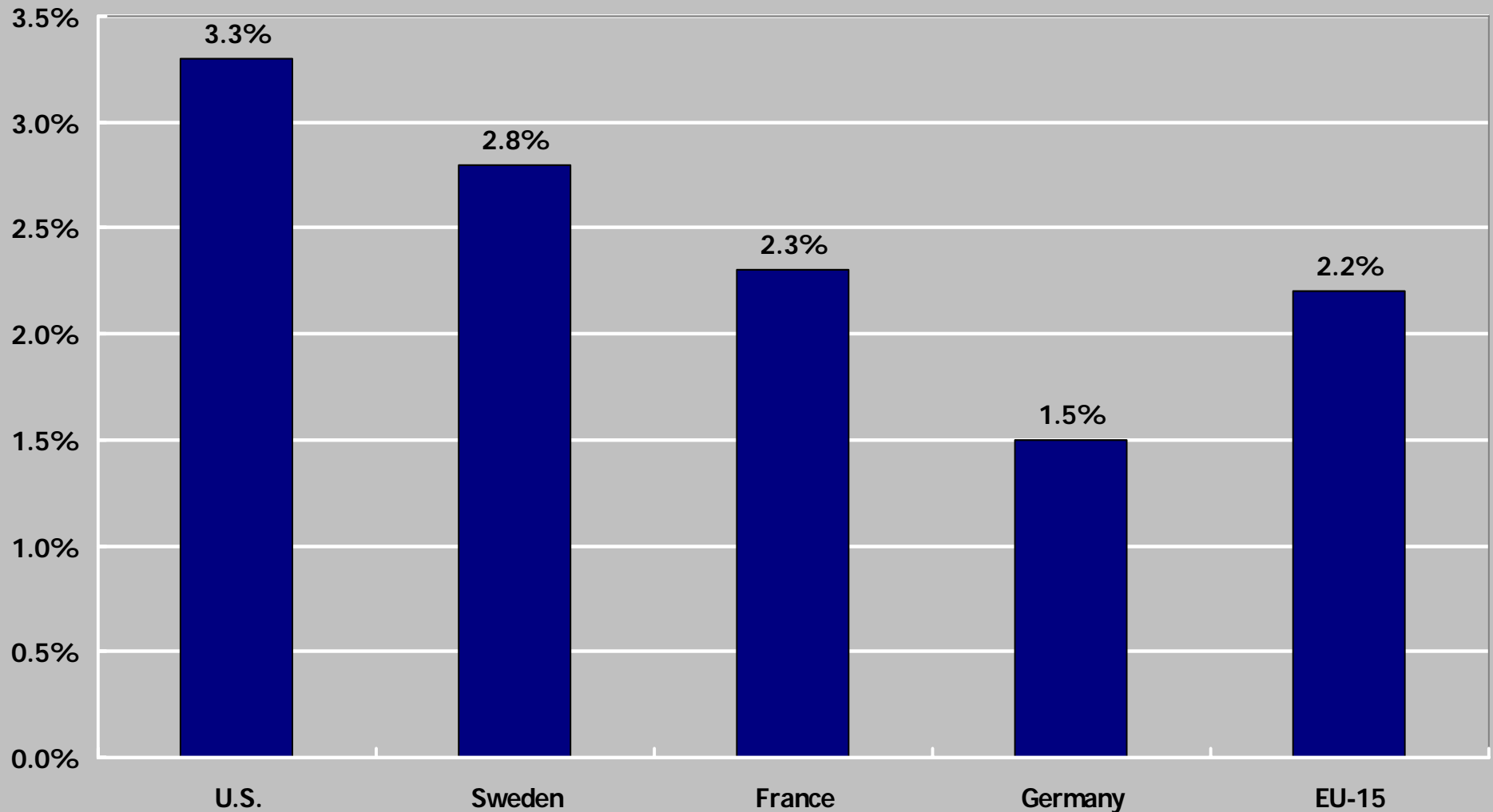
*Balanced Budget with no spending cuts
(assuming realistic discretionary spending)*



Source: CBO Long-Term Budget Outlook, December 2005
Scenario 2 Data - Intermediate Spending and Lower Revenues

But European-level taxes = European-level growth

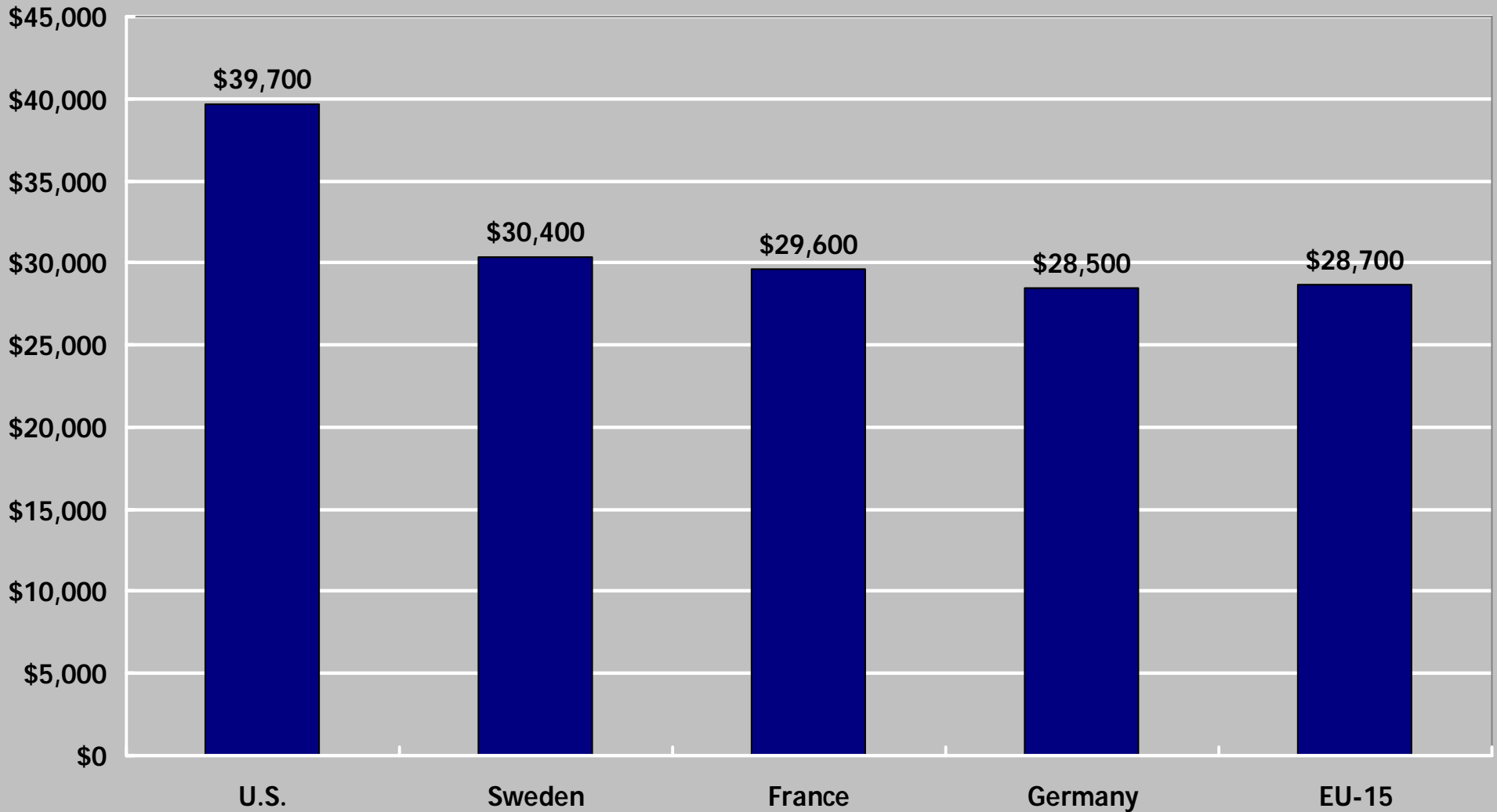
Real GDP growth over ten-years (1994-2004)



Source: *OECD in Figures: 2005 edition*

Slow European-style growth = Lower incomes in US

GDP per capita for 2004



Source: OECD in Figures: 2005 edition

Conclusion: Take Action on Retirement Entitlements

- Repeal or amend the Medicare drug bill
- Raise the retirement age
- Income test all Medicare and Social Security benefits
- Transform entitlements into 30-year budgeted programs, balanced against other needs