

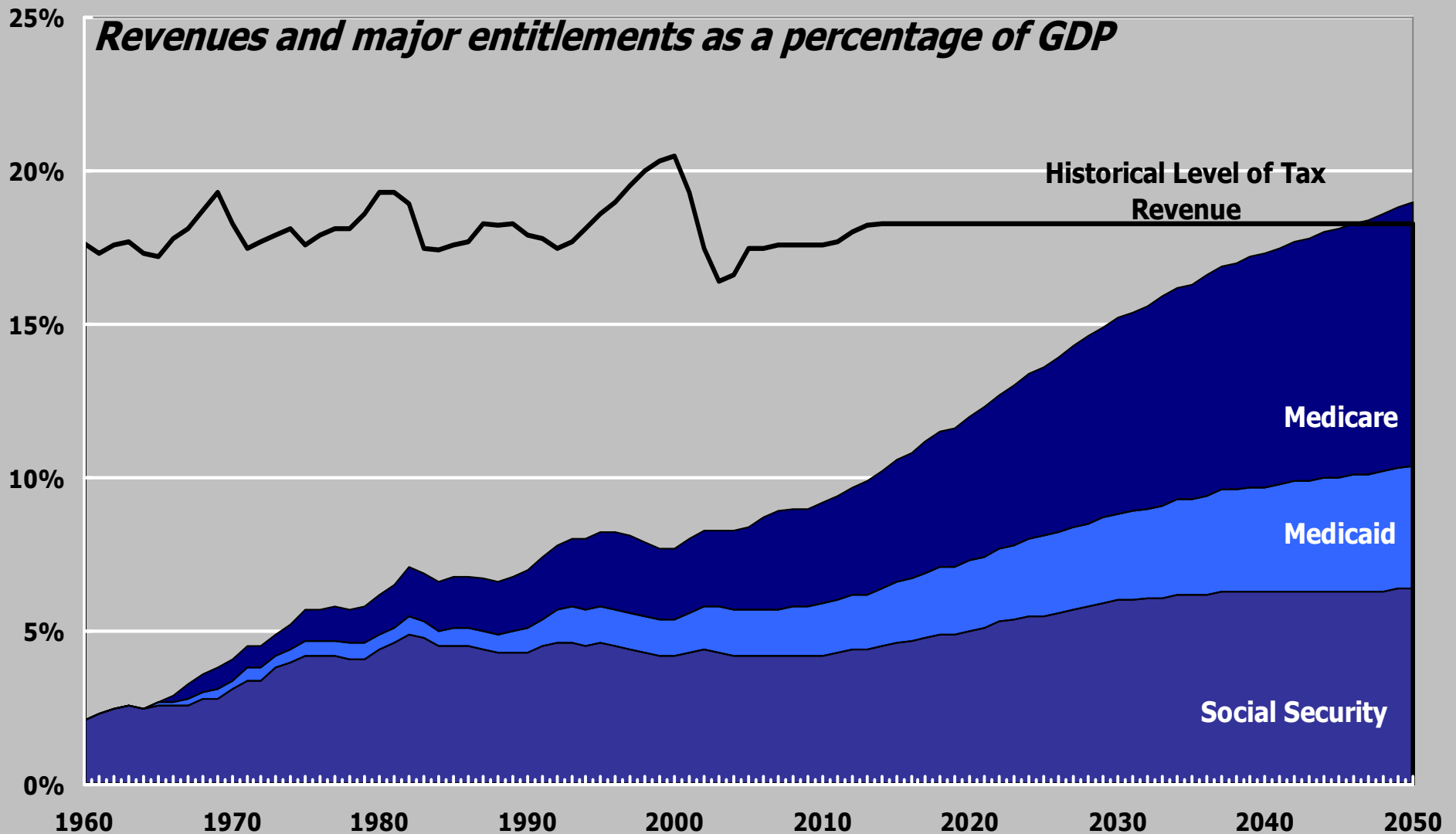
The Budget and Entitlements: Time to Take Action

Nashville, Tennessee

*Stuart Butler
The Heritage Foundation*

July 16, 2007

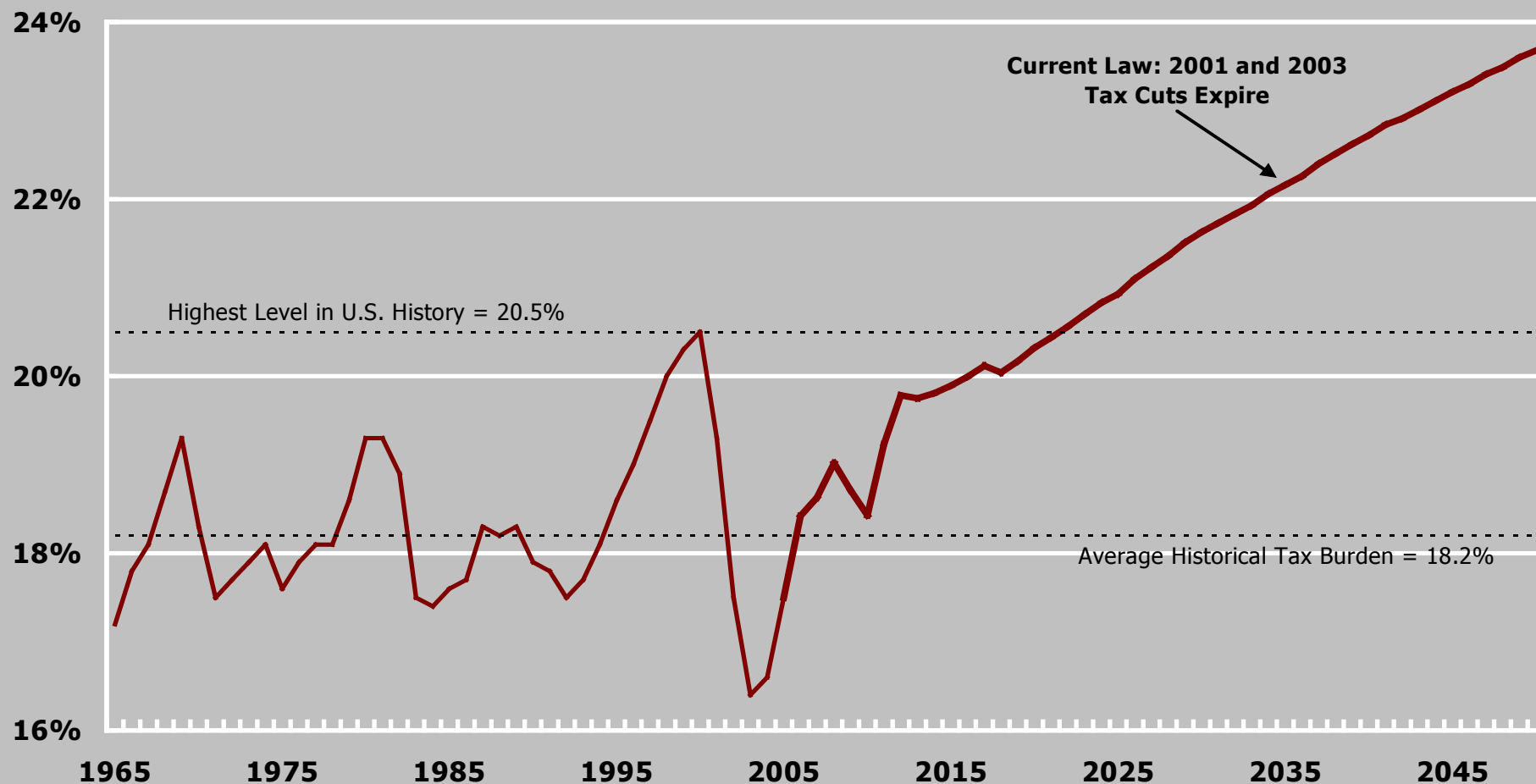
Entitlements will crowd out everything else and collide with historical long-term level of taxes



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

Under current law taxes will rise sharply as Bush-era recent tax changes expire

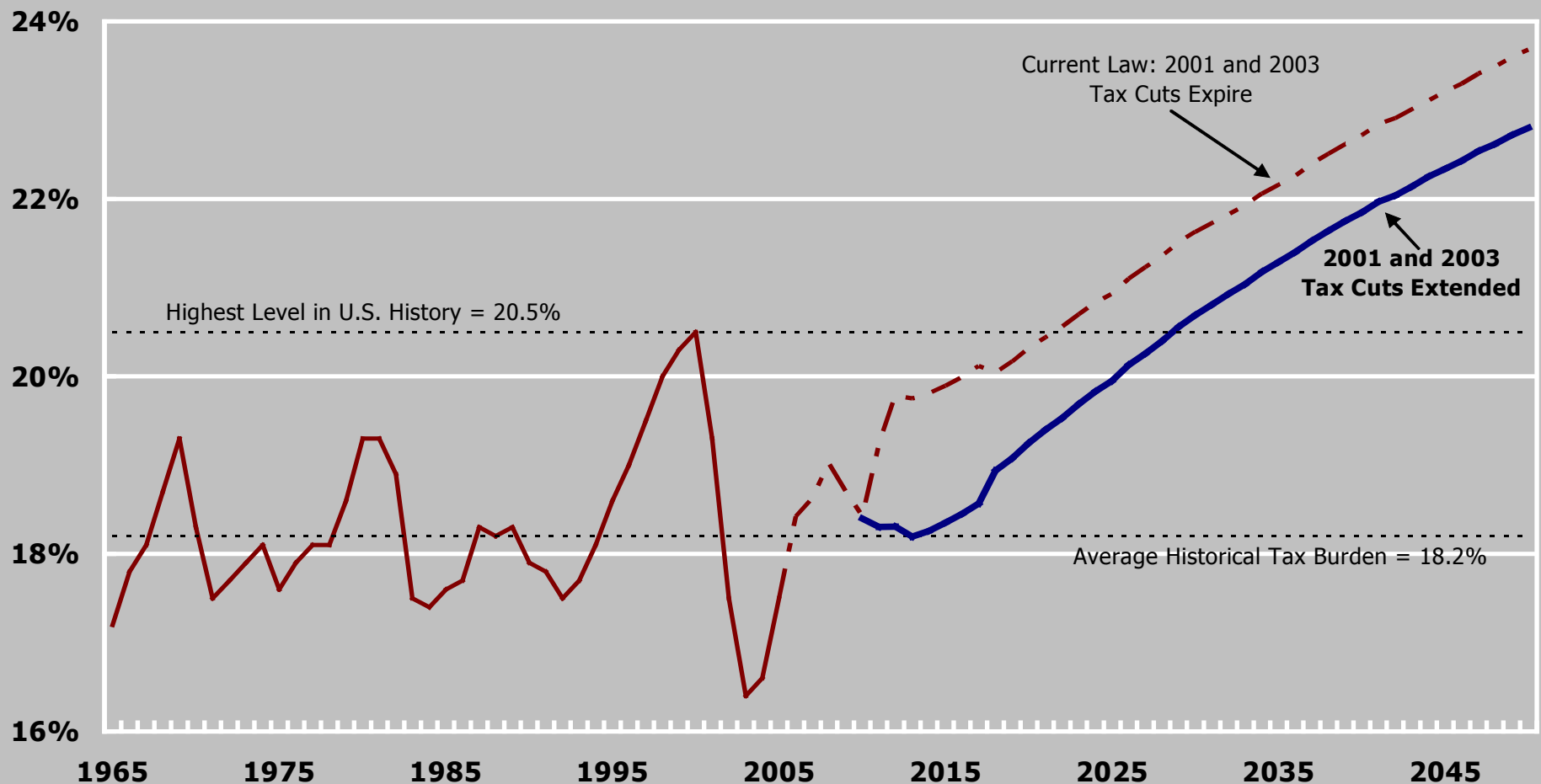
Projected Federal Tax Revenue for Three Tax Policy Scenarios as a Percentage of GDP (1965-2050)



Source: CBO Long-Term Budget Outlook, December 2005 and Budget and Economic Outlook, January 2007.

Taxes still rise sharply even if recent tax changes made permanent

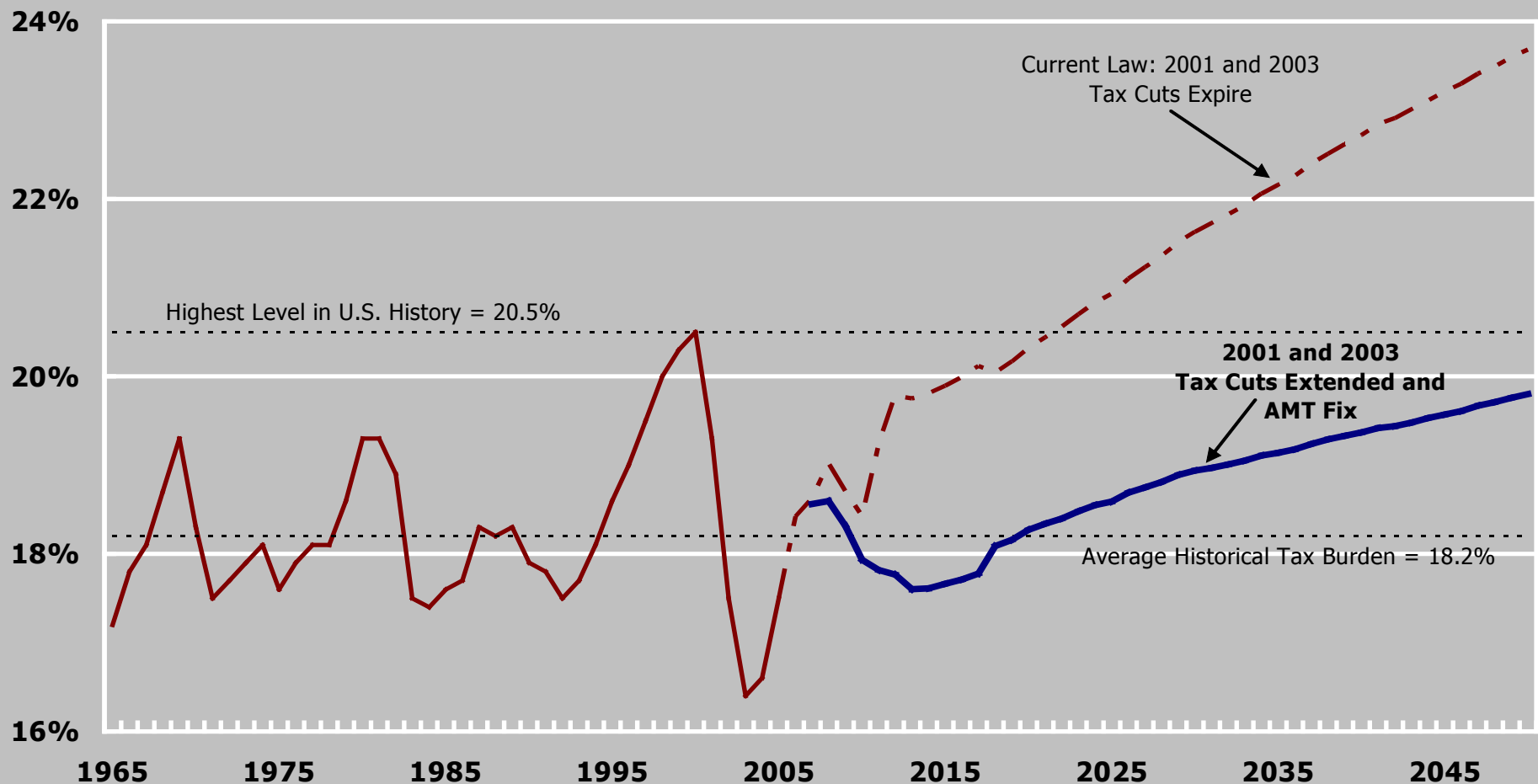
Projected Federal Tax Revenue for Three Tax Policy Scenarios as a Percentage of GDP (1965-2050)



Source: CBO Long-Term Budget Outlook, December 2005 and Budget and Economic Outlook, January 2007.

Only extending tax changes and “freezing” AMT keeps taxes below 20 percent

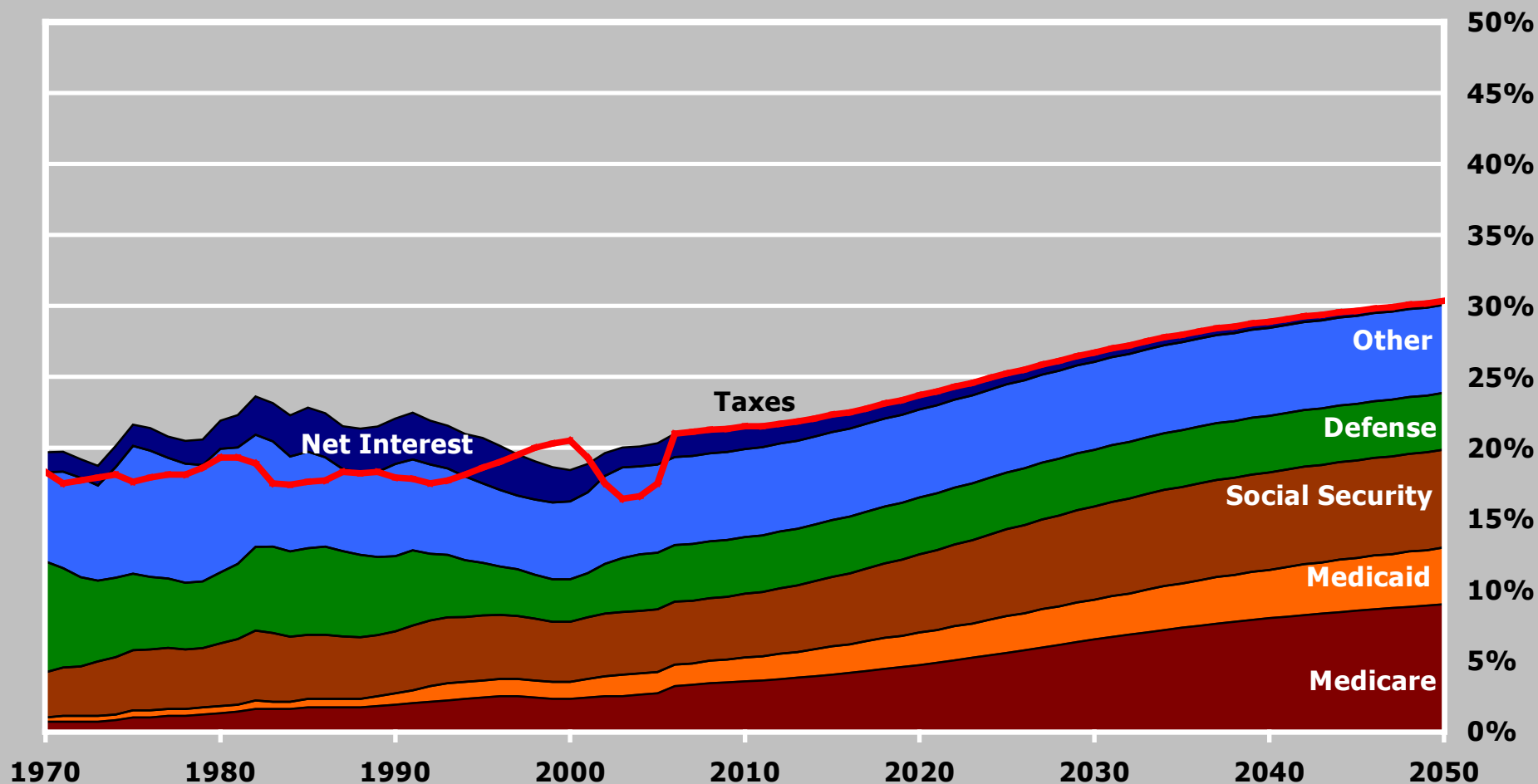
Projected Federal Tax Revenue for Three Tax Policy Scenarios as a Percentage of GDP (1965-2050)



Source: CBO Long-Term Budget Outlook, December 2005 and Budget and Economic Outlook, January 2007.

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

Balanced Budget With No Spending Cuts *(assuming realistic discretionary spending and defense at 4% GDP)*

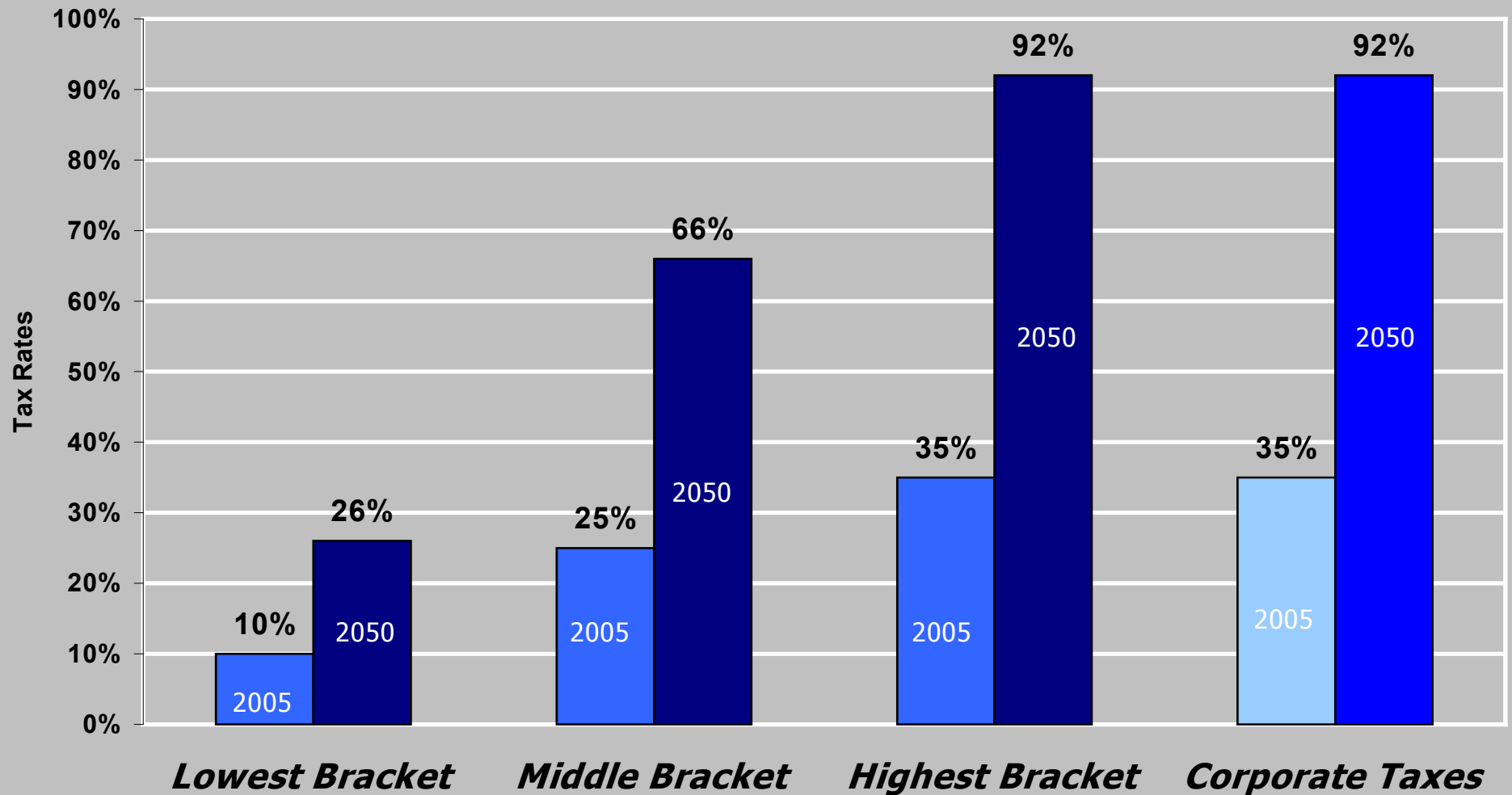


Source: Calculations based on Congressional Budget Office (CBO) and Medicare and Social Security Trustees Data (discretionary spending held constant).

What does this mean for taxes?

Projected Tax Increases

(assuming 2.5% growth in healthcare costs)



Source: CBO, *Financing Projected Spending in the Long Run*, July 9, 2007

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**