



“Since Government of itself can create nothing, it can have nothing of its own to bestow on anybody. It cannot, then, be both just and generous at the same time, for if it be generous to some it must be oppressive to others.”
Congressman Bourke Cockran

THE DEFICIT REDUCTION ACT

Savings Through Reform

This year’s Reconciliation proposal slightly reduces the growth of mandatory spending from 5.7 percent to 5.6 percent a year. It does not cut spending.

The budget we Republicans passed earlier this year made slight reductions in mandatory spending formulas. After several years of spending increases it held non-defense, non-homeland discretionary spending to roughly 1 percent below last year’s level.

This is a modest, but vitally important step in demonstrating to the American people that we are setting appropriate budget priorities.

The Reconciliation Process

When the Budget Resolution requires committees to change mandatory spending, the committees submit their recommendations to the Budget Committees. The House and Senate Budget Committees are responsible for assembling the recommendations into a single “reconciliation” bill. The bill is then considered under special reconciliation rules – most of which apply to the Senate and not the House – and is voted on.

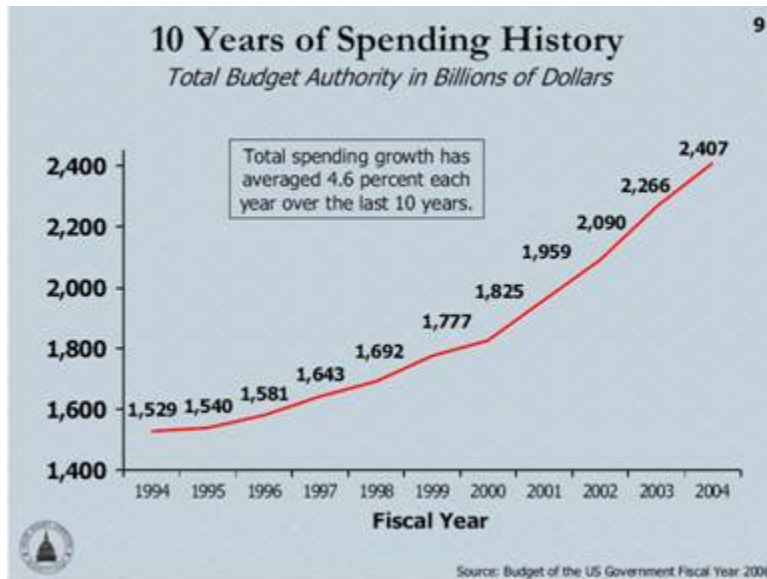
Record of Spending Increases

Since 2001, total federal spending has increased from \$1.86 trillion to \$2.47 trillion a year, an increase of 33 percent. In fact, federal spending has grown twice as fast in the last five years as it did in the previous eight years.

Increases in mandatory spending have been especially generous. From 2001 to 2005, Medicare spending increased 8% per year, Medicaid spending increased nearly 10% per year, and Social Security spending increased almost 5% per year. Additionally, entitlement spending is projected to double within the next 10 years. In the long term, the

total cost of Social Security, Medicare, and Medicaid is projected to leap from 8.4 percent of GDP in 2005 to as much as 17 percent of GDP by 2030. This trend in mandatory spending makes reconciliation even more vital.

Due, in part, to the necessary increases in spending, Republicans now have an opportunity to slow the rate of future growth to achieve needed savings.



Responding to a Natural Disaster in a Fiscally Responsible Manner

After passage of a Budget Resolution Conference Report earlier this year that included \$35 billion in mandatory reforms, Hurricane Katrina struck the Gulf Coast. Congress quickly acted to provide much-needed disaster relief to the region. However, fiscal responsibility requires Congress to offset as much of this spending as possible.

Accordingly, Republican Leadership, in conjunction with the President, worked with the relevant Committee Chairmen to increase the level of savings in mandatory spending by a modest, but meaningful amount. Even this amount is *below* the reconciliation savings of \$68.6 billion that originally passed the House.

Historic Deficits Require Fiscal Responsibility

This year's \$331 billion projected deficit is minor compared to what our children and grandchildren face. As Brookings Institution scholar Isabel Sawhill recently noted, "Deficits will become unsustainable when baby boomers begin to retire in 2008 and are poised to balloon out of control a generation hence, wreaking havoc on today's younger Americans." Republicans have a responsibility to deal with this challenge now.

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12 Largest Post-War Deficits

In Billions of Nominal Dollars, and Percentages of Gross Domestic Product

Rank	Year	Nominal Dollars	Percent of GDP
1	1946	\$16B	7.2
2	1983	\$208B	6.0
3	1985	\$212B	5.1
4	1986	\$221B	5.0
5	1984	\$185B	4.8
6	1992	\$290B	4.7
7	1991	\$269B	4.5
8	1976	\$74B	4.2
9	1982	\$128B	4.0
10	1993	\$255B	3.9
11	1990	\$221B	3.9
12	2004	\$412B	3.6



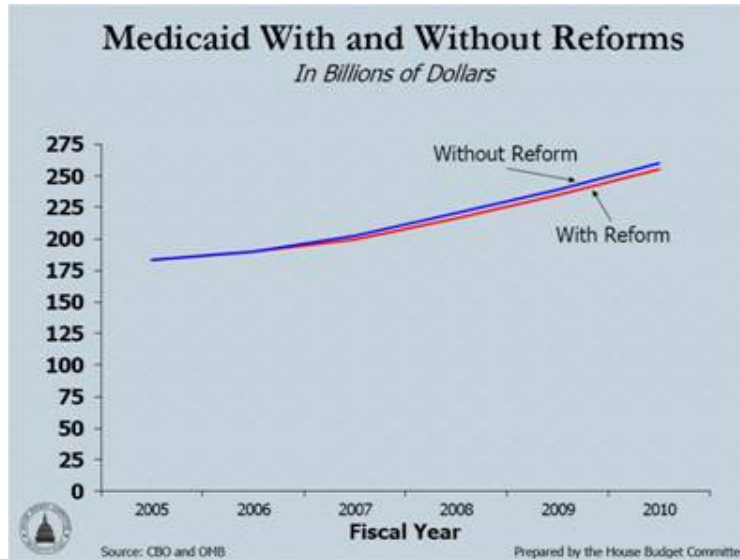
Bipartisan Reform

Medicaid reform is an example of how relatively minor changes can achieve significant savings without harming the program or its beneficiaries. Virtually all of the House Republican Medicaid reconciliation measures are consistent with the bipartisan National Governors Association recommendations to begin structurally reforming Medicaid by:

- 1) Allowing greater flexibility for States to change one-size fits all benefit packages to fit the diverse needs of Medicaid beneficiaries,
- 2) Ensuring that Medicaid remains a safety-net for the sick and poor and,
- 3) Increasing personal responsibility to effectively encourage Medicaid beneficiaries to seek treatment in the most appropriate settings and to make prudent health care choices.

Taken together these measures represent important first steps toward long-term Medicaid reform.

Under reconciliation, the growth in Medicaid spending will only be slowed from 7.3 percent to 7 percent, while maintaining its vital services.



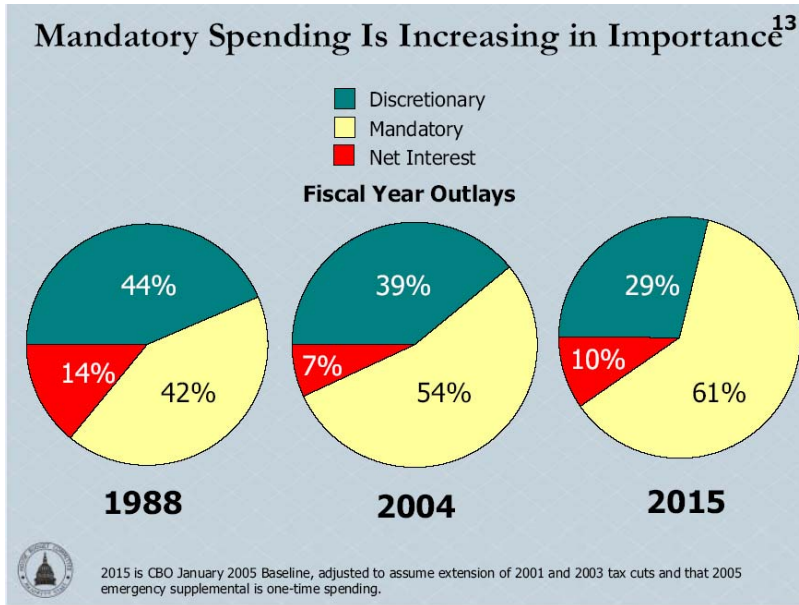
Mandatory Spending Reform: The Key to Real Savings

Republicans have two goals: to reform mandatory spending programs and to restrain our discretionary spending. The budget passed earlier this year included reconciliation instructions to reform mandatory spending, and held non-defense, non-homeland discretionary spending to nearly 1 percent below last year's level. While the reduction in discretionary spending should be applauded, the more important focus is mandatory savings.

MANDATORY SAVINGS ARE PERMANENT: Discretionary spending is determined every year through the budget and appropriations process, but mandatory spending is effectively on "cruise control." Savings we achieve in these programs this year – by making minor reductions in the rate of growth – will continue to produce savings year after year.

MANDATORY SAVINGS CAN PASS THE SENATE: The arcane rules of the Senate require 60 votes to pass discretionary spending cuts. But mandatory program reductions would require only a simple majority. Any attempt to package the discretionary reductions with the mandatory savings would also require a 60 vote majority. **Reductions in mandatory programs alone are our best chance of getting real changes passed into law.**

MANDATORY SPENDING IS THE LARGEST PART OF THE FEDERAL BUDGET – AND IT IS GROWING: If we do not regain some control over the growth of mandatory spending, Congress will shortly find itself in a position where the vast majority of federal spending is out of its control. Congress has a responsibility to taxpayers to be actively involved in the decisions of how best to spend their hard-earned tax dollars.



MANDATORY SPENDING IS GROWING FASTER THAN DISCRETIONARY SPENDING: Since the birth of the Great Society, mandatory spending has outpaced discretionary spending. According to the Heritage Foundation, since 1962 discretionary spending has risen 110 percent while mandatory spending has increased a whopping 600 percent.

Even after the Republican takeover of Congress, mandatory spending has continued to grow.

	<u>Mandatory Spending</u>	<u>Discretionary Spending</u>
1995	\$801 billion	\$609.2 billion
2005	\$1.2 trillion	\$846.6 billion

Source: Office of Management and Budget, Historical Tables

Reforming Government to Benefit All Americans

In addition to achieving reasonable savings, reconciliation will aide victims of Hurricane Katrina and all Americans.

- The Reconciliation bill will expand outreach efforts to ensure disadvantaged students and families have access to information about financial aid that may be available, and require colleges to adjust financial aid award calculations to take into account changes in families' financial circumstances caused by the hurricanes.

- The bill provides an additional \$1 billion for the Low Income Home Energy Assistance Program (LIHEAP).
- The bill creates a nearly \$1 billion program to help consumers.
- It improves the stability of the Pension Benefit Guaranty Corporation (which has an operating deficit of \$23 billion) by increasing premiums at a reasonable rate (the first increase since 1991) and instituting a sensible termination premium.

Tax Increases Would Cripple the Economy and Create Larger Deficits

While some have suggested repealing the tax relief Republicans enacted in 2003, doing so would reverse the economic gains we have enjoyed. The tax relief created incentives to work and invest which spurred the economic recovery we are still enjoying.

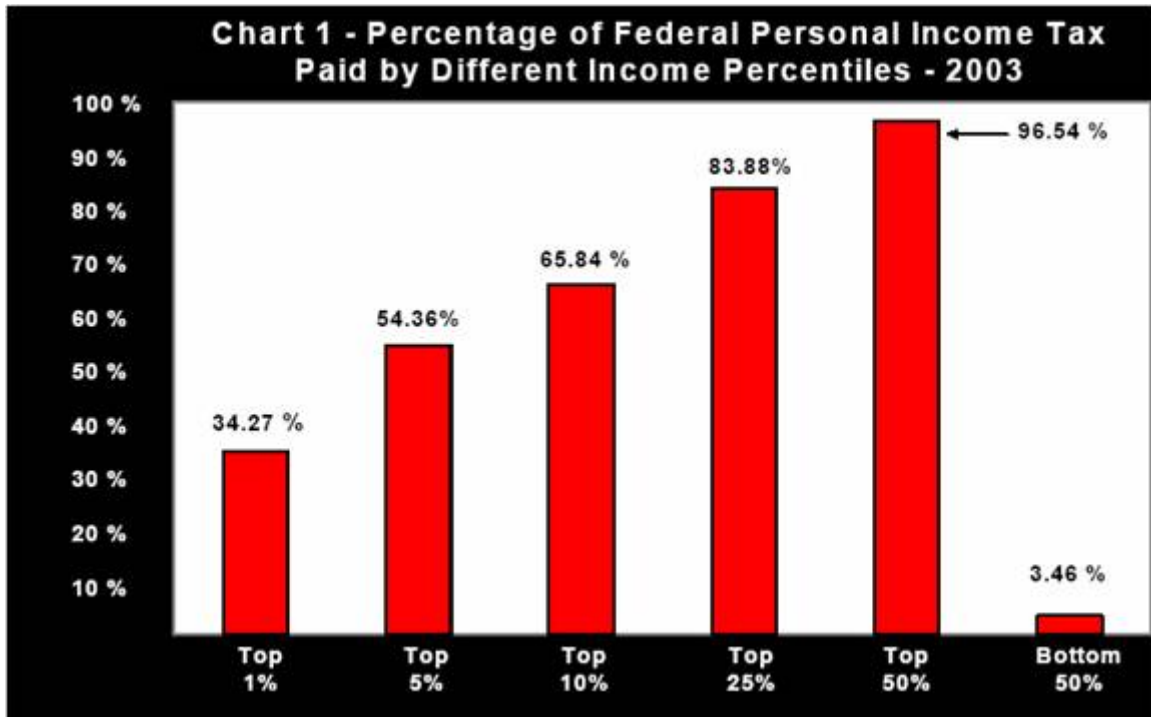
Since passage of the Jobs and Growth Tax Relief Reconciliation Act of 2003, four million new jobs have been created.

Prior to the 2003 tax relief, business investment had declined or remained flat for nine straight quarters. Following passage, business investment increased between 5 and 18 percent in each of the next seven quarters.

Immediately following passage of the tax relief the Bureau of Economic Analysis reported that real gross domestic product, the most comprehensive measure of overall activity in the U.S. economy, grew at an estimated 7.2 percent annual rate in the third quarter of 2003.

Importantly, tax revenues did not decline following passage of the 2003 tax relief. Tax Revenues actually *increased* by 5 percent in 2004 and a dramatic 14.6% in FY 2005.

Finally, suggestions that the tax relief benefited only the “rich” were recently proven wrong by a Treasury study that confirms that the rich are paying a bigger share of taxes than they would if the Bush tax cuts had not passed. The Treasury Department estimates that the top 1 percent of earners will pay about 32.3 percent of taxes this year. Absent the tax relief they would be paying only 30.5 percent.



Conclusion

Americans entrusted Republicans with control of the legislative and executive branches of government to make the tough decisions necessary to ensure that we leave the next generation of Americans a government and economy that they deserve. Passing reconciliation legislation that will ensure long-term savings, and help offset disaster relief, is an important step to achieve that goal.