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It's time to stretch short-term deficit cuts into long ones

By Sen. Judd Gregg (R-N.H.)

The good news is that never before have so many Americans been employed, the economy is strong and getting stronger, and we are in position to reduce the budget deficit in real terms. The bad news is that the long-term spending commitments made by the government are unsustainable and must be addressed now to ensure economic security for our children and grandchildren.

The outlook for the short-term budget deficit significantly improved last week, when the Office of Management and Budget announced in its fiscal year 2005 midsession review that projections of federal deficits for 2005 through 2010 are now much lower than forecast last February.

The review, which provides revised estimates of the budget deficit, receipts, outlays and budget authority, showed that the 2005 deficit is projected to be $94 billion, or 22 percent, less than forecast in February. Falling to $333 billion, or 2.7 percent of the gross domestic product (GDP), it would be smaller than the deficits in 15 of the past 25 years as a percentage of GDP. It is on course to be reduced to 1.1 percent of GDP by 2008.

The decline in the short-term deficit can be attributed to higher-than-anticipated tax receipts, which shows that the president's tax-reform measures and economic policies are working. Allowing families and businesses to keep more of what they earn has spurred growth in the economy, created 3.7 million jobs since May 2003 and resulted in increased revenues for the federal government. Data from the U.S. Treasury Department show that federal tax receipts are up 14 percent this year from last year.

I am optimistic that we are now back on the right track to reduce sharply the short-term deficit over the next several years, as long as we keep the tax burden low and maintain discipline over non-security discretionary spending. Last year, non-security discretionary spending growth was held to below 2 percent — down from the previous five-year average of 6.3 percent. While we are making good progress on the appropriations process this year, Congress needs to adhere to the budget parameters set by the budget resolution and stay the course.

A much more serious public-policy problem are long-term liabilities — promises that the federal government has already made. Most of these pledges fall under one of three programs: Social Security, Medicare and Medicaid.

Social Security and Medicare are on the verge of being overwhelmed by the largest generation in our nation's history, the baby-boom generation, which begins retiring in 2008. The unchecked rise in healthcare costs has caused Medicaid spending to mushroom. These programs represented more than half of all federal spending last year, but in just 10 years they will balloon to two-thirds of the entire federal budget.

Officials from the Government Accountability Office estimate that our nation's unfunded promises over the next 75 years will total $44 trillion. By comparison, all taxes collected by the federal government over its entire history total only $38 trillion. Post-World War II average federal spending is 20 percent of GDP. But by 2050, the Congressional Budget Office estimates, Social Security, Medicare and Medicaid spending alone could require spending equivalent to 26 percent of GDP.

This year, for the first time since 1997, Congress is working to rein in spending on entitlement programs. The budget resolution passed in April contains language directing eight Senate and eight House authorizing committees to pare back mandatory spending on entitlement programs under their jurisdictions, which will result in savings of nearly $35 billion over five years. Those savings will be included in a reconciliation package this fall, and I look forward to taking an important first step toward addressing this long-term problem.

So despite the good news we have seen this week reaffirming the sound economic policies put in place by Congress and the president, it goes without saying that the long-term deficit is simply too high. Too much of our spending is on automatic pilot, increasing year after year with no way to check it.

Mandatory entitlement spending now represents a whopping 55 percent of all federal spending. If left on its current path, that could jump to more than 60 percent in 10 years. That will force us to cut out other necessary expenditures or raise taxes and weaken our economy.

For the sake of our children and grandchildren, we must get serious about putting our financial house in order and curb the out-of-control growth in entitlements. We have some difficult decisions ahead of us, but the economic security of future generations depends on our generation finding the right solutions.

Gregg is chairman of the Senate Budget Committee.

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