

THE PATH TO PROSPERITY

RESTORING AMERICA'S PROMISE



FISCAL YEAR 2012 BUDGET RESOLUTION

**House Committee on the Budget
Chairman Paul Ryan of Wisconsin**

budget.GOP.gov

STATEMENT OF CONSTITUTIONAL AND LEGAL AUTHORITY

Article I of the U.S. Constitution grants Congress the power to appropriate funds from the Treasury, pay the obligations of and raise revenue for the federal government, and publish statements and accounts of all financial transactions.

By law, Congress is also obligated to write a budget representing its plan to carry out these transactions in the forthcoming fiscal years. While the President is required to propose his administration's budget requests for Congress's consideration, Congress alone is responsible for writing the laws that raise revenues, appropriate funds, and prioritize taxpayer dollars within an overall federal budget.

The budget resolution is the only legislative vehicle that views government comprehensively. It provides the framework for the consideration of other legislation. Ultimately, a budget is much more than a series of numbers. It also serves as an expression of Congress's principles, vision and philosophy of governing.

This Budget Resolution for Fiscal Year 2012 intends to recommit the nation fully to the timeless principles of American government enshrined in the U.S. Constitution – liberty, limited government, and equality under the rule of law. It seeks to guide policies by those principles, freeing the nation from the crushing burden of debt that is now threatening its future.

This budget is submitted, as prescribed by law, to apply these principles, reflect this vision, and provide a framework for the orderly execution of Congress's constitutional duties for Fiscal Year 2012 and beyond.

SUMMARY OF THE FISCAL YEAR 2012 BUDGET RESOLUTION

Where the President has failed, House Republicans will lead. This budget helps spur job creation today, stops spending money the government doesn't have, and lifts the crushing burden of debt. This plan puts the budget on the path to balance and the economy on the path to prosperity.

KEY FACTS

SPENDING

- Cuts \$6.2 trillion in government spending over the next decade compared to the President's budget, and \$5.8 trillion relative to the current-policy baseline.
- Eliminates hundreds of duplicative programs, reflects the ban on earmarks, and curbs corporate welfare bringing non-security discretionary spending to below 2008 levels.
- Brings government spending to below 20 percent of the economy, a sharp contrast to the President's budget, in which spending never falls below 23 percent of GDP over the next decade.

DEBT AND DEFICITS

- Reduces deficits by \$4.4 trillion compared to the President's budget over the next decade.
- Surpasses the President's low benchmark of sustainability – which his own budget fails to meet – by reaching primary balance in 2015.
- Puts the budget on the path to balance and *pays off* the debt.

TAXES

- Keeps taxes low so the economy can grow. Eliminates roughly \$800 billion in tax increases imposed by the President's health care law. Prevents the \$1.5 trillion tax increase called for in the President's budget.
- Calls for a simpler, less burdensome tax code for households and small businesses. Lowers tax rates for individuals, businesses and families. Sets top rates for individuals and businesses at 25 percent. Improves incentives for growth, savings, and investment.

GROWTH AND JOBS

- Creates nearly 1 million new private-sector jobs next year, brings the unemployment rate down to 4 percent by 2015, and results in 2.5 million additional private-sector jobs in the last year of the decade.
- Spurs economic growth, increasing real GDP by \$1.5 trillion over the decade.
- Unleashes prosperity and economic security, yielding \$1.1 trillion in higher wages and an average \$1,000 per year in higher income for each family.

KEY OBJECTIVES

- **ECONOMIC GROWTH AND JOB CREATION:** Fosters a better environment for private-sector job creation by lifting debt-fueled uncertainty and advancing pro-growth tax reforms.
- **SPENDING CUTS AND CONTROLS:** Stops Washington from spending money it does not have on government programs that do not work. Locks in spending cuts with spending controls.
- **REAL SECURITY:** Fulfills the mission of health and retirement security for all Americans by making the tough decisions necessary to save critical health and retirement programs.
- **PATIENT-CENTERED HEALTH CARE:** Repeals and defunds the President's health care law, advancing instead common-sense solutions focused on lowering costs, expanding access and protecting the doctor-patient relationship.
- **RESTORING AMERICA'S EXCEPTIONAL PROMISE:** Tackles the existential threat posed by rapidly growing government and debt, applying the nation's timeless principles to this generation's greatest challenge. Ensures that the next generation inherits a stronger, more prosperous America.

KEY COMPONENTS

Efficient, Effective and Responsible Government

- Prioritizing National Security: Reflects \$178 billion in savings identified by Defense Secretary Robert Gates, reinvesting \$100 billion in higher military priorities and dedicating the rest to deficit reduction.
- Streamlining Other Government Agencies:
 - Returns non-security discretionary spending to below 2008 levels.
 - Repeals the new health care law and moves toward patient-centered reform.
 - Reduces the bureaucracy's reach by applying private-sector realities to the federal government's civilian workforce.
 - Targets hundreds of government programs that have outlived their usefulness.
- Ending Corporate Welfare: Ends the taxpayer bailouts of failed financial institutions, reforms Fannie Mae and Freddie Mac, and stops Washington from picking the winners and losers across sectors of the economy.
- Boosting American Energy Resources: Removes barriers to safe, responsible energy exploration in the United States; unlocks American energy production to help lower costs, create jobs, and reduce dependence on foreign fossil fuels.
- Changing Washington's Culture of Spending: Locks in savings with enforceable spending caps and budget-process reforms, addressing not only what Washington spends, but also how tax dollars are spent.

Strengthening the Social Safety Net

- Repairing a Broken Medicaid System: Ends an onerous, one-size-fits-all approach by converting the federal share of Medicaid spending into a block grant that gives states the flexibility to tailor their Medicaid programs to the specific needs of their residents.
- Preparing the Workforce for a 21st Century Economy: Consolidates the complex maze of dozens of overlapping job-training programs into more accessible, accountable career scholarships aimed at empowering American workers to compete in the global economy.

Fulfilling the Mission of Health and Retirement Security

- Saving Medicare: Protects those in and near retirement from any disruptions and offers future beneficiaries the same kind of health-care options now enjoyed by members of Congress.
- Advancing Social Security Solutions: Forces action by the President and both chambers of Congress to ensure the solvency of this critical program.

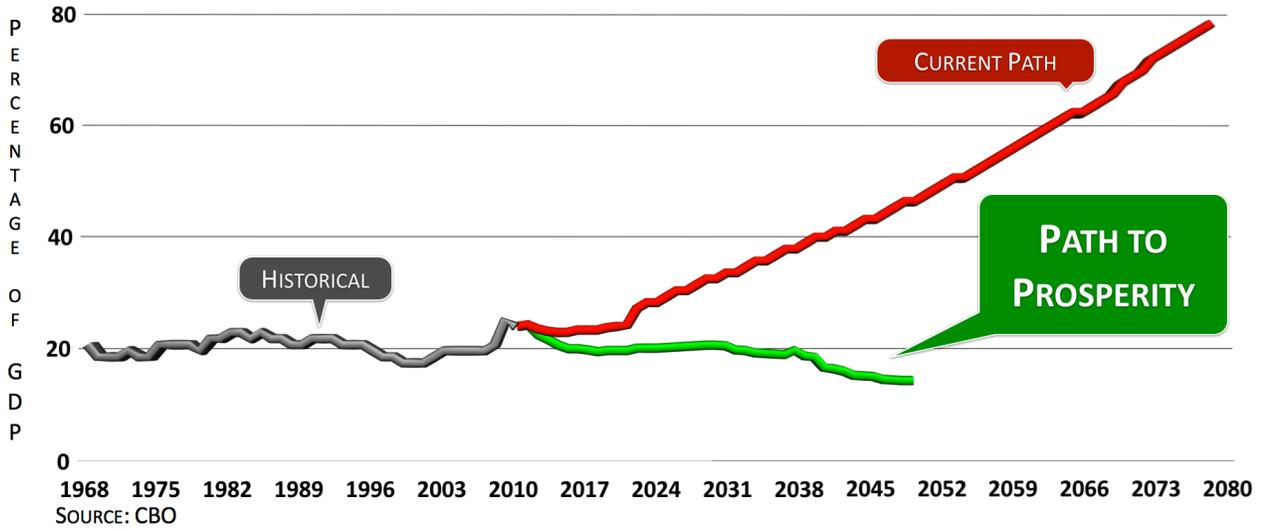
Promoting Economic Growth and Job Creation

- Individual Tax Reform: Simplifies the broken tax code, lowering rates and clearing out the burdensome tangle of loopholes that distort economic activity; brings the top rate from 35 to 25 percent to promote growth and job creation.
- Corporate Tax Reform: Improves incentives for job creators to work, invest, and innovate in the United States by lowering the corporate tax rate from 35 percent, which is the highest in the industrialized world, to a more competitive 25 percent.

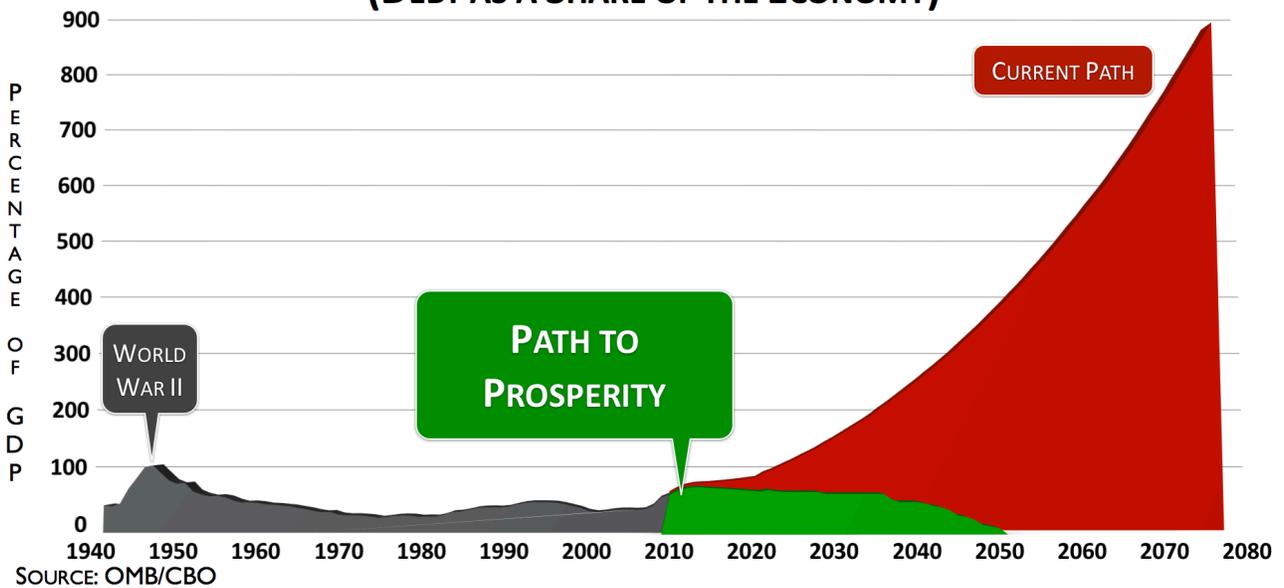
A CONTRAST IN BUDGETS

	<i>The Path to Prosperity</i>	President's FY2012 Budget
Spending Cuts	\$6.2 trillion in spending cuts relative to President's budget; \$5.8 trillion in spending cuts relative to CBO's current-policy baseline	\$400 billion in new spending above CBO's current-policy baseline
Spending Levels	Brings non-security discretionary spending to below pre-stimulus, pre-bailout levels	Locks in reckless spending spree
Taxes	Stops all of President's taxes; Reforms the broken tax code	Imposes a \$1.5 trillion tax increase
Corporate Tax	Lowers the corporate tax rate to 25 percent to promote job creation and global competitiveness	Leaves in place the highest corporate tax rate in the developed world, driving jobs overseas
Size of Government	Brings government down to below 20 percent of GDP by 2015; 15 percent of GDP in 2050	Spending as a percent of GDP never drops below 23 percent; Commits to the explosive growth of government
Deficit	Brings deficits under \$1 trillion in FY2012; Reduces deficits \$4.4 trillion relative to President's budget; Puts the budget on a path to balance	\$1.2 trillion deficit in FY2012 marks the fourth straight deficit exceeding the \$1 trillion mark
Primary Balance	Primary balance (spending – interest payments = revenue) is reached in 2015	Never reaches primary balance – failing to clear even the low bar the administration set for itself
Debt Held by Public	Reduces the debt by \$4.7 trillion relative to the President's budget; Pays off the debt over time	Adds \$9.1 trillion to the debt over the next decade; Accelerates a debt-fueled economic crisis
Health Care	Repeals the job-destroying health care law	Accelerates the job-destroying health care law
Jobs	According to the Heritage Center for Data Analysis, creates nearly 1 million new private-sector jobs next year; Brings unemployment rate down to 4 percent in 2015	Accelerates tax hikes, health care law, debt and government spending – policies that result in slower economic growth and fewer American jobs

TOTAL FEDERAL SPENDING (AS PERCENTAGE OF GDP)



A CHOICE OF TWO FUTURES (DEBT AS A SHARE OF THE ECONOMY)



CHOICE
— OF —
TWO FUTURES

INTRODUCTION

Americans face a monumental choice about the future of their country.

This budget resolution reflects that choice. It disavows the relentless government spending, taxing, and borrowing that are leading America, right at this moment, toward a debt-fueled economic crisis and the demise of America's exceptional promise.

It chooses instead a path to prosperity – by limiting government to its core constitutional roles, keeping America's promises to seniors, and unleashing the genius of America's workers, investors, and entrepreneurs.

For too long, policymakers in Washington have traveled the path of least resistance – a path that has, unsurprisingly, led the nation downhill. The empty promises made by Washington over the years have resulted in economic hardships today and increasing pessimism about tomorrow.

Government at all levels is mired in debt. Mismanagement and overspending have left the nation on the brink of bankruptcy. Only recently, millions of American families saw their dreams destroyed in a financial disaster caused by misguided policies, perverse incentives, and irresponsible leadership. This crisis squandered the nation's savings and crippled its economy.

At a time when the free-market foundations of the American economy were in desperate need of restoration and repair, the last Congress took actions that further undermined them. The President and his party's leaders embarked on a stimulus spending spree that added hundreds of billions of dollars to the debt, yet failed to deliver on its promises to create jobs. Acute economic hardship was exploited to enact unprecedented expansions of government power.

This did not sit well with the American people. Citizens stood up and demanded that their leaders reacquaint themselves with America's founding ideals of liberty, limited government, and equality under the rule of law.

In recent years, both political parties have squandered the public's trust. The American people ended a unified Republican majority in 2006, just as they ended a unified Democratic majority last fall. Americans reject leaders who focus on the pursuit of power at the expense of principle. They reject empty promises from a government that cannot live within its means. They deserve the truth about the nation's fiscal and economic challenges. They deserve – and demand – honest leaders willing to stand for solutions.

Congress can no longer afford to ignore these demands. Political parties lose elections, and life in the republic goes on. But a government that loses its sovereignty to its bondholders cannot long guarantee its people's prosperity – or secure their freedom. A government that buries the next generation under an avalanche of debt cannot claim the moral high ground in the world. A government that allows economic destinies to be determined by political considerations rather than merit cannot lead the world in productivity and growth. And a government that promotes dependency and undermines the institutions of faith and family will inevitably weaken the nation's greatest strength: the exceptional character of its entrepreneurial, self-reliant, and hard-working citizens.

This budget, *The Path to Prosperity*, heeds America's political, economic, and moral imperatives by confronting the nation's most urgent fiscal challenges.

This *Path to Prosperity* draws upon solutions from across the political spectrum and builds upon the important work of the President's bipartisan Commission on Fiscal Responsibility and Reform.

This *Path to Prosperity* reflects input from leaders at the state and local level, economists and experts who have testified before the House Budget Committee, and American citizens calling for honest leadership and real solutions.

This *Path to Prosperity* applies America's timeless principles to today's greatest challenges by committing to three key goals: lifting the crushing burden of debt, fulfilling the mission of health and retirement security for all Americans, and strengthening the foundations of economic growth and job creation.

Above all, this *Path to Prosperity* calls for a government faithful to its limited but noble mission: securing every American's right to pursue a destiny of his or her choosing. This budget rejects a culture of complacency, offers reforms that promote initiative by rewarding effort, and aims to restore the dynamism that has defined America over the generations.

In the words of Abraham Lincoln, "We cannot escape history. We of this Congress and this Administration will be remembered in spite of ourselves." Will this be remembered as the Congress that did nothing as the nation slouched toward a preventable debt crisis and irreversible decline? Or will it instead be remembered as the Congress that did the hard work of preventing that crisis – the one that chose the path to prosperity?

Decline is antithetical to the American Idea. America is a nation conceived in liberty, dedicated to equality, and defined by limitless opportunity. In all the chapters of human history, there has never been anything quite like America. This budget's goal is to keep it exceptional, and to preserve its promise for the next generation.

COMPONENTS OF THE FEDERAL BUDGET

Before laying out a vision for the future of the country – for that is what a federal budget is – it is first necessary to provide an honest assessment of the facts.

Understanding how the government spends the money it takes in by taxing and borrowing is the first step toward the goal of reversing the tide of red ink and getting the economy growing again.

That understanding begins with the elements of the federal budget:

Annually Approved Spending

Discretionary spending – funding debated and approved annually by Congress and the President – accounted for slightly less than 40 percent of all federal spending in 2010. This category includes transportation, energy, education, foreign aid, and funding for most government agencies.

Over half of this category goes toward national defense, but it is important to put that number into perspective. Defense spending as a share of the budget has fallen from around 25 percent thirty years ago to around 20 percent

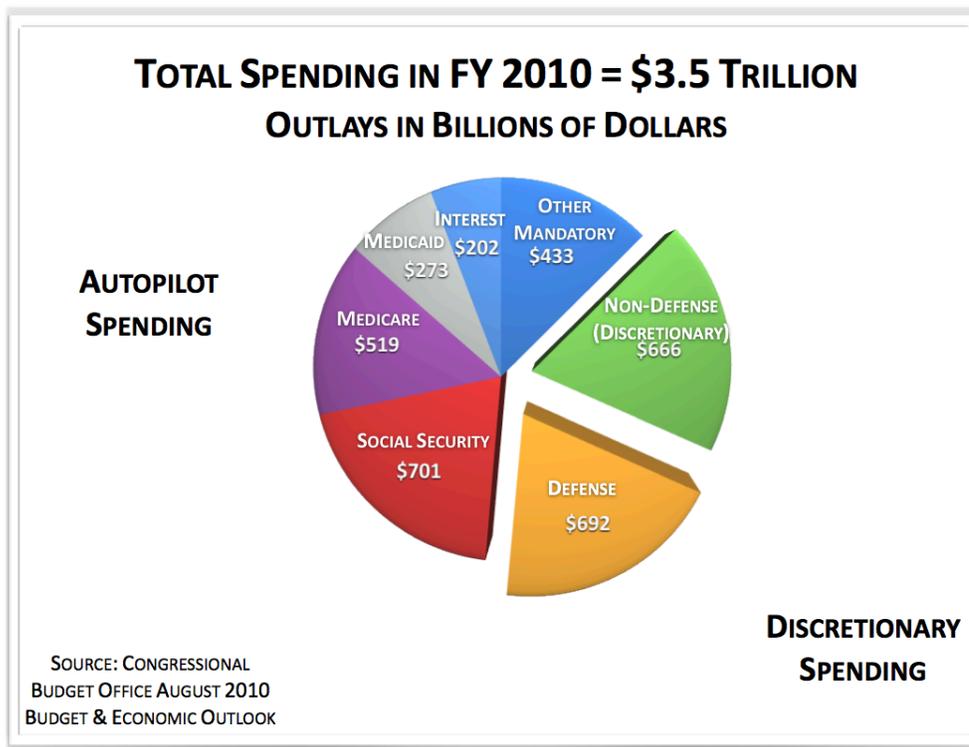
today. Like all categories of government spending, defense spending should be executed with greater efficiency and accountability. But responsible budgeting must never lose sight of the fact that the first responsibility of the federal government is to provide for the defense of the nation.

The category in Figure I labeled “non-defense discretionary spending” is primarily devoted to funding other government agencies. While American families have been tightening their belts, these agencies have been the beneficiaries of a major spending spree over the last two years. Since January of 2009, there has been a 24 percent increase in this slice of the pie – a number that jumps to 84 percent when stimulus funds are included.

Of the many new laws that made up the recent spending spree, the 2009 stimulus law has gotten the most attention, with considerable focus on the billions of dollars it wasted on dubious government projects as well as the many promises it broke with respect to job creation and economic growth. But domestic government agencies also received large increases in their base budgets – the Environmental Protection Agency (EPA), for example, received a 36 percent budget increase in just two short years.

An inevitable consequence of the last Congress’s decision to ramp up spending so quickly was that billions of Americans’ hard-earned tax dollars were squandered. The Government Accountability Office (GAO) – the non-House Budget Committee | April 5, 2011

FIGURE I



partisan agency that audits the government's books – recently found between \$100 billion to \$200 billion in duplication, overlap, and waste in federal spending.¹

Clearly, Congress must restore discipline to this category. Already this year, the House of Representatives voted to return spending on domestic government agencies to their pre-stimulus levels, and the House continues to push the Senate and the President to bring spending under control for the remainder of the current fiscal year.

The Path to Prosperity builds on these efforts to cut spending, ensuring government can efficiently and effectively meet its proper responsibilities. But getting discretionary spending under control is only a first step toward fiscal sustainability. The real drivers of the nation's debt lie elsewhere.

Autopilot Spending

Programs that have “autopilot” spending authority under existing law make up the rest of the budget. Because permanent law governs the funding levels of programs in this category, it is usually referred to as “mandatory spending,” even though Congress can change the law at any time.

As illustrated in Figure 1, autopilot spending accounted for around 60 percent of all federal spending in 2010. Congress does not regularly debate, annually appropriate or properly scrutinize this category of spending. If an individual meets legal eligibility requirements for these government programs, he or she automatically receives – or “is legally entitled” – to the benefit. This category includes food stamps, unemployment benefits, and farm subsidies – programs that are frequently referred to as “entitlement programs.”

The three largest entitlement programs are Social Security, Medicare, and Medicaid. Congress created these programs in the middle decades of the last century in response to a problem that has preoccupied American lawmakers for over a century: How can government best preserve the freedom to risk and to dare, in pursuit of dreams large and small, while providing a safety net for those citizens who meet with misfortune along the way?

For decades, seniors have been able to rely on Social Security and Medicare for their basic retirement needs, while Medicaid has sought to ensure that low-income Americans would not go without essential health care. But Americans will not be able to rely on these programs for much longer unless Congress repairs and reforms them. Social Security, Medicare and Medicaid all face structural problems that are driving them – and the country – into bankruptcy.

Unlike defense, the share of the budget that goes to these entitlement programs is growing rapidly. In 1970, these major entitlements consumed about 30 percent of the budget – a number that has grown to over 40 percent today (see Figure 1). Unless action is taken to reform these programs, they will continue to crowd out all other national priorities until they break the federal budget.

Simply put, these programs were created with a 20th-century economy in mind. They were not designed for the new demographic and economic challenges of the 21st century.

There are three key forces driving Social Security, Medicare and Medicaid into bankruptcy. All three are interrelated, even though some of them affect one program more than the others.

Demographics

The first is demographic. This problem is most clearly seen in the financing for Social Security.

Social Security is financed through a pay-as-you-go system, which means that current workers' Social Security taxes are used to pay benefits for current retirees. In 1935 when Social Security was enacted, there were about 42 working-age Americans for each retiree. The average life expectancy for men in America was 60 years; for

¹ Government Accountability Office. *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue*. March 2011. <http://www.gao.gov/new.items/d11318sp.pdf>
House Budget Committee | April 5, 2011

women it was 64. With these demographics, it was easy for the program to generate sufficient revenue to meet its promises to those over 65.

The demographic situation has changed dramatically, however, since the creation of the program. In 1950, there were 3.5 million beneficiaries. Currently, there are over 50 million beneficiaries – an over fourteen-fold increase.

The explosion of payments in the 75 years since the Social Security system was enacted will be dwarfed by the demographic demands about to come. The first members of the baby-boom generation – those born between 1946 and 1964 – are already eligible for early retirement. At the same time,

thanks to innovations in medical technology and health care, life expectancies have lengthened to an average of 75 years for men and 80 years for women, and are expected to grow further.

Not only is our nation aging, there has also been a demographic shift to a lower retirement age. In 1945, the average age of retirement was 69.6 years. In 2009, it was 63.8 years.

To put this in perspective, when Social Security was first enacted in 1935, each worker, on average, was contributing less than 2.5 percent of one retiree’s benefits. By 2030, each wage earner will be paying for nearly half of each retired person’s full benefits.

This represents a massive shift of earnings away from younger families trying to build their futures, toward Social Security recipients. No economy can grow and thrive under that heavy a tax burden.

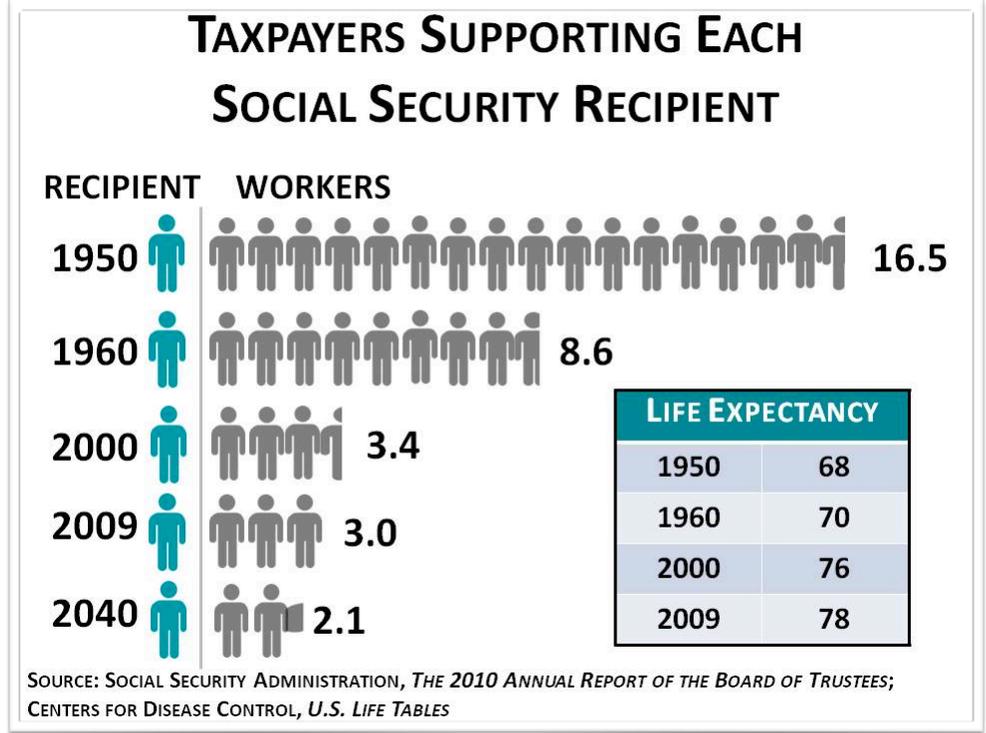
Real reform – especially with respect to Social Security – must reflect demographic reality.

Economics

The second force is economic. For much of the last two years, Washington has been embroiled in a bruising debate over a law that was supposed to provide a “comprehensive” solution to the nation’s health-care problems by putting even more of the health sector under government control. Yet rapidly rising health-care costs remain as big a problem as ever. In 2010, health-care costs rose by over 7 percent, compared to around 1 percent for all other goods and services.

This is putting enormous pressure on Medicare and Medicaid. But these programs aren’t just *affected* by rapidly rising health-care costs – they are actually a key driver of inflation in the health-care sector. Nearly 50 cents of every dollar spent on health care in this country is spent by federal, state or local government. Because of the design and structure of these programs, much of the government’s money gets wasted – and shows up as inflation in the cost of care.

Everyone who is on Medicare or knows someone on Medicare has stories about waste in the system – unnecessary tests, redundant treatments, and the cost in both time and money of mistaken billings and misplaced



records. This kind of waste is inevitable in a top-down, government-run system, and it's a big reason that costs have spiraled out of control.

Moreover, America's health-care entitlements are currently set up as open-ended, blank-check commitments to reimburse health-care providers for services – and this very structure raises costs and reduces efficiency. Blank-check commitments create perverse incentives for everyone in the health-care system to maximize his or her share of this apparently limitless government subsidy. This leads to waste and fraud on a massive scale.

Last year's health-care law – with its maze of mandates, dictates, controls, tax hikes and subsidies – exacerbates this flawed model and will push costs further in the wrong direction. Already, health insurance companies have announced big premium hikes related to the law's new mandates. Its so-called cost controls amount to the same kind of fee-for-service reductions that have failed to control costs in Medicare for decades. (Providers predictably increase the number of services provided for each condition as the government lowers fees). And it will dramatically expand a Medicaid program that is already breaking state budgets and adding to a growing flood of red ink at the federal level.

Real reform – especially with respect to Medicare – must eliminate this unsustainable waste and reduce inefficiencies and costs by giving beneficiaries themselves more control over their own health-care benefits and decisions.

Skewed political incentives

The third force, particularly with regard to Medicaid, boils down to a question of control. In this country, where should power reside? Should it be centralized in the hands of federal bureaucrats, or decentralized across the country at the state, local and individual level? The current incentive structure, with most of the power concentrated at the federal level, drives the heedless expansion of these programs and therefore the growth of health-care costs for all Americans.

As government increases subsidies and control over the price and delivery of health care, it saps the system of innovation and efficiency, and it pushes quality health care out of reach for those who are not eligible for federal programs. This results in more demands to increase federal subsidies and control. Any effort to propose significant reforms to these programs triggers a barrage of demagoguery and entrenched resistance.

Skewed political incentives have proved especially damaging in the Medicaid program. Because the federal government matches every state dollar spent on the program, states do not pay the full cost of expanding the program. At the same time, every dollar in Medicaid expenditures cut from state budgets triggers more than a dollar worth of cuts in federal funding. These incentives encourage states to expand the program beyond those who are truly in need.

Worse, states are not given the flexibility to design their Medicaid programs in smart or efficient ways. When even their smaller share of the tab becomes unaffordable, as has happened in many states, it is often the case that their only option is to impose across-the-board reductions in reimbursements to doctors, which leave many doctors unwilling to see Medicaid patients. As a result, these patients are left with fewer options and lower-quality care. The new health care law, with its large expansions of Medicaid, will funnel more people into a broken system.

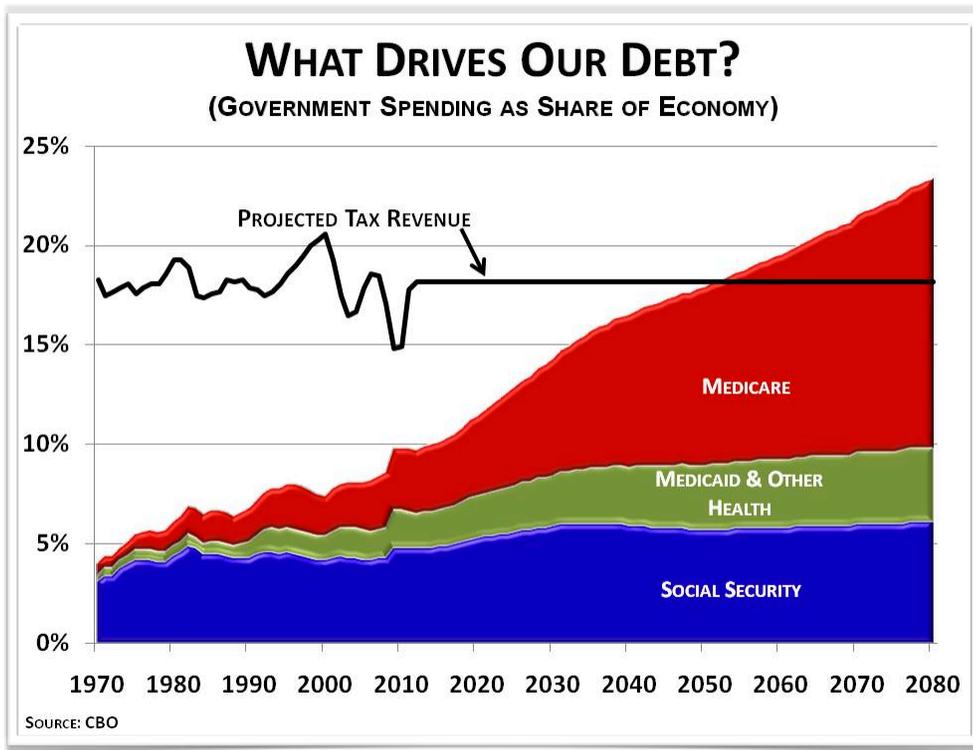
Real reform – especially with respect to Medicaid – must give states the flexibility they need to better assist their most vulnerable populations.

Empty promises

Policymakers have known about these problems for decades, but few have been willing to propose real solutions.

Figure 3 makes it very clear that, absent action, Social Security, Medicare and Medicaid will soon grow to consume every dollar of revenue that the government raises in taxes. At that point, policymakers would be left with no good options. Making do without any federal government departments, including the military, is not really

FIGURE 3



option at all, and neither is raising taxes to a level that no free and prospering economy could sustain.

Of course, if Congress continues to delay, it will lose even the ability to make such choices on its own terms. The foreign governments and institutional lenders that finance America's debt would cut up the nation's credit cards before things got that far. That would mean sudden, steep cuts in entitlement benefits to current seniors, less help for the poor, and a crushing tax burden on young families.

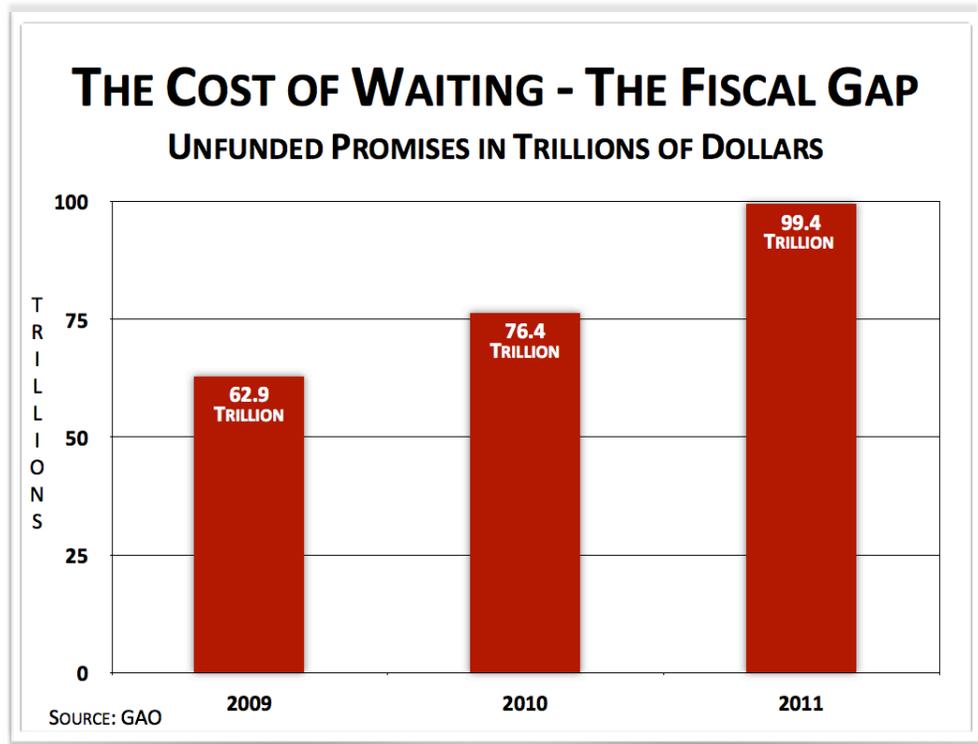
Each year that Congress fails to act, the U.S. government gets closer to breaking promises to current retirees while adding to a growing pile of empty promises made to future generations. The government's unfunded liabilities – promises the government makes to current workers about their health and retirement security for which it has no means to pay – are growing by trillions of dollars a year.

America has seen unfunded obligations much, much less severe than these take down some of its proudest companies. In industries such as steel, aviation and autos, workers lost promised benefits when their employers failed to take timely, responsible steps to update their unworkable, 20th-century benefit structures. Many retirees lost the critical health and retirement benefits that they were counting on.

Unless Congress acts, Americans can expect the same thing to happen to Social Security and Medicare. Under current law, Social Security benefits are scheduled to be cut by 22 percent in 2037, when the Social Security trust fund runs out of assets and payroll taxes are not sufficient to cover benefits owed. Medicare is on a similarly unsustainable path – the Medicare trend line illustrated in Figure 3 is a mathematical impossibility. Future benefit cuts – against a backdrop of skyrocketing

Each year that Congress

FIGURE 4



costs – are a certainty if the program goes unreformed.

Americans have had enough instability in their lives, and they deserve a federal health and retirement safety net that they can count on. If Congress wants to avoid defaulting on federal health and retirement programs, it must adopt a program of gradual adjustment – one that frees the nation from the shadow of debt, strengthens its health and retirement safety net, protects those in or near retirement from any disruptions in their benefits, and supports robust economic growth and job creation.

Taxes

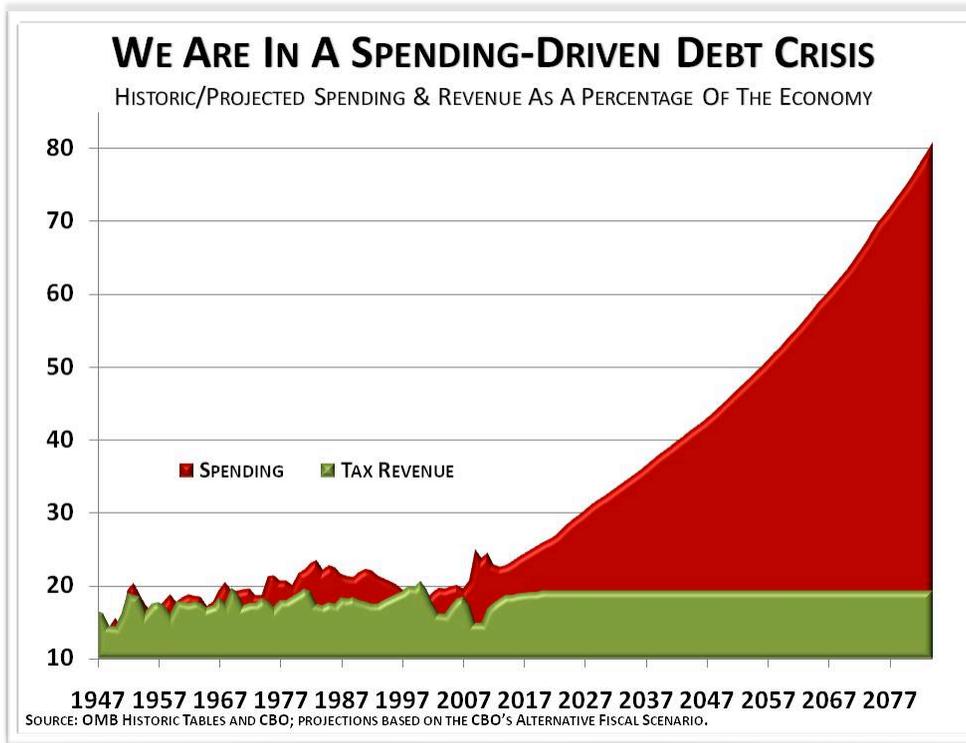
The U.S. government is not running sustained deficits because Americans are taxed too little. The government is running deficits because it spends too much.

Over the past 40 years, government revenue has averaged between 18 percent and 19 percent of GDP. This level has generally been compatible with prosperity, even though there is broad agreement that the structure of the tax code should be simplified and made more conducive to economic growth, high wages and entrepreneurship.

Figure 5 shows that Washington has a spending problem, not a revenue problem. The President's budget would drive both spending and revenues to historic highs as a share of the total U.S. economy. The trend is clear:

Chasing ever-higher spending with ever-higher tax rates would leave the U.S. economy at a severe disadvantage compared to the rest of the world, to say nothing of the pain felt by

FIGURE 5



American families deprived of the chance to save for a better future.

Nor can the government solve this problem just by raising the top individual tax rates: Even if it were wise to raise taxes on the most successful small businesses in America – most of which are owned by individuals and file at individual rates – the government cannot even come close to closing the fiscal gap that way. To close the fiscal gap by raising the top rates, the government would have to collect an additional \$500,000 each year on average from every taxpayer in the top two brackets, on top of what these taxpayers

already pay.

The non-partisan Congressional Budget Office has concluded that the tax rates needed to sustain the nation's current fiscal trajectory into the future would end up sinking the economy.² That is one reason that the Commission on Fiscal Responsibility and Reform proposed, as part of an overall effort to fix the nation's unsustainable deficits, a fundamental tax reform plan that actually lowered income tax rates to promote growth, while eliminating tax loopholes to broaden the tax base.³

² Congressional Budget Office. Letter to Congressman Paul D. Ryan. May 2008.

³ The National Commission on Fiscal Responsibility and Reform. *The Moment of Truth*. December 2010. http://www.fiscalcommission.gov/sites/fiscalcommission.gov/files/documents/TheMomentofTruth12_1_2010.pdf
House Budget Committee | April 5, 2011

A broader base with lower rates is central to a fair, efficient and sustainable tax code, and the economic growth spurred by such a reform is a precondition to fixing the nation's fiscal mess.

Deficits and Debt

When the government spends more than it takes in through taxes, it has to borrow money to cover the shortfall. The *deficit* is how much the nation has to borrow to fund the gap between spending and revenue in a given year. The *debt* is the total amount outstanding that the government owes – it represents the accumulation of deficits over time.

This year is projected to mark the third straight year in which the nation borrows over \$1 trillion. The gross debt is scheduled to hit \$14 trillion, which is nearly the size of the entire U.S. economy. The President's budget would nearly double this debt over the next ten years, bringing it to \$26 trillion. Clearly, Congress must address this crisis now – before it is too late.

BURDEN OF DEBT

FIGURE 6

The United States is facing a crushing burden of debt – a debt that will soon surpass the size of the entire U.S. economy and ultimately capsize it if left on its present course.

This is not the future of a proud and prosperous nation. It is the future of a nation in decline – its best days come and gone. Yet decline is not inevitable. Congress has all the fiscal powers necessary to command a change of course. But it must find the will to change, and find it quickly, in order to avoid this fate.

America's unsustainable budget path is no longer a problem that is far off in the future. The lenders who buy much of the federal government's debt have

noticed the disconnect between the government's perilous fiscal situation and the low rates of interest it is paying on the bonds that constitute the government's loans. Some have even decided to purge their portfolios of U.S. debt, and others are advising their clients to do the same.⁴

Through its interventions into the economy, the Federal Reserve has recently become the largest buyer of government debt in the country, and these purchases have helped keep interest rates low. But the Fed is scheduled to stop making these purchases this summer. Congress must show the market that it has a credible plan for getting the national debt under control, in order to ease concerns over the government's credit-worthiness and stave off an interest-rate spike.

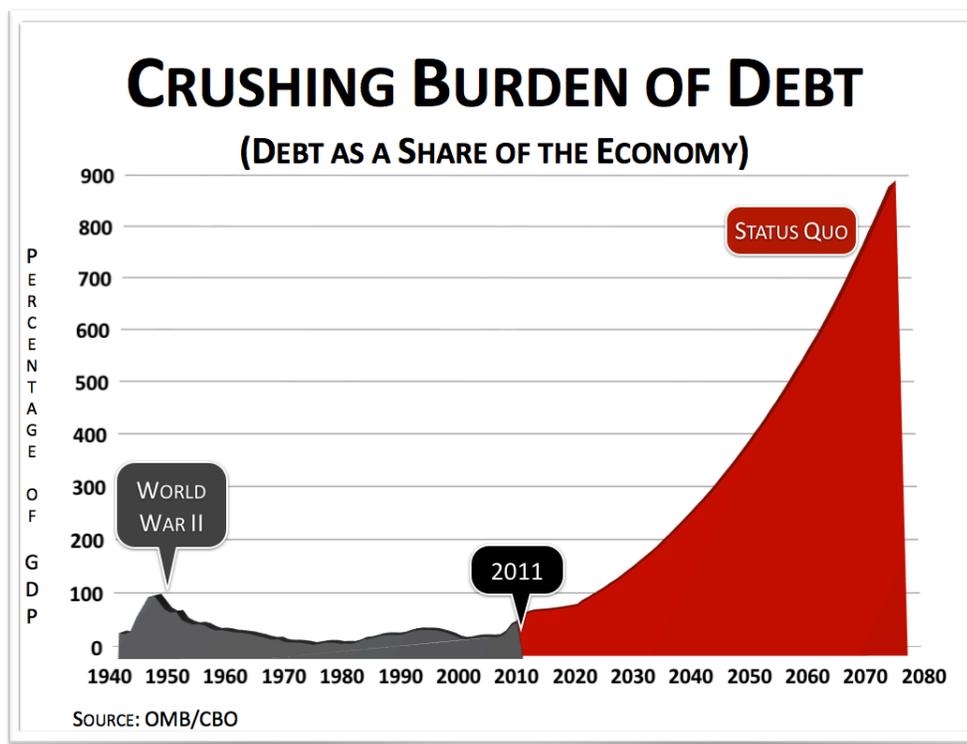
This budget is offered in the hope that it might demonstrate the new House majority's determination to face the government's most difficult fiscal challenges.

An Unsustainable Path

The recent sovereign debt crises in Greece and other highly-indebted European countries provide a cautionary tale of the rough justice of the marketplace – lenders cannot and will not finance unsustainable deficits forever, and when they cut up the credit cards of profligate countries, severe economic turmoil ensues.

Over the past few years, Americans have seen just how quickly a severe financial crisis can create widespread pain and chaos. But the last crisis was foreseen only by a small number of perceptive individuals who recognized the implications of unwise decisions being made in Washington and on Wall Street.

By contrast, nearly every fiscal expert and advisor in Washington has warned that a major debt crisis is inevitable if the U.S. government remains on its current unsustainable path. The government's failure to prevent this completely preventable crisis would rank among history's most infamous episodes of political malpractice.



⁴ "Pimco's Biggest Fund Dumps Treasury Bond Holdings." Reuters with CNBC.com, March 9, 2011 | <http://www.cnbc.com/id/41990901/> (accessed March 31, 2011).
House Budget Committee | April 5, 2011

Erskine Bowles, the Democratic co-chairman of the Commission on Fiscal Responsibility and Reform, said it best: “The era of deficit denial is over.”⁵

Nearing a Debt Crisis

Like a household or business, a nation’s indebtedness is best understood in terms of how much it owes relative to how much it makes. By that measure, debt held by the public – money that the U.S. government owes to others – will reach nearly 70 percent of the entire U.S. economy this year.

If this were merely a temporary rise in the debt, it would not be so alarming. However, the spending spree of the last two years, combined with the coming retirement of nearly 80 million baby boomers, threaten to turn these recent deficit spikes into a permanent plunge into debt.

Debt in excess of 60 percent of the economy is not sustainable for an extended period of time. That is bad news for the United States. According to the non-partisan CBO, the President’s budget would keep the debt climbing as a share of the economy in the decade ahead, from nearly 70 percent this year to over 87 percent of the U.S. economy by 2021. University of Maryland economist Carmen Reinhart testified before the Budget Committee that 90 percent is often a trigger point for economic decline.⁶

How a Debt Crisis Would Unfold

Spiraling interest rates

The first sign that a debt crisis has arrived is that bond investors lose confidence in a government’s ability to pay its debts – and by that point, it is usually too late to avoid severe disruption and economic pain. Right now, the U.S. government is able to borrow at historically low rates, partly because of the Fed’s interventions in the market, but also because the bonds of most foreign countries are looking even riskier. Neither of these conditions is going to last. Interest rates – and the burden of paying interest on the debt – have nowhere to go but up.

Interest payments are already consuming around 10 cents of every tax dollar. But as interest rates rise from their current historically low levels and debt continues to mount, interest payments are projected to consume over 20 percent of all tax revenue by 2020.

That means that one in five tax dollars will be dedicated to making interest payments by the end of the decade – and that’s according to optimistic projections about interest rates. If interest rates increase by a higher-than-expected amount in future – which appears to be more likely – then the nation’s interest payments could cost trillions of dollars more.

Foreign flight

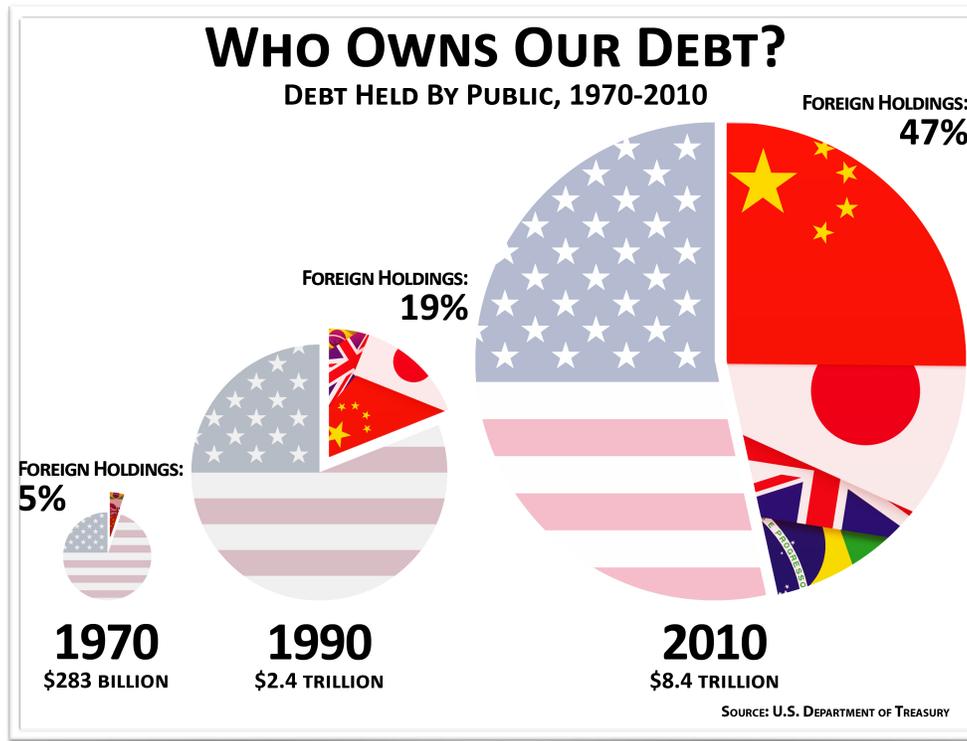
It would be one thing if the U.S. government owed most of this money to domestic lenders. But the nation’s reliance on foreign creditors has increased dramatically over the past few decades. Foreigners now own roughly half of all publicly held U.S. debt, a sharp increase from a generation ago when foreigners owned just 5 percent of U.S. debt. This makes the nation vulnerable to a sudden shift in foreign investor sentiment, particularly during a time of crisis.

If foreign investors, especially foreign governments such as China, begin to lose confidence in the U.S. government’s ability to solve its most difficult fiscal challenges, they will demand higher compensation to offset the perceived risk of holding U.S. debt – meaning sharply higher interest rates.

⁵ Wolf, Richard. “Are We Ready to Cut the U.S. Deficit?” *USA TODAY*, November 29, 2010 http://www.usatoday.com/printedition/news/20101129/ladeficit29_cv.art.htm (accessed March 31, 2011).

⁶ Reinhart, Carmen M. Testimony before the U.S. House, Committee on the Budget. *Lifting the Crushing Burden of Debt*. Hearing, March 10, 2011.

FIGURE 7



During the financial crisis, foreigners flocked to Treasury debt simply because other investments looked so unsafe by comparison, and this helped keep interest rates low. But these investment flows work both ways, as the heavily indebted nations of Europe have recently learned. If the Congress continues to put off difficult choices regarding the nation's long-term problems, foreign investors will re-evaluate the creditworthiness of the United States and demand higher interest rates.

The Consequences of Inaction

Stagflation

The economic effects of a debt crisis on the United States would be far worse than what the nation experienced during the financial crisis of 2008. For starters, no entity on the planet is large enough to bail out the U.S. government. Absent a bailout, the only solutions to a debt crisis would be truly painful: massive tax increases, sudden and disruptive cuts to vital programs, runaway inflation, or all three. This would create a huge hole in the economy that would be exacerbated by panic.

Even if high debt did not cause a crisis, however, the nation would still be in for a long and grinding period of economic decline if it stays on its current path. A recent study completed by Reinhart and economist Ken Rogoff of Harvard confirms this common-sense conclusion. The study found conclusive empirical evidence that total debt exceeding 90 percent of the economy has a significant negative effect on economic growth.⁷

The study looked specifically at the United States, focusing on growth and inflation relative to past periods when this nation has experienced high debt levels. The study found that not only is average economic growth dramatically lower when gross U.S. debt exceeds 90 percent of the economy, but inflation also becomes a problem.

Essentially, the study confirmed that massive debts of the kind the nation is on track to accumulate are associated with “stagflation” – a toxic mix of economic stagnation and rising inflation.

Real pain for families

Warning signs in financial markets would merely be a harbinger of the real economic pain that would eventually be felt by American families in the event of a debt crisis.

Much higher interest rates on government debt would translate into much higher interest rates on mortgages, credit cards and car loans. These higher rates would most likely come as a shock to most Americans, who have grown accustomed to borrowing in a climate of historically-low interest rates. It might even shock those who lived through the double-digit interest rates of the early 1980s.

⁷ Reinhart, Carmen M. and Kenneth S. Rogoff. “Growth in a Time of Debt.” January 2010. http://www.economics.harvard.edu/files/faculty/51_Growth_in_Time_Debt.pdf
House Budget Committee | April 5, 2011

Despite the increase in saving rates that has occurred in the wake of the financial crisis, U.S. households are still heavily indebted. The nation's households still owe \$13 trillion in private debt, or roughly 120 percent of their total disposable income. A large chunk of that total debt consists of home mortgages, while the rest is in credit cards and other forms of debt.

It turns out that roughly half of all that debt is in the form of variable interest rate loans, meaning that a sudden increase in Treasury bond rates would lead to higher borrowing costs for consumers relatively quickly. According to the current level and composition of U.S. household debt, estimates suggest that an interest rate increase of just 1 percentage point would lead to over \$400 in extra interest payments each year for the average family.

Given that a serious debt crisis could lead to a sharp increase in Treasury rates, the added interest costs for the typical family could easily exceed \$1,000 per year. As household borrowing costs spiked, growth in overall consumer spending, which accounts for nearly 70 percent of the U.S. economy, would decline.

Real pain for businesses

Higher borrowing costs would also serve as a serious impediment for businesses. The rise in interest rates would lead to lower business investment as companies would face a much higher hurdle for profitability on potential expansion plans.

Businesses would be doubly squeezed because, as their funding costs were rising, demand for their products (particularly consumer durables bought on credit like cars, home furnishings, etc.) would be slipping as consumer spending tailed off. Add in higher taxes from a cash-strapped government trying to appease its creditors, and the inevitable result would be less business expansion and higher unemployment.

Harsh austerity

As economic growth deteriorates, it becomes harder for the government to raise revenue through taxes, and a vicious cycle ensues. If the nation ultimately experiences a panicked run on its debt, it will be forced to make immediate and painful fiscal adjustments (like the austerity program that has provoked riots in Greece).

Facing the inability to borrow at a reasonable rate in the market, the government would have to slash spending and raise taxes to narrow its large fiscal gap. In such a crisis, the Fed may also face rising pressure to step in and "monetize" the government's debt – essentially printing money to buy up the public debt that private investors refuse to finance.

The consequences of these actions would be disastrous for the U.S. and the global economy. If the U.S. government were forced to address such a situation by cutting domestic spending and raising taxes to close the budget gap, it would be compelled to do so indiscriminately. Promises to current retirees would be broken, and tax rates would be raised across-the-board, without regard for the economic consequences. Monetizing the debt, meanwhile, would soon lead to a destabilizing inflation. This would wipe out the savings of millions of Americans, hitting seniors the hardest. When combined with benefit cuts, this would mean punishing seniors twice.

Financial system breakdown

The U.S. dollar is the world's reserve currency, and U.S. Treasury bonds are the lynchpin of global debt markets, considered to be safe and highly liquid assets by virtually all financial institutions worldwide. A U.S. debt crisis would lead to sharp declines in the dollar and in the price of these bonds, causing a deterioration of the balance sheets of large financial institutions. The resulting panic would be orders of magnitude more disruptive than the financial crisis in 2008.

The Path to Decline

In the end, the debate about rising U.S. debt is not just about dollars and cents, but also about America's status as a world power and its freedom to act in its own best interests. If the nation stays on its current path, interest payments on the national debt will begin to exceed yearly defense spending just 11 years from now. In just 16 years, yearly interest expenses will be double national defense spending.

If it stays on its current fiscal path, the United States will be unable to afford its role as an economic and military superpower. Other nations with very different interests will rush in to fill that role.

Last year in *Foreign Affairs* magazine, financial historian Niall Ferguson surveyed some of the great empire declines throughout history and observed that "most imperial falls are associated with fiscal crises. All the... cases were marked by sharp imbalances between revenues and expenditures, as well as difficulties with financing public debt. Alarm bells should be ringing loudly... [for] the United States."⁸

America must not lose its role in the world. For this and many other reasons, Congress must act now to change the nation's fiscal course. The new House majority was sent here by the American people to get spending under control, keep taxes low, and confront these great challenges today to allow this generation to pass an even greater nation along to the next generation.

Congress can choose to let this nation go the way of fallen empires, or it can begin – today – the work of restoring the vitality and greatness of America.

⁸ Ferguson, Niall. "Complexity and Collapse: Empires on the Edge of Chaos." *Foreign Affairs*, March/ April 2010. House Budget Committee | April 5, 2011

A REFORM AGENDA FOR THE U.S. GOVERNMENT

When it comes to this generation's defining challenge – the explosive growth of the national debt – the simple truth is that Washington has not been honest with the American people.

The last Congress added trillions to the problem, and the current administration has offered no serious plan to address the sea of red ink. There is a vacuum of leadership in Washington. This budget attempts to lead where others have fallen short. To do otherwise would consign the United States to a diminished future – a future that disrespects the sacrifices that generations of American families have made to secure the promise of this exceptional nation.

This budget offers America a model of government guided by the timeless principles of the American Idea: free market democracy, open competition, a robust private sector bound by rules of honesty and fairness, a secure safety net, and equal opportunity for all under a limited constitutional government of popular consent.

In certain key respects, the federal government has strayed from these timeless principles. This budget offers a set of fundamental reforms to put the nation back on the right track.

I. **Reform government to make it more efficient, effective and responsible**

The role of the federal government is both vital and limited. When government takes on too many tasks, it usually doesn't do any of them very well. Limited government also means effective government. This budget recommits the federal government to the security of every American citizen's natural right to life, liberty and the pursuit of happiness, while fostering an environment for economic growth and private sector job creation.

Providing for the common defense: Recognizing that the first job of government is to secure the safety and liberty of its citizens from threats at home and abroad, this budget rejects proposals to make deep, across-the-board cuts in funding for national defense. Instead, it reflects the \$178 billion in savings identified by Defense Secretary Robert Gates, \$100 billion of which would be reinvested in higher combat priorities. American men and women in uniform are presently engaged with a fierce enemy and dealing with emerging threats around the world. This budget achieves savings in the category of national defense *without* jeopardizing preparedness or critical missions.

Streamlining other government agencies: Government spending on domestic departments and agencies has grown too much, too fast over the past decade, with much of the money going to programs and projects the nation can do without. This budget starts to restore spending discipline to a government that badly needs it by returning non-security discretionary spending to well below 2008 levels. It reduces the bureaucracy's reach by applying private-sector realities to the federal government's civilian workforce. It targets hundreds of government programs that have outlived their usefulness. It reflects an extension of the moratorium on earmarks. And it repeals the government takeover of health care enacted last year and moves toward patient-centered reform.

Ending corporate welfare: There is a growing and pernicious trend of government overreach into sectors of the private economy – a trend that stacks the deck in favor of entrenched interests and stifles growth. This budget ends the taxpayer bailouts of failed financial institutions and stops Washington from picking the winners and losers across sectors of the economy.

Boosting American energy resources: Too great a percentage of America's vast natural resources remain locked behind bureaucratic barriers and red tape. This budget removes moratoriums on safe, responsible energy exploration in the United States, ends Washington policies that drive up gas prices, and unlocks American energy production to help lower costs, create jobs, and reduce dependence on foreign oil.

Changing Washington's culture of spending: The budget process in Washington contains numerous structural flaws that bias the federal government toward ever-higher levels of spending. This budget locks in savings with enforceable spending caps and budget process reforms, addressing not only what Washington spends, but also how tax dollars are spent.

2. Reform welfare to strengthen the social safety net

This budget builds upon the historic progress of bipartisan welfare reform in the late 1990s. It strengthens Medicaid, food stamps and job training programs by providing states with greater flexibility to help recipients build self-sufficient futures for themselves and their families.

Repairing a broken Medicaid system: Medicaid's flawed financing structure has created rapidly rising costs that are nearly impossible to check. This budget ends an onerous, one-size-fits-all approach by converting the federal share of Medicaid spending into a block grant that gives states the flexibility to tailor their Medicaid programs to the needs of their unique populations.

Targeting assistance to those in need: The welfare reformers of the 1990s were not able to extend their work beyond cash welfare to other means-tested programs. This budget extends those successes to other areas of the safety net to ensure that America's safety net does not become a hammock that lulls able-bodied citizens into lives of complacency and dependency.

Preparing the workforce for a 21st century economy: The government's dozens of job-training programs suffer from overlapping responsibilities and too often lack accountability. The government must do a much better job of leveraging and targeting existing resources in this policy area. This budget consolidates a complex maze of dozens of job-training programs into more accessible, accountable career scholarships aimed at empowering American workers with the resources they need to pursue their dreams.

3. Reform government programs to fulfill the mission of health and retirement security

This budget puts an end to empty promises from a broke government, offering instead real security through real reforms. The framework established in this budget secures health and retirement benefit programs both for current beneficiaries, who will receive the benefits they've organized their retirements around, and for future generations, who will inherit stronger programs they can count on when they retire.

Saving Medicare: A flaw in Medicare's structure is driving up health care costs, which are, in turn, threatening to bankrupt the system – and ultimately the nation. This budget saves Medicare by fixing this flawed structure so that the program will be there for future generations. These changes will not affect those in and near retirement in any way. When younger workers become eligible for Medicare, they will be able to choose from a list of guaranteed coverage options, enjoying the same kind of choices in their plans that members of Congress enjoy today. Medicare would then provide a payment to subsidize the cost of the plan. In addition, Medicare will provide increased assistance for lower-income beneficiaries and those with greater health risks. Reform that empowers individuals — with a strengthened safety net for the poor and the sick — will guarantee that Medicare can fulfill the promise of health security for America's seniors.

Advancing Social Security solutions: The risk to Social Security, driven by demographic changes, is nearer at hand than most acknowledge. This budget heads off a crisis by forcing action from the President and both chambers of Congress to ensure the solvency of this critical program – creating the space for bipartisan solutions.

4. Reform the tax code to promote economic growth and job creation

This budget recognizes that the nation's fiscal health requires a vibrant, growing private sector. It charts a prosperous path forward by reforming a tax code that is overly complex and unfair.

Individual tax reform: The current code for individuals is too complicated, with high marginal rates that discourage growth. This budget embraces the widely acknowledged principles of pro-growth tax reform by proposing to consolidate tax brackets and lowers tax rates, with a top rate of 25 percent, clearing out the burdensome tangle of loopholes that distort economic activity.

Corporate tax reform: American businesses labor under the highest corporate income tax in the developed world. The perverse incentives created by the corporate income tax do a lot of damage, yet the tax itself raises relatively little revenue. This budget improves incentives for job creators to work, invest, and innovate in the United States by lowering the corporate rate from 35 percent to a much more competitive 25 percent.

The Choice

Throughout history, Americans have selflessly tackled the difficult challenges before the republic, whether civil war, economic depression, or military threats from abroad.

From the beginning, our nation has been marked by hardship, yet defined by great courage and achievement in monumental efforts.

Each generation has been tested, and each generation has found strength in America's highest principles and called forth its deepest virtues to make certain that the next generation inherited a stronger, more prosperous and free America.

Today, the nation's crushing burden of debt jeopardizes this legacy.

This generation must not be the first generation to fail – to break the link between our past, our present and our future.

America is drawing perilously close to a tipping point that has the potential to curtail free enterprise, transform its government, and weaken its national identity in ways that may not be reversible.

In this we face two dangers: long-term economic decline as the number of makers diminishes and the number of takers grows and, worse, gradual moral-political decline as dependency and passivity weaken the nation's character and as the power to make decisions is stripped from individuals and their elected representatives and given to non-elected bureaucracies.

The Path to Prosperity charts a different course.

This budget provides a plan for assuring that this generation upholds America's historic legacy, rediscovers her abiding principles, and charts a new path to prosperity.

It marks a new federal commitment, assuring this nation's workers, investors, savers, and lenders that the new House majority recognizes the threat that unlimited government poses to the American way of life, and that it is determined to fulfill its commitments and responsibly restrain government's growth.

Restoring limits to the size and scope of government is not a partisan issue. In his State of the Union Address on January 4, 1935, President Franklin Roosevelt – in words later repeated by President Ronald Reagan – warned of the threat to America's national character from permanent dependency on government:

The lessons of history, confirmed by the evidence immediately before me, show conclusively that continued dependence upon relief induces a spiritual and moral disintegration fundamentally destructive to the national fiber. To dole out relief in this way is to administer a narcotic, a subtle destroyer of the human spirit... It is in violation of the traditions of America.

Americans truly face a monumental choice – a choice that can no longer be avoided.

The Path to Prosperity is the groundwork for a serious conversation about the future of this exceptional nation.

While an important statement of priorities, a budget is merely a blueprint for the actual work of statecraft. The elected representatives of the American people – in the House of Representatives, in the Senate and in the White House – now must take up the tools and start building the future Americans deserve.

This generation's defining moment has arrived.

(NOMINAL DOLLARS IN BILLIONS)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-2021
OUTLAYS	3,618	3,529	3,559	3,586	3,671	3,858	3,998	4,123	4,352	4,544	4,739	39,958
REVENUES	2,230	2,533	2,860	3,094	3,237	3,377	3,589	3,745	3,939	4,142	4,354	34,870
DEFICIT	-1,388	-995	-699	-492	-434	-481	-408	-379	-414	-402	-385	-5,088
DEBT HELD BY THE PUBLIC	10,351	11,418	12,217	12,801	13,326	13,886	14,363	14,800	15,254	15,681	16,071	n.a.
AS A SHARE OF GDP												10-YEAR
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	AVERAGE
OUTLAYS	24.1	22.5	21.7	20.8	20.2	20.2	20.0	19.7	19.9	19.9	19.9	20.5
REVENUES	14.8	16.1	17.4	17.9	17.8	17.6	17.9	17.9	18.0	18.2	18.3	17.7
DEFICIT	9.2	6.3	4.3	2.9	2.4	2.5	2.0	1.8	1.9	1.8	1.6	2.7
DEBT HELD BY THE PUBLIC	68.8	72.8	74.5	74.2	73.2	72.5	71.7	70.7	69.8	68.7	67.5	71.6

S-2

FY2012 CHAIRMAN'S MARK VS. CBO BASELINE

(NOMINAL DOLLARS IN BILLIONS)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-2021
OUTLAYS	-11	-110	-220	-368	-510	-602	-664	-733	-796	-869	-941	-5,812
REVENUES	0	-25	-227	-346	-406	-448	-482	-527	-544	-561	-597	-4,162
DEFICIT	-11	-86	7	-21	-104	-154	-182	-206	-251	-308	-344	-1,649
DEBT HELD BY THE PUBLIC	-11	-98	-94	-118	-229	-396	-601	-840	-1,139	-1,511	-1,938	n.a.

FY2012 CHAIRMAN'S MARK VS. PRESIDENT'S BUDGET

(NOMINAL DOLLARS IN BILLIONS)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-2021
OUTLAYS	-37	-179	-241	-390	-520	-618	-690	-773	-848	-939	-1,016	-6,214
REVENUES	0	-11	-39	-118	-206	-258	-228	-249	-240	-240	-243	-1,831
DEFICIT	-38	-169	-202	-272	-314	-360	-461	-524	-608	-699	-773	-4,382
DEBT HELD BY THE PUBLIC	-38	-243	-443	-715	-1,033	-1,406	-1,890	-2,450	-3,110	-3,877	-4,735	n.a.

FY2012 CHAIRMAN'S MARK BY MAJOR CATEGORY

(NOMINAL DOLLARS IN BILLIONS)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2021-2022
SECURITY	711	683	679	686	697	714	725	736	757	772	788	7,236
GLOBAL WAR ON TERROR	76	118	93	65	54	51	50	50	50	50	50	630
NON-SECURITY	565	482	435	416	404	396	395	396	402	410	422	4,159
MEDICAID	275	259	262	248	243	252	263	265	280	291	305	2,667
MEDICARE	563	560	601	636	666	720	748	776	839	893	953	7,392
PRESIDENT'S HEALTH CARE LAW	0	0	0	0	0	0	0	0	0	0	0	0
SOCIAL SECURITY	727	760	799	841	888	939	995	1,058	1,124	1,194	1,266	9,863
OTHER MANDATORY	489	410	373	309	270	279	264	242	267	268	269	2,952
NET INTEREST	212	256	318	387	448	507	558	600	634	666	687	5,060
TOTAL OUTLAYS	3,618	3,529	3,559	3,586	3,671	3,858	3,998	4,123	4,352	4,544	4,739	39,958

S-4

FY2012 CHAIRMAN'S MARK VS. CBO BASELINE BY MAJOR CATEGORY

(NOMINAL DOLLARS IN BILLIONS)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2021-2022
SECURITY	4	28	25	27	27	26	24	21	17	12	8	214
GLOBAL WAR ON TERROR	2	-10	-58	-95	-111	-119	-122	-126	-130	-134	-138	-1,044
NON-SECURITY	-15	-79	-117	-136	-152	-166	-177	-188	-196	-202	-204	-1,617
MEDICAID	0	-1	-13	-45	-63	-73	-82	-102	-112	-131	-150	-771
MEDICARE	0	0	1	3	4	3	0	-3	-9	-14	-17	-30
PRESIDENT'S HEALTH CARE LAW	0	-6	-9	-66	-122	-164	-182	-194	-208	-219	-233	-1,403
SOCIAL SECURITY	0	0	0	0	0	0	0	0	0	0	0	0
OTHER MANDATORY	-2	-42	-46	-48	-78	-82	-82	-83	-82	-85	-87	-715
NET INTEREST	0	-1	-4	-7	-15	-27	-42	-58	-76	-97	-119	-446
TOTAL OUTLAYS	-11	-110	-220	-368	-510	-602	-664	-733	-796	-869	-941	-5,812

FY2012 CHAIRMAN'S MARK VS. PRESIDENT'S FY2012 BUDGET BY MAJOR CATEGORY

(NOMINAL DOLLARS IN BILLIONS)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2021-2022
SECURITY	0	0	0	0	0	0	0	0	0	0	0	0
GLOBAL WAR ON TERROR	0	0	0	0	0	0	0	0	0	0	0	0
NON-SECURITY	-14	-72	-79	-78	-83	-90	-95	-102	-105	-113	-106	-923
MEDICAID	0	-1	-14	-44	-61	-69	-77	-97	-106	-125	-140	-735
MEDICARE	0	-12	-22	-25	-28	-32	-38	-44	-54	-63	-71	-389
PRESIDENT'S HEALTH CARE LAW	0	-6	-9	-66	-122	-164	-182	-194	-208	-219	-233	-1,403
SOCIAL SECURITY	-14	0	0	0	1	1	1	2	2	2	2	11
OTHER MANDATORY	-7	-85	-106	-155	-186	-199	-205	-212	-216	-221	-225	-1,810
NET INTEREST	-2	-4	-10	-22	-41	-64	-93	-125	-161	-200	-244	-965
TOTAL OUTLAYS	-37	-179	-241	-390	-520	-618	-690	-773	-848	-939	-1,016	-6,214

CHAIRMAN'S MARK VS STATUS QUO

CBO LONG-TERM ANALYSIS

	PROJECTED			
	2022	2030	2040	2050
	CHAIRMAN'S MARK			
TOTAL REVENUES	18 ½	19	19	19
TOTAL SPENDING	20 ¼	20 ¾	18 ¾	14 ¾
DEFICIT (-) OR SURPLUS	-2	-1 ¾	¼	4 ¼
DEBT HELD BY THE PUBLIC	70	64	48	10
	ALTERNATIVE FISCAL SCENARIO			
TOTAL REVENUES	19 ¼	19 ¼	19 ¼	19 ¼
TOTAL SPENDING	26 ¾	32 ¼	38 ½	45 ¼
DEFICIT (-) OR SURPLUS	-7 ½	-13	-19 ¼	-26
DEBT HELD BY THE PUBLIC	95	146	233	344