

# WebMemo



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## RSC Budget Provides Serious Blueprint for Spending Restraint

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Unless Congress changes course on federal spending, within a decade lawmakers will have to raise taxes by nearly \$7,000 per household just to balance the budget.<sup>1</sup> Rather than resign the nation to a fate of inevitable steep tax increases and the resulting slower economic growth, fewer jobs, and lower incomes, the Republican Study Committee (RSC) has unveiled a budget proposal that bravely and honestly confronts the nation's budgetary challenges. The RSC's "Contract for America: Renewed" makes the difficult choices necessary to rein in spending and balance the budget by 2011—and would thus avert the unprecedented tax increases that would otherwise result from unrestrained federal spending.<sup>2</sup>

Without changes, higher taxes are all but guaranteed. The current federal spending spree has already expanded government by 45 percent since 2001, and spending growth is still accelerating: the 10 percent increase slated for 2006, fueled by entitlements and supplemental spending, is the largest in over two decades. Furthermore, this spending spree occurs as lawmakers should be paring back spending to prepare for the coming retirement of 77 million baby boomers that will cause Social Security and Medicare costs to skyrocket.

**The RSC Proposal.** The RSC budget would reduce FY 2007-2011 federal spending 2.8 percent below the baseline. Rather than spend \$14.213 trillion over that period, as projected, Washington would spend \$13.821 trillion. Federal spending would still increase every year, albeit at a slower rate than is now projected. This rate of growth would

not be substantially different from the spending growth of the 1990s.

The RSC proposal would keep tax rates at the current levels that have helped the economy expand. Instead of forcing Americans to send more money to Washington to fund wasteful and outdated programs, the RSC would:

- Eliminate over 150 programs, such as the Advanced Technology Program, a notorious bit of corporate welfare;
- Turn back the gas tax and federal highway program to the states; (Currently, states send their gas tax revenues to Washington, which subtracts a hefty administrative fee and then sends the funds back to the states, with many strings attached.)
- Eliminate all pork projects from the recent highway bill;
- Pare back a fraction of the 137 percent increase in education spending since 2001 in return for providing states with more freedom to spend federal education dollars how they wish;
- Convert Medicaid and S-Chip into block grants and provide states with freedom and flexibility

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[www.heritage.org/research/budget/wm1011.cfm](http://www.heritage.org/research/budget/wm1011.cfm)

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to tailor these programs to the needs of their low-income citizens;

- Pare back Medicare growth by requiring that upper-income recipients pay slightly more for their benefits and by reforming Medicare based on the successful Federal Employee Health Benefits Program (FEHBP) and providing seniors with an annual health insurance contribution that they could use to purchase the health care plan of their choice; and
- Fully budget for the anticipated costs of maintaining troops in Iraq and Afghanistan.

**Too Radical?** Critics will no doubt charge that this budget proposal is radical and unrealistic. Such sentiment reveals more about the timidity of Congress than the RSC's plan. The RSC's goal of trimming 2.8 percent off the FY 2007-2011 spending baseline is neither unprecedented nor radical. Most of the RSC's reforms are in a reconciliation proposal that would shave \$358 billion off the growth of entitlement spending over the next five years. The table below shows that the RSC's proposal barely exceeds the average during the 1990s of \$308 billion in spending reductions per reconciliation bill.

**Medicare and Medicaid.** Medicare reform and Medicaid reform rightly play a major role in the RSC budget. No credible proposal to restrain spending can ignore that these programs, which are expanding at a 7 percent annual rate, will double in size within a decade. This coming expansion, left unchecked, will crowd out nearly every dollar spent on discretionary programs, from defense to education. Even the RSC's common-sense reforms, such as means-testing the Medicare drug entitlement, would still allow the program to expand by 30 percent through 2011. Surely 30 percent growth, coming on top of the 58 percent growth since 2001, is not unrealistically stingy. Better yet, the RSC proposals will help Medicare to function more effi-

Table 1		WM 1011
<b>RSC Reconciliation Proposal Is Not Far From the 1990s Average</b>		
Year/Proposal	Five-Year Entitlement Spending Savings	
1990	\$447 billion	
1993	\$244 billion	
1997	\$232 billion	
2005	\$40 billion	
<b>2006 RSC Proposal</b>	<b>\$358 billion</b>	

All amounts inflation-adjusted for 2005 dollars.  
Source: Congressional Research Service.

ciently. As well, converting Medicaid funding into block grants to the states will provide states with the ability to tailor their programs to local needs, free from federal micromanagement.

**Confronting Budget Reality.** Federal spending now tops \$22,000 per household and is growing each year. The coming Social Security, Medicare, and Medicaid costs from the retirement of the baby boomers will place enormous pressure on the budget and leave lawmakers with a choice: enact massive tax increases, pile up unprecedented federal debt, or rein in federal spending.<sup>3</sup> Lawmakers who vote to sustain the current spending path are, in effect, voting for large tax increases down the road. The RSC budget proposal is a serious plan to rein in spending and restructure entitlements. Parts of this proposal may not be easy or popular, but neither is the \$7,000 per household tax increase that the nation faces if lawmakers continue to duck the difficult decisions.

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1. See Brian M. Riedl, "Federal Spending: By the Numbers" Heritage Foundation *Webmemo* No. 989, February 6, 2006, at <http://www.heritage.org/Research/Budget/wm989.cfm>
2. The RSC Budget is available at [http://www.house.gov/pence/rsc/doc/RSC\\_2007\\_BUDGET.doc](http://www.house.gov/pence/rsc/doc/RSC_2007_BUDGET.doc).
3. See Brian M. Riedl, "Entitlement-Driven Long-Term Budget Substantially Worse Than Previously Projected," Heritage Foundation *Backgrounder* No. 1897, November 30, 2005, at <http://www.heritage.org/Research/Budget/bg1897.cfm>