The budget and economic outlook economics essay

[Economics]

Budget Committee | March 20133STATEMENT OF CONSTITUTIONAL AND LEGAL AUTHORITYArticle I of the Constitution grants Congress the power to raise money for the Treasury, to pay thecountry’s obligations, and to publish regular statements of all financial transactions. In addition, the Congressional Budget Act of 1974 requires Congress to write a budget each year. Thelaw instructs the President to submit a proposal for Congress’s consideration by the first Monday ofFebruary. It also directs Congress to draft its own proposal in a timely manner. Both houses ofCongress must agree to a budget resolution by April 15. The budget resolution is the only legislation that views the federal government as a whole. As such, itserves many functions: It resolves conflicting judgments about our national priorities. And it reconcilesdivergent views of our country’s future. Ultimately, the budget is more than a list of numbers. It’s anexpression of our governing philosophy. This budget—for fiscal year 2014 and beyond—builds on the last two budgets passed by the House ofRepresentatives. It recommits our country to the principles enshrined in the Constitution: liberty, limited government, and equality under the law. And it frees the country from the crushing burden ofdebt that threatens our future. Unfortunately, the President is shirking his duty. He has missed his budget deadline four times in fiveyears. His blatant disregard for the law has upended the budget process. Today, Washington budgetsby crisis. This budget restores regular order—because the people deserve an honest account of ourchallenges and what’s needed to confront them. The Committee on the Budget will again complete its budget on time—in recognition of the need fortransparent government. And it will do so with great purpose: to provide for the orderly execution ofCongress’s duties and to restore the promise of this exceptional nation. House Budget Committee | March 20134INTRODUCTIONThe United States faces many challenges. This year, unemployment will hover around 8 percent, according to the Congressional Budget Office. 1 Economic growth will remain tepid. The national debtrecently eclipsed the size of our economy. Millions of families are stuck in foreclosure. Student loansare piling up. Gas prices are at historic highs. And soon, families will struggle with a new health-carebureaucracy, while medical costs further erode their paychecks. It’s no surprise, then, that most Americans think we’re on the wrong track. 2 By living beyond ourmeans, we’re stealing from the next generation. By promising a higher standard of living today, thefederal government is guaranteeing a lower standard of living tomorrow. So it’s troubling to considerwhere this track will lead. Unless we act, by 2023, we will add another $8. 2 trillion to our national debt. That debt will weigh down our country like an anchor. Unless we change course, we will have a debt crisis. Pressed for cash, the government will take theeasy way out: It will crank up the printing presses. The final stage of this intergenerational theft will bethe debasement of our currency. Government will cheat us of our just rewards. Our finances willcollapse. The economy will stall. The safety net will unravel. And the most vulnerable will suffer. But it’s not too late. This budget provides an exit ramp from the current mess—and an entry ramp to abetter future. Unlike the President’s last budget, which never balanced, this budget achieves balancewithin ten years. In the next decade, it spends $4. 6 trillion less than will be provided under the currentpath. The fact is, we owe the American people a balanced budget. The less we owe to foreigncreditors, the more of our future we will control. And we balance the budget for an important reason: An unbalanced budget is a sign of overreach. When government does too much, it doesn’t do anything well. So our budget makes room forcommunity—for the vast middle ground between government and the person. It recognizes thatpeople do not find happiness in grim isolation or by government fiat. They find it through friendship—through free, vibrant exchange with the people around them. They find it through achievement. Theyfind it in their families and neighborhoods, their places of worship and youth groups. They find it in ahealthy mix of self-fulfillment and belonging. While we belong to one country, we also belong to thousands of communities—each of them rich intradition. And these communities don't obstruct our personal growth. They encourage it. So the dutyof government is not to displace these communities, but to support them. It isn't to blunt theirdifferences or to flatten their character—to mash them all together into a dull conformity. It's to secureour individual rights and to protect that diversity. House Budget Committee | March 201351 Congressional Budget Office. " The Budget and Economic Outlook: Fiscal Years 2013 to 2023." February 2013. 2 Rasmussen Reports. " Right Direction or Wrong Track." 6 March 2013. We are a self-governing people. Yet, if we can't manage our own affairs, we can hardly govern anation. It's in the assembly hall and the boardroom—in the town meeting and the state legislature—that we learn how to govern. And that's where we forge our common bonds. Yes, government is oneof those bonds. But it can't unite 300 million people—not on its own. It needs our communities to tieus together. Today, our communities—our families, in particular—face many dangers: rising health-care costs, astagnant economy, a massive debt, an uncertain world. These dangers require a lean, dynamicgovernment—one that can protect its people and keep its word. They also require government torespect its limits—to understand it plays a role in our lives, but not the leading one. This budget seeks to revive our communities with an emphasis on six areas. It expands opportunity bygrowing our economy. It strengthens the safety net by retooling federal aid. It secures seniors'retirement by reforming entitlements. It restores fair play to the marketplace by ending cronyism. Itkeeps our country safe by rebuilding our military. And it ends Washington’s culture of recklessspending. None of these priorities can be met if a debt crisis hits. This budget gets government spending undercontrol. Balancing the budget is a sensible goal—a commitment that both parties should share. Andbecause our debt has grown with greater speed, the Committee on the Budget has tackled it withgreater urgency. But our aim isn’t merely a balanced ledger. It’s the well-being of our people. We needgovernment to focus on the people’s priorities—not its own. And so our budget returns the federalgovernment to its proper limits and focus. We can overcome these challenges—and we must. It’s our duty to leave the next generation a bettercountry than the one we inherited. We know what the problem is: We have to fix our entitlements andto grow the economy. We understand that not everyone shares our view. And we respect thatdifference of opinion. Last year, the American people chose divided government. So this year, we haveto make it work. We offer this budget in recognition of that need—and in a spirit of good will. Paul RyanChairman of the House Budget CommitteeMember of Congress, First District of WisconsinMarch 12, 2013House Budget Committee | March 20136SUMMARYWashington owes the American people a responsible, balanced budget. This is a plan tobalance the budget in ten years. It invites President Obama and Senate Democrats to committo the same common-sense goal. This budget will achieve the following:- Stop spending money we don’t have by cutting wasteful spending.- Fix our broken tax code to create jobs and increase wages.- Protect and strengthen important priorities like Medicare and national security.- Reform welfare programs like Medicaid so they can deliver on their promise. Balance the Budget. Grow the Economy. The House Republican budget reduces deficits by $4. 6 trillion over the next ten years. Ittargets wasteful Washingtonspending and reforms thedrivers of the debt. This budget stops spendingmoney we don't have. Itachieves the common-sensegoal of a balanced budget inten years. A balanced budgetwill foster a healthier economyand help create jobs. By tackling the debt, thisbudget will help grow oureconomy today and ensure thenext generation inherits astronger, more prosperousAmerica. The Human ScaleOur budget will help improve the lives of American families. Provide economic security for workers and parents. Ensure a secure retirement for the elderly. Expand opportunity for the young. Repair the safety net for the poor. House Budget Committee | March 20137Key Components of the House Republican Budget: Opportunity ExpandedThis budget offers a plan to expand opportunity. While not sufficient by themselves, policy reforms atthe federal level can help foster an environment that promotes economic growth. This budget seeks toequip Americans with the skills to succeed in a 21st-century economy and to grow that economythrough long-overdue tax reform. Both reforms work off the same principle: The American peopleknow their needs better than bureaucrats thousands of miles away. And government has aresponsibility to support their efforts. A Safety Net StrengthenedThis budget applies the lessons of welfare reform to other federal aid programs. It gives states moreflexibility to tailor programs to their people's needs. It gives those closest to the people better tools sothey can root out waste, fraud, and abuse. Finally, it empowers recipients to get off the aid rolls andback on the payroll. By enlisting states in the fight against poverty, this budget builds a partnershipbetween the federal government and our communities. Retirement SecuredThis budget protects and strengthens Medicare for current and future generations. It also requires thePresident and Congress to work together to forge a solution for Social Security. This budgetrecognizes that the federal government must keep its word to current and future seniors. And to dothat, it must reform these programs. Fairness RestoredThe administration’s uncontrolled, wasteful spending in combination with an overzealous regulatoryagenda has weakened an anemic economy and created barriers to job creation, especially for smallbusinesses. To restore fairness—and vitality—to our economy, this budget ends cronyism; eliminateswaste, fraud, and abuse; and returns the federal government to its proper sphere of activity. A Nation ProtectedThe first job of the federal government is to secure the safety of its citizens from threats at home andabroad. Whether defeating the terrorists who attacked this country on September 11, 2001, deterringthe proliferation of weapons of mass destruction, or battling insurgents who would harbor terroristnetworks that threaten Americans’ lives, the men and women of the United States’ military haveperformed superbly. This budget provides the best equipment, training, and compensation for theircontinued success. It also keeps faith with the veterans who have served and protected the nation. A Budget Process ReformedWhen it comes to fixing the broken budget process, the choice facing Americans could not be clearer: The President and his party’s leaders have failed to take their budgetary responsibilities seriously. Bycontrast, the Republican majority in the House has met its legal and moral obligation by passing abold budget that tackles America’s most pressing fiscal challenges. Last Congress, the House BudgetCommittee authored and advanced several statutory reforms to bring more accountability to thefederal budget process. This budget continues in the spirit of those proposed reforms, which theCommittee will again pursue after this resolution has been adopted by the House. House Budget Committee | March 20138House Budget Committee | March 20139House Budget Committee | March 201310THE DEBT CRISIS AHEADHouse Budget Committee | March 201311House Budget Committee | March 201312THE DEBT CRISIS AHEADFive years ago, we had a financialcrisis. It flared up suddenly, thoughthe tinder had been building upover time. And the damage wassevere. Four million families losttheir homes. 3 Nine million peoplelost their jobs. 4 In some ways, Washington helped put out theflames. But much of what thegovernment tried—moreregulations, more spending—didn’t work. In fact, it may havedelayed the recovery. Today, we face a crisis of anothersort—one more predictable thanthe last and more dangerous thanever. We face the threat of a debtcrisis. Our national debt is growingfaster than our economy. Inother words, our obligationsare growing faster than ourability to pay them. Debtheld by the public is 73percent of our economy. By2023, the CongressionalBudget Office [CBO]expects it to hit 77 percent. In fact, under an alternativescenario that assumesplausible policy choices, itwill hit 87 percent by 2023. And total national debt isalready bigger than oureconomy. House Budget Committee | March 2013133 Steele, Tara. " Nearly Four Million Foreclosures Completed since Housing Crash." AGBeat. 3 December 2012. 4 Goodman, Christopher J., and Steven M. Mance. " Employment Loss and the

2007–09 Recession: An Overview." Monthly Labor Review. April 2011.

Federal spending is the problem. In 2023, the CBO expects revenue to be nearly double last year'stotal. Yet they also expect the deficit to be nearly $1 trillion. As 80 million baby boomers retire and thecountry gets older, our entitlement programs will start to burst at the seams. In the next decade, SocialSecurity will grow at an annual average of 5. 8 percent. Medicare will grow at 6. 2 percent. AndMedicaid—thanks in part to its expansion under the health-care law—will grow at an astounding 9. 9percent. All of these programs are growing substantially faster than the economy, which CBO expectsto grow in nominal terms at only 4. 8 percent on average. Without reform, entitlementprograms will overwhelm allother items in the federalbudget. And the resultingnational debt will overwhelmour economy. At some point, lenders might question ourability to pay our obligations. They might demand higherinterest rates. If they did, wewould have a debt crisis, andthe pain would be intense. Thisbudget offers a way out of thisfix. And it does so with anappreciation of what a debtcrisis would mean to thecountry—and the averageperson. Impact on the CountryToday, we're enjoying historically low interest rates because the Federal Reserve is buying largeamounts of our debt, and investors have retreated to U. S. securities amid global turmoil. But ourgrowing obligations may shake their confidence. In return, they might demand compensation for thathigher risk. Foreigners own almost half of our publicly held debt. So we're particularly vulnerable to asudden shift in foreign-investor sentiment. In addition, over one-third of our total marketable debt willmature over the next 24 months. So we will have to roll over much of our debt in the next two years—when interest rates might be higher. House Budget Committee | March 201314When interest rates rose, debt payments would crowd out other parts of the budget. Today, if interestrates returned to the levels that prevailed before the Great Recession, interest payments would be$420 billion higher in 2014—and $700 billion higher in 2020. 5 At some point, rates would reachprohibitive highs. Unable to borrow more money, the federal government would have to resort toausterity: big tax hikes and big spending cuts. To put that into perspective, Bill Gross, bond-fundmanager at PIMCO, estimates that we would need to cut spending or raise taxes by 11 percent ofGDP (or $1. 6 trillion) over the next five to ten years to keep our debt below a crisis level. If we waited until a debt crisis broke out, the pain would be worse. Treasury bonds are the lynchpin ofglobal debt markets. Virtually all financial institutions consider them safe, liquid assets. If interest ratesrose, bond prices would drop, tearing up these firms' balance sheets. Len Burman, former director ofthe Tax Policy Center, warns that such an event would be " disastrous." 6 The federal government wouldbe unable to borrow money to support private enterprise, as it did during the financial crisis. As aresult, he estimates that the economy would shrink by 25 to 30 percent—a contraction rivaling theGreat Depression in size. 7 He writes that " it could easily take the nation a generation or longer torecover from [such a] disaster." 8Impact on the IndividualThe effects of a debt crisis would cascade through the economy—all the way down to the individual. Nearly all consumer-borrowing rates are linked to long-term Treasury rates. As Treasury ratesincreased, rates on mortgages, credit cards, and carloans would follow. Roughly half of all household debt consists ofvariable-interest-rate loans, so a spike in

Treasuryrates would lead to higher borrowing costs forfamilies. One estimate suggests that an interestrateincrease of just one percentage point wouldincrease annual interest payments for the averagefamily by $400. 9 In fact, the added costs couldeasily exceed $1, 000 per year. To a newhomebuyer, a one-percentage-point increase inmortgage rates would add as much as 19 percentto the total cost of their mortgage. 10House Budget Committee | March 2013155 Lindsey, Lawrence. " The Deficit Is Worse Than We Think." Wall Street Journal. 28 June 2011. 6 Burman, Len et al. " Catastrophic Budget Failure." Presented at Joint TPC-USC Conference. 15 January 2010. 7 Ibid. 8 Ibid. 9 Center for American Progress. " Payment Due: The Effects of Higher Interest Rates on Consumers and the Economy." 20 September 2004. 10 Schwartz, Nelson. " Interest Rates Have Nowhere to Go but Up." New York Times. 10 April 2010. A 1% INCREASE ININTEREST RATESWOULD MEAN ANEXTRA $400 ININTEREST PAYMENTSEACH YEAR FOR THEAVERAGE FAMILYA debt crisis would not only mean higher interestpayments. It would also cost jobs and slow wagegrowth. The corporate sector has roughly $11. 5trillion in loans that will mature over the next fiveyears. 11 A sharp rise in interest rates would forcebusinesses to curb investment. They would cutthe amount they spent on equipment and plantdevelopment—which workers need to earn higherwages. Over time, lower investment woulddepress wage growth, as productivity slowed. A debt crisis would also mean higher taxes. Ifcurrent federal interest payments were allotted totaxpayers, they would equal about $255 permonth, according to Deloitte LLP. Under analternative scenario—in which growth is slightlylower than expected, interest rates are slightlyhigher than expected, and current tax and spending policies are extended—that amount is expectedto jump to $424 per month for each taxpayer over the next decade. 12Finally, a debt crisis would hurt the most vulnerable worst of all. During the financial crisis, the federalgovernment was able to borrow money to provide assistance to these families. In a debt crisis, however, the government would be unable to provide that assistance. We don’t need to look far for examples of a debt crisis in action. There areexamples in the United States, where municipalities have gone bankrupt andbeen unable to provide basic services. In Central Falls, Rhode Island, forinstance, retirees’ pensions have been slashed by up to 55 percent. InStockton, California, the city has laid off 25 percent of its police force in theface of increasing pension costs. Millions of Americans—the elderly, the poor—depend on assistance fromthe federal government. If we had a debt crisis, we wouldn’t be able to keepour promises to these families. We can’t let that happen. We still have timeto avert this crisis, but we need to get serious about spending—now. That’swhy this budget achieves balance within the next ten years. It protects andstrengthens the safety net and our entitlement programs, so we can keepour word to the most vulnerable. And most importantly, it expandsopportunity, because the strongest safety net is a vibrant economy. There is no reason why we can’t succeed. If Congress and the President collaborate in good will, wecan leave the country with a far brighter future. House Budget Committee | March 20131611 Deloitte LLP. " The Untold Story of America’s Debt." June 2012. 12 Ibid.

U. S.

INTEREST

PAYMENTS

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INDIVIDUALS

OVER

DECADE

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OPPORTUNITY EXPANDEDHouse Budget Committee | March 201317House Budget Committee | March 201318OPPORTUNITY EXPANDEDThe central promise of American life is upward mobility. It’s the opportunity to rise. It’s a testament tothis country’s character that upward mobility has long been a fact of life. Today, four-fifths of Americanshave higher incomes than their parents had at the same age. But not everyone has taken part in theexpansion. Two-fifths of the children born in the bottom 20 percent of earners will never knowanything better. 13 For millions of people, the American Dream is seemingly out of reach. We still havemuch to do if we want to guarantee equality of opportunity to every person in this country. No economic system in the history of mankind has done more to lift up the poor than America’scommitment to free enterprise. If the American Idea of earning success through work and enterprise isto endure through the 21st century, policymakers must urgently enact reforms to get Washington’sfiscal house in order, spur job creation, and promote sustained economic growth. Above all, the role of policymakers must be to lift government-imposed barriers to strongercommunities and flourishing lives. Fiscal responsibility and economic opportunity are but means to amore critical end: the rebuilding of broken communities and the empowerment of families andcitizens. The ever-expansive activism of the federal government drains the vitality and displaces theprimacy of the bedrock institutions that define America. In pursuit of that goal, this budget offers a plan to expand opportunity. While not sufficient bythemselves, policy reforms at the federal level can help foster an environment that expandsopportunity. This budget seeks to equip Americans with the skills to succeed in a 21stcenturyeconomy and to grow that economy through long-overdue tax reform. Both reforms work off the sameprinciple: The American people know their needs better than bureaucrats thousands of miles away. Butthey need government to support their efforts. Higher education and job-training in brief: Encourage policies that promote innovation. Adopt a sustainable maximum-award level for Pell. Ensure aid for higher education is targeted to the truly needy. Update accounting rules to reflect the true cost of federal loan programs. Eliminate ineffective and duplicative federal education programs. Consolidate job-training programs, based on reforms in the SKILLS Act, and provide for acareer-scholarship fund. Tax reform in brief: Simplify the tax code to make it fairer to American families and businesses. Reduce the amount of time and resources necessary to comply with tax laws. Substantially lower tax rates for individuals, with a goal of achieving a top individual rateof 25 percent. House Budget Committee | March 20131913 Pew Charitable Trusts. " Pursuing the American Dream: Economic Mobility across Generations." July 2012. Consolidate the current seven individual-income-tax brackets into two bracketswith a first bracket of 10 percent. Repeal the Alternative Minimum Tax. Reduce the corporate tax rate to 25 percent. Transition the tax code to a more competitive system of international taxation. Higher Education and Job-TrainingTo keep pace with a technologically advanced and increasingly interconnected world, workers mustdevelop new skills. One estimate says 90 percent of jobs in a knowledge-based economy will requirepostsecondary education. 14 Higher education and job-training are crucial to this effort. But the federalgovernment is hindering workforce development with outmoded aid programs. Instead of increasingupward mobility, these programs are saddling workers with untenable amounts of debt. ChallengeTuition inflation is running rampant. For the past 30 years, college tuition has risen at twice the rate ofinflation. In 2012, the average student-loan debt was $27, 253—a 58 percent increase in seven years. The total amount of student-loan debt now exceeds that of credit-card debt. Our students aregraduating with such large debts—and having such difficulty finding jobs—that they're unable to maketheir payments. Default rates on student loans shot up from 12. 4 percent in 2005 to 15. 1 percent in2010. 15The problem breaks down into two categories: First, current federal-aid structures are exacerbating acrisis in tuition inflation, plunging students and their families into unaffordable levels of debt orforeclosing the possibility of any higher education at all. Then, these young adults are graduating withenormous loan repayments and having difficulty finding jobs in our low-growth economicenvironment. Instead of solving the problem, schools are deflecting the mounting criticism by citingthe rising cost of health care and employee benefits, the need to compete for students by offeringnicer facilities, and reductions in state budgets and endowments as a result of ongoing economicstagnation. While there are many contributing factors, there is a core structural challenge in highereducationfinancing, driven primarily by the federal government's policies. Many economists, includingOhio University's Richard Vedder, argue that the structure of the federal government's aid programsdon't simply chase higher tuition costs, but are in fact a key driver of those costs. 16The federal government's largest higher-education-financing program is the Pell Grant program. It ison an unsustainable path, a fact acknowledged by the President’s own fiscal year 2013 budget. 17House Budget Committee | March 20132014 Commission on Higher Education. " A Test of Leadership: Charting the Future of U. S. Higher Education." September 2006. 15 Touryalai, Halah. " More Evidence on the Student Debt Crisis." Forbes. 29 January 2013. 16 Vedder, Richard. Testimony before the House Committee on Education and the Workforce. 19 April 2005. 17 Fiscal Year 2013 Budget of the U. S. Government. The College Cost Reduction and Access Act of 2007 [CCRAA], the Higher Education Opportunity Actof 2008 [HEOA], the " stimulus" bill, and the Student Aid and Fiscal Responsibility Act of 2010 [SAFRA]all expanded the Pell Grant program, creating larger liabilities but without the means to fully cover thenew costs. This, along with a dramatic rise in the number of eligible students due to the recession, hascaused program costs to more than double since 2008, from $16. 1 billion in 2008 to an estimated$34. 2 billion in fiscal year 2014. 18 Moreover, the program is beginning to increasingly rely onmandatory funding to solve its discretionary shortfalls. For instance, the Department of Educationwarned in fiscal year 2012 that without changes to reduce program costs, Pell Grants would have ashortfall of $20. 4 billion. 19 And based on current CBO estimates, the program will again face a shortfallin fiscal year 2015. 20Instead of making necessary, long-term reforms, previous Congresses again resorted to short-termfunding patches—a temporary answer that will not prevent another severe funding cliff for theprogram in the future. The President’s past budgets have failed to make the tough choices about thefuture of Pell Grants. For instance, his fiscal year 2013 budget increased the maximum

Pell award, butonly provided funding for that level of award through the 2014–2015 academic year. These decisionsput the program at greater risk of ultimately being unable to fulfill its promises to students. The federal government's incompetence extends to job-training. In January 2011, the GovernmentAccountability Office issued a report that found 47 overlapping federal job-training programs spentapproximately $18 billion in 2009. 21 Since GAO issued that report, the Education and WorkforceCommittee has conducted extensive work in this area and added to the list, identifying more than 50duplicative and overlapping programs. 22 Many of these job-training programs are uncoordinated, difficult to access, and not accountable for results. In addition, Senators Tom Coburn and John McCainhave highlighted numerous examples of waste, fraud, and abuse in these programs. 23Solutions Encourage policies that promote innovation. Federal intervention in higher education should increasingly be focused not solely on financial aid, buton policies that maximize innovation and ensure a robust menu of institutional options from whichstudents and their families can choose. Such policies should include reexamining the data madeavailable to students to make certain they are armed with information that will assist them in makingtheir postsecondary decisions. Additionally, the federal government should act to remove regulatorybarriers in higher education that restrict flexibility and innovative teaching, particularly as it relates tonon-traditional models such as online coursework. House Budget Committee | March 20132118 Congressional Budget Office. February 2013 Baseline Projections for the Pell Grant Program. 19Department of Education. Student Financial Assistance Fiscal Year 2012 Budget Request. 20 Delisle, Jason. "

New Pell Grant Estimates Buy Time, Long-Term Fix Still Needed." EdMoney. 7 February 2013. 21 Government Accountability Office. " Multiple Employment and Training Programs: Providing Information on Colocating Services andConsolidating Administrative Structures Could Promote Efficiencies." January 2011. 22 Opening Statement of House Education and Workforce Chairman Kline. 6 March 2013. 23 Coburn, Tom. Help Wanted: How Federal Job Training Programs Are Failing Workers. February 2011. Adopt a sustainable maximum-award level for Pell. The Department of Education attributed 25 percent of recent program growth to the $619 increase inthe maximum award enacted in the stimulus bill that took effect in the 2009–10 academic year. 24 Toget program costs back to a sustainable level, the budget recommends maintaining the maximumaward for the 2012–2013 award year of $5, 645 in each year of the budget window. This award wouldbe fully funded through discretionary spending. Ensure aid for higher education is targeted to the truly needy. The Department of Education attributed 14 percent of program growth between 2008 and 2011 torecent legislative expansions to the needs-analysis formula. 25 The biggest cost drivers come fromchanges made in the College Cost Reduction and Access Act of 2007 [CCRAA]. For instance, this lawincreased the amount of money students and their families could shield from the needs-analysiscalculation, making it more difficult to ascertain how much families could be expected to contribute tothe cost of their student’s education. This and other expansions in CCRAA are accelerating theprogram’s fiscal problems and jeopardizing its ability to make good on its commitments to familieswith the greatest need. To ensure limited education resources are directed at those who are trulyneedy, these expansions should be returned to pre–CCRAA levels. Update accounting rules to reflect the true cost of federal-loan programs. Budget gimmicks have masked the cost of the federal student-loan program for decades. Accordingto outdated scoring rules, these extremely risky loans are accounted for as profit-making investments, encouraging more loan expansion without regard for their impact on tuition inflation. This problemwas exacerbated in 2010, when the federal government effectively nationalized student lending. 26 Toadequately account for market risk—and to discourage even riskier lending—this budget authorizesthe use of fair-value accounting for any legislation dealing with federal loan and loan-guaranteeprograms. Such a method would more fully account for the cost of the risk to the taxpayer of thedirect-loan program. Eliminate ineffective and duplicative federal education programs. The current structure for K–12 programs at the Department of Education is fragmented and ineffective. Moreover, many programs are duplicative and poorly targeted to students with the greatest needs. This budget calls for reorganization and streamlining of K–12 programs and anticipates major reformsto the Elementary and Secondary Education Act [ESEA], which was last reauthorized as part of the NoChild Left Behind Act [NCLB]. The budget also recommends that the committees of jurisdictionterminate and reduce programs that are failing to improve student achievement and address theduplication among the 82 programs that are designed to improve teacher quality. 27House Budget Committee | March 20132224 Department of Education. Student Financial Assistance Fiscal Year 2012 Budget Request. 25 Department of Education. Student Financial Assistance Fiscal Year 2012

Budget Request. 26 " That Other Government Takeover." Wall Street Journal. 8 March 2010. 27 GAO. " Teacher Quality: Proliferation of Programs Complicates Federal Efforts to Invest Dollars Effectively." March 2011. Consolidate job-training programs, based on reforms in the SKILLS Act, and provide for acareer-scholarship fund. This budget builds on work being done by the Education and Workforce Committee under theleadership of Chairman John Kline of Minnesota, especially the recent SKILLS Act introduced byRepresentative Virginia Foxx of North Carolina. It improves accountability by calling for theconsolidation of duplicative federal job-training programs into more targeted career-scholarshipprograms. This budget will also improve these programs’ accountability by tracking the type oftraining provided, the cost per trainee, employment after training, and whether the trainee secures ajob in his or her preferred field. A streamlined approach with increased oversight and accountabilitywill not only provide administrative savings, but improve access, choice, and flexibility to enableworkers and job-seekers to respond quickly and effectively to whatever specific career challenges theyface. Moreover, this budget adopts a proposal from President Obama’s fiscal year 2013 budget toclose chronically low-performing Job Corps centers. Such a reform will allow those funds to be betterinvested in centers with proven track records. Tax Reform28ChallengeAmerica has an economic problem, in large part due to our outdated, broken tax code. While the vastmajority of our foreign competitors have moved aggressively to lower corporate tax rates and updatetheir international-tax systems, the United States imposes the highest combined federal-statecorporate tax rate in the industrialized world and relies on an outdated international-tax regimedesigned more than 50 years ago, when the United States faced virtually no global competition. Furthermore, the top U. S. tax rate on small-business income is 44. 6 percent, the top tax rate onindividuals’ wages and salaries is 44 percent, and the total tax on investment income (capital gains anddividends) in the United States is 55 percent. American families and small businesses must navigate a maze of different statutory tax rates, hiddenrates, confusing deductions, credits, limitations, phase-outs, and the Alternative Minimum Tax. Thetrifecta of (1) maddening complexity, (2) high tax rates on business income, and (3) the prevalence ofdouble taxation of capital and investment, all combine to suppress innovation, job creation, andeconomic growth. American families and businesses spend over $160 billion and 6 billion hours every year trying tofigure out their taxes. Roughly 90 percent of Americans are forced to pay for commercial taxpreparationsoftware or hire a tax professional just to file their taxes. Even after all that, averagetaxpayers are left to wonder whether someone with the resources to hire a better accountant managedto get a " better deal" out of the tax system. House Budget Committee | March 20132328 The tax-reform framework outlined in this budget reflects the views of the Republican members of the House Ways and Means Committee, led by Chairman Dave Camp. As detailed in a letter sent to House Budget Committee Chairman Paul Ryan, their views can be found onlineat: http://budget. house. gov/uploadedfiles/fy14budgetletterwm. pdfFurthermore, American corporations engage in elaborate tax planning because the current tax codeputs them at a competitive disadvantage compared to their foreign competitors. Here too the taxcode is unfair, as some companies are able to use arcane and complex provisions of the tax code toreduce their tax burden compared to their competitors. Companies engage in complex transactionspurely to reduce their tax burden even when these schemes divert resources from more productiveinvestments. Solutions Simplify the tax code to make it fairer to American families and businesses. Reduce the amount of time and resources necessary to comply with tax laws. Substantially lower tax rates for individuals, with a goal of achieving a top individual rateof 25 percent. Consolidate the current seven individual-income-tax brackets into two brackets with afirst bracket of 10 percent. Repeal the Alternative Minimum Tax. Reduce the corporate tax rate to 25 percent. Transition the tax code to a more competitive system of international taxation. This budget accommodates the forthcoming work by House Ways and Means Committee ChairmanDave Camp of Michigan. It provides for floor consideration of legislation providing for comprehensivereform of the tax code. In 1981, President Ronald Reagan inherited a stagnant economy and a tax code that featured 16brackets, with a top rate of 70 percent. When he left office in 1989, the tax code had been simplifieddown to just three brackets, with a top rate of 28 percent. President Reagan's bipartisan tax reformsproved to be a cornerstone of the unprecedented economic boom that occurred in the decade duringhis presidency and continued in the decade that followed. It is time to reclaim the Reagan legacy of enacting fundamental tax reform in an era of dividedgovernment. By making the tax code simpler and fairer, we can begin to regain the trust of theAmerican people that Washington can and is working for them. By making the tax code moreconducive to innovation, investment, and sustained job creation, we can safeguard the AmericanDream for generations to come. House Budget Committee | March 201324SAFETY NET STRENGTHENEDHouse Budget Committee | March 201325House Budget Committee | March 201326SAFETY NET STRENGTHENEDFor years, the federal government has been encroaching on the institutions of civil society. A distantbureaucracy has been sapping their energy and assuming their role—when it should have beensupporting them. Now, families are suffering the consequences. Government spends roughly $1 trillionon anti-poverty programs. 29 Yet poverty rates are the highest in a generation. Over 46 millionAmericans live below the poverty line. 30 To keep our commitment to those in need—especially inhealth care and nutrition programs—the federal government must take a dramatically differentapproach from the failed status quo. Empowerment is a powerful alternative to dependency, and recent history offers a guide topolicymakers seeking to repair the safety net. Bipartisan efforts in the late 1990s transformed cashwelfare by encouraging work, limiting the duration of benefits, and giving states more control over themoney being spent. Opponents of these policy changes argued that welfare reform would lead tolarge increases in poverty and despair. Instead, the opposite occurred. The Temporary Assistance for Needy Families [TANF] reforms cutwelfare caseloads in half as poverty rates declined. Child poverty in single-female-headed householdsfell from 55 to 39 percent by 2001, which was the largest ten-year decline in poverty among suchchildren since the 1960s. Although this number has increased because of the recession, the nonpartisanCongressional Research Service says that " progress appears to have been largely sustained inboth reducing welfare dependency and poverty among children in female-headed families, in spite ofthe recent recession." 31These reforms worked because the best welfare program is temporary and ends with a job and astable, independent life for the beneficiary. At the federal level, the successful welfare-reformmovement of the 1990s was narrowly focused on cash welfare payments. Based on the lessons learnedfrom welfare reform, now it is time to implement similar reforms across other areas of the safety net, especially Medicaid (medical care for the poor) and the Supplemental Nutrition Assistance Program(SNAP, also known as the food stamps). This budget applies the lessons of welfare reform to federal-aid programs. It gives states moreflexibility to tailor programs to their people’s needs. It gives those closest to the people better tools sothey can root out waste, fraud, and abuse. Finally, it empowers recipients to get off the aid rolls andback on the payroll. By enlisting states in the fight against poverty, this budget builds a partnershipbetween the federal government and our communities. House Budget Committee | March 20132729 Congressional Research Service. " Spending for Federal Benefits and Services for People with Low Income, FY2008–FY2011." 16 October2012. 30 U. S. Census Bureau. About Poverty: Highlights. Accessed 9 March 2013. 31 Gabe, Thomas. " Welfare, Work, and Poverty Status of Female-Headed Families with Children: 1987–2011." Congressional ResearchService. 9 January 2013. Health care in brief Provide states flexibility on Medicaid. Repeal the health-care law’s expansion of Medicaid. Repeal the health-care law’s exchange subsidies. Welfare reform in brief Allow states to customize SNAP to address the needs unique to their citizens. Address barriers to upward mobility. Reinstitute welfare's work requirements. Medicaid and Welfare ReformChallengeMedicaid is meant to offer affordable health care to those in need. Unfortunately, the program itself isbursting at the seams. At its inception in 1966, the program cost $900 million. In 2012, it cost $432billion. And by 2023, the program's actuary expects costs to reach nearly $800 billion. 32 Notsurprisingly, the program is a huge strain on state budgets. What's more, much of this spending iswasteful, because the federal bureaucracy can't provide adequate oversight. Medicaid's improperpayment rate is 8. 1 percent—one of the ten highest among government programs. In 2011, Medicaidmade $21. 9 billion in improper payments. 33The main problem with the program is structural. On average, the federal government pays 57 centsof every dollar spent on Medicaid. 34 As a result, this set-up tempts states to expand coverage duringboom times—because they pay less than half the cost. On the flip side —during hard times—states arereluctant to cut a dollar's worth of coverage because it saves them only 43 cents. Governors have asked the federal government to give them more flexibility in offering the program. 35Federal mandates prevent states from developing innovative coverage options. Pressed for money, states often resort to cutting payments to providers, forcing many doctors to turn away Medicaidpatients. As a result, patients' health suffers. For example, Medicaid patients are more likely to dieafter coronary-artery-bypass surgery, less likely to get standard care for blocked arteries, and moreHouse Budget Committee | March 20132832 Truffer, Christopher et al. " 2012 Actuarial Report on the Financial Outlook for Medicaid." March 2012. 33 GAO. " Improper Payments: Remaining

Challenges and Strategies for Governmentwide Reduction Efforts." 28 March 2012. 34 Department of Health and Human Services. " Financing and Reimbursement." Medicaid. gov. 35 Republican Governors Public Policy Committee: Health Care Task Force. " A New Medicaid: A Flexible, Innovative and AccountableFuture." 30 August 2011. likely to die from cancer than those with other coverage options. 36 Meanwhile, those doctors whocontinue to see Medicaid patients end up shifting their extra costs onto other patients. 37The health-care law only exacerbates this problem. It increases eligibility to those families making 133percent of the poverty line. And it requires states to expand eligibility for the program if they want fullfunding for the costs of new beneficiaries. In the end, it puts more people into a broken system. Medicaid can no longer keep its promise to provide health care to our most vulnerable. Instead, it iserecting a two-class system that stigmatizes Medicaid enrollees and overwhelms state budgets. SNAP provides food aid to low-income Americans. But it too is facing a budget crunch. In 2003, theprogram cost $25 billion. Today, it costs over $80 billion, representing an increase of 12. 5 percent ayear since 2003. Much of the increase is due to the recession, but not all of it. Enrollment has grownfrom 17 million recipients in 2001 to over 46 million today. The Department of Agriculture hasobserved that " the historical relationship between unemployment and SNAP caseloads diverged inthe middle of the decade. . . . As the unemployment rate fell 1. 4 percentage points between 2003 and2007, SNAP caseloads increased by 22 percent." 38Like Medicaid, SNAP suffers from a flawed structure. States receive more money if they enroll morepeople in the program—so their incentive is to get people onto the rolls.

They have little incentive tohelp people get off the rolls and find work. In fact, these programs make it harder to becomeindependent. These programs also have little incentive to root out waste, fraud, and abuse. In Michigan, two lotterywinners received SNAP benefits. 39 In New York, city employees created around 1, 500 fake SNAP cards—and stole $8 million in benefits. 40 House Oversight Committee Chairman Darrell Issa has uncovereddozens of other examples, such as recipients trading food stamps for cigarettes and alcohol. 41To remain viable and to deliver on its important mission, SNAP must end this abuse. It must encouragestates to reduce fraud. In so doing, it can help feed the hungry—without lining the pockets of thosewho abuse the system. House Budget Committee | March 20132936 Gottlieb, Scott. " Medicaid Is Worse Than No Coverage at All." Wall Street Journal. 10 March 2011. 37 Rapp, Doug. " Low Medicare, Medicaid Pay Rates Impact Private Costs." American Medical News. 5 January 2009. 38 Andrews, Margaret and David Smallwood. " What’s Behind the Rise in SNAP Participation." Amber Waves. March 2012. 39 White, Ed. " Lottery winner. Food stamps. In Michigan. Again." Associated Press. 9 March 2012. 40 Moynihan, Colin. " Four Charged With Stealing $8 Million in Food Stamp Scam." New York Times. 8 December 2010. 41 Letter from Darrell Issa to Agriculture Secretary Tom Vilsack. 6 February 2012. Implicit marginal tax ratesOn a broader level, the welfare system as a whole is dysfunctional. In the 20th century, the federalgovernment addressed low-income families’ needs on a case-by-case basis: welfare, food stamps, children’s health insurance. Because the government created these programs separately, it didn’tcoordinate their efforts. And over the years, policymakers have sought to rein in costs by phasing outbenefits as families move up the income ladder. As a result, recipients face what are called implicitmarginal tax rates. As their incomes rise, they face higher tax burdens and lower benefits. Theconfluence of government policies affecting lower-income individuals can often create a powerfuldisincentive to get ahead. In testimony before the House Subcommittee on Human Resources last year, Gene Steuerle of theUrban Institute illustrated this problem with a hypothetical example. Take a single parent with twochildren living in Colorado. If that parent’s income rises from $10, 000 to $40, 000, how much of theadditional $30, 000 does the family keep? How much of it is lost to taxes and benefit cuts? Assumingthe family is enrolled in non-wait-listed programs like SNAP, Medicaid, and SCHIP, Steuerle writes, " theaverage effective marginal tax rate could be 55 percent." And " enrolling the family in additionalwaitlisted programs, likehousing assistance and[Temporary Assistance forNeedy Families], ratchets therate up above 80 percent." Steuerle asks " why as asociety we worry about 40percent tax rates on the rich if50 or 100 percent tax rates onthe poor have little or noeffect. Are the poor really thatdifferent?" The CBO has providedinformation on the range ofmarginal tax rates thatindividuals face. Lowerincomeindividuals can face amarginal tax rate of up to 95percent, not including phaseoutsfrom Medicaid. 42While this is not a new problem, recent changes in federal policies exacerbate the trend. TheAffordable Care Act, with exchange subsidies and Medicaid expansions, accelerates the trend of everincreasingmarginal tax rates on lower-income individuals. House Budget Committee | March 20133042 CBO. " Effective Marginal Tax Rates for Low- and Moderate-Income Workers." 15 November 2012. Upward mobilityBeyond the urgent need to lift the crushing burden of debt and advance pro-growth reforms that spursustained job creation, policymakers must reform public-assistance programs to be more responsive, sustainable, and empowering to their beneficiaries. Government can play a positive role with policiesthat help the less fortunate get back on their feet and offer low-income Americans the opportunity togain control over their lives. The key to the successful welfare reform of the late 1990s was Congress's decision to focus on theindividual. It granted states the ability to design their own systems. Congress should grant them thesame flexibility with regard to Medicaid. Above all, the role of policymakers must be to lift government-imposed barriers to strongercommunities and flourishing lives. Fiscal responsibility and economic opportunity are but means to amore critical end: the rebuilding of broken communities and the empowerment of families andcitizens. The ever-expansive activism of the federal government drains the vitality and displaces theprimacy of the bedrock institutions that define America. Solutions Provide states flexibility on Medicaid. One way to secure the Medicaid benefit is by converting the federal share of Medicaid spending intoan allotment tailored to meet each state's needs, indexed for inflation and population growth. Such areform would end the misguided one-size-fits-all approach that has tied the hands of stategovernments. States would no longer be shackled by federally determined program requirements andenrollment criteria. Instead, each state would have the freedom and flexibility to tailor a Medicaidprogram that fit the needs of its population. The budget resolution proposes to transform Medicaid from an open-ended entitlement into a blockgrantedprogram like State Children's Health

Insurance Program. These programs would be unifiedunder the proposal and grown together for population growth and inflation. This reform also would improve the health-care safety net for low-income Americans by giving statesthe ability to offer their Medicaid populations more options and better access to care. Medicaidrecipients, like all other Americans, deserve to choose their own doctors and make their own healthcaredecisions, instead of having Washington make those decisions for them. There are numerous examples across the country where states have used the existing, but limitedflexibility of Medicaid's waiver program to introduce innovative reforms that produced cost savings, quality improvements, and beneficiary satisfaction. The state of Indiana implemented such reformsthrough the Healthy Indiana Plan, a patient-centered system that provided health coverage touninsured residents who didn't qualify for Medicaid. Enrollees in this program had access to benefitssuch as physician services, prescription drugs, both patient and outpatient hospital care, and diseaseHouse Budget Committee | March 201331management. Unfortunately, the current administration denied Indiana's request to continue operatingtheir program under the Medicaid waiver rules. 43The Medicaid reforms proposed in the fiscal year 2014 budget take the opposite approach andinstead provide all states with the necessary flexibility to pursue reforms similar to the Indiana plan. Repeal the health-care law's expansion of Medicaid. The health-care law calls for major expansions in the Medicaid program beginning in 2014. Theseexpansions will have a significant impact on the federal share of the Medicaid program, and willdramatically increase spending. In the face of enormous stress on federal and state budgets and declining quality of care for Medicaid, the health-care law would increase the eligible population for the program by one-third. This futurefiscal burden will have serious budgetary consequences for both federal and state governments. Although the health-care law requires the federal government to finance 100 percent of the Medicaidcosts associated with covering new enrollees, this provision begins to phase out in fiscal year 2016. Atthat time, state governments will be required to assume a share of this cost. This share increases fromfiscal year 2016 through 2020, when states will be required to finance 10 percent of the health-carelaw's expansion of Medicaid. Not only does this expansion magnify the challenges to both state and federal budgets, it also bindsthe hands of local governments in developing solutions that meet the unique needs of their citizens. The health-care law would exacerbate the already crippling one-size-fits-all enrollment mandates thathave resulted in below-market reimbursements, poor health-care outcomes, and restrictive services. The budget calls for repealing the Medicaid expansions contained in the health-care law and removingthe law's burdensome programmatic mandates on state governments. \ Repeal the health-care law's exchange subsidies. According to CBO estimates, the health-care law will add more than $1. 2 trillion in new spending tothe federal balance sheet, providing eligible individuals with subsidies to purchase governmentapprovedhealth insurance. 44 These subsidies can only be used to purchase plans that meet standardsdetermined by the new health-care law. In addition to this enormous market distortion, the law alsostipulates a complex maze of eligibility and income tests to determine how much of a subsidyqualifying individuals may receive. The new law couples these subsidies with a mandate for individuals to purchase health insurance andbureaucratic controls on the types of insurance that may legally be offered. Taken together, theseprovisions will weaken the private-insurance market. Exchange subsidies take the health-care market inthe wrong direction, breaking what’s working at a time when policymakers need to fix what’s broken. Government mandates will drive out all but the largest insurance companies. Punitive tax penalties willHouse Budget Committee | March 20133243 Roy, Avik. " Obama Administration Denies Waiver for Indiana’s Popular Medicaid Program." Forbes. 11 November 2011. 44 CBO. " Estimate of the Budgetary Effects of the Insurance Coverage Provisions Contained in the Affordable Care Act." February 2013. force individuals to purchase coverage whether they want it or not. Further, the law does not condoneany policy that would require entities or individuals to finance activities or make health decisions thatviolate their religious beliefs. This budget repeals the President’s onerous health-care law. Instead of putting health-care decisionsinto the hands of bureaucrats, Congress should pursue patient-centered health-care reforms thatactually bring down the cost of care by empowering consumers. Allow states to customize SNAP to address the needs unique to their citizens. This budget retools federal aid to low-income families in two ways. First, it eliminates the incentive forstates to sign up as many recipients as possible. After employment has recovered, it converts SNAPinto a block grant, indexed for inflation and eligibility. This reform allows states to tailor their programsto their recipients’ needs. And it encourages states to help recipients find work. Second, it calls fortime limits and work requirements. It suggests, however, that the federal government implement thesereforms gradually to give states and recipients time to adjust. Address barriers to upward mobility. This budget addresses this problem by giving states more flexibility to design these programsaccording to their recipients' needs. By allowing states more flexibility, we can allow states to designtheir programs to smooth implicit marginal tax rates and ensure individuals aren't punished by thefederal government when they take steps to improve their lives. Reinstitute welfare's work requirements. The administration, in contravention to current law, has claimed authority to waive the workrequirements—and all other requirements—of the Temporary Assistance to Needy Families program. This budget rescinds any authority the administration thinks it has to provide for waivers of the workrequirement of the TANF program. It assumes that President Clinton and the Republican majority atthe time were correct in requiring robust work requirements for the TANF program—which led to thelargest sustained reduction in child poverty since the onset of the " Great Society." House Budget Committee | March 201333House Budget Committee | March 201334RETIREMENT SECUREDHouse Budget Committee | March 201335House Budget Committee | March 201336RETIREMENT SECUREDIn the 20th century, the federal government forged a social contract with working families. At the endof their careers, the government would provide health and income security in their retirement. In the21st century, that contract is in jeopardy. Rising health-care costs and an aging population threaten tobankrupt two crucial programs: Medicare and Social Security. The failure of politicians in Washington to be honest about Medicare and Social Security is putting thehealth and retirement security of all Americans at risk.

The fact is that Medicare and Social Security arein dire need of reform. With both programs weighed down by tens of trillions of dollars of unfundedliabilities, the federal government is making promises to current workers about their health andretirement security for which it has no means to pay. Without reform, these empty promises will soonbecome broken promises. Washington's policy response to the demographic and economic pressures threatening Medicare andSocial Security has been a disappointing failure. For too long, politicians of both parties have lackedthe political will to deal with the underlying structural issues that are weakening these programs. Instead, they have denied the problem or made the problem worse. In Medicare, the federal government has tried to address cost pressures by cutting provider paymentsin ways that hurt quality and restrict access for seniors. Absent reform, current seniors will experiencediminished care, while the next generation will inherit a bankrupt Medicare program. In Social Security, government's refusal to deal with demographic realities has endangered thesolvency of this critical program. Absent reform, seniors, those with disabilities, and their families willexperience sharp benefit cuts when the trust fund is exhausted, while the next generation will inherit aSocial Security program too unstable to permit them to plan for their own retirement with confidence. Unfortunately, years of neglect by policymakers who were unwilling to confront the structuralchallenges posed by these programs are pushing Medicare and Social Security into a state of peril. Left unaddressed, the spending pressures in these programs don't just put the solvency of the federalgovernment at risk and future economic growth in doubt—they also threaten the government's abilityto protect the promise of health and retirement security for millions of seniors and those withdisabilities today, as well as for generations to come. This budget protects and strengthens Medicare for current and future generations. It also requires thePresident and Congress to work together to forge a solution for Social Security. This budgetrecognizes that the federal government must keep its word to current and future seniors. And to dothat, it must reform these programs. Medicare in brief Preserve Medicare for those in or near retirement. Reform Medicare for younger generations. Repeal the health-care rationing board. House Budget Committee | March 201337 Reform the medical-liability system. End the raid on the Medicare Trust Fund. Means-test premiums for high-income seniors. Social Security in brief Require the President to submit a plan to shore up the Social Security Trust Fund. Require Congress to submit a plan of its own. Federal-workforce retirement in brief Reform civil-service pensions. Reform the Pension Benefit Guaranty Corporation. MedicareChallengeIn 1965, our country made a commitment to seniors: Government would help them pay for health careso they wouldn’t have to exhaust their life savings—or their children’s—to survive a costly illness. Medicare was created to fulfill that commitment, but now this program is at risk. If we don’t fix theprogram’s structural flaws, it will exacerbate the problem it was meant to solve: millions of seniorswithout adequate health care and millions of young workers saddled with a crushing debt burden. The current Medicare program attempts to do two things to make sure that all seniors have secure, affordable health insurance that works. First, recognizing that seniors need extra protection when itcomes to health coverage, it pools risk among all seniors to ensure that they enjoy secure access tocare. Second, Medicare subsidizes coverage for seniors to ensure that coverage is affordable. Affordability isa critical goal, but the subsidy structure of Medicare is fundamentally broken and drives costs in thewrong direction. The open-ended, blank-check nature of the Medicare subsidy drives health-careinflation at an astonishing pace, threatens the solvency of this critical program, and creates inexcusablelevels of waste in the system. Politicians' repeated failures to solve this problem underscore the critical need for structural reform toensure lasting solvency. Time and again, Congress has applied band-aids to control costs by reducingthe rate at which doctors, hospitals, and other providers are reimbursed for treating Medicare patients. These repeated fee reductions create backwards incentives for those providing care, resulting in thevolume of services provided for each condition being increased, costs being shifted onto privatehealth-insurance plans, or Medicare patients simply losing access to care. The incentive to increasevolume results in waste, fraud, and abuse. The incentive to shift costs results in higher costs for allpatients. And the incentive to turn Medicare patients away results in restricted access to critical carefor seniors. House Budget Committee | March 201338According to CBO's 2012 Long-Term Outlook Alternative Fiscal Scenario, Medicare is projected to risefrom 3. 7 percent of GDP today to 13 percent by 2085. 45 The unchecked growth of the Medicareprogram cannot be sustained, and the government's continued reliance on price controls will onlymake matters worse. Washington's failure to advance structural reforms threatens not just theaffordability of coverage for seniors, but also the security that comes with knowing that coverage canbe obtained at any price. Solutions Preserve Medicare for those in or near retirement. Reform Medicare for younger generations. Beginning in 2024, for those workers born in 1959 or later, Medicare would offer them a choice ofprivate plans competing alongside the traditional fee-for-service option on a new Medicare Exchange. Medicare would provide a premium-support payment either to pay for or to offset the premium of theplan chosen by the senior. The Medicare Exchange would provide seniors a competitive marketplace in which they could choosea plan the same way members of Congress and federal employees do. Every plan, including thetraditional fee-for-service option, would participate in an annual bidding process to determine thefederal contribution seniors would receive to purchase coverage. Health-care plans would compete forthe right to serve Medicare beneficiaries. The benchmark plan would be either the second-least-expensive private plan or fee-for-serviceMedicare, whichever cost less. If a senior chose a more expensive plan than the benchmark, he or shewould pay the difference between the subsidy and the monthly premium. And if a senior chose a planless expensive than the benchmark, he or she would receive a rebate for the difference. Medicarewould offer higher payments depending on the patient’s health history and the cost of living. And itwould require private plans to cover at least the actuarial equivalent of the benefit package offered bythe fee-for-service option. Instead of pegging the growth rate to a predetermined formula, Medicare would increase premiumsubsidies according to a competitive-bidding process. As a backup, the per-capita cost once theprogram has begun could not exceed nominal GDP growth plus 0. 5 percent. The President hasproposed to empower the Independent Payment

Advisory Board to hold Medicare growth to thesame rate. Unlike IPAB, this proposal would use competition—not bureaucratic fiat—to control costs. This budget will make sure low-income Americans don't fall through the cracks. If costs rose faster thanthe established limit, the federal government would pay the out-of-pocket expenses of those patientswho qualified for both programs. Meanwhile, those seniors who didn't qualify for Medicaid but werestill under an income threshold would receive fully funded accounts to offset out-of-pocket costs. ThisHouse Budget Committee | March 201339