THE NATION'S FISCAL OUTLOOK

Over the past four years, the Administration and the Congress have responded to the challenges posed by recession, terrorist attacks, corporate scandals, and the War on Terror. The responses included enacting tax relief, reducing regulatory burdens, promoting trade, supporting entrepreneurship, and making a substantial investment in our homeland security and defense. Working with the Congress, this Administration took steps to help generate and fuel the economic recovery.

Sustaining economic expansion now requires additional action, especially strong Federal spending discipline. While the Administration and the Congress succeeded in slowing the growth in non-security discretionary spending during the President's first term, more needs to be done to ensure Federal spending growth does not place unsustainable demands on our economy.

When the Federal Government focuses on its priorities and limits its claim on resources taken from the private sector that helps sustain a stronger, more productive economy. When it is achieved through spending restraint rather than through tax increases, deficit reduction bolsters confidence in America's economy. This confidence in global capital markets brings important advantages to America's economy in the form of lower interest rates and lower borrowing costs, which in turn lead to more investment and more jobs. Keeping America's fiscal house in order, while holding taxes down, sustains growth and justifies investors' confidence in the U.S. economy.

A strong economy and a strong fiscal condition are mutually reinforcing goals. Just one year ago, the Nation's economy was still emerging from the effects of multiple shocks. Last year's Budget estimated a deficit of 4.5 percent of Gross Domestic Product (GDP) in 2004, or $521 billion. Private and other forecasters had similar deficit expectations. Largely because economic growth generated stronger revenues than originally estimated, and because the Congress adhered to the spending restraint called for in the President's Budget, the 2004 deficit came in $109 billion lower than expected, at $412 billion, or 3.6 percent of GDP.

The 2005 Budget, while providing needed increases for overall homeland security and defense spending, still held overall discretionary spending growth to 4 percent for the second year in a row. Non-security discretionary spending growth declined for the fourth year in a row, down from a high of 15 percent in the final budget year of the prior Administration to about one percent in 2005.

The President's 2006 Budget demonstrates even greater restraint: it is the first Budget to propose a cut in non-security discretionary spending since the Reagan Administration. Even with significant increases in security-related spending, the 2006 Budget holds overall discretionary spending to 2.1 percent growth, which is just below the projected rate of inflation. In other words, after providing substantial increases for protecting America at home and abroad, overall discretionary spending will still be reduced in real terms.

In the area of non-defense discretionary spending, this Budget proposes more than 150 program reductions and eliminations, saving a total of about $20 billion dollars in 2006 alone. Discretionary spending is subject to the annual appropriations process and is therefore easier to control because legislation must generally be enacted each year for programs to continue.

Spending on mandatory programs is more difficult to restrain because these programs generally operate based on formulas that are not subject to annual review. Consequently, when these programs grow faster than originally envisioned, which is often the case, there is no automatic mechanism to

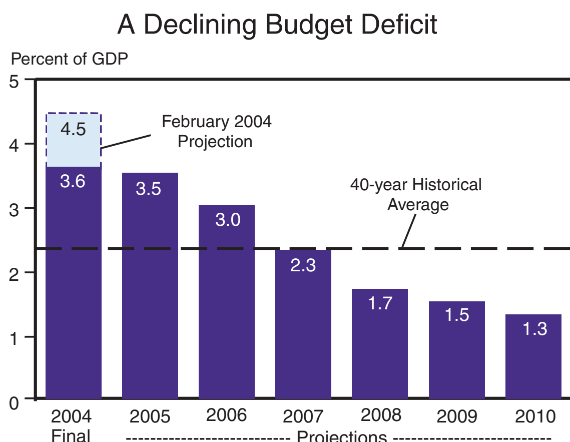
impose restraint. The only way to constrain the growth of mandatory spending is by enacting new laws that change the rules governing spending. The 2006 Budget proposes significant reforms in mandatory programs, saving a total of $137 billion over a 10-year period.

Among the many reforms the Budget proposes are changes to Federal high school funding programs, which have for years focused on narrow purposes that have not proven effective in improving student academic achievement or job prospects. The Budget proposes to consolidate the funding for these programs, and use that funding for more testing, intervention programs for struggling readers, and other reforms. The Budget also creates a new economic development program that will replace the current system of duplicative efforts that often do not show positive results. By focusing resources on the creation of jobs and economic opportunity, and on private partnerships, this reform will improve accountability and results. And the Budget proposes reforms in Medicaid to reduce inefficiencies and overpayments, while extending to States more flexibility in determining Medicaid eligibility and how benefits are delivered.

When evaluating the Nation's fiscal outlook, it is important to consider two different time frames: what happens in the near-term, and what happens thereafter with the retirement of the Baby Boom generation. With continued pro-growth policies and responsible spending restraint, the fiscal condition of the Federal Government shows steady and solid improvement over the five-year budget window. This period of relative success will end roughly a decade from now when the retirement of Baby Boomers begins in earnest, and the costs of the Nation's entitlement programs explode. At that point, the Federal Government's deficits are expected to begin a dramatic rise, and the entitlement programs that are currently manageable will eventually overwhelm the rest of the Federal budget—unless appropriate and effective reforms are enacted.

THE NEAR-TERM FISCAL OUTLOOK

The best way to compare annual deficit levels is by analyzing their size relative to the overall size of the economy, as measured by GDP. Such a comparison gives the most meaningful measure of the size and scale of deficits, spending, and revenue. After all, a deficit of $100 billion is less than 1 percent of our $12 trillion economy. But $100 billion would have represented 10 percent of the $1 trillion economy of 1970.

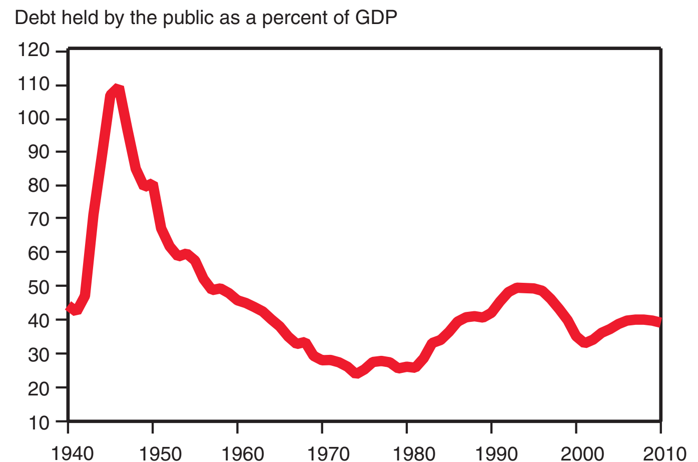


Near-term budget projections show a trend of steady decline in deficits as receipts grow and the spending restraint in this Budget is enforced. The Administration, like private forecasters, projects that the economy will grow at a strong and steady pace in coming years. Fueled by the President's pro-growth policies, the Administration projects tax receipts to grow faster than outlays in each of the next five years. From 2005 to 2010, receipts are projected to rise by an average of nearly 7 percent annually, more than two percentage points faster than average growth in spending.

Last year, the Administration's Budget projected a deficit of 4.5 percent of GDP in 2004. But by the end of the year, the deficit had shrunk to 3.6 percent of GDP, which while still too large, was only the 10th largest deficit in the last 25 years. Even with renewed economic growth and current and past spending restraint measures, the Administration expects that deficits for 2005 and 2006 will be higher than projected last year. The 2005 deficit estimate in last year's Budget did not include the costs

of 2005 supplemental appropriations to fund continuing operations in Afghanistan and Iraq. Since that Budget was released, the Congress enacted $25 billion in additional appropriations to support military operations. The Administration intends to submit a supplemental appropriations request of approximately $81 billion primarily to support operations for the remainder of the fiscal year. The 2006 Budget's spending and deficit projections fully reflect the outlay effects of these two supplemental requests. However, the Budget does not reflect the effect of undetermined but anticipated supplemental requests for ongoing operations in Iraq and Afghanistan beyond 2005.

While the 2005 deficit rises in nominal dollar terms to $427 billion, it falls to 3.5 percent of GDP. And in 2006, the deficit is expected to fall further still, to 3.0 percent of GDP, which would be only the 15th largest in 25 years. All these projections assume both the continued economic growth we have seen, as well as the spending restraint included in this Budget. If we maintain these policies, we cut the deficit by more than half from its originally estimated 2004 peak—to just 1.5 percent of GDP, which is well below the 40-year historical average of 2.3 percent.



Financial markets look at deficits using additional methods. One important measure is the ratio of all publicly-held Federal debt to GDP. This ratio, which has varied between 34 percent and nearly 50 percent over the past 20 years, is projected to be 40 percent at the end of 2007, and to fall to 39 percent in 2010. This decline is expected to occur because projected deficits as a share of GDP are modest, and because economic growth is projected to be strong over this period.

THE LONG-TERM FISCAL CHALLENGE: A CALL FOR REFORM

As discussed above, the Federal Government's near-term fiscal outlook is expected to improve steadily over the next several years. The same cannot be said of the long-term deficit picture as a result of long-standing imbalances between what major entitlement programs currently promise in benefits and the resources expected to be available to meet those promises. Due to a combination of demographic and cost pressures, Social Security's and Medicare's unfunded obligations pose the real fiscal danger to the Federal budget and to our economy in general.

Social Security

Social Security today operates on what is known as a "pay-as-you-go" basis, in which current worker payroll taxes are used immediately to pay for the benefits of current retirees and other beneficiaries. However, demographic trends indicate that the ratio of workers to beneficiaries will continue to decline. In 1950, there were about 16 workers paying for every beneficiary. Today, there are slightly more than three—and by the time today's young workers retire, there will be only two workers to support each person on Social Security. Despite multiple efforts in the past to patch the system with cuts in benefits and increases in the payroll tax and the retirement age, the Social Security system remains on a clear path to fiscal failure.

A snapshot of the Social Security system today gives no hint of the trouble to come because it shows Social Security with a cash surplus estimated to be $76 billion in 2006. However, this surplus begins

to decline in 2008 as the first wave of Baby Boomers retire. In 2018, the Social Security system will collect less in taxes than it pays in benefits and will shift into a permanent cash deficit. In 2042, Social Security will exhaust its Trust Fund assets and will be bankrupt. If Social Security's problems are left unresolved, today's young workers will see their benefits sharply and suddenly cut, their children's payroll taxes raised, or both.

Another measure of Social Security's long-term fiscal condition comes from the long-run net present value of its future income and promised benefits. Looking out over the next 75 years, Social Security is carrying a deficit of $3.7 trillion, a figure that includes its existing Trust Fund balances of $1.5 trillion.

The picture is actually worse, because the 75-year window takes credit for the payroll taxes paid by the next generation of workers while failing to count benefit payments owed to them beyond the 75-year timeframe. A more accurate way to describe Social Security's financial jeopardy is by calculating how much it would cost to fix the problem permanently. An analysis that captures the net present value of all Social Security tax collections and promised benefits shows Social Security facing a deficit of $10.4 trillion, allowing for the present value of Social Security's Trust Fund balance. That figure is estimated to rise by around $600 billion in 2005, and by increasing amounts each year thereafter, if no reforms are enacted.

The long-term fiscal imbalance in Social Security is well known to investors at home and abroad. Failure to rectify Social Security's finances could cause financial markets to question the Federal Government's commitment to sustainable fiscal policies. Such a conclusion would at some point find its expression in steadily rising real borrowing costs to the Federal Government, a drop in confidence in the American economy that would lead to less business investment, and slower overall economic growth.

Only significant changes in policy can prevent Social Security from driving the Federal Government to debt levels that are unsustainable. The sooner necessary policy changes are made, the less disruptive they will have to be. The President's Commission to Strengthen Social Security presented three options as the basis for reform in its 2001 report. Many other proposals have been advanced in the intervening period as well.

The President has made clear that in 2005, he will pursue legislation that permanently fixes Social Security, building on recent reform efforts and following these guiding principles:

- Benefits for today's retirees or those near retirement should not be changed. Americans who have already put in an entire working career are counting on Social Security benefits. We must continue to honor the commitments we have made to our seniors.
- Payroll taxes must not be increased. Past shortfalls in Social Security have been addressed by repeatedly raising payroll taxes on current workers and employers. These efforts have never corrected the problem. Moreover, higher taxes would hurt economic growth, which is vital to both near-term and long-term deficit reduction.
- Social Security reform must also include the creation of voluntary personal accounts so that younger workers can have greater control over and actual ownership of their payroll tax dollars. These accounts will enable American workers to build a nest egg for retirement.

Voluntary personal accounts under Social Security involve financing the transition from today's unsustainable "pay-as-you-go" system. The creation of these accounts would therefore have important consequences for Federal finances in both the near-term and in the long-run, but these effects do not have the same impacts on the economy as traditional debt financing.

The effect of creating personal accounts would be to protect some portion of worker payroll taxes from the reach of the Federal Treasury. The Federal Government might therefore have to increase its borrowing in the private capital markets by an amount equal to the annual flow of payroll taxes into

the personal accounts. While the creation of personal accounts would increase Federal borrowing, they would also reduce the Federal Government's future spending obligations by an equal amount. Both effects must be shown and understood together—both the size of near-term investments in personal accounts, under reasonable participation assumptions, and the corresponding amount by which reform would reduce future unfunded obligations. It is misleading to measure only the near-term impacts.

Social Security: The Need for Action

In 2008—just four years from now—the first cohort of the Baby Boom generation will reach 62, the earliest age at which Social Security retirement benefits may be claimed and the age at which about half of prospective beneficiaries choose to retire; in 2011, these individuals will reach 65 and will thus be eligible for Medicare. At that time, under the intermediate assumptions of the OASDI trustees, there will still be more than three covered workers for each OASDI beneficiary; by 2025, this ratio is projected to be down to 2–1/4. This dramatic demographic change is certain to place enormous demands on our nation's resources–demands we almost surely will be unable to meet unless action is taken. For a variety of reasons that action is better taken as soon as possible.

Alan Greenspan, Chairman of the Federal Reserve
Testimony, House Budget Committee
February 25, 2004

Even under a wide range of assumptions, CBO's projections point to a financial imbalance in the Social Security system over the long run. Changes in economic growth can affect the system's finances. But because the initial benefits paid to new recipients are indexed to the overall growth of earnings, the effect of such changes is muted. For the most part, the future financial status of Social Security will be driven not by economic conditions but by long-term demographic shifts–most notably, the aging of the population. That trend is generally predictable, because anyone who will receive retirement benefits during the next 62 years has already been born.

Congressional Budget Office
"The Outlook for Social Security"
June 2004

Our Social Security challenge is more urgent than it may appear. Failure to take remedial action will, in combination with other entitlement spending, lead to a situation unsustainable both for the federal government and, ultimately, the economy.

General Accounting Office
"Social Security: Analysis of Issues and Selected Reform Proposals"
January 15, 2003

The fundamentals of the financial status of Social Security and Medicare remain problematic under the intermediate economic and demographic assumptions. Social Security's current annual cash surpluses will soon begin to decline and then turn into rapidly growing cash deficits toward the end of the next decade as the baby-boom generation retires. . . . As the reserves in Social Security and [the Medicare Hospital Insurance Trust Fund] are drawn down and [Medicare Supplementary Medical Insurance Fund] general revenue financing requirements continue to grow, the pressure on the Federal budget will intensify. We do not believe the currently projected long run growth rates of Social Security and Medicare are sustainable under current financing arrangements.

Social Security and Medicare Boards of Trustees
"Status of the Social Security and Medicare Programs"
2004

Under most circumstances in which the Federal Government borrows funds, it is because the Government is spending more on goods, services, and transfer payments than it is taking in. In the case of personal accounts, however, the reduction in national savings from the Federal Government's increased borrowing exactly matches the increase in private saving that occurs through the personal accounts. There is no net reduction in national saving arising from this arrangement, nor is there any reduction in the flow of saving available to the private sector. For this reason, the creation of personal accounts is not expected to have any detrimental effect on financial markets or on the overall economy.

Comprehensive reform that includes personal accounts would permanently eliminate the unfunded obligations of the current system. Ultimately, that is the standard by which any legislation to strengthen the Social Security system must be held. To achieve this, the long-term growth in annual Social Security outlays cannot be greater than the long-term growth in program-generated receipts.

Projections regarding various proposals' fiscal effects and their impact on beneficiaries will be based on analyses provided by the non-partisan actuaries and other technical experts at the Social Security Administration.

Medicare and Other Entitlement Programs

Medicare's financial problems are in part driven by the same demographics we see in Social Security, but Medicare's problems are compounded by the rising cost of health care. This suggests that effective solutions to Medicare's long-term financial shortfall may differ significantly from the solutions for Social Security. For example, policies that foster a strong economy will tend to reduce Medicare's shortfall because a strong economy produces additional receipts without generating additional promised benefits. By comparison, an increase in Social Security payroll tax receipts arising from a strong economy produces commensurate increases in promised benefits.

In 2003, the President signed into law the Medicare Modernization Act (MMA), which added a prescription drug benefit to the program and created the Medicare Advantage program, in which private health plans compete for seniors' business by providing enhanced benefits. Seniors and other beneficiaries will now have access to prescription drugs and more preventive services under Medicare. And importantly, the legislation lays the foundation for addressing Medicare's long-term financing challenge by dramatically increasing beneficiary choices and introducing market-based competition, which are the essential ingredients for greater efficiency and quality in our health care system.

Among its reforms, the MMA created new tax-favored Health Savings Accounts (HSAs). These accounts allow workers to save tax-free for their out-of-pocket health costs, and are paired with low-premium, high-deductible health plans that cover hospitalization and other major health care costs. HSAs represent an innovation in health care coverage with improved incentives.

HSAs make basic health insurance more affordable, and promote health care decisions that are more effective for both patients and the entire health care system. For example, people with HSAs have a financial incentive to stay healthier, since fewer doctor visits mean more dollars left over in the savings accounts. When consumers use their accounts to pay for out-of-pocket expenses, they are more likely to seek out the best quality and the lowest price. This should drive health care providers to become more efficient and more cost-conscious, to the benefit of all health care consumers.

Individuals and families with HSAs are less likely to be dependent on employment or the insurance policies of a single employer for their health coverage. The President has proposed extending the benefits of HSAs in two important ways: he has proposed giving small business owners a refundable tax credit for contributions made to employees' HSAs; and he has proposed increasing the availability of HSAs for low-income families by providing a $1,000 direct contribution to their HSA in conjunction

with a refundable tax credit of up to $2,000 toward the purchase of a low-premium, high-deductible health care plan.

The President has also advanced policies to accelerate the integration of the latest information technologies into health care. He has set a goal that most Americans have electronic health records within the next 10 years. Electronic health records are already making a difference in our health care system, making patient records available to doctors in emergency situations and routine visits, promoting accurate medical notations and prescriptions, and helping to prevent avoidable medical errors, all while protecting patient privacy. By improving efficiency and reducing errors, we will see health care savings, making all health care in America more affordable and accessible.

The President is also proposing medical liability reforms. The costs of medical liability insurance are driving doctors out of practice, or are being passed on to patients and their employers in higher insurance rates. In addition, the pressure of medical liability lawsuits is causing more doctors to practice medicine defensively and order more lab tests or exams than is necessary, which is driving up health care costs even further. By enacting national medical liability reform we will be able to address the problem of junk lawsuits against doctors, clear our court system of unnecessary litigation, and help to control health care inflation.

These policies will increase competition and individual choice in the health care marketplace, drive the industry toward much greater efficiency, and eliminate some of the pressures that are lifting health care costs. Taken together, they will slow the rate of health care inflation, slow the rate of increases in Medicare costs, and thereby diminish Medicare's unfunded obligations.

Much can also be done within Medicare itself to bring down its unfunded obligations. For example, to help address the program's long-term fiscal challenges, the MMA requires the Medicare Trustees in their annual report on the program's financial soundness to analyze the combined fiscal status of the two Medicare Trust Funds and warn the Congress and the President when Medicare's reliance on general revenue funding will exceed 45 percent. If the Trustees determine that general revenue funding will exceed 45 percent in two consecutive years, a Medicare Funding Warning is issued, which makes available special legislative procedures to allow the President and the Congress to address the shortfall in the Medicare Trust Funds. This new fiscal safeguard will alert the Congress and the President should Medicare's dedicated revenues fall below adequate levels. The Administration supports efforts to integrate Medicare's financing structure and monitor the program's reliance on general revenue funding, such as a unified Medicare Trust Fund.

Other entitlement programs pose similar challenges to the long-term fiscal condition of the Federal Government. For example, the Medicaid program, which was created in 1965 to help States provide health care benefits to low-income families with children, has evolved into an extremely complicated program that emphasizes institutional settings, when home and community-based settings could be more appropriate. And the program is growing rapidly. Counting the States' share of costs, it is now larger than Medicare. Total Medicaid expenditures will reach a projected $338 billion in 2006. Medicaid has become the largest expenditure in many State budgets, surpassing even primary and secondary education. Yet, because of the program's cumbersome structure, there are many very low-income Americans who are not helped by Medicaid.

Over the long term, Medicaid is not only a serious fiscal challenge for both Federal and State governments, but its current structure is not the most efficient way to deliver modern medical care to the poor. The Administration proposes to restore Medicaid's original promise to protect and promote the health of the least financially fortunate among us, while fostering a more balanced Federal-State partnership that improves the program's long-term financial stability. The program's open-ended finance structure encourages efforts by States to draw down Federal matching funds, sometimes inappropriately. These financing practices undermine the Federal-State partnership required by the Medicaid statute and jeopardize the financial stability of the program. The 2006 Budget proposes

several program integrity measures to reduce inappropriate use of Federal commitments under Medicaid. Also, the Administration proposes to apply lessons learned from the successful State Children's Health Insurance Program by giving States more flexibility to provide needed care to larger numbers of the uninsured, while reducing needless overhead and waste. Together with his package of proposals to help the uninsured, this reform will focus on increasing health insurance coverage for low-income families while also promoting more efficient and rational ways of delivering care, such as community-based care alternatives for persons with disabilities. (For a more complete description of reforms in the Medicaid program, please see the Department of Health and Human Services chapter.)

BUDGET ENFORCEMENT AND PROCESS REFORM

To enforce spending discipline in the 2006 Budget, as well as maintain spending discipline over the long-term, the Administration proposes several budget process reforms.

The Administration supports the establishment of overall discretionary spending caps and pay-as-you-go (PAYGO) rules for mandatory spending. To further this goal, the Administration transmitted in April of last year the Spending Control Act of 2004. The Administration plans to repropose that legislation, including appropriate updates and revisions.

In addition, this Budget proposes that the Congress adopt the Administration's discretionary cap, PAYGO requirement, long-term unfunded obligations controls, and associated reforms as part of its 2006 Budget Resolution.

The Administration's proposals are based largely on the lapsed Budget Enforcement Act (BEA). From 1991 to 2002, the BEA set statutory budget authority and outlay limits on discretionary spending and a PAYGO requirement for all other legislation that were enforced by across-the-board spending reductions. Until budget surpluses surfaced in 1998, the BEA proved to be an effective brake on the growth in spending.

Discretionary Spending Limits. The Administration proposes annual statutory limits on discretionary spending through 2010 that would be adhered to throughout the budget process. The President's proposal would require a three-fifths vote of the Senate for an appropriations bill that caused these limits to be exceeded. If an appropriations bill was enacted that caused these limits to be exceeded, OMB would be required to make across-the-board cuts to eliminate the excess spending.

Currently, there are inadequate incentives in budget scoring rules to fund program integrity activities to ensure that taxes owed to the Government are collected, eliminate the estimated $40 billion in improper payments, and combat other fraud and abuse in Government programs. For example, if the Budget allocates $100 million for the collection of $500 million in delinquent tax payments, the savings of $400 million are not counted as a form of savings. Thus, neither the Congress nor the Administration has a budget scoring incentive to provide for such program integrity activities. The Administration proposes an incentive for funding these activities by adjusting discretionary caps upward to allow additional funding for continuing disability reviews, health care fraud detection, unemployment insurance integrity, and Internal Revenue Service delinquent tax collections.

Mandatory Spending Controls. Mandatory spending constitutes spending that is not generally under the discretion of the Congress in the annual appropriations process. When President Kennedy was in office, mandatory spending represented one-third of the budget. Today, it amounts to nearly two-thirds of the budget.

The Administration's proposal would modify the PAYGO mechanism that was in existence from 1991-2002 to require legislative proposals that increase mandatory spending to be offset by reductions in other mandatory spending. Budget enforcement mechanisms should be focused on controlling spending, not on raising taxes on America's workers and families. Under the proposal, tax increases

could not be used to offset mandatory spending increases; nor would tax relief legislation be subject to PAYGO procedures. Like the discretionary spending enforcement mechanism, this proposal would require a three-fifths vote of the Senate for legislation that violated this requirement. If legislation was enacted that caused a net increase in mandatory spending, OMB would be required to make across-the-board reductions in non-exempt programs.

Long-term Unfunded Obligations. The real fiscal danger is posed by the long-term unfunded obligations of the Social Security, Medicare, and other entitlement programs. Spending decisions on entitlements often have ramifications on the budget outlook far beyond the conventional 10-year window used to score changes in policy. Enforcement mechanisms are needed to address the long-term impact of entitlement spending expansions. The Budget proposes to establish a new measure to analyze the long-term impact of legislation on unfunded obligations of major entitlement programs. If legislation caused an increase in these obligations, it would require a three-fifths vote of the Senate.

Line-Item Veto Authority. A perennial criticism of the Federal Government is that spending and tax legislation contain too many provisions, or earmarks, that would likely not become law if considered as a stand-alone bill. The persistence of these items in the Budget diverts resources from higher priority programs.

The President proposes that the Congress address this issue by providing him and future Presidents with a line-item veto that would withstand constitutional challenge. From the Nation's founding, Presidents have exercised the authority not to spend appropriated sums. However, the Congress sought to curtail this authority in 1974 through the Impoundment Control Act, which restricted the President's authority to decline to spend appropriated sums. The Line-Item Veto Act of 1996 attempted to give the President the authority to cancel spending authority and special interest tax breaks, but the U.S. Supreme Court found that law unconstitutional. The President's proposal would correct the constitutional flaw in the 1996 Act.

Specifically, the President proposes a line-item veto linked to deficit reduction. This proposal would give the President the authority to defer new spending whenever the President determines it is not an essential Government priority. All savings from the line-item veto would be used for deficit reduction, and could not be applied to augment other spending.

The Budget proposes other budget process reforms, including proposals to give the budget resolution the force of law, move to a biennial budget and appropriations process, and prevent Government shutdowns through an automatic continuing resolution.

In addition to these legislative proposals, the Administration plans on augmenting its own controls. To contain the cost of administrative decisions that can increase the cost of mandatory spending, the Office of Management and Budget plans to establish an internal review process that requires agencies, when proposing substantial administrative decisions that increase mandatory spending, to also propose other offsetting administrative decisions that reduce mandatory spending. This "administrative PAYGO" approach would complement congressional adoption of PAYGO for legislated increases in mandatory spending.

The reductions and reforms in the 2006 Budget will contribute to an even stronger near-term outlook for the Federal budget. And they will help strengthen the Federal Government's long-term fiscal outlook. Federal programs that place a large and rising claim on current tax dollars represent a real danger to our current and future fiscal health, and to our economy as a whole. It is critical that we take steps to confront these rising costs, and promote responsible reforms that place our entitlement programs on a path towards balance.