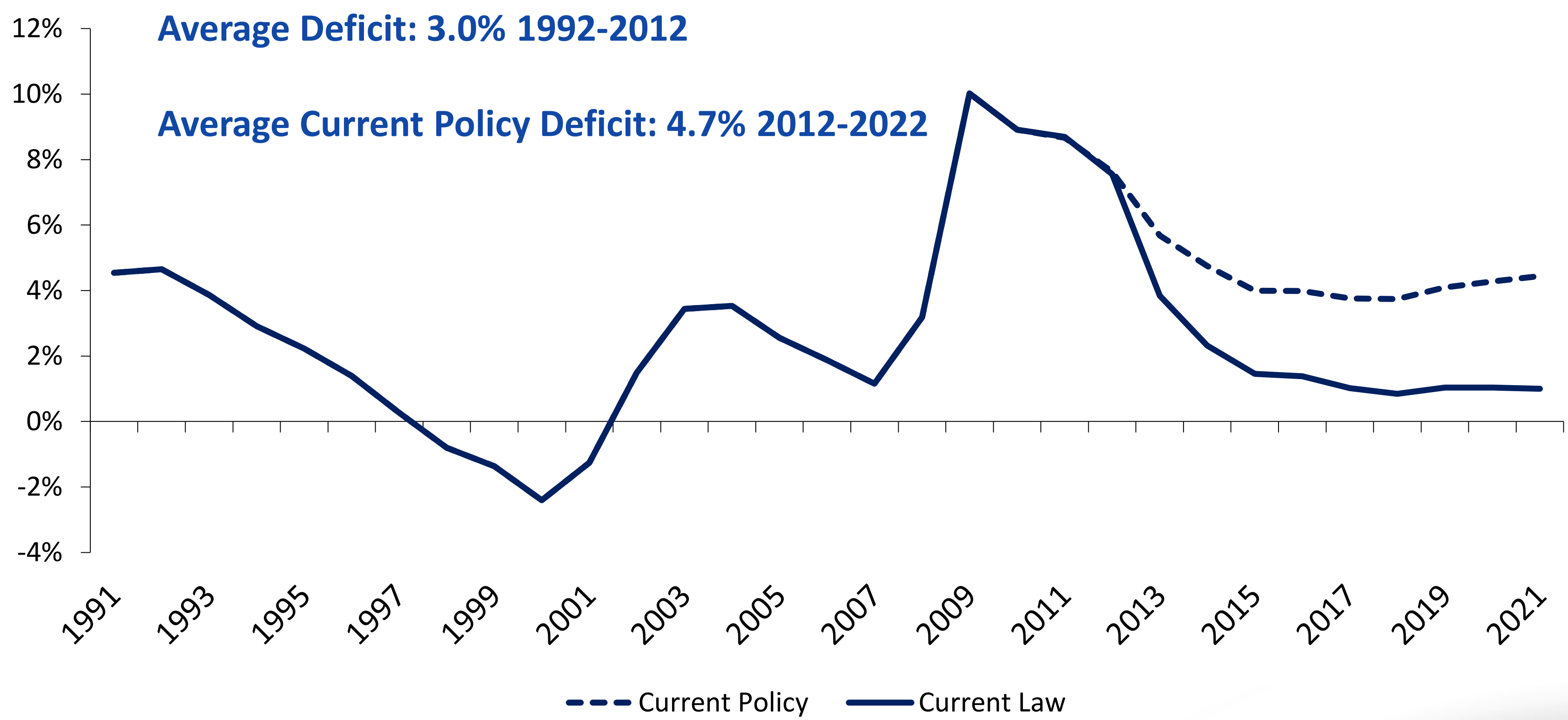
Averting a Fiscal Crisis

The Committee for a Responsible Federal Budget

THE COMMITTEE FOR A
RESPONSIBLE FEDERAL BUDGET

Deficit Projections

(Percent of GDP)



Note: Estimates based on CRFB Realistic Baseline.

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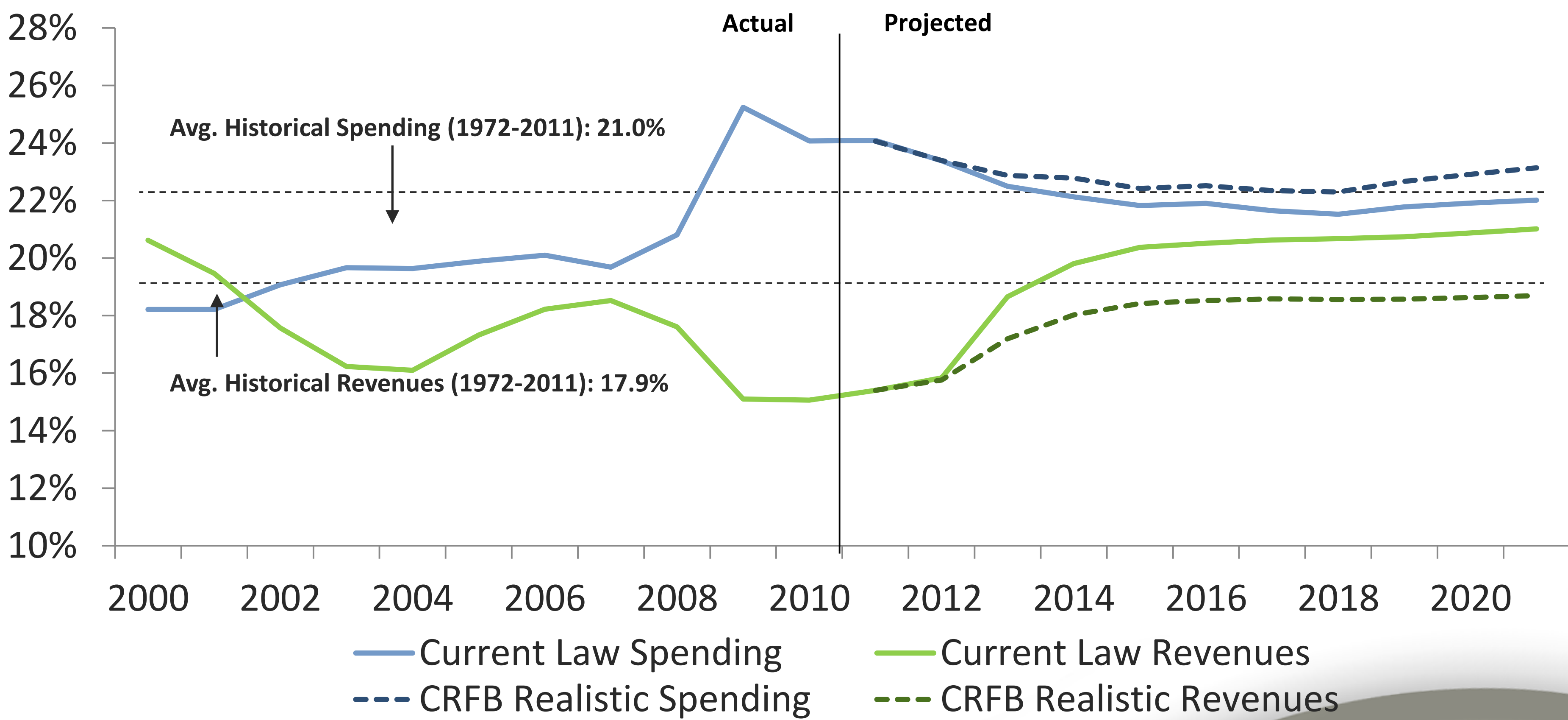
Gap Between Revenue and Spending

(Percent of GDP)



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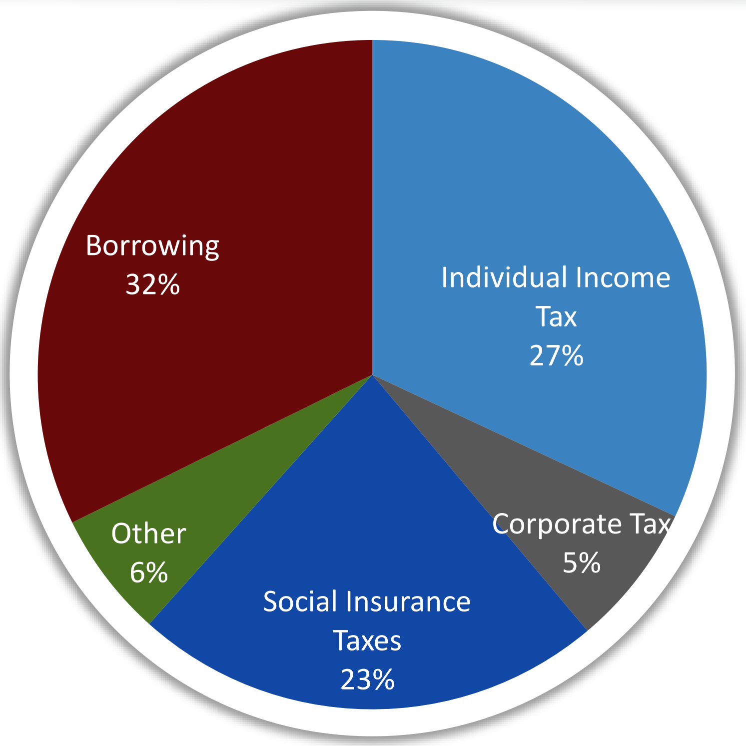
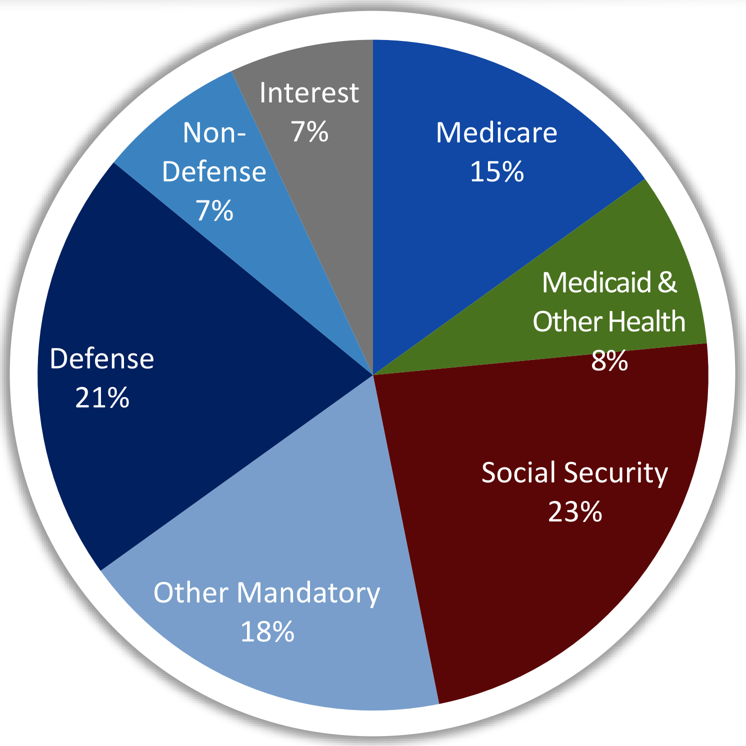
Components of Revenue and Spending

Revenues and Financing	Outlays



2012

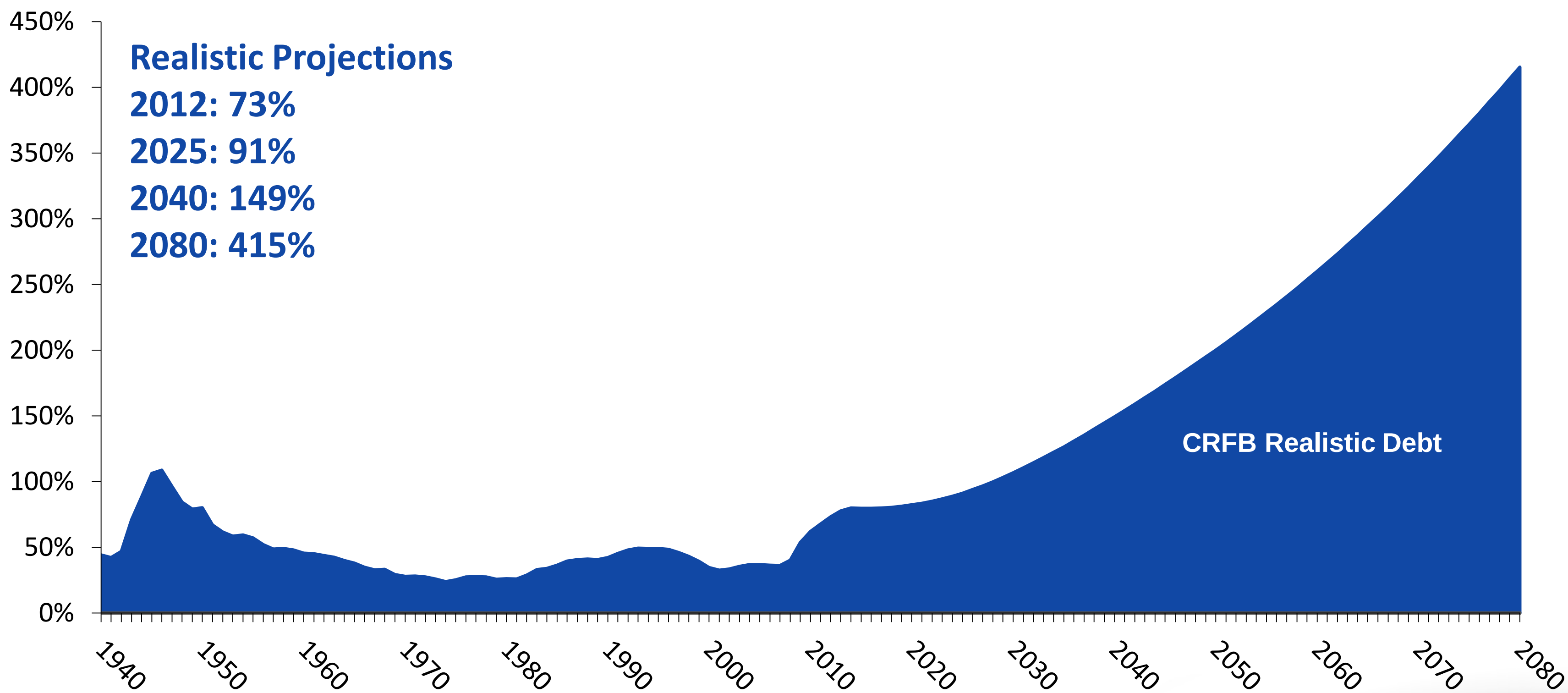


Total Revenues = $2.456 Trillion
Total Financing = $3.627 Trillion

Total Outlays = $3.627 Trillion

Debt Projections

(Percent of GDP)



Note: Estimates based on CRFB Realistic Baseline.

Consequences of Debt

- **"Crowding Out"** of public sector investment leading to slower economic growth
- **Higher Interest Payments** displacing other government priorities
- **Intergenerational Inequity** as future generations pay for current government spending
- **Unsustainable Promises** of high spending and low taxes
- **Uncertain Environment** for businesses to invest and households to plan
- **Eventual Fiscal Crisis** if changes are not made

The Risk of Fiscal Crisis

"Rising Debt increases the likelihood of a fiscal crisis during which investors would lose confidence in the government's ability to manage its budget and the government would lose its ability to borrow at affordable rates.

-Doug Elmendorf, Director of the Congressional Budget Office

"Our national debt is our biggest national security threat."

-Admiral Mike Mullen, Chairman of the Joint Chiefs of Staff

"One way or another, fiscal adjustments to stabilize the federal budget must occur … [if we don't act in advance] the needed fiscal adjustments will be a rapid and painful response to a looming or actual fiscal crisis."

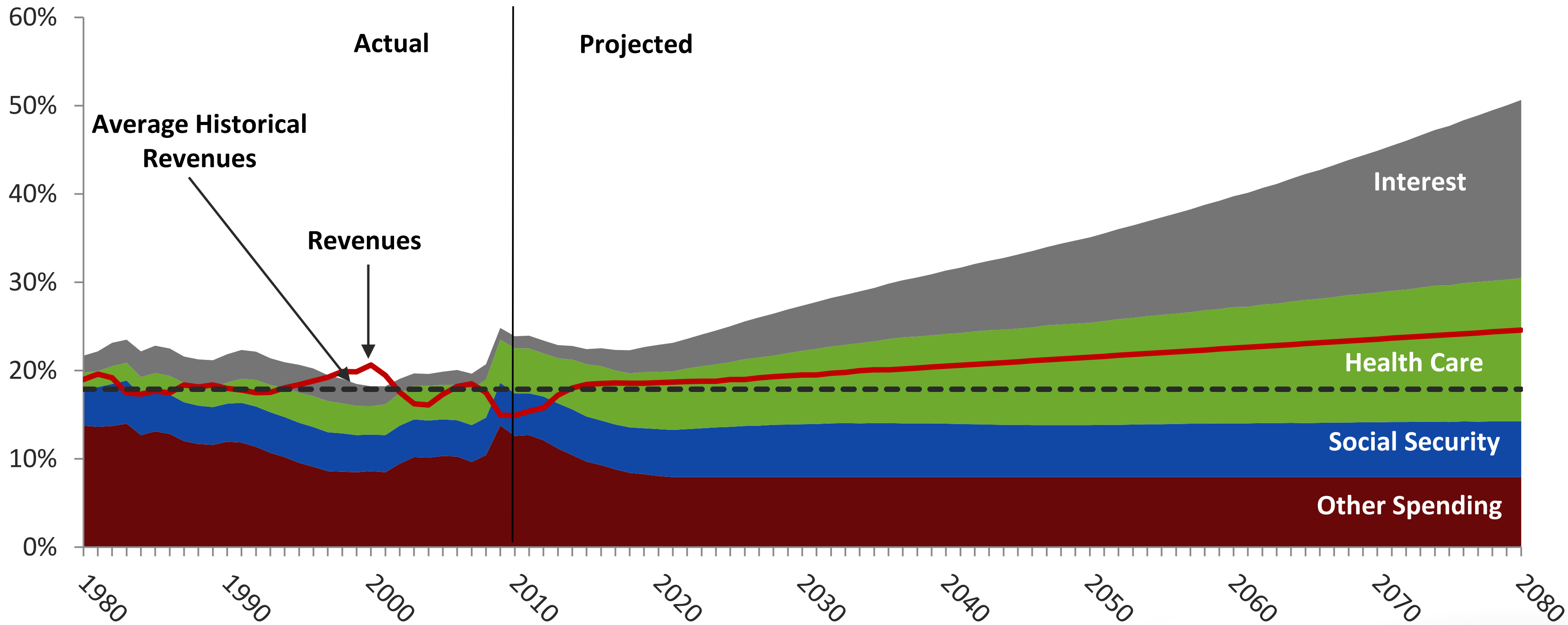
-Ben Bernanke, Chairman of the Federal Reserve

Debt Drivers

Short-Term	Long-Term
Economic Crisis (lost revenue and increased spending from automatic stabilizers)	**Rapid Health Care Cost Growth** (causing Medicare and Medicaid costs to rise)
Economic Response (stimulus spending/tax breaks and financial sector rescue policies)	**Population Aging** (causing Social Security and Medicare costs to rise, and revenue to fall)
Tax Cuts (in 2001, 2003, and 2010)	**Growing Interest Costs** (from continued debt accumulation)
War Spending (in Iraq and Afghanistan)	**Insufficient Revenue** (to meet the costs of funding government)

Growing Entitlement Spending

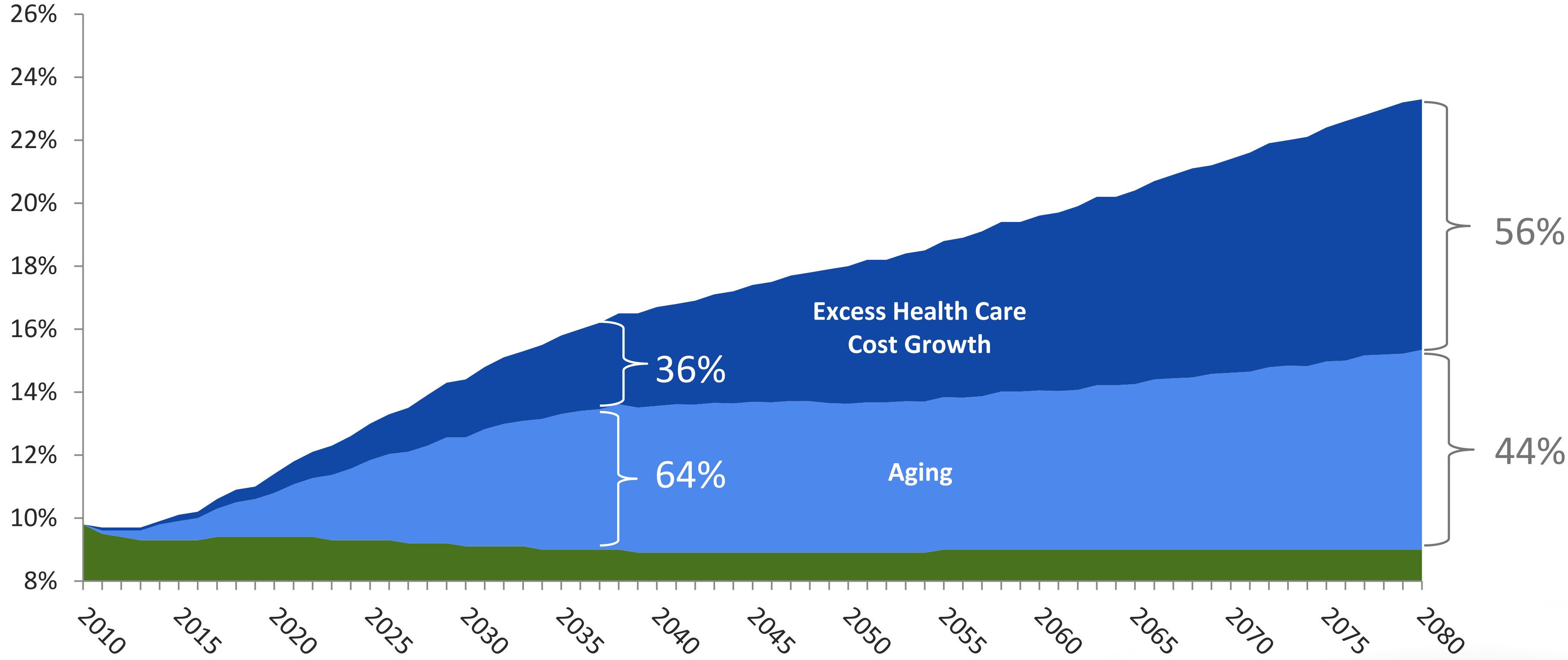
Federal Spending and Revenues (Percent of GDP)



Note: Estimates based on CRFB Realistic Baseline.

Why Is Entitlement Spending Growing?

Drivers of Entitlement Spending Growth (Percent of GDP)



Source: CBO Long-term Budget Outlook, 2011.

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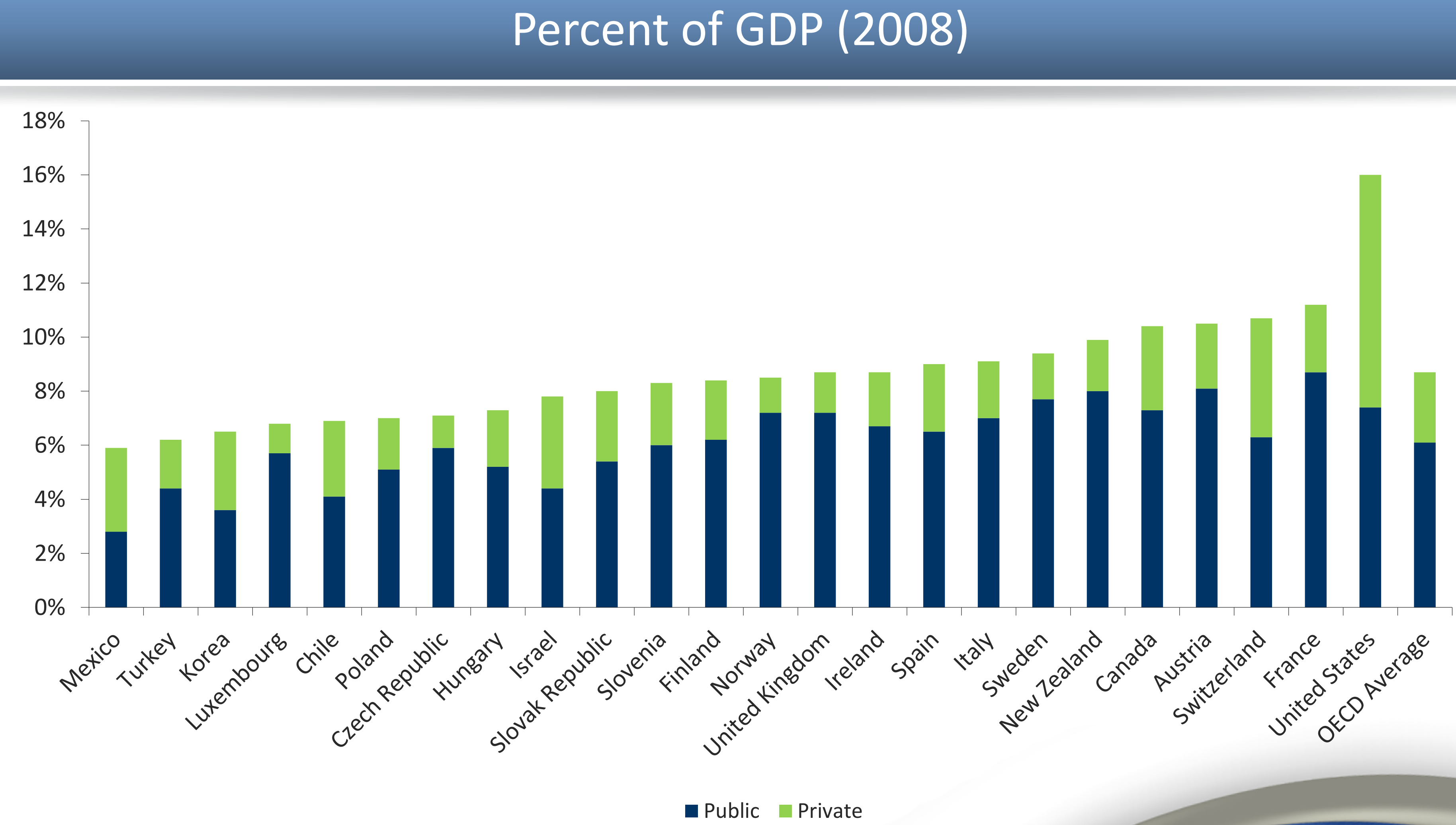
Why Is Federal Health Spending Increasing?

- **The Population Is Aging** due to increased life expectancy and retirement of the baby boom generation, adding more beneficiaries to Medicare and Medicaid
- **Per Beneficiary Costs Are Growing** faster than the economy in both the public and private sector. Causes of this excess cost growth include:
  - **Americans Are Unhealthy** when compared to populations in similar economies
  - **Americans Are Wealthy and Willing to Pay More**
  - **Fragmentation and Complexity** between insurers, providers, and consumers make normal market competition difficult
  - **Incentives Are Backwards** by hiding true costs of care through insurance and by hiding costs of insurance enrollment through employer sponsorship, incentivizing overspending

Health Care Spending by Country



Source: 2008 Data from the Organization for Economic Cooperation and Development.

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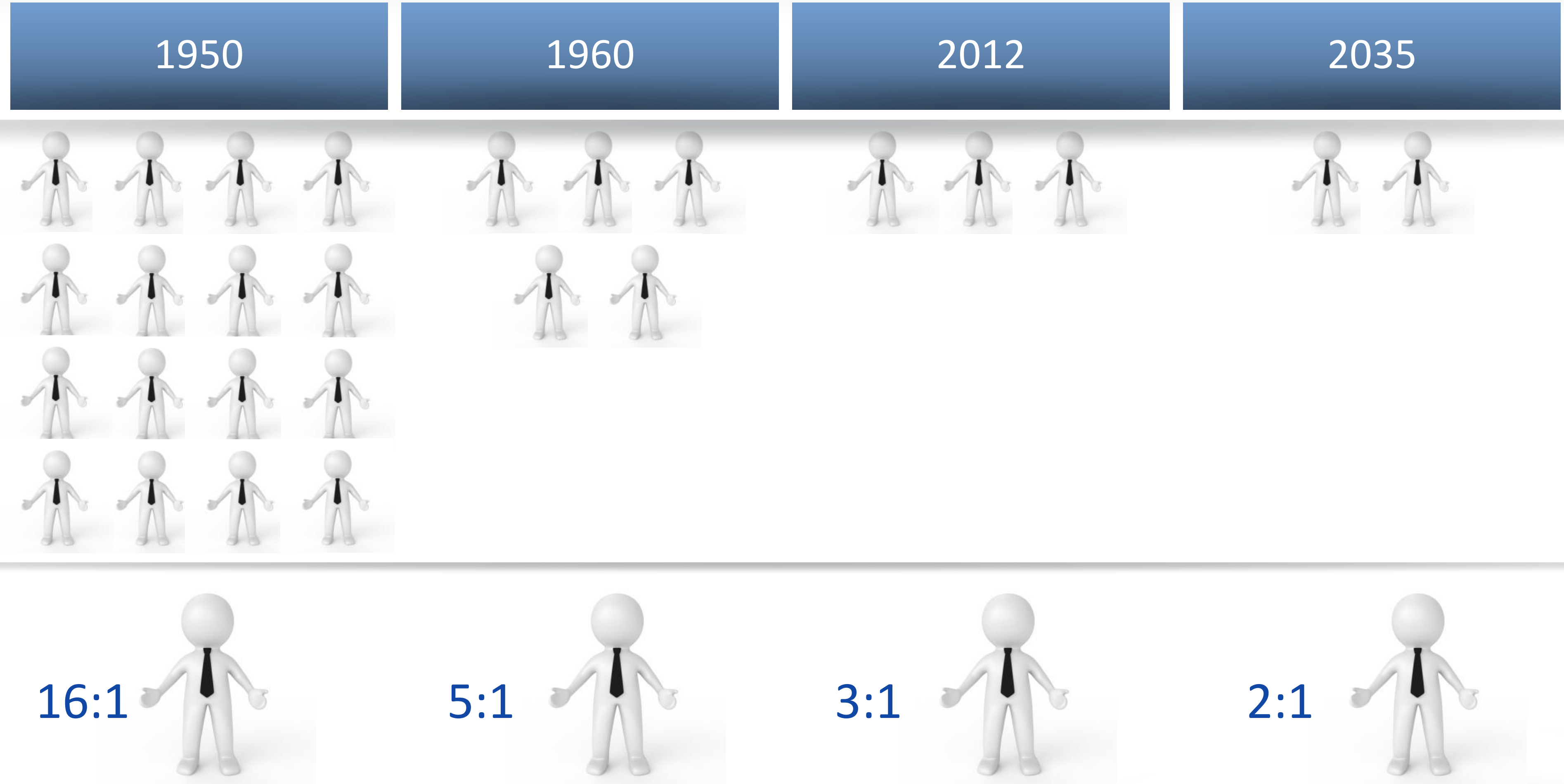
Number of Workers for Every Social Security Retiree Is Falling



Source: 2011 Social Security Trustees Report.

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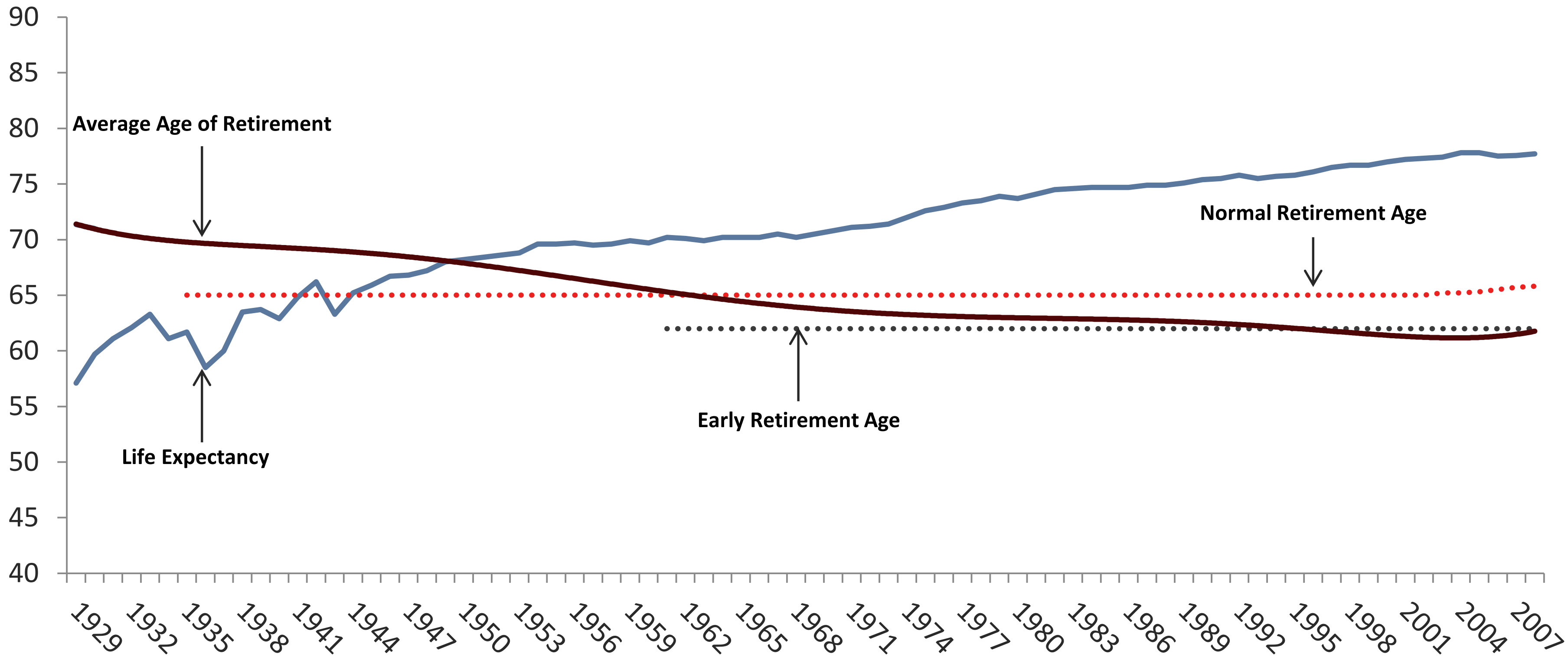
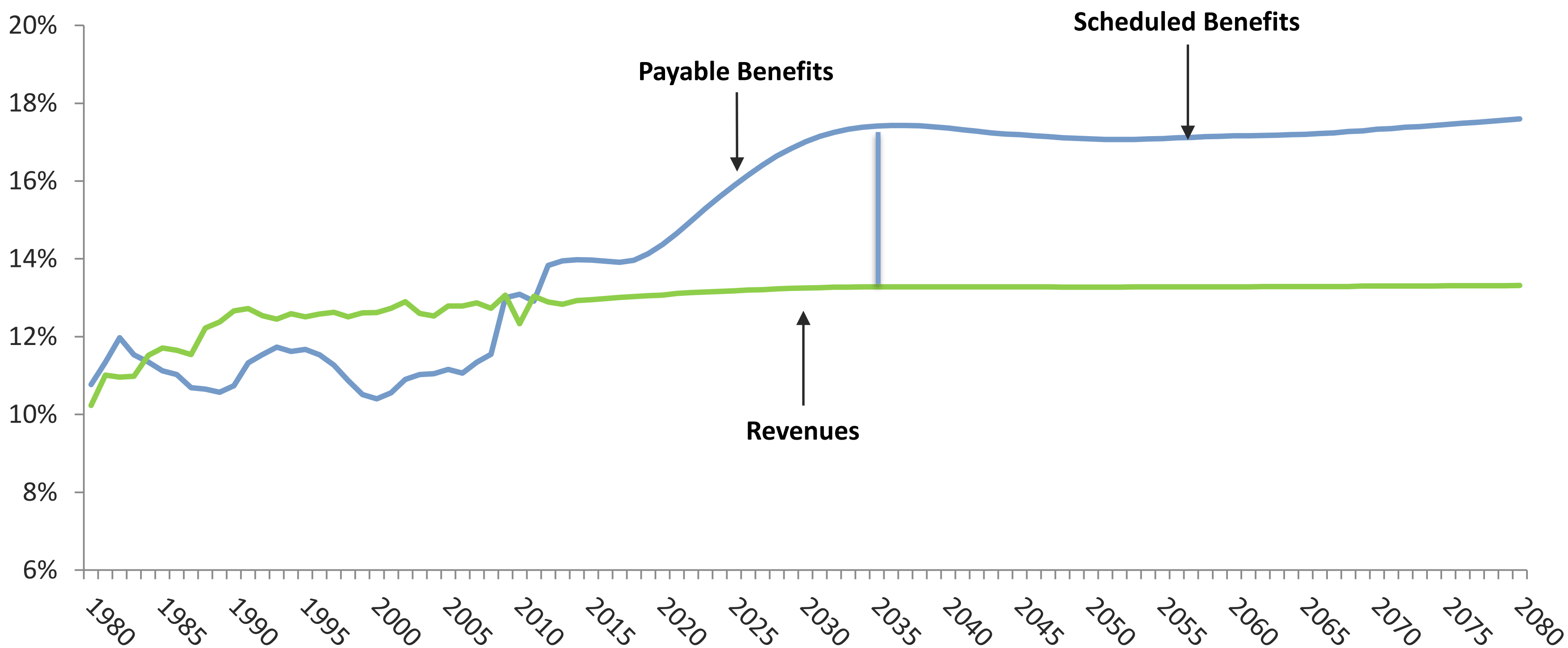
Living Longer, Retiring Earlier



Source: Social Security Administration and U.S. Census Bureau.

Looming Social Security Insolvency

Social Security Costs and Revenues (Percent of Taxable Payroll)



Source: 2011 Social Security Trustees Report.

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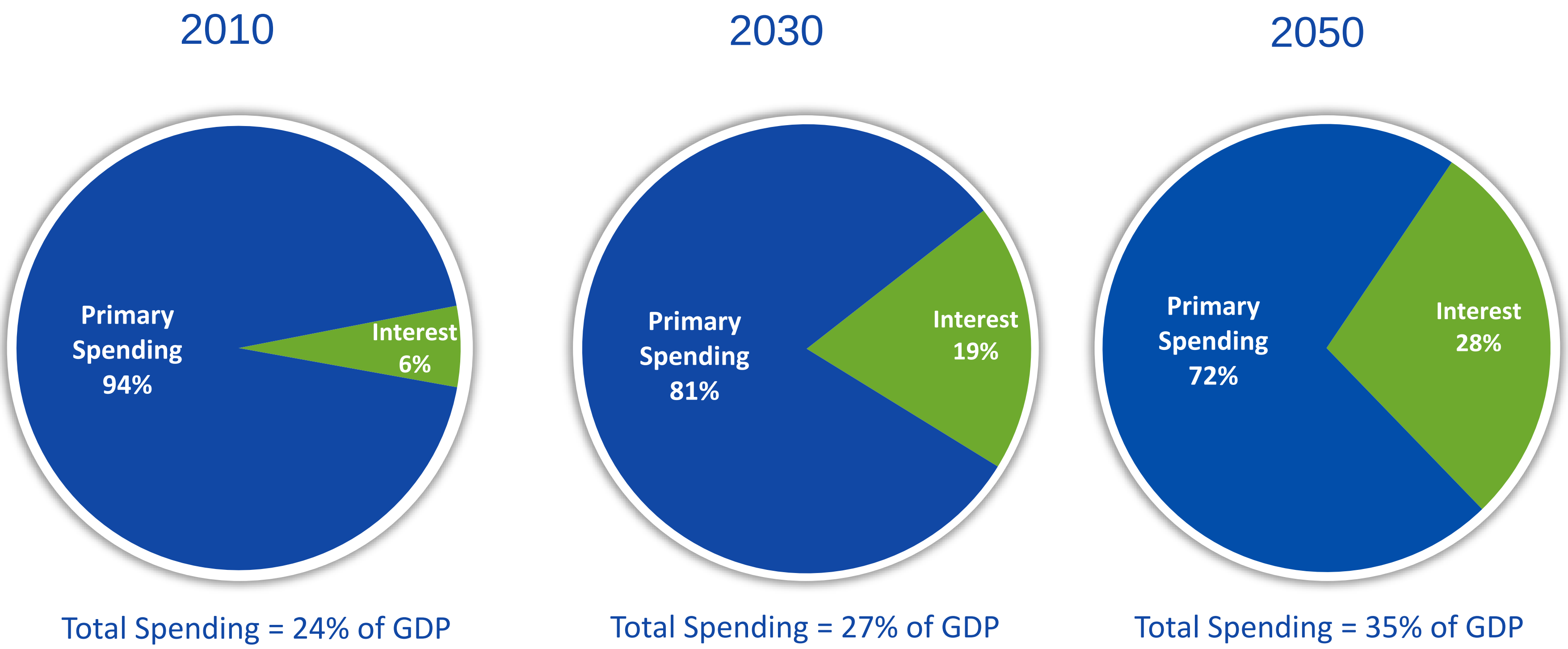
Interest as a Share of the Budget

(Percent of GDP)



Note: Estimates based on CRFB Realistic Projections.

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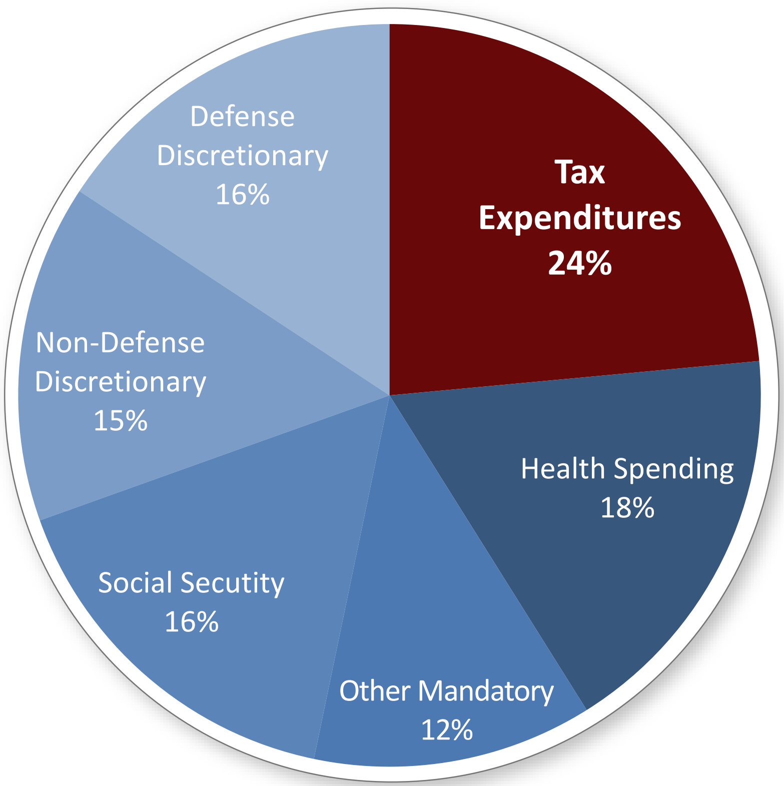
Insufficient Revenue

- **Unpaid for Tax Cuts** in 2001, 2003, and 2010 lowered revenue collection without making corresponding spending cuts or tax increases to offset the budgetary effect

- **Spending in the Tax Code Costs $1 Trillion** annually in lost revenues through so called "tax expenditures," which make the tax code more complicated, less efficient, and force higher rates

Excessive Spending Through the Tax Code (Tax Expenditures)

Tax Expenditures as a Percent of Primary Spending if Included in the Budget



Large Tax Expenditures and Their 2011 Costs (billions)

Employer Health Insurance Exclusion	**$174**
Mortgage Interest Deduction	**$89**
401(k)s and IRAs	**$77**
Earned Income Tax Credit	**$62**
Special Rates for Capital Gains and Dividends	**$61**
State & Local Tax Deduction	**$57**
Charitable Deduction	**$49**
Child Tax Credit	**$45**

Source: Joint Committee on Taxation.

Source: Office of Management and Budget.

How to Reduce the Deficit

- Domestic Discretionary Cuts
- Defense Spending Cuts
- Health Care Cost Containment
- Social Security Reform
- Other Spending Cuts
- Tax Reform and Tax Expenditure Cuts
- Budget Process Reform

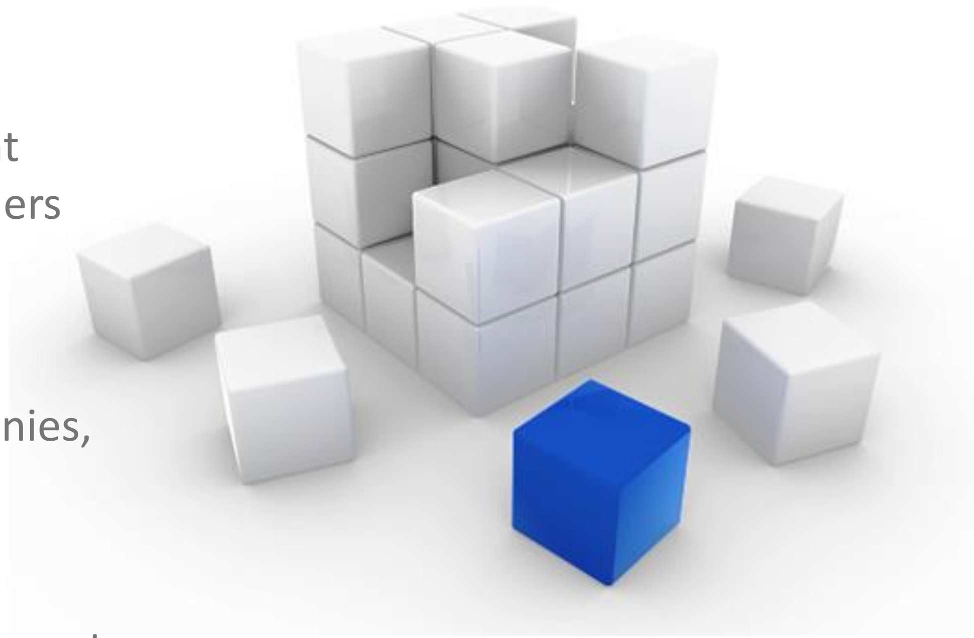
The Bowles-Simpson Fiscal Commission Plan

Discretionary Spending

- Equal cuts to defense and non-defense in 2013 totaling $1.2 trillion.

Social Security

- Progressive benefit changes, retirement age increase, tax increase for high earners totaling $300 billion.



Health Care Spending

- Cuts to providers, lawyers, drug companies, & beneficiaries totaling $400 billion.

Other Mandatory Programs

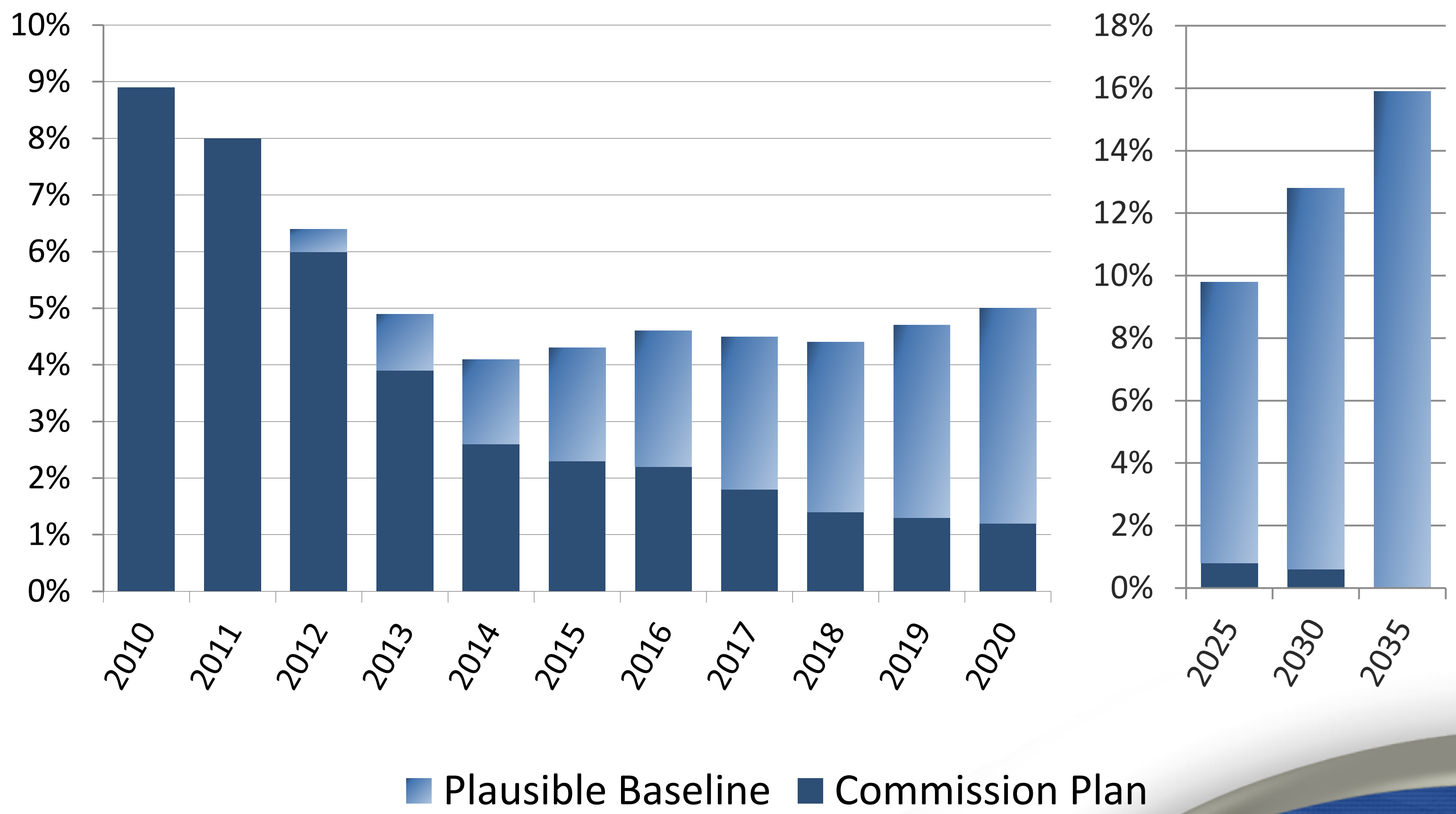
- Reforms to farm, civilian/military retirement, & other programs saving $290 billion.

Tax Reform and Revenue

- Comprehensive reform to lower tax rates, broaden the base, and raise $1.2 trillion.

The Bowles-Simpson Fiscal Commission Plan

(Deficits as Percent of GDP)



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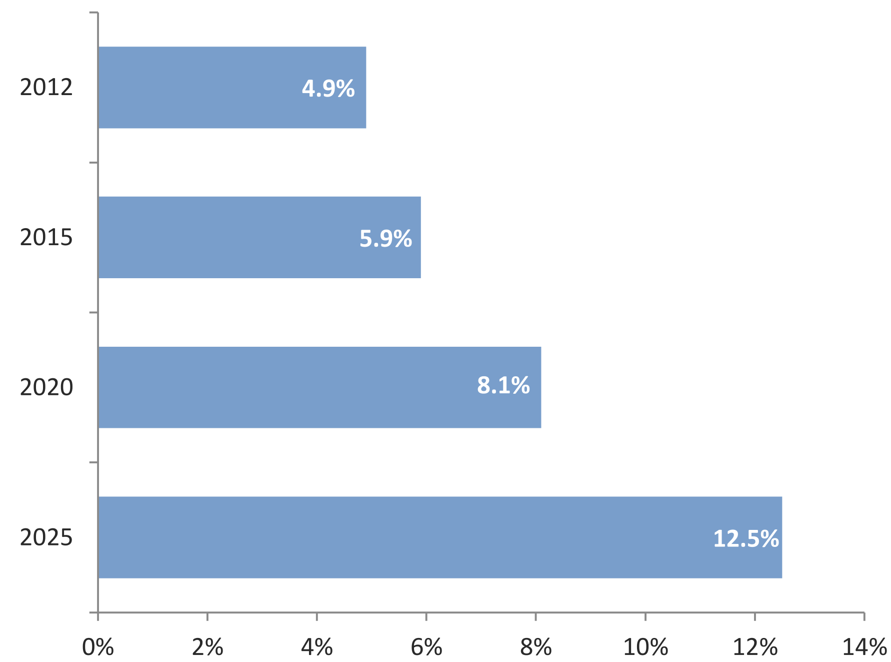
It's Time for a Fiscal Reform Plan

Reasons to Enact a Plan Sooner Rather than Later

- Allows for gradual phase in
- Improves generational fairness
- Gives taxpayers businesses, and entitlement beneficiaries time to plan
- Creates "announcement effect" to improve growth
- Reduces size of necessary adjustment

Size of Adjustment to Close 25-year Fiscal Gap, Depending on Start Year (Percent of GDP)



Source: Congressional Budget Office

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The Time For Action Is Now

*"If not addressed, burgeoning deficits will eventually lead to a **fiscal crisis**, at which point the bond markets will **force decisions** upon us. If we do not **act soon** to reassure the markets, the risk of a crisis **will increase**, and the options available to **avert** or **remedy** the crisis will both **narrow** and become **more stringent**."*

-Erskine Bowles and Sen. Alan Simpson, Former co-chairs of the National Commission on Fiscal Responsibility and Reform

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