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9-14-2010

# Deficits and Disaster

Ron Haskins

*Center on Children and Families*

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# Deficits and Disaster

Ron Haskins

The Brookings Institution

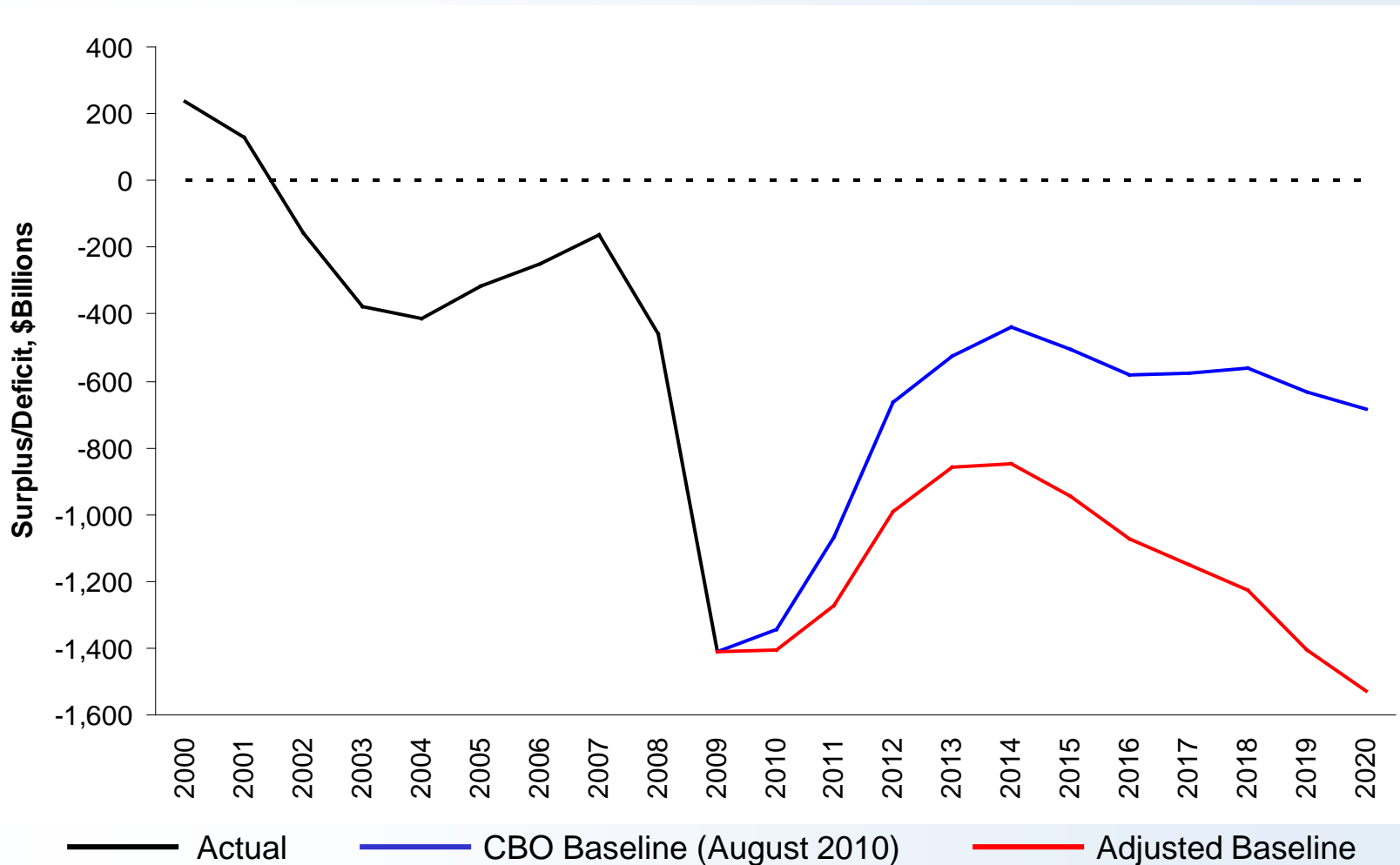
September 14, 2010

Thanks to Isabel Sawhill, Alex Gold, Daniel Moskowitz and Mary Baugh.

# Overview

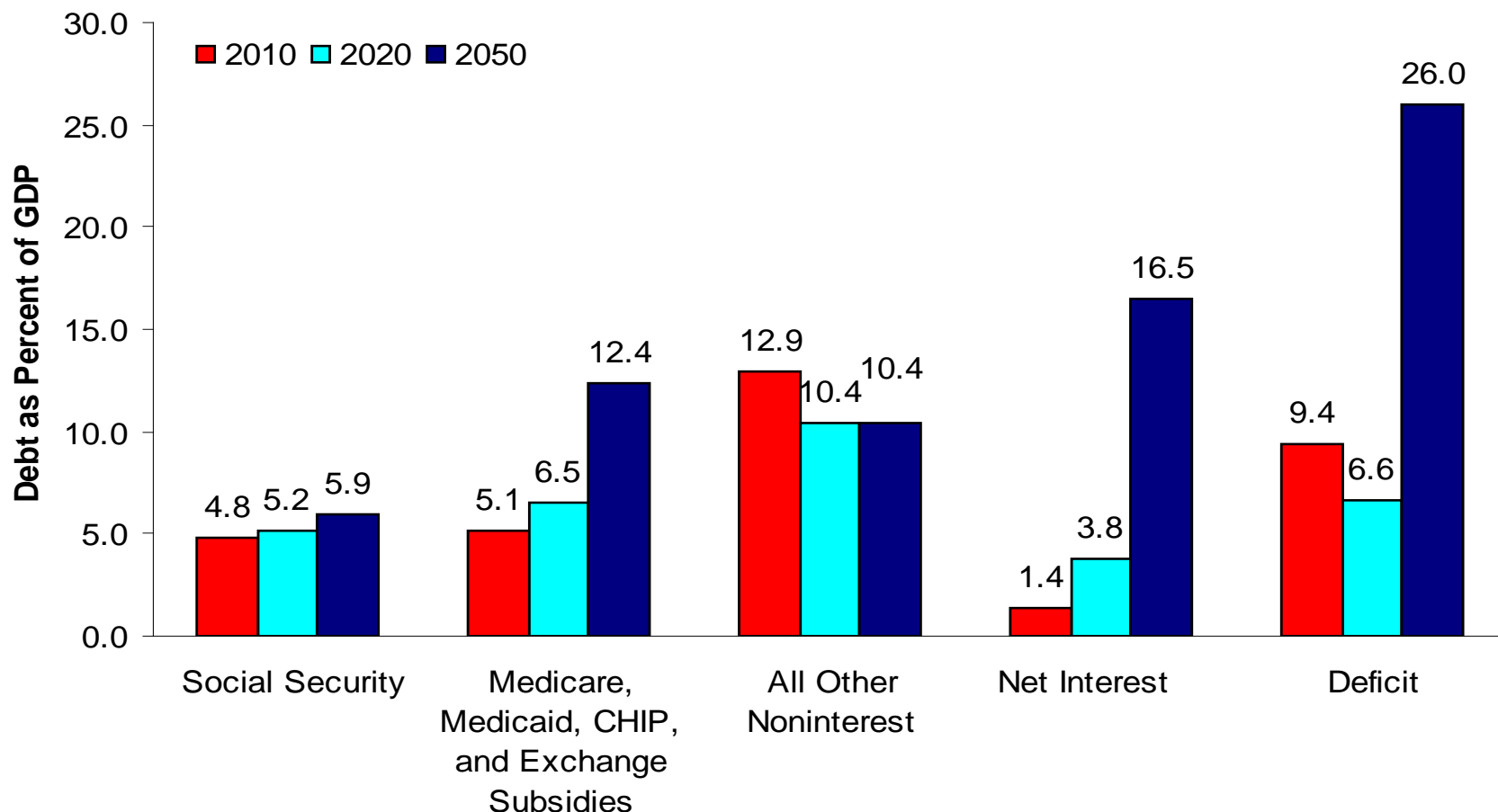
- Big Picture
- Polls/Public Dialogue
- Why Deficits Matter
- Taking Action

# The Big Picture I: Budget Projections



Sources: Actual is from Office of Management and Budget Historical Tables (<http://www.whitehouse.gov/sites/default/files/omb/budget/fy2011/assets/hist01z1.xls>); CBO Baseline is from "The Budget and Economic Outlook: An Update," August 2010 (<http://www.cbo.gov/ftpdocs/117xx/doc11705/08-18-Update.pdf>); Adjusted Baseline is from Auerbach and Gale, "Déjà Vu All Over Again: On the Dismal Prospects for the Federal Budget," 2010 ([http://www.brookings.edu/~media/Files/rc/papers/2010/0429\\_budget\\_outlook\\_gale/0429\\_budget\\_outlook\\_gale.pdf](http://www.brookings.edu/~media/Files/rc/papers/2010/0429_budget_outlook_gale/0429_budget_outlook_gale.pdf)).

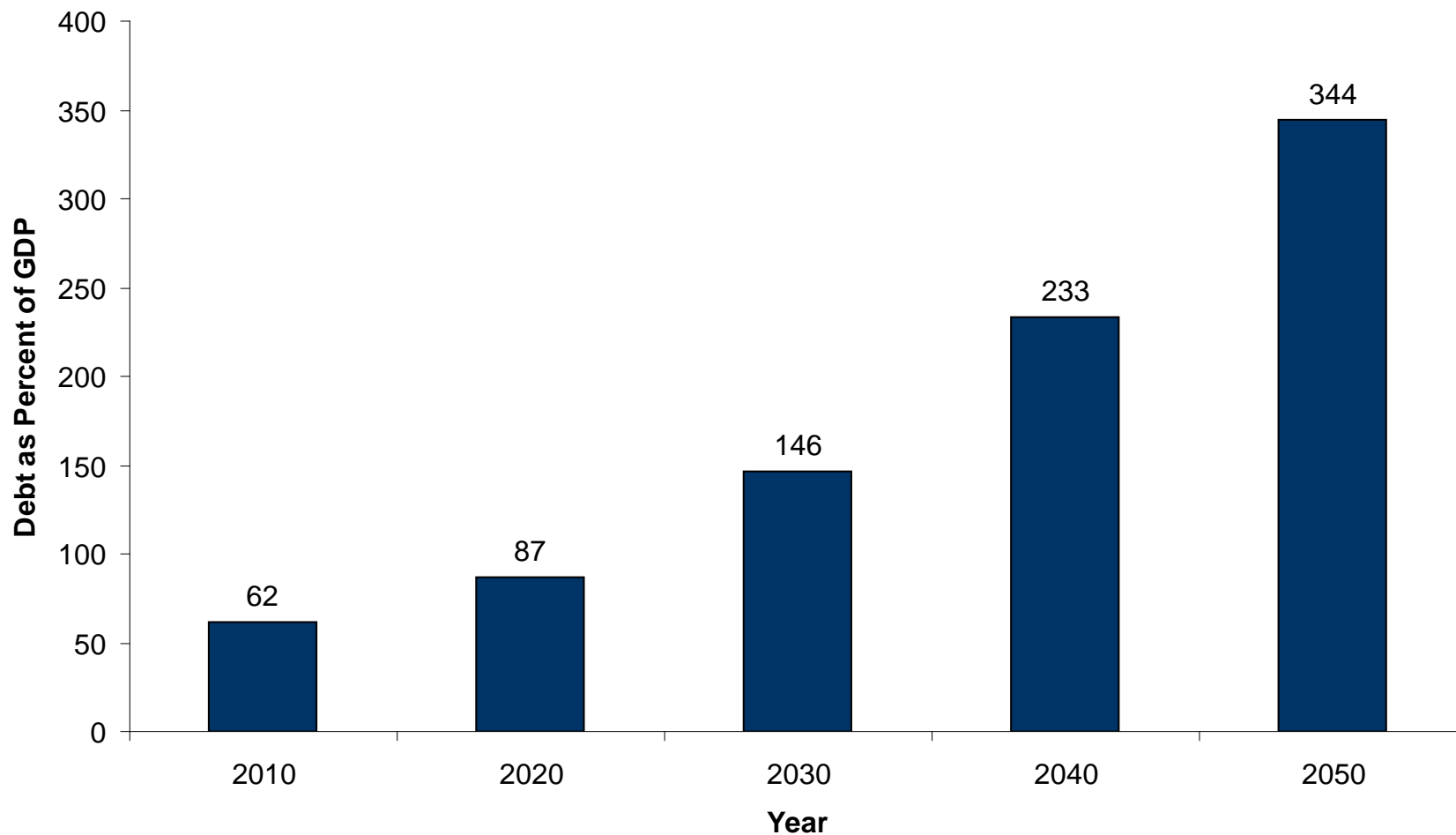
# The Big Picture II: Spending and Debt as Percent of GDP, 2010, 2020, 2050



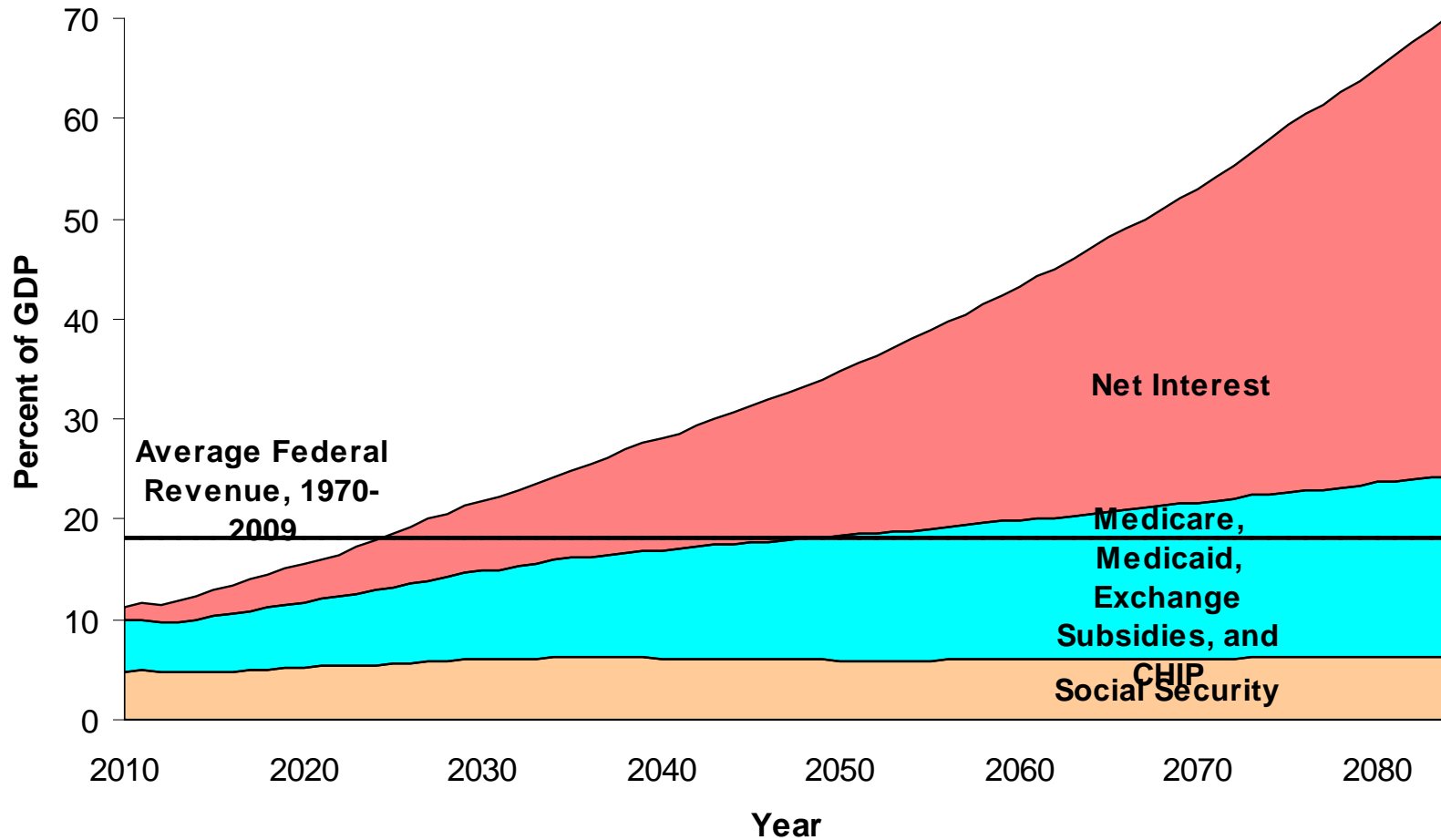
Note: The Medicare category is net of Medicare premiums and payments.

Source: Congressional Budget Office, Alternative Fiscal Scenario, *The Long Term Budget Outlook*, June 2010.

# The Big Picture III: Rising Debt/GDP Ratio



# The Big Picture IV: Unsustainable Spending



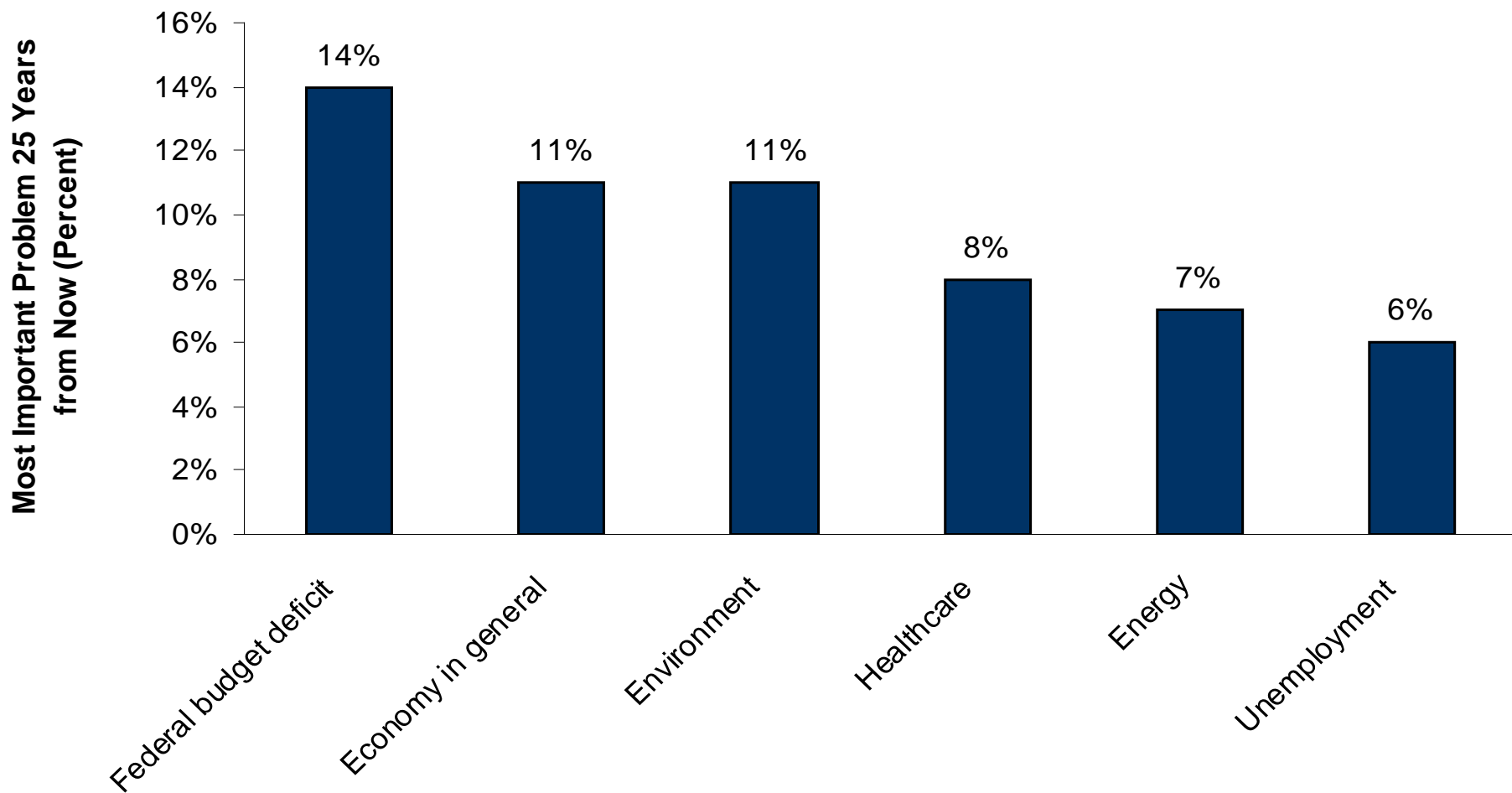
Sources: Congressional Budget Office, "Historical Budget Data" (<http://www.cbo.gov/ftpdocs/108xx/doc10871/AppendixF.shtml>) and Congressional Budget Office, Alternative Fiscal Scenario, *The Long Term Budget Outlook*, June 2010.



# Polls: The Deficit Is Top Priority

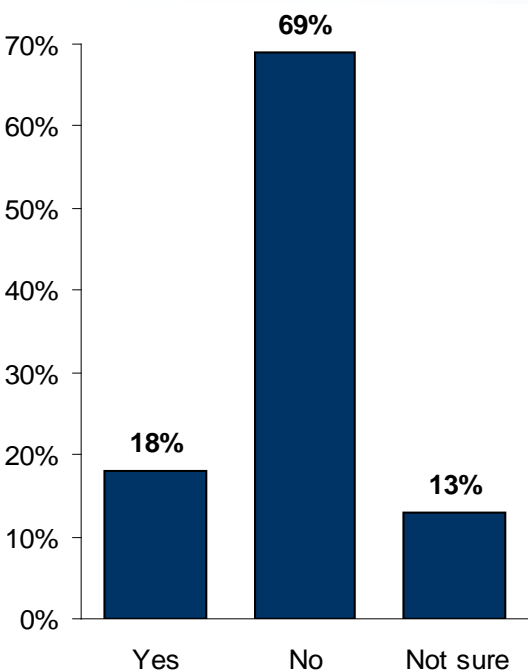


# Polls: Public Worried About Deficits

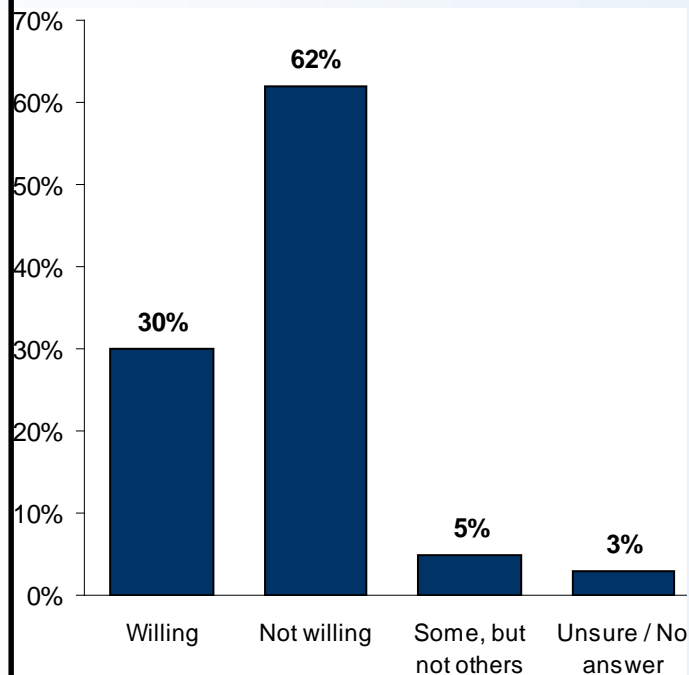


# Polls: Public Support for Sacrifice

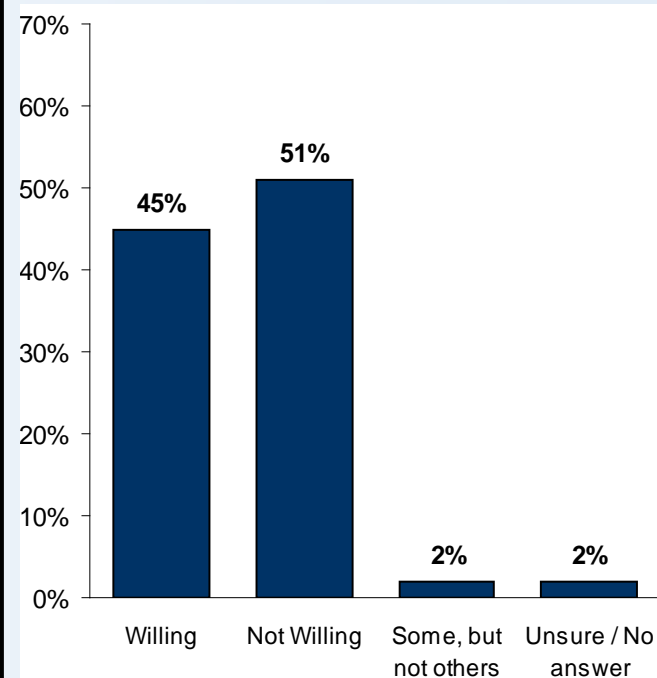
Willing to pay higher taxes



Willing to decrease spending on health care or education



Willing to decrease military spending

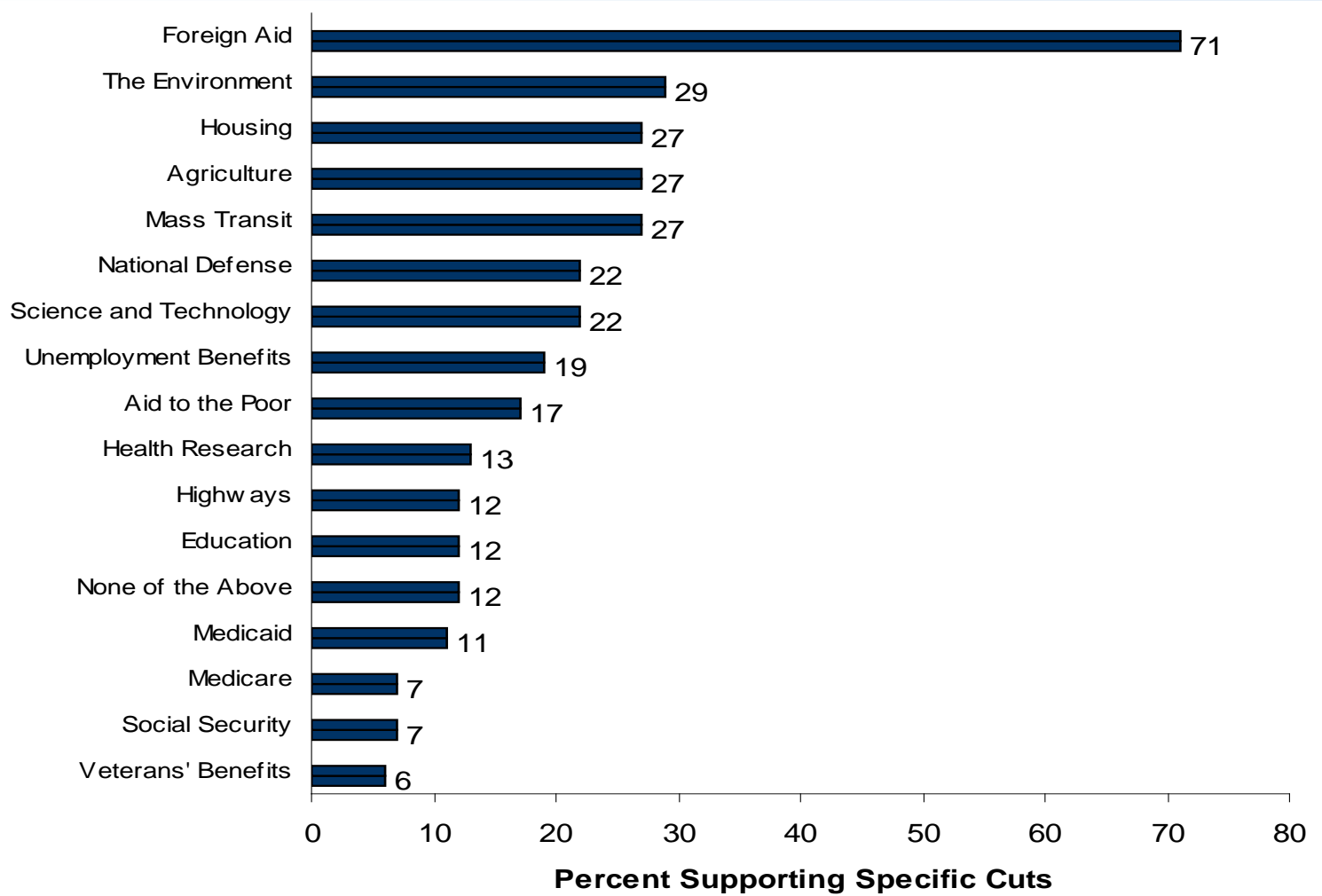


Source: Rasmussen, April 27-28, 2010.

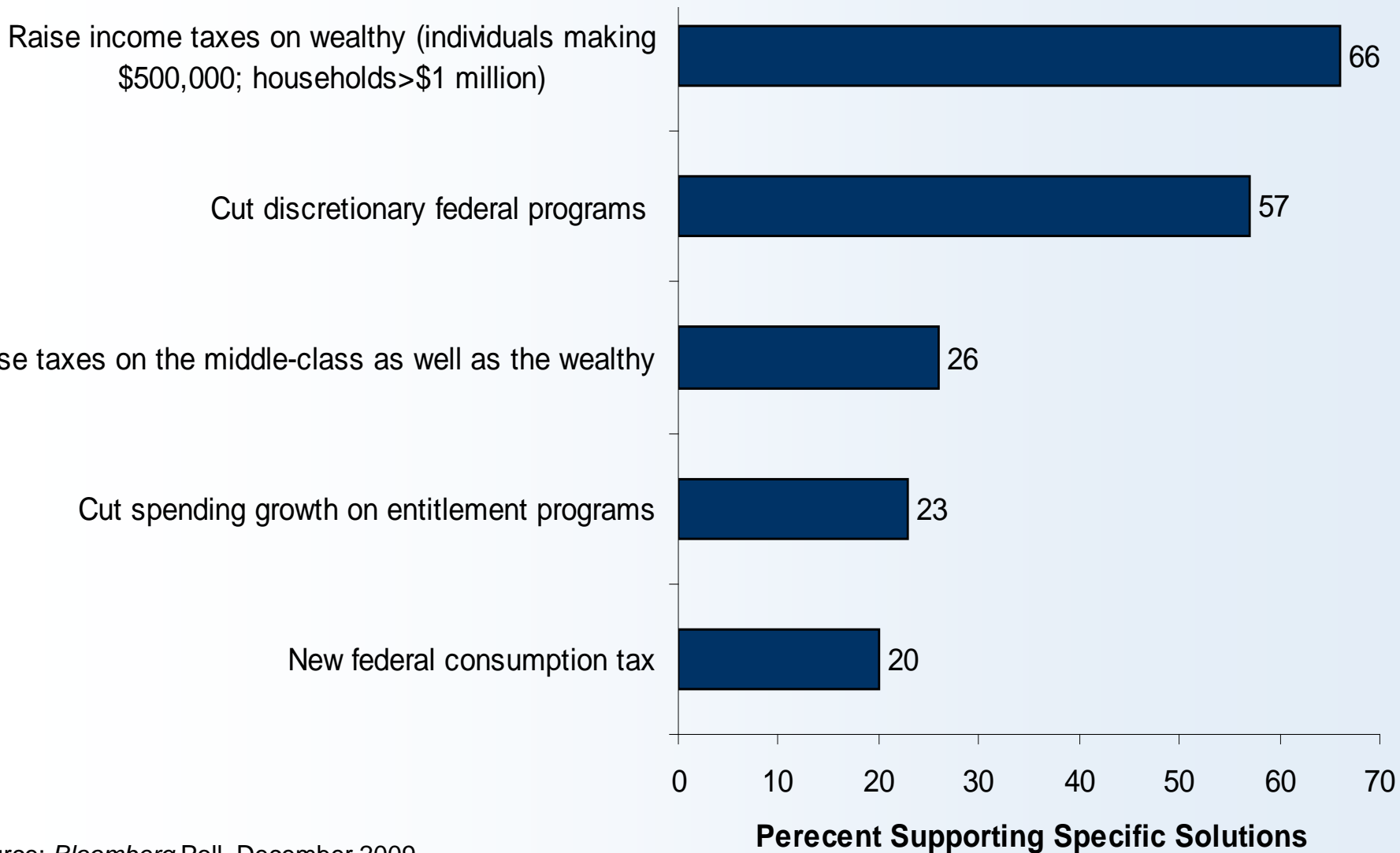
Source: CBS News / New York Times Poll, February 2010.

Source: CBS News / New York Times Poll, February 2010.

# Polls: Willingness to Cut Specific Programs



# Polls: Support for Specific Solutions



Source: Bloomberg Poll, December 2009.

## Good News: Attitudes Change in Response to Dialogue

- Dialogues with public on Social Security, Medicare, and taxes
- Conducted by Viewpoint Learning in collaboration with other organizations
- 12 day-long dialogues all over the country
- Representative sample of 35-45 participants

## Dialogues with the Public: Medicare

- 68% support gradually raising the age of eligibility from 65 to 67
- 68% support progressive scaling of premiums to income
- 79% support raising taxes to maintain benefit levels
- 75% support a 2-3% national sales tax
- 63% support raising the payroll tax rate

## Dialogues with the Public: Taxes

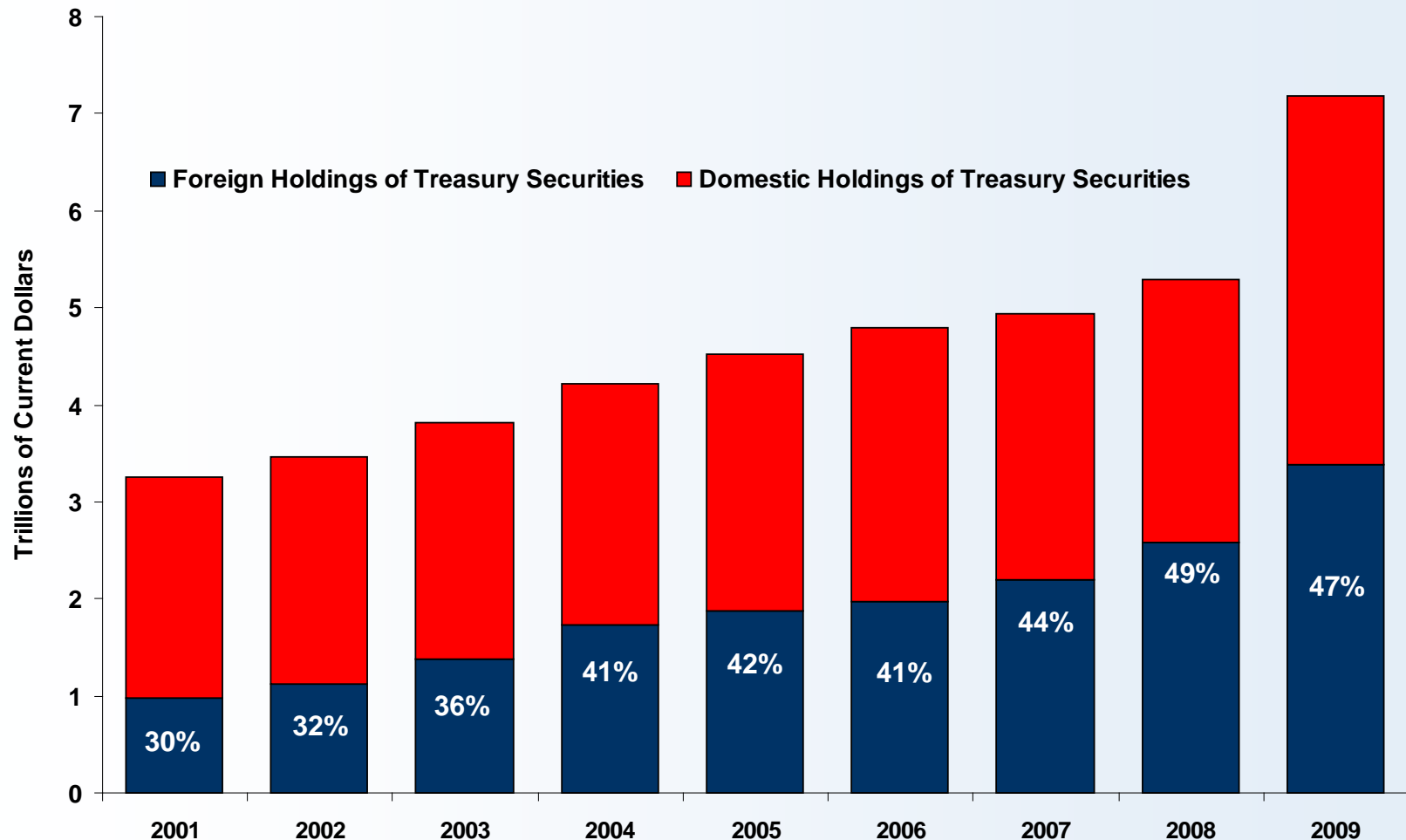
- Participants are willing to pay higher taxes if they are sure that their tax dollars are well spent for reducing deficit or for earmarked purposes they consider important.
- 57% support raising taxes to reduce the deficit
- 67% support investment in education and transportation even if taxes increase



## Why Deficits Matter

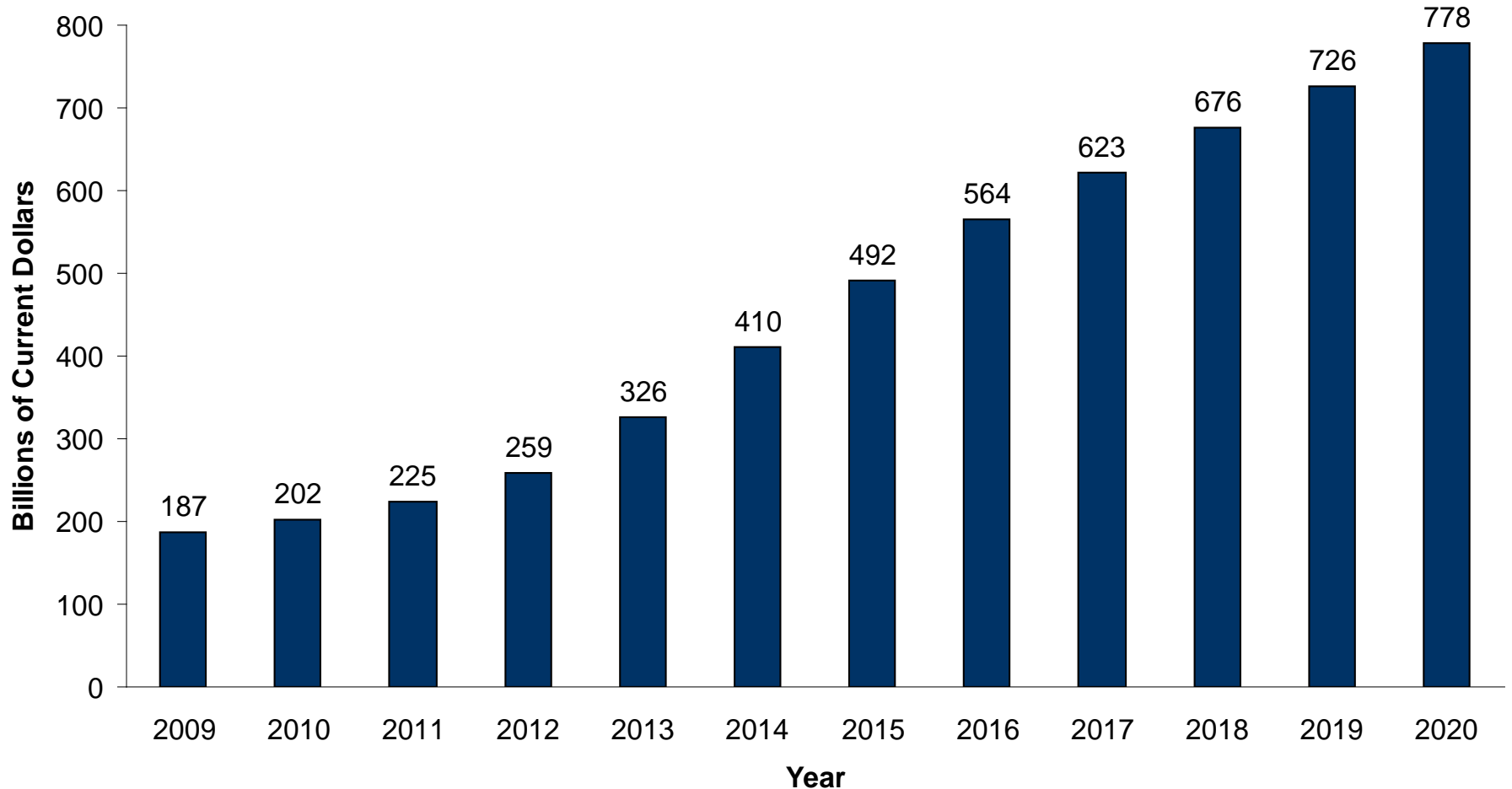
- Dependence on foreign lenders
- Rapidly rising interest costs
- Burden on future generations
- Limited ability to invest in children
- Limited ability to address emergencies

# Dependence on Foreigners



Source: U.S. Treasury Department and U.S. Bureau of Public Debt (though June 2009).

# Rapidly Rising Interest Costs

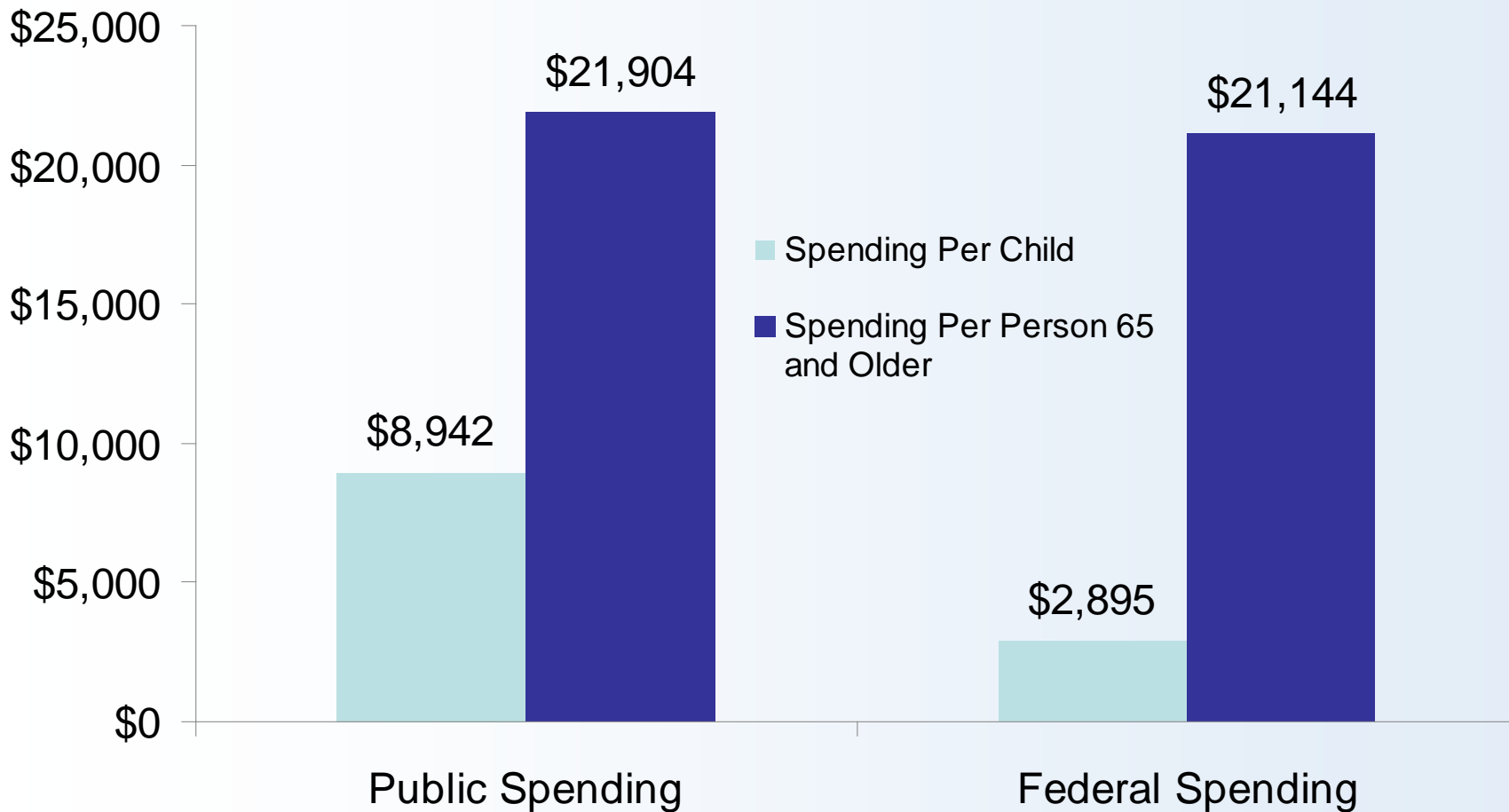


Source: Congressional Budget Office, "The Budget and Economic Outlook: An Update," August 2010, Table 1-2, (<http://www.cbo.gov/ftpdocs/117xx/doc11705/BudgetProjections.xls>).

# Burden on Future Generations



# Spending On Children and The Elderly



# Productive Investments in Children

- Preschool Education
- Home Visiting
- Teen Pregnancy Prevention
- Career Academies
- K-12 Education, Especially KIPP Schools
- Second Chance Programs for Teens
- Community and Family-based Programs for Delinquents
- Community College Interventions
- Small Schools of Choice

# Limited Ability to Address Emergencies

- Wars and Terrorists Attacks
- Natural Disasters
- Recessions

## Taking Action: Preconditions

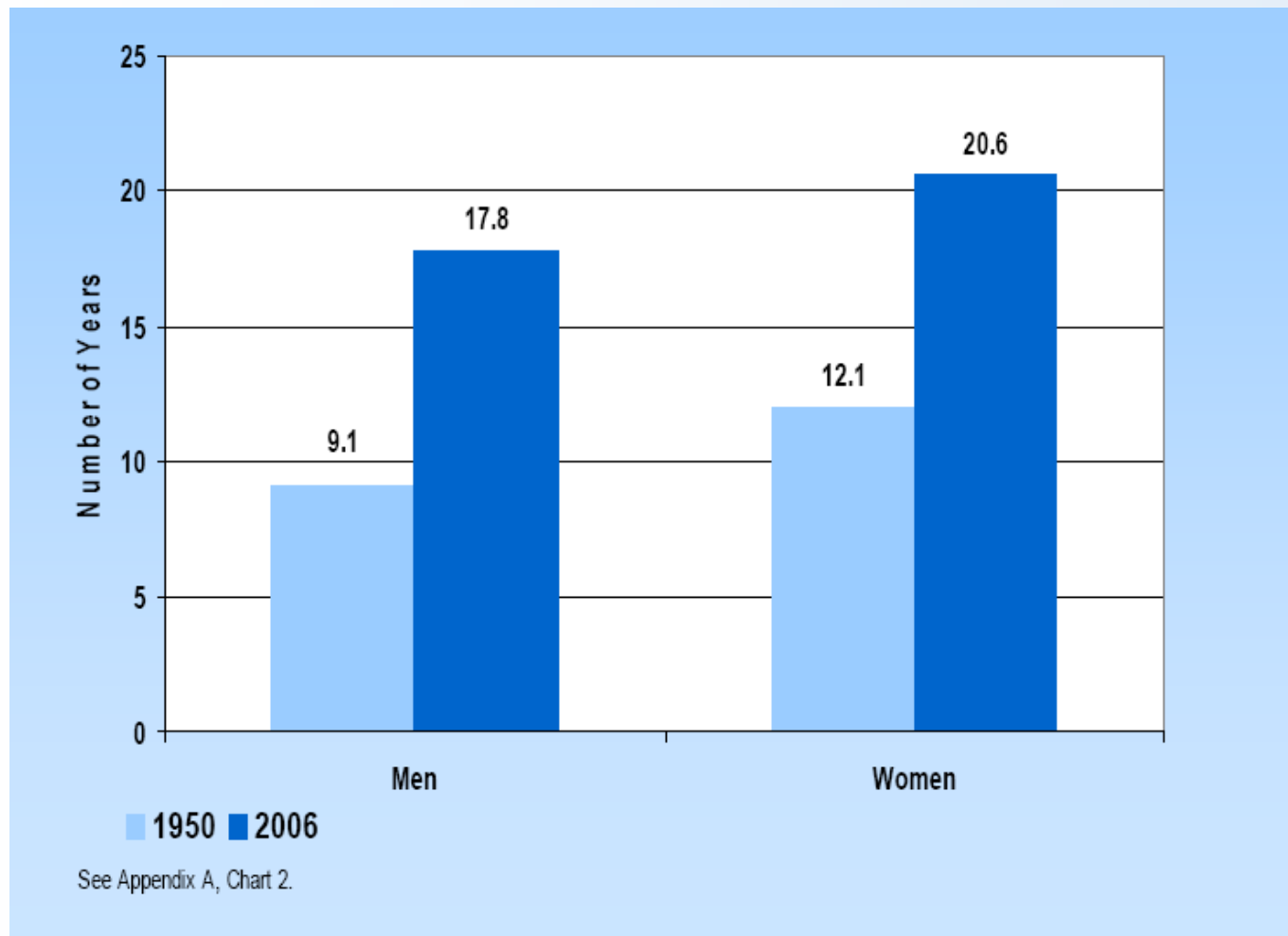
- Public recognition that deficits are a problem
- Public willingness to pay new taxes and accept spending cutbacks
- Everything on the table
- Bipartisanship
- Presidential Leadership



## Taking Action: General Rules

- Recognition of short-term vs. long-term impacts
- Combination of spending cuts and revenue incentives
- No implementation until economy is in recovery
- Implement cuts gradually over a period of years
- Savings must come from big three entitlements: Medicare, Medicaid, and Social Security

# Average Number of Years Spent in Retirement: 1950 and 2006



# Selected Statistics for the Elderly and Non-Elderly

	Under 65	65 and Older
Poverty rate <sup>1</sup>	12.9%	9.7%
Average income per household member <sup>2</sup>	\$26,624	\$25,128
Mean income <sup>2</sup>	\$73,720	\$44,121
Median income <sup>2</sup>	\$56,545	\$28,305
Average annual change in real income (1994 - 2007) <sup>3</sup>	0.72%	0.72%
Average annual change in real income (2000 - 2007) <sup>3</sup>	-0.28%	0.64%
Median net worth <sup>4</sup>	\$69,400	\$190,100
Homeownership <sup>5</sup>	63.6%	79.0%
Percentage of homeowners with no mortgage <sup>5</sup>	23.0%	73.4%
Percentage covered by health insurance <sup>6</sup>	82.9%	98.1%

Note: Data is for the year 2007 unless otherwise noted

Sources:

<sup>1</sup>Author's calculations from U.S. Census Bureau, Table POV01

<sup>2</sup>U.S. Census Bureau, Table HINC-01

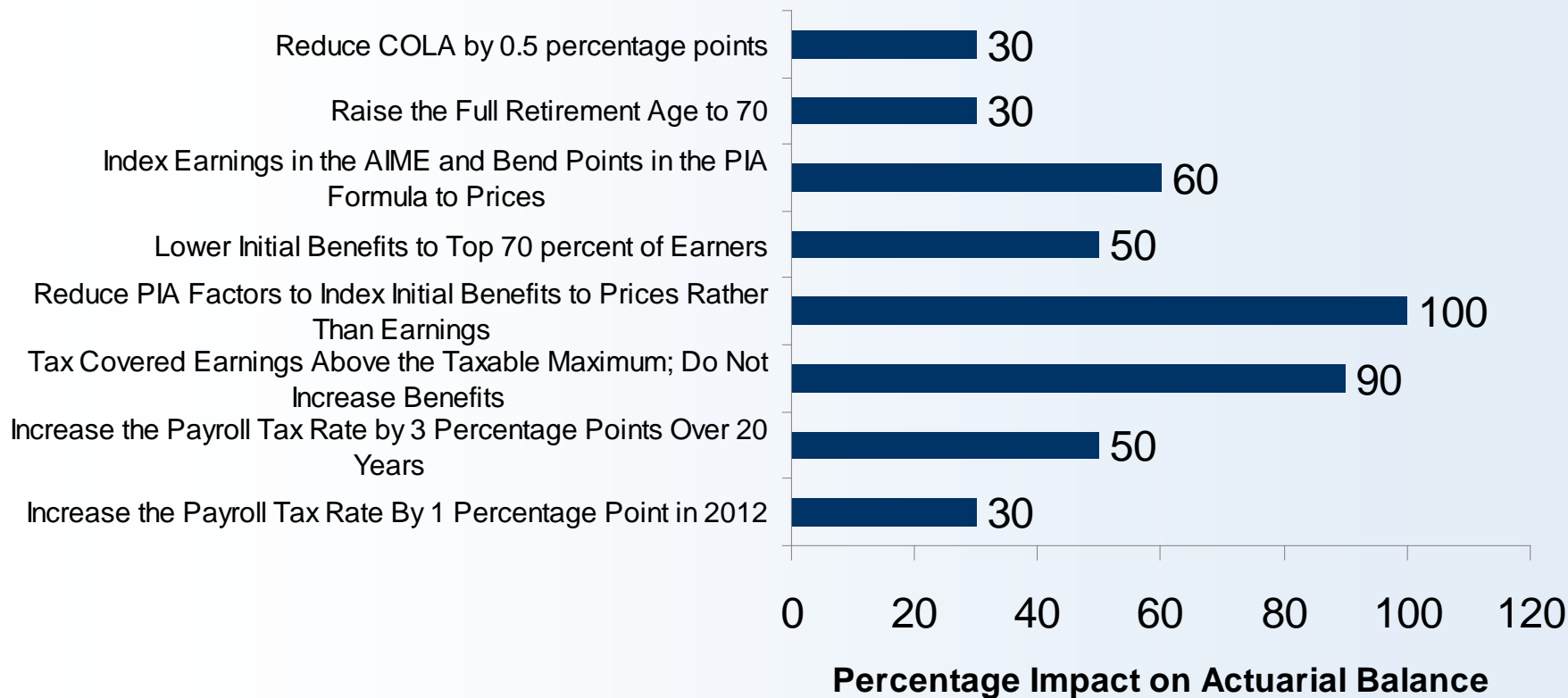
<sup>3</sup>Author's calculations from U.S. Census Bureau, Historical Income Table H-10 and Table HINC-01, 1995 - 2007.

<sup>4</sup>Data from 2004; data for those under 65 and 65 and older were not available for this statistic, so the age groups 35-44 and 65-74 were used. See Brian K. Bucks, Arthur B. Kennickell, and Kevin B. Moore, "Recent Changes in U.S. Family Finances: Evidence from the 2001 and 2004 Survey of Consumer Finances," Table 1, Federal Reserve Bulletin, vol. 92, February 2006.

<sup>5</sup>Author's calculations from the Consumer Expenditure Survey

<sup>6</sup>U.S. Census Bureau, Table HI05

# Taking Action: Social Security Reforms



# Taking Action: Health Care Reform

- Is Obama reform the solution or part of the problem?
- New costs
  - Guaranteed access to a basic package
  - Subsidies related to income; Medicaid expansion
  - The Class Act
- Offsets to costs
  - Taxation of high-end plans
  - Medicare cuts
  - Employer and individual fees for not participating
  - “Bending the curve” (e.g., IT, evidence-based medicine, more coordination, Medicare Commission)
- But very unlikely that we can restrain costs enough to prevent growth of government or reduce current projected deficits
- Two possible choices
  - Caps on spending (implicit rationing)
  - A new source of revenue to cover cost; e.g., VAT

# Taking Action: Four Revenue Options

- Increase income tax rates
- Broaden the income tax base (reduce tax expenditures)
- Increase energy taxes
- Impose consumption taxes

# Cost of Selected Tax Expenditures: Average Annual Cost (2009-2013)

Tax Expenditure	Average Cost (billions)
Deduction for mortgage interest	\$114.58
Exclusion of employer contributions for health care	\$113.64
Reduced rates of tax on dividends and long-term capital gains	\$83.76
Credit for children under age 17	\$32.06
Exclusion of capital gains at death	\$31.88
Exclusion of investment income on life insurance and annuity contracts for insurance companies	\$31.78
Deduction for property taxes on real property	\$25.14
Exclusion of Medicare supplementary medical insurance (Part B)	\$23.94
Exclusion on capital gains on sales of principal residences	\$17.32
Credit for alcohol fuels	\$8.38
Exclusion of Medicare prescription drug insurance (Part D)	\$5.76
Exclusion of employer-paid transportation benefits	\$4.30

Source: Joint Committee on Taxation, "Table 1: Tax Expenditure Estimates By Budget Function, Fiscal Years 2009-2013," in Estimates of Federal Tax Expenditures for Fiscal Years 2009-2013 (Washington, D.C.: Author, 2010).

## Class Act

- Long-term care insurance
- Short-term savings (2010-2019): \$57.8 billion
- Long-term costs:
  - Adverse selection
  - CBO: “The program would add to future federal budget deficits in a large and growing fashion.”



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