Deficit Negotiations and the Supercommittee

Ron Haskins
October 19, 2011
The Unsustainable Fiscal Path, 2010-2080


Note: Based on the Alternative Fiscal Scenario.
Spending and the Deficit as a Percentage of GDP in 2010, 2020, and 2050


Notes: Based on the Alternative Fiscal Scenario. The all other noninterest category includes defense spending. The separate defense category is assumed to grow at the same rate as GDP.
Overview of Presentation

- Sources of Debt
- Preconditions for Action
- The Debt Ceiling Deal
- Taking Action: Social Security, Medicare, Tax Increases
- Public Support for Action

New Spending: 4.9 Trillions
Economic Estimates: 4.1 Trillions
Tax Cuts: 3.5 Trillions

Causes of Increased U.S. Debt: Spending and Tax Cuts by Category, 2001-2011

- 2001/2002 Tax Cuts: 1.70
- Interest: 1.39
- Other Non-Defense: 1.33
- Wars: 1.26
- Recovery Act: 0.73
- Other Tax Cuts: 0.69
- Other Defense: 0.66
- Medicaid Drug Benefit: 0.27
- TARP: 0.02

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
Actions Necessary to Get to Debt/GDP Ratio of 60 Percent by 2021

Note: Current policy baseline; $6.1 trillion deficit reduction in 2021 (assuming tranche 1 of debt ceiling agreement has been achieved, $917 billion cut).
August Debt Ceiling/Deficit Reduction Package

- Raise Debt Ceiling (up to $2.4 trillion)
- Deficit Reduction of $917 Billion
- Establish Supercommittee to Reduce Deficit by Additional $1.5 or $1.2 Trillion
## What Republicans and Democrats Wanted Out of Budget Deal

<table>
<thead>
<tr>
<th>What They Wanted</th>
<th>Democrats</th>
<th>Republicans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cuts in Defense</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>No Cuts in Big Entitlements</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>No Tax Increases</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>
Impact of Debt Ceiling Deal on Increase in the Federal Debt, 2012-2021

Discretionary Spending Caps

- 10 Years; $917 Billion
- Half Domestic; Half Defense/Security
- Firewall Between Domestic and Defense (2012 only)
- Action So Far
Impacts of Debt Ceiling Cuts on Defense Spending, 2012-2021

Note: Figures are in budget authority.
Source: Congressional Budget Office, “Table 1-6: Illustrative Paths for Discretionary Budget Authority Subject to Caps in Budget Control Act” and “Table 1-5: CBO Baseline Projections of Discretionary Spending,” from CBO Budget and Economic Outlook: An Update (August, 2011) and “Table 1: Estimated Savings from Automatic Reductions,” from Estimated Impact of Automatic Budget Enforcement Procedures Specified in the Budget Control Act (September, 2011).
Impacts of Debt Ceiling Cuts on NonDefense Spending, 2012-2021

<table>
<thead>
<tr>
<th>Year</th>
<th>CBO Baseline</th>
<th>Baseline with Debt Ceiling Cuts, Round 1</th>
<th>Baseline with Debt Ceiling Cuts, Rounds 1 and 2</th>
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</thead>
<tbody>
<tr>
<td>2011</td>
<td>511</td>
<td>505</td>
<td>467</td>
</tr>
<tr>
<td>2012</td>
<td>528</td>
<td>538</td>
<td>478</td>
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<td>2013</td>
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<td>2020</td>
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<tr>
<td>2021</td>
<td>656</td>
<td></td>
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</table>

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Overview of Supercommittee

- Goal: $1.5 B, 10 Years (begin 2013)
- 12 Members (6 Rs; 6 Ds)
- Due Dates:
  - Report to Congress: November 23
  - Congress Vote on Proposal: December 23
  - Up or Down Vote; No Filibuster; No Amendments
  - If Fail; Sequester Triggered
Taking Action:

- Social Security Reforms
- Medicare Reforms
- Tax Increases
Taking Action: Social Security Reforms

- Increase the Payroll Tax by 1 Percentage Point in 2012
- Increase the Payroll Tax by 3 Percentage Points Over 20 Years
- Tax Covered Earnings Above the Taxable Minimum; Do Not Increase Benefits
- Reduce PIA Factors to Index Initial Benefits to Prices Rather Than Earnings
- Index Earnings in the AIME and Bend Points in the PIA Formula to Prices
- Lower Initial Benefits to Top 70 Percent of Earners
- Reduce COLA by 0.5 Percentage Points
- Raise the Full Retirement Age to 70

Source: Congressional Budget Office, “Summary Figure 1,” in Social Security Policy Options, summary (2010).
Annual Average Real Growth in GDP and in Health Expenditures

Sources: Centers for Medicare and Medicaid Services, "Table 1: National Health Expenditures Aggregate, Per Capita Amounts, Percent Distribution, and Average Annual Percent Growth: Selected Calendar Years: 1960-2009," NHE Web Tables; Bureau of Economic Analysis, "Table 1.2.4 Price Indexes for Gross Domestic Product by Major Type of Product," National Income and Product Account Tables.
Taking Action: Medicare Reform Premium Support

- Service Areas
- Mandatory Health Care Services
- Open Market; Bids from Any Entity
- Central Clearing House
- Setting Annual Premium Amounts
- Adjustments to Premium
# Taking Action: Reducing Tax Expenditures

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost (in Billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage Interest</td>
<td>$93.8</td>
</tr>
<tr>
<td>Property Taxes on Real Property</td>
<td>$22.8</td>
</tr>
<tr>
<td>Capital Gains on Sales of Principle Residences</td>
<td>$16.5</td>
</tr>
<tr>
<td>Reduced Rates of Dividends / Long-Term Capital Gains</td>
<td>$84.2</td>
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<tr>
<td>Capital Gains at Death</td>
<td>$31.7</td>
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<td>Investment Income on Life Insurance</td>
<td>$25.7</td>
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<tr>
<td>Charitable Contributions</td>
<td>$34.5</td>
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<tr>
<td>Employer Contributions for Health Care, Health Premiums</td>
<td>$117.3</td>
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<tr>
<td>EITC</td>
<td>$52.4</td>
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<tr>
<td>State Taxes</td>
<td>$43.6</td>
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</tbody>
</table>

**Total = $522.5 Billion**
Polls: The Deficit Is Top Priority

Source: Pew Research Center for the People & The Press, various years.
Polls: Public Support for Sacrifice

Source: Gallup, April 2011.

Polls: Willingness To Cut Specific Programs

Source: Harris Interactive Poll, January 17 – 27, 2011