The Federal deficit battle of 2011

Ron Haskins

Center on Children and Families
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

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

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

Source of Deficit Reduction

- 46
- 21
- 15
+ 36
+ 16

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

Note: Figures are in budget authority.
Source: Congressional Budget Office, “Table 1-5: CBO Baseline Projections of Discretionary Spending,” and “Table 1-6: Illustrative Paths for Discretionary Budget Authority Subject to Caps in Budget Control Act” from 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).
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

- Reduce COLA by 0.5 Percentage Points: 30
- Raise the Full Retirement Age to 70: 30
- Index Earnings in the AIME and Bend Points in the PIA Formula to Prices: 60
- Lower Initial Benefits to Top 70 Percent of Earners: 50
- Reduce PIA Factors to Index Initial Benefits to Prices Rather Than Earnings: 100
- Tax Covered Earnings Above the Taxable Minimum; Do Not Increase Benefits: 90
- Increase the Payroll Tax by 3 Percentage Points Over 20 Years: 50
- Increase the Payroll Tax by 1 Percentage Point in 2012: 30

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>
</tr>
<tr>
<td>Capital Gains at Death</td>
<td>$31.7</td>
</tr>
<tr>
<td>Investment Income on Life Insurance</td>
<td>$25.7</td>
</tr>
<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>
</tr>
<tr>
<td>EITC</td>
<td>$52.4</td>
</tr>
<tr>
<td>State Taxes</td>
<td>$43.6</td>
</tr>
<tr>
<td><strong>Total = $522.5 Billion</strong></td>
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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

- Foreign economic aid: 75%
- Foreign military aid: 69%
- Spending by the regulatory agencies generally: 56%
- Space programs: 54%
- Federal welfare spending: 51%
- Subsidies to business: 51%
- Farm subsidies: 42%
- Federally funded scientific research programs: 42%
- Federal housing programs: 41%
- Defense spending: 41%
- The food stamp program: 40%
- Pollution control: 37%
- Spending for mass transportation: 35%
- Federal aid to cities: 34%
- Federal jobs programs: 33%
- Federal highway financing: 31%
- Revenue sharing with states and cities: 28%
- Health care: 24%
- Federal aid to education: 21%
- Social security payments: 11%

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