

# America's Fiscal Future



**Barry Anderson, Deputy Director**

Presentation for Maryland Governor's  
Grants Conference

March 21, 2013



# The Next Fiscal Cliff

- **March 27: Continuing Resolution/Shutdown**
- **April 8: The President's FY2014 Budget/House & Senate Budget Resolutions**
- **Late Summer: Debt Limit**



# Comparison of 2013 with 2012 After the Sequester

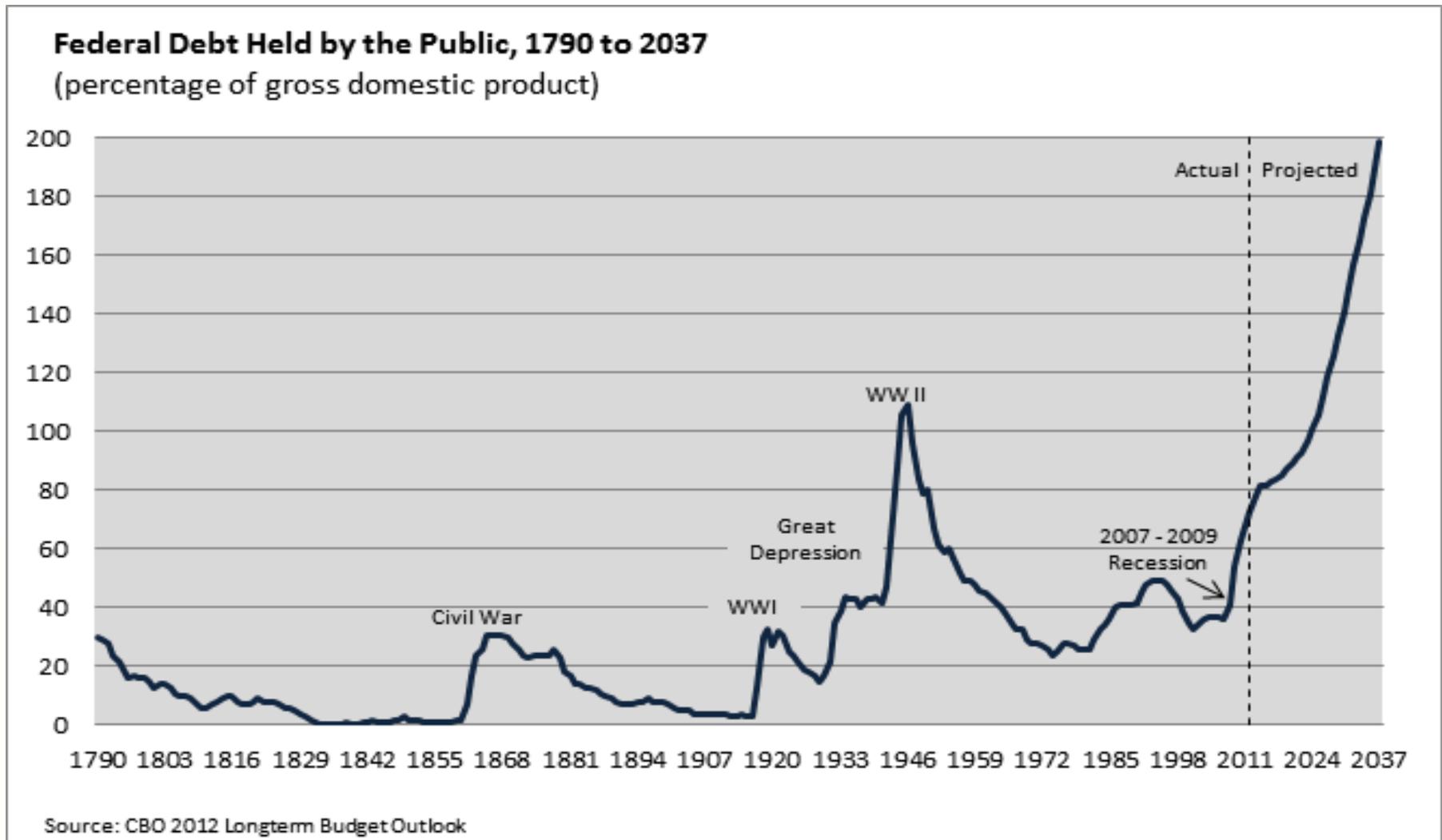
(Budget Authority, \$ in billions)

	<u>2012</u> Enacted*	<u>2013</u> After the Sequester**	<u>2013 less</u> <u>2012</u> Dollars	<u>2013 less 2012</u> Percent
Security	810	751	-59	-7.3%
Non-Security	370	389	19	5.1%
Total	1,180	1,140	-40	-3.4%

\*Appropriations for FY2012 include adjustments for Overseas Contingency Operations (OCO) of \$127B & adjustments in Non-Security of \$12B for disasters & program integrity.

\*\*Appropriations for FY2013 include \$100B of adjustments for OCO, and \$19B in Security and \$35B in Non-Security for disasters (mostly for Sandy) & program integrity.

# The Major Federal Fiscal Issue Is Long-Term Sustainability: How to Cut Projected Debt



# More Revenues, Less Spending, or Both?

(% of GDP, CBO Projections as of dates shown)

	<u>1987-2011</u> Average	<u>2012</u> Actual	<u>2022</u> Feb 2013	<u>2037</u> Aug 2012
<b>Spending</b>				
Medicare	2.5	3.5	4.1	6.7
Medicaid	1.2	1.6	2.2	3.7
Social Security	4.4	5.0	5.4	6.2
All Other	10.3	11.3	8.0	9.6
Nondefense	(3.7)	(4.1)	(2.6)	NA
Defense	(4.2)	(4.2)	(3.0)	NA
Other	(2.4)	(3.0)	(2.4)	NA
Interest	<u>2.4</u>	<u>1.4</u>	<u>3.2</u>	<u>9.5</u>
<b>Total Spending</b>	<b>20.8</b>	<b>22.8</b>	<b>22.9</b>	<b>35.7</b>
<b>Revenues</b>	<b><u>17.9</u></b>	<b><u>15.8</u></b>	<b><u>19.0</u></b>	<b><u>18.5</u></b>
<b>Deficits</b>	-2.9	-7.0	-3.9	-17.2
<b>Debt</b>	<b>44</b>	<b>73</b>	<b>76</b>	<b>199</b>

# Can the Economy Grow Enough to Help?

(Percentage change in real GDP; year to year)

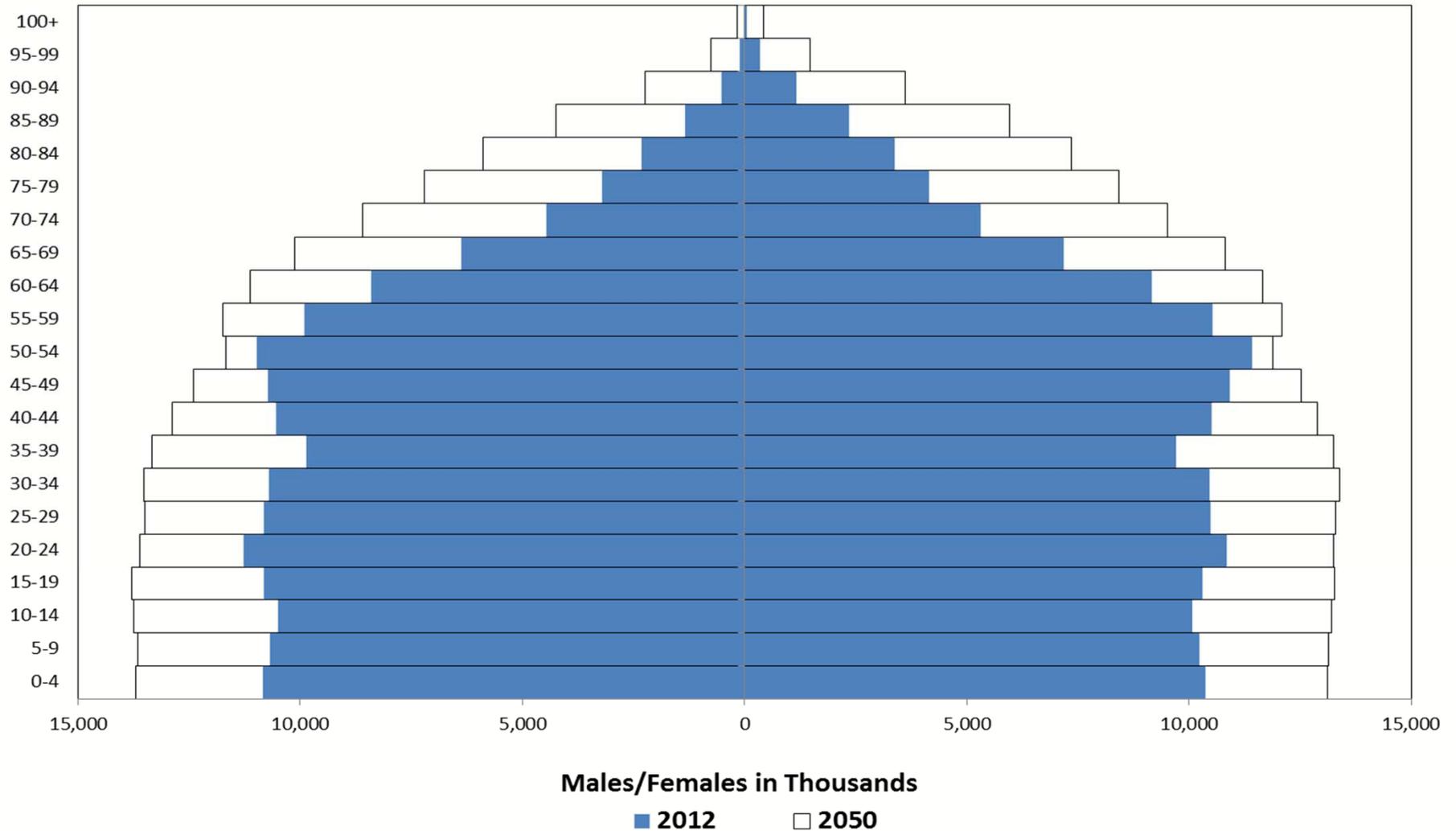
2012 Actual	2013	2014	2015- 2018	2019- 2023	2023- 2037
2.3	1.4	2.6	3.7	2.3	2.5



Sources of projections: for 2012-2023, CBO's *Budget & Economic Outlook: FYs 2013 to 2023*, February, 2013; for 2023-2037, CBO's *2012 Long-Term Budget Outlook*, June, 2012.

# Can Population Grow Enough to Help?

(Projected U.S. Population by Age & Sex)

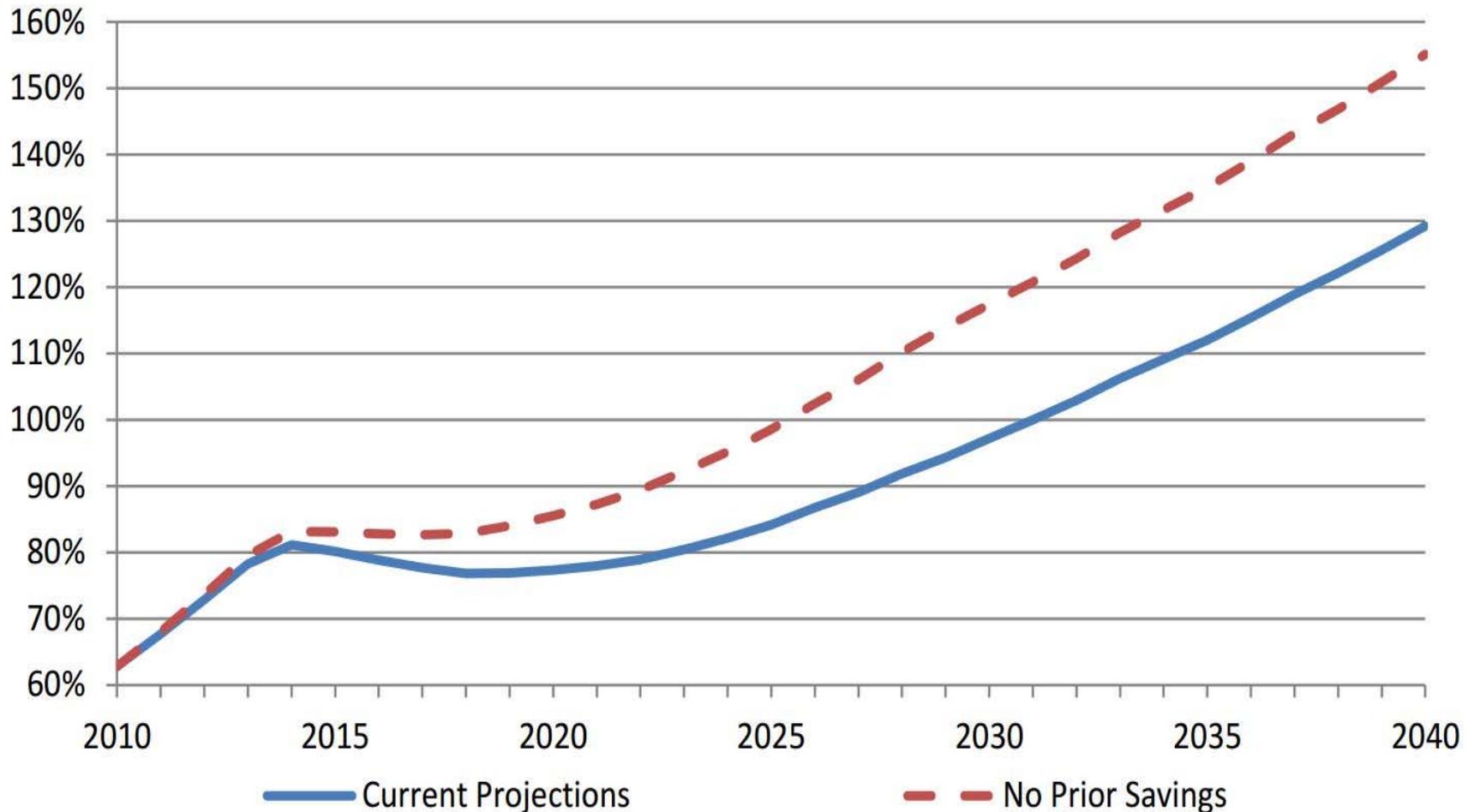


# How Much More Do We Need To Do To Stabilize the Debt?

- **Committee for A Responsible Federal Budget:** at least \$2.4 Trillion
- **Third Way:** \$2 Trillion
- **President Obama:** \$1.5 Trillion
- **Center for Budget Policy & Priorities:** \$1.5 Trillion
- **Columnist Paul Krugman:** “a problem that is already, to a large degree, solved.”

# To Keep the Debt from Increasing, More Is Needed

(Debt Projections With & Without Prior Savings\* as a % of GDP)



Source: Committee for a Responsible Federal Budget

\*"Prior Savings" include those enacted in the Budget Control Act of 2011, the American Taxpayers Reduction Act of 2012, and in appropriations since CBO's August 2010 baseline.

# Benefits of Further Reductions in the Debt

- Addresses **sustainability beyond 10 years**, especially given the certainty of higher Boomer retirement costs
- Encourages **higher economic growth** as the economy moves toward full capacity
- Provides a **margin for error** in case of lower-than-forecasted growth or higher interest rates
- Provides for **fiscal flexibility** for unknowns, such as natural disasters or national security threats

# Most Deficit Reduction Has Come From Discretionary Spending

(Deficit reduction from FY 2013-22, \$ in billions)

	Appropriations 2011	Budget Control Act 2011	American Taxpayer Relief Act 2012*	Sequester March 1	Total
Discretionary Spending	615	850	25	790	<b>2,280</b>
Mandatory Spending, net	--	--	-5	169	<b>164</b>
Revenue, net	--	--	545	--	<b>545</b>
Interest	<u>105</u>	<u>135</u>	<u>85</u>	<u>169</u>	<u><b>494</b></u>
Total:	\$720	\$985	\$650	\$1,128	<b>\$3,483</b>
Total: as a % of GDP	.4%	.5%	.3%	.6%	<b>1.7%</b>

Sources: CBO; Committee for a Responsible Federal Budget; *The Economist*.

\*Includes \$75B in tax cuts & \$30B in extended unemployment benefits that added to deficits.

## Health is by Far the Biggest Contributor to Long-Term Costs & U.S. Health Costs Are Far Higher Than Other Countries

(Health Expenditures as a % of GDP, 2010)

<u>Country</u>	<u>Public</u>	<u>Total</u>
<b>United States</b>	<b>8.1</b>	<b>17.4</b>
France	9.2	11.8
Germany	8.8	11.6
Denmark	9.8	11.5
Switzerland	6.8	11.4
United Kingdom	8.2	9.8
Australia	6.0	8.7
<i>OECD Average</i>	<i>7.0</i>	<i>8.6</i>
Japan	7.0	8.5

Source: OECD Health Data 2012

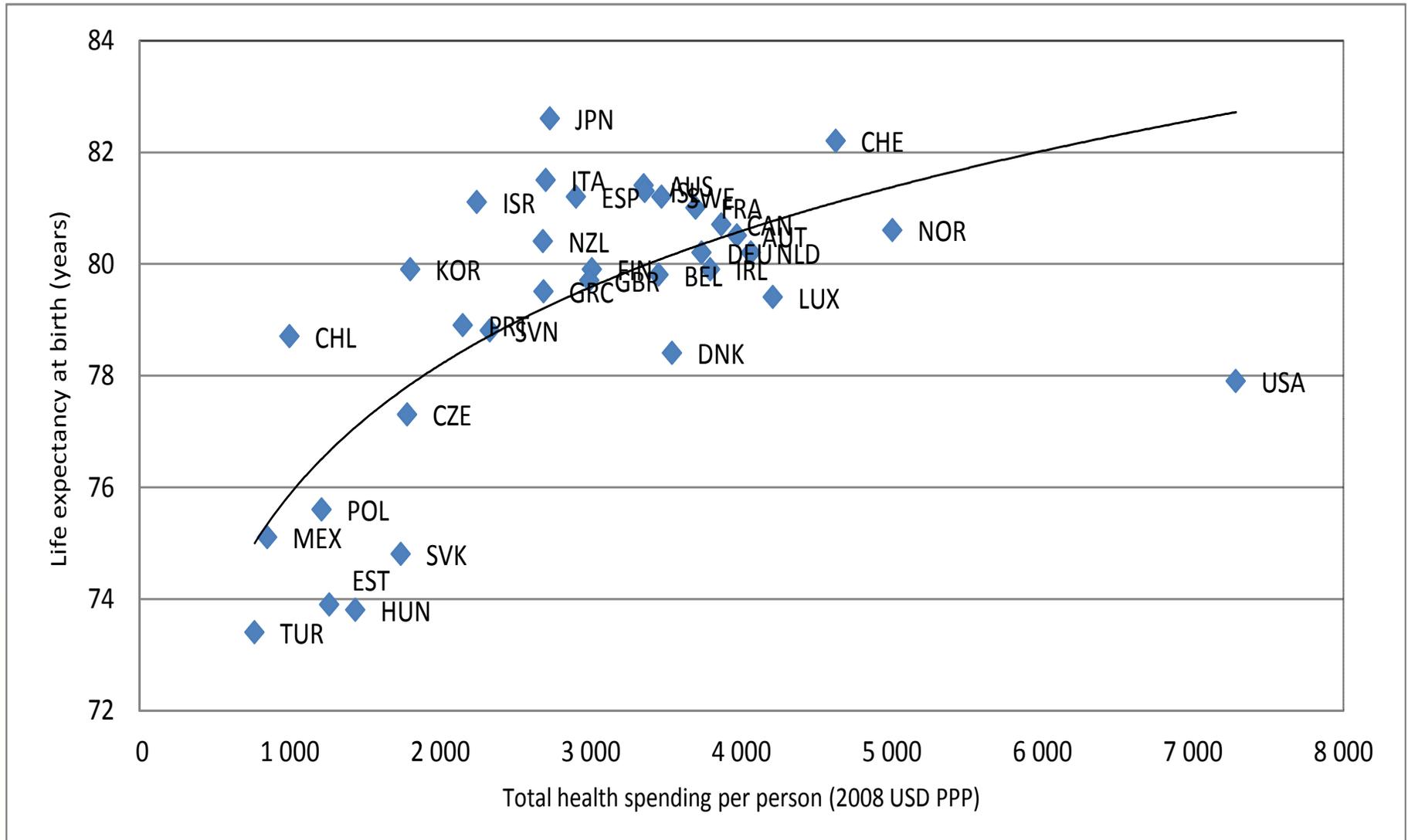
## And Health Costs are Projected to Grow Even After the ACA

(U.S. National Health Expenditures as a % of GDP)

<u>Calendar Years</u>	<u>2010 Projection Before ACA</u>	<u>2011 Projection After ACA</u>	<u>2012 Projection After ACA</u>
2007	15.9	--	--
2008	16.2	16.6	--
2009	17.3	17.6	17.9
2010	17.3	17.6	17.9
2011	--	17.7	17.9
2012	--	17.6	17.9
2013	--	17.6	17.8
2014	17.4	18.1	18.2
2019	<b>19.3</b>	--	--
2020	--	<b>19.8</b>	--
2021	--	--	<b>19.6</b>

Source: Sean Keehan (CMS), et al., "National Health Expenditure Projections", *Health Affairs*, 2010-2012

# But We Aren't Getting Better Outcomes for Our Money



Source: OECD Government At A Glance, 2011.

# With Respect to Taxes, States Have Already Contributed

(2013 Marginal Tax Rates for Selected Provisions.

Married filing jointly; employee only<sup>1</sup>. Recent changes bolded.)

Income <sup>2</sup>	Federal Income	Social Security	Medicare Base	Medicare Investment <sup>3</sup>	Pease <sup>4</sup>	Total
0-\$17,850 <sup>5</sup>	10.0	<b>6.2</b>	1.45	0	0	<b>17.65</b>
\$17,850-72,500	15.0	<b>6.2</b>	1.45	0	0	<b>22.65</b>
\$72,500-113,700	25.0	<b>6.2</b>	1.45	0	0	<b>32.65</b>
\$113,700-146,400	25.0	0	1.45	0	0	26.45
\$146,400-223,050	28.0	0	1.45	0	0	29.45
\$223,050-250,000	33.0	0	1.45	0	0	34.45
\$250,000-300,000	33.0	0	<b>2.35</b>	<b>3.8</b>	0	<b>39.15</b>
\$300,000-398,350	33.0	0	<b>2.35</b>	<b>3.8</b>	<b>.99</b>	<b>40.34</b>
\$398,350-450,000	35.0	0	<b>2.35</b>	<b>3.8</b>	<b>1.05</b>	<b>42.20</b>
\$450,000+	<b>39.6</b>	0	<b>2.35</b>	<b>3.8</b>	<b>1.19</b>	<b>46.94</b>

<sup>1</sup>Employers don't pay the additional .9% Medicare Base or 3.8% Medicare Investment taxes.<sup>2</sup>Taxable income for Federal Income; earned income for Social Security & Medicare Base; AGI for Medicare Investment & Pease.<sup>3</sup>This rate applies to the lessor of net investment income or the excess of Modified AGI over \$250,000.<sup>4</sup>Pease reduces itemized deductions (except medical, investment interest, & casualty & theft) by 3% of the amount by which AGI exceeds \$300,000, but not more than 80% of the value of itemized deductions. PEP (Personal Exemption Phaseout) is not included; it reduces the \$3,900/person exemptions by 2% for each \$2,500 increment in exemptions for AGI over \$300,000.<sup>5</sup>Does not include Earned Income & various other credits for low income filers.

# Nevertheless, if Tax Expenditures (TEs) are Limited, State TEs Are in Danger

(2013 before ATRA, \$ in billions)

<u>Rank</u>	<u>Tax Expenditure</u>	<u>Cost</u>
1	Exclusion of employer payments for health insurance	181
2	<b>Provisions that benefit states</b>	<b>105</b>
	<b>Deductibility of state &amp; local income, sales &amp; property taxes</b>	<b>(69)</b>
	<b>Exclusion of interest on public purpose state &amp; local bonds</b>	<b>(36)</b>
3	Deductibility of mortgage interest on owner occupied homes	101
4	Tax treatments of 401(k)-type retirement plans	73
5	Treatment of capital gains	62
6	Tax treatment of employer pension plans	52
7	Exclusion of imputed rental income	51
8	Deductibility of charitable contributions	49
9	Deferral of income from controlled foreign corporations	42
10	Accelerated depreciation of machinery & equipment	33

# Was A Deal Possible?

(10-Year Savings; \$ in Billions)

<u>Category</u>	<u>July 2011 Almost Deal</u>	<u>Dec 14 2012 GOP Offer</u>	<u>Dec 17 2012 WH Offer</u>	<u>Jan 1 2013 Deal</u>	<u>New Simpson Bowles</u>
<b>Revenues</b>	<b>800</b>	<b>1,000</b>	<b>1,200</b>	<b>545</b>	<b>600</b>
Spending					
Entitlements					
Health	400	--	400	25	600
Social Security	75	--	0	--	<i>tbd</i>
Chained CPI	75	(150)	125	--	125
UI, Farm, & other	<u>250</u>	--	<u>200</u>	<u>-30</u>	<i>tbd</i>
<b>Total Entitlements</b>	<b>800</b>	<b>--</b>	<b>725</b>	<b>-5</b>	<i>tbd</i>
<b>Discretionary, net</b>	<b><u>1,300</u></b>	<b>--</b>	<b><u>25</u></b>	<b><u>25</u></b>	<i>tbd</i>
Total Spending	2,100	1,000	850	20	1,400
Interest	<u>300</u>	<u>300</u>	<u>300</u>	<u>85</u>	<u>400</u>
Total	3,200	2,300	2,250	650	2,400

# Is A Deal Still Possible?

(Source: CRFB. 10-Year Savings relative to Current Law; \$ in Billions.)

<u>Category</u>	<u>Murray</u>	<u>Obama</u>	<u>Ryan</u>
<b>Revenues</b>	<b>\$833</b>	<b>?</b>	<b>\$0</b>
Spending			
Health	137	?	885
Repeal ACA	0	?	1,837
Other Mandatory	76	?	962
Sequester repeal	-995	?	0
War & Sandy drawdown	1,230	?	931
Other Discretionary	<u>282</u>	<u>?</u>	<u>249</u>
<b>Total Spending</b>	<b>730</b>	<b>?</b>	<b>4,864</b>
Interest	<u>193</u>	<u>?</u>	<u>869</u>
<b>Total 10-Year Savings</b>	<b>\$1,756</b>	<b>?</b>	<b>\$5,733</b>
<b>Debt / % of GDP in 2023</b>	<b>70.4</b>	<b>(77.0)</b>	<b>54.8</b>

# Trying to End on a High Note, Our Demographics are Much Better Than Our Main Trading Partners

(U.S. Census projections, in thousands of males/females)

