

Improving the Federal Fiscal Outlook and Health Policy in an Election Year: Is Anything Possible?



Presented by

THE CONCORD COALITION

www.concordcoalition.org

About The Concord Coalition

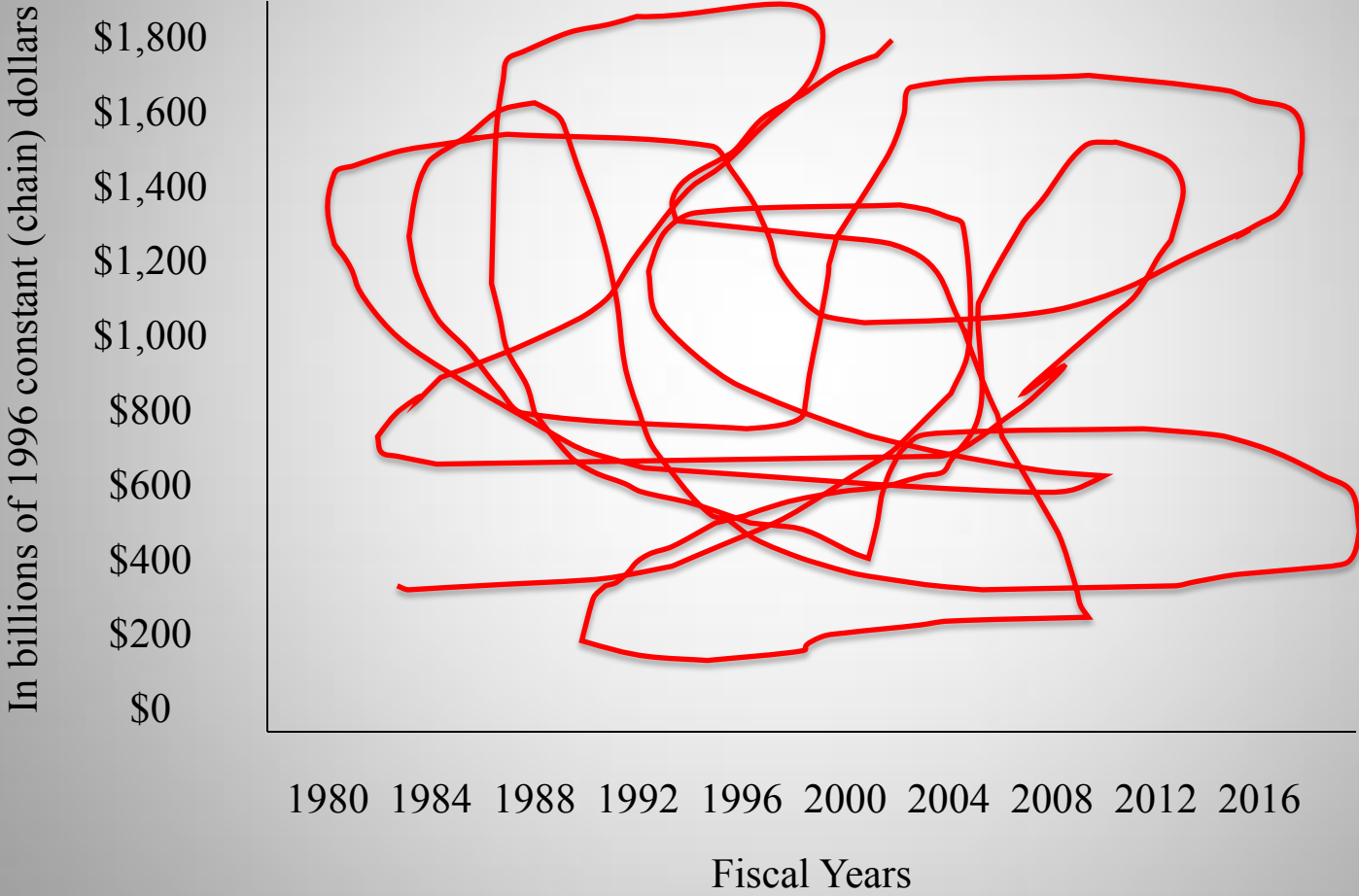
The Concord Coalition is a nationwide, nonpartisan, grassroots organization that champions fiscal responsibility and advocates planning for the economic challenges facing our country in the years ahead.

The Concord Coalition was founded in 1992 by the late former Senator Paul Tsongas (D-Mass.), former Senator Warren B. Rudman (R-N.H.) and former U.S. Secretary of Commerce Peter G. Peterson. Former Senator Bob Kerrey (D-Ne.) became co-chair of the Concord Coalition in January 2002.

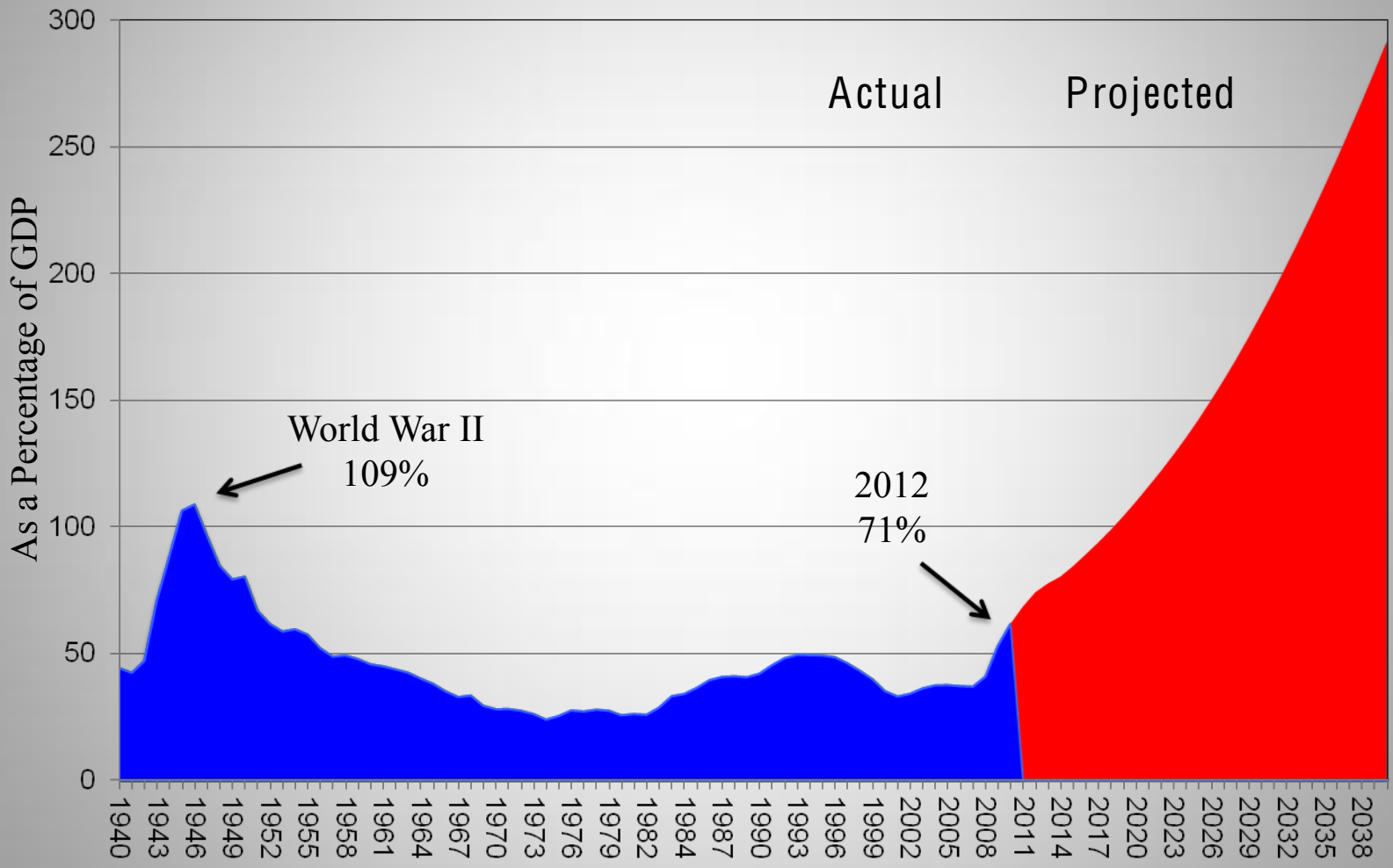
Rotary 4-Way Truth

- Is it the **TRUTH**?
- Is it **FAIR** to all concerned?
- Will it build **GOODWILL** and **BETTER FRIENDSHIPS**?
- Will it be **BENEFICIAL** to all concerned?

Current Fiscal Policy



Debt Held by the Public as a Percentage of GDP 1940-2040



Source: GAO Analysis, Fall 2011 and OMB Historical Tables 2011.
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Drivers of U.S. debt

Short-Term

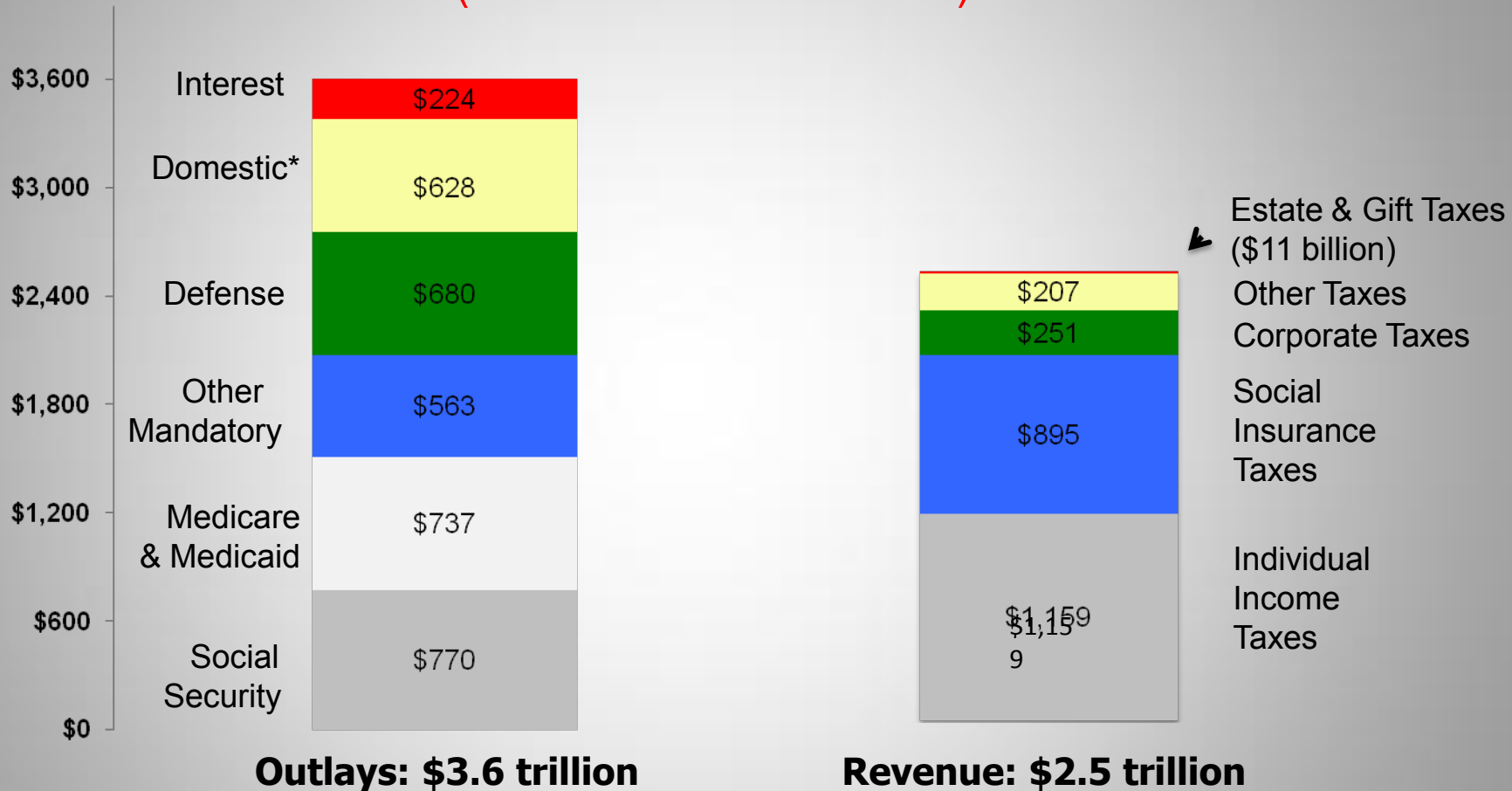
- **Economic Crisis**
(lost revenue and increased spending from automatic stabilizers)
- **Economic Response**
(stimulus spending/tax breaks and financial sector rescue policies)
- **Tax Cuts**
(in 2001, 2003, and 2010)
- **War Spending**
(in Iraq and Afghanistan)

Long-Term

- **Rapid Health Care Cost Growth**
(causing Medicare and Medicaid costs to rise)
- **Population Aging**
(causing Social Security and Medicare costs to rise, and revenue to fall)
- **Growing Interest Costs**
(from continued debt accumulation)
- **Insufficient Revenue**
(to meet the costs of funding government)

Composition of Projected FY 2012 Federal Government Revenues and Outlays

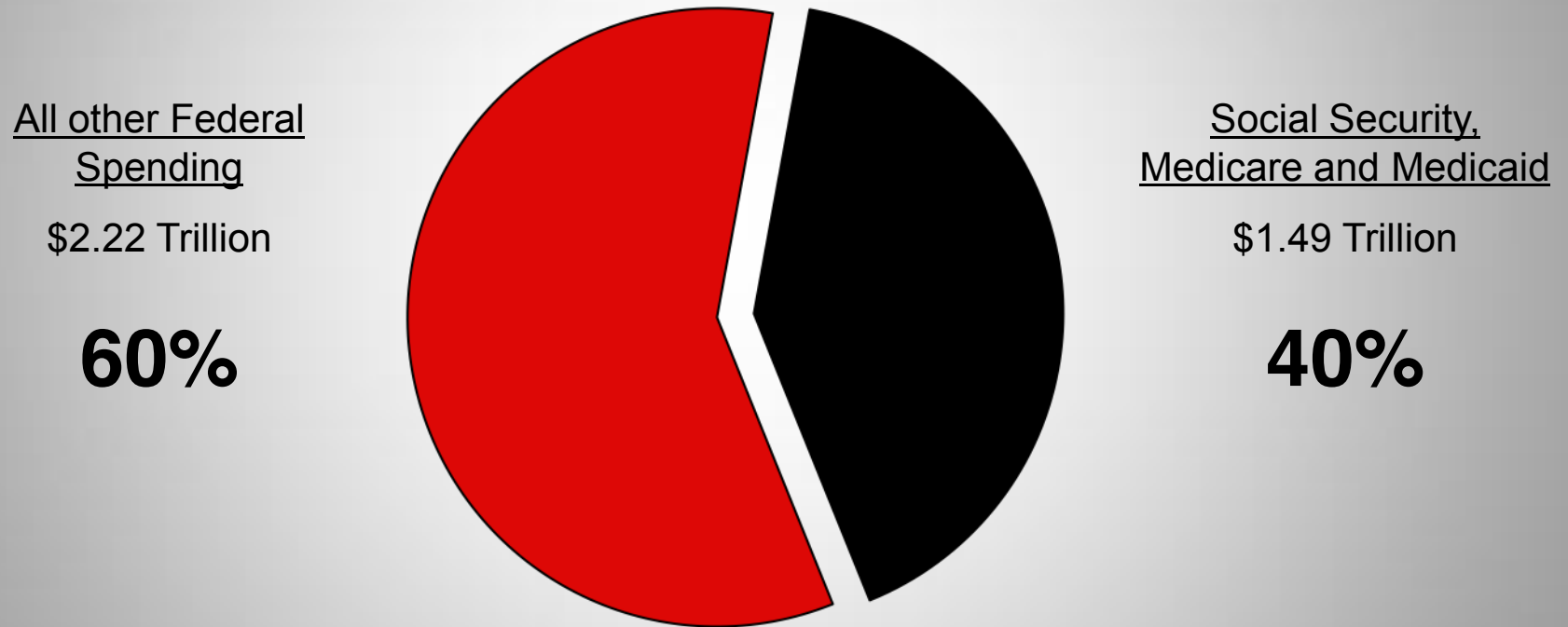
(Deficit: \$1.1 Trillion)



*Includes all appropriated domestic spending such as education, transportation, homeland security, housing assistance and foreign aid.

Source: Congressional Budget Office, January 2012.

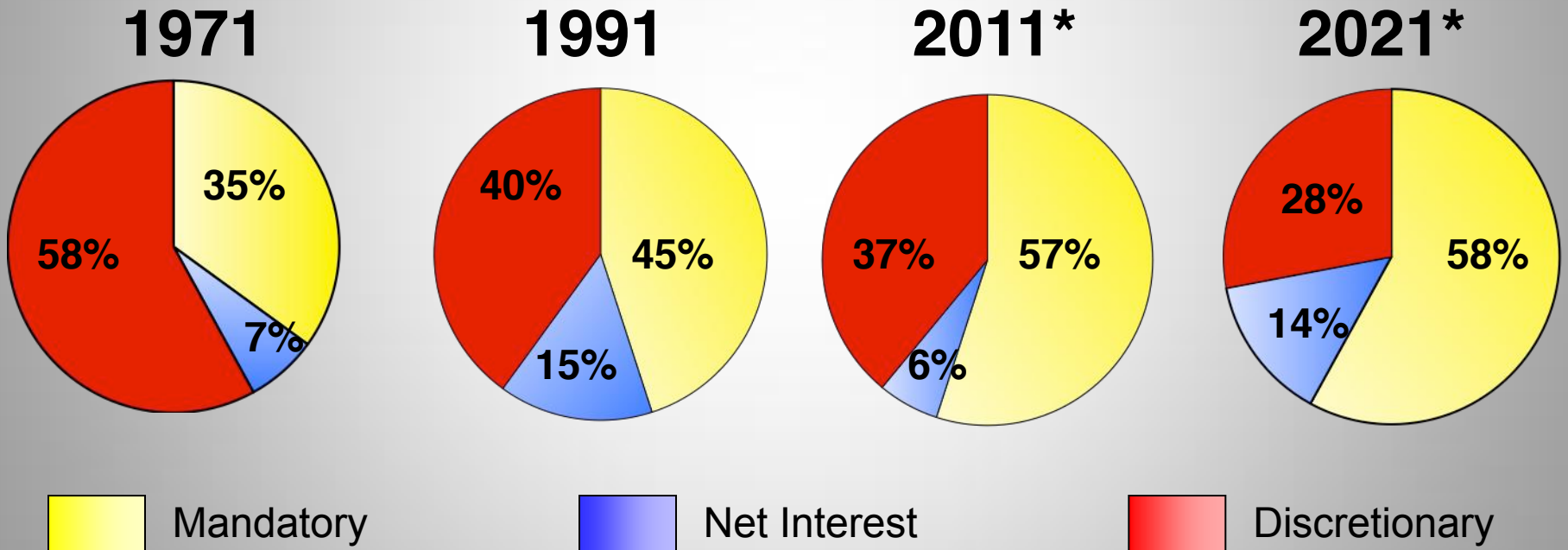
Social Security, Medicare, & Medicaid as a Percentage of the Federal Budget



Source: Congressional Budget Office, January 2011.

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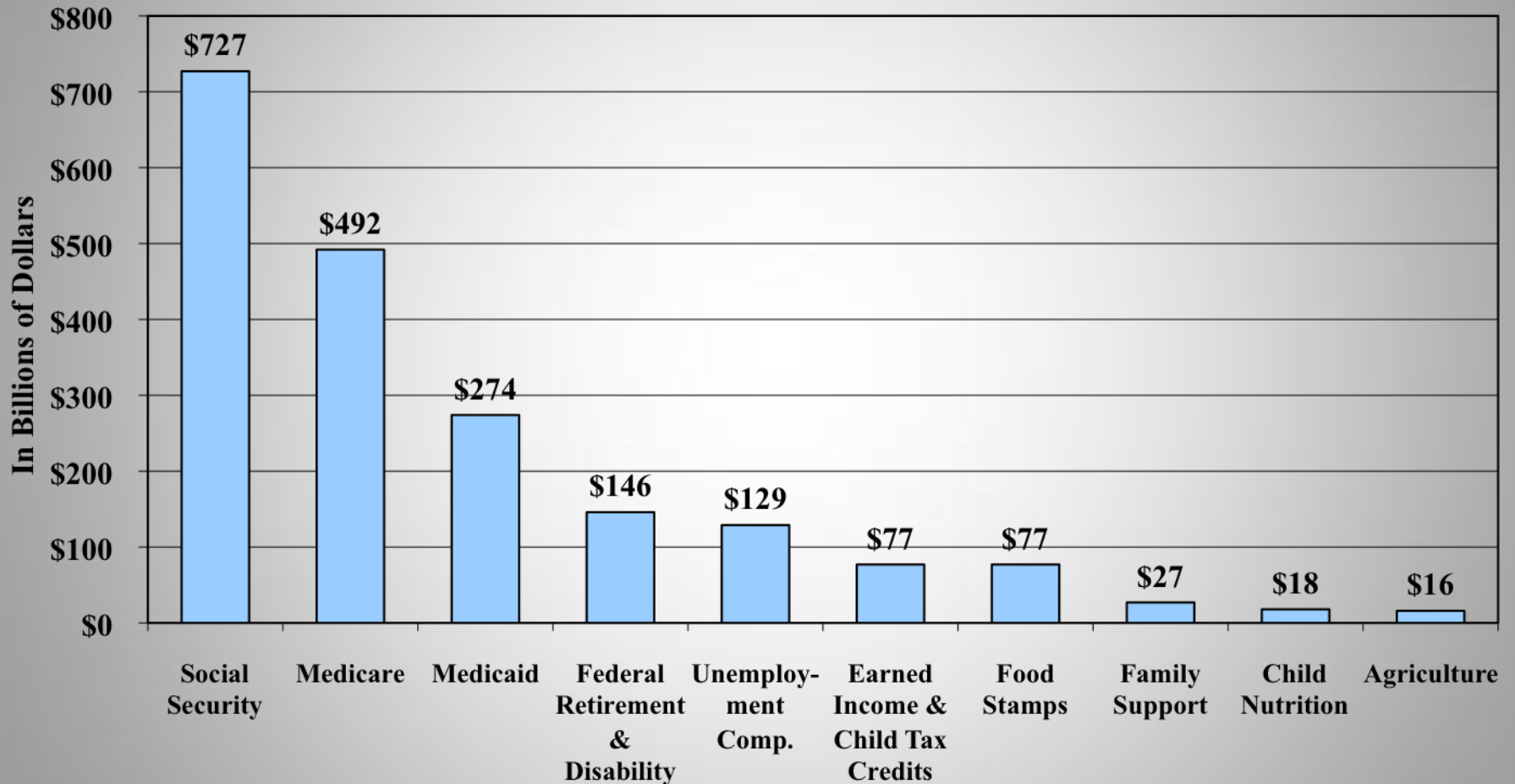
Mandatory spending is consuming a growing share of the budget



*Projected

Source: Congressional Budget Office, January 2011.

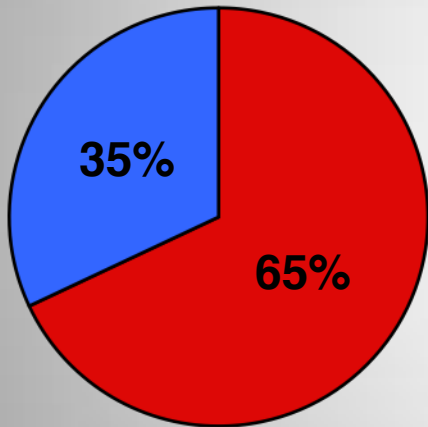
Outlays of Select Mandatory Spending Programs (FY 2011 Projected)



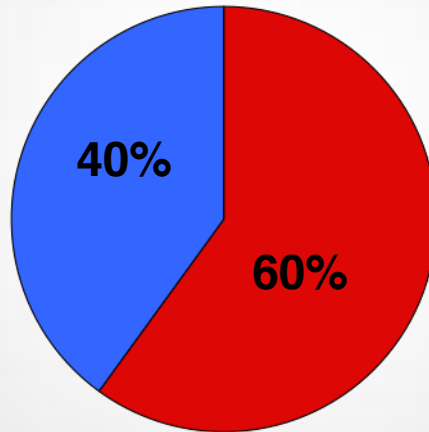
Source: Congressional Budget Office, January 2011.

Change in Composition of Discretionary Spending

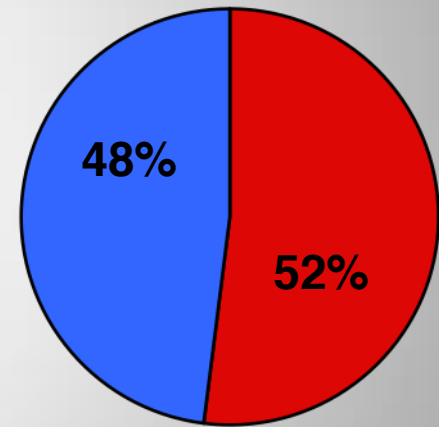
1971



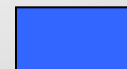
1991



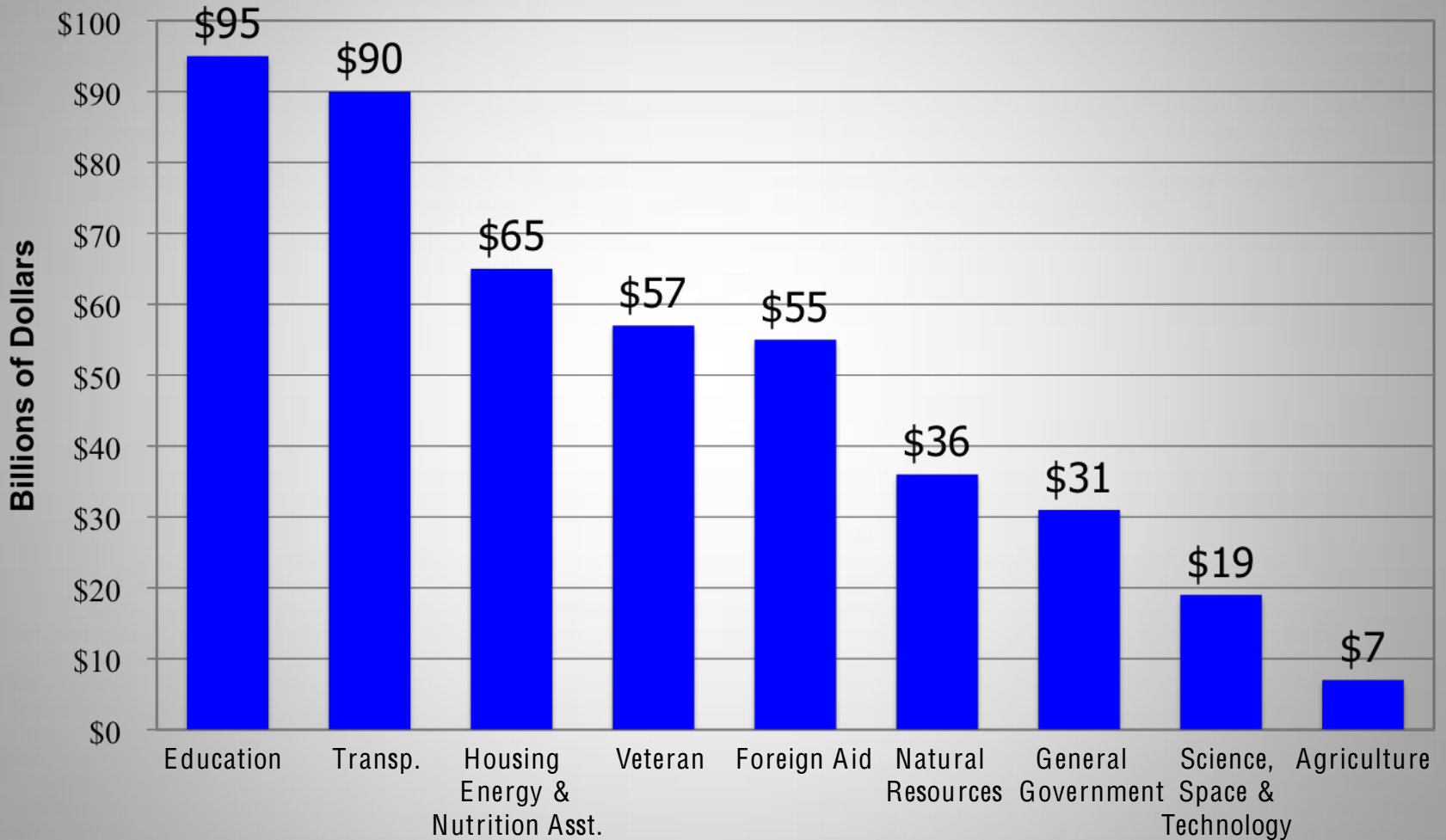
2011



 Defense

 Non-defense

Outlays of Select Non-Defense Discretionary Programs (FY 2011 Projected)



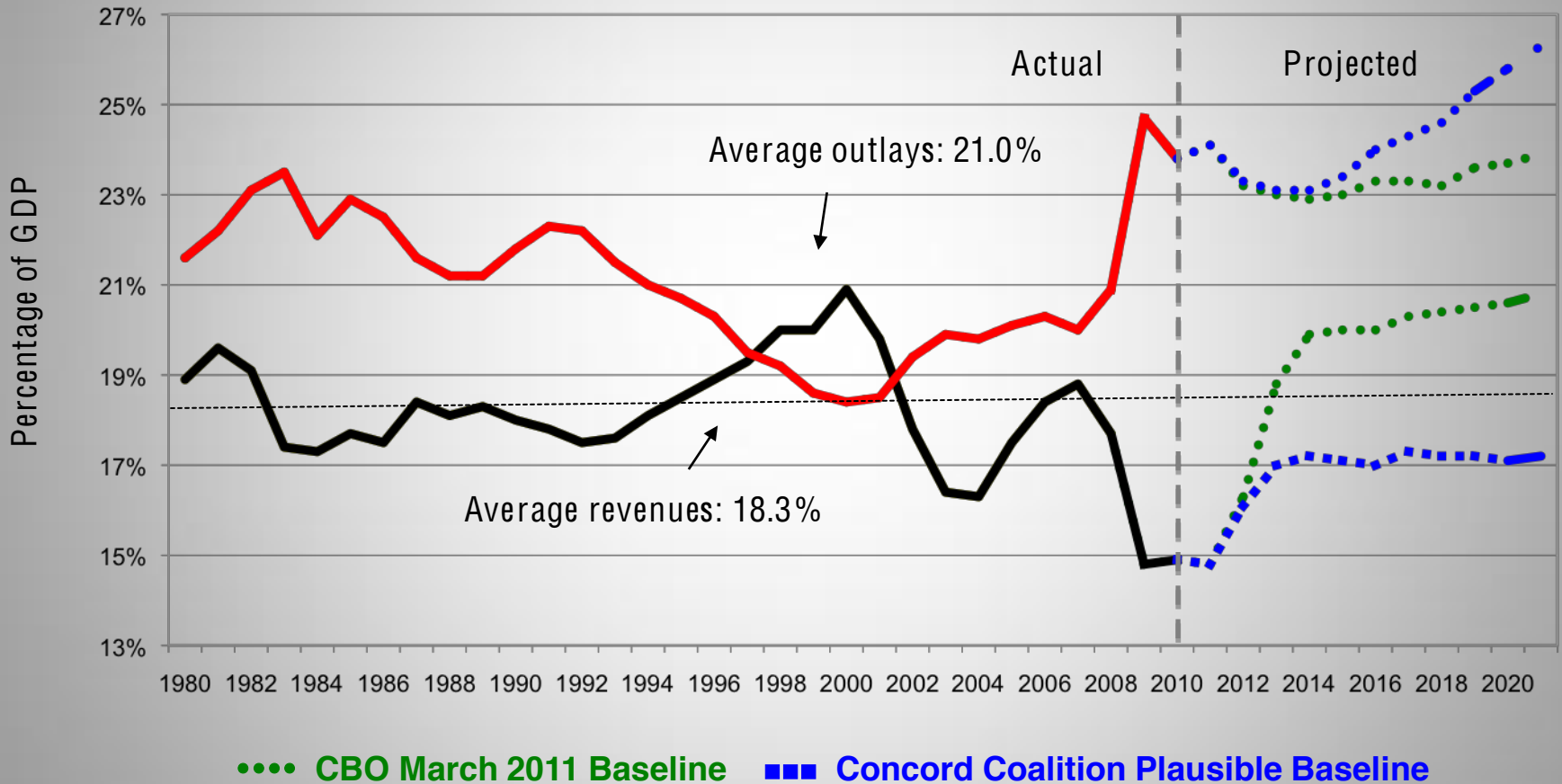
*includes ground, air, and water

Source: Congressional Budget Office, January 2011.

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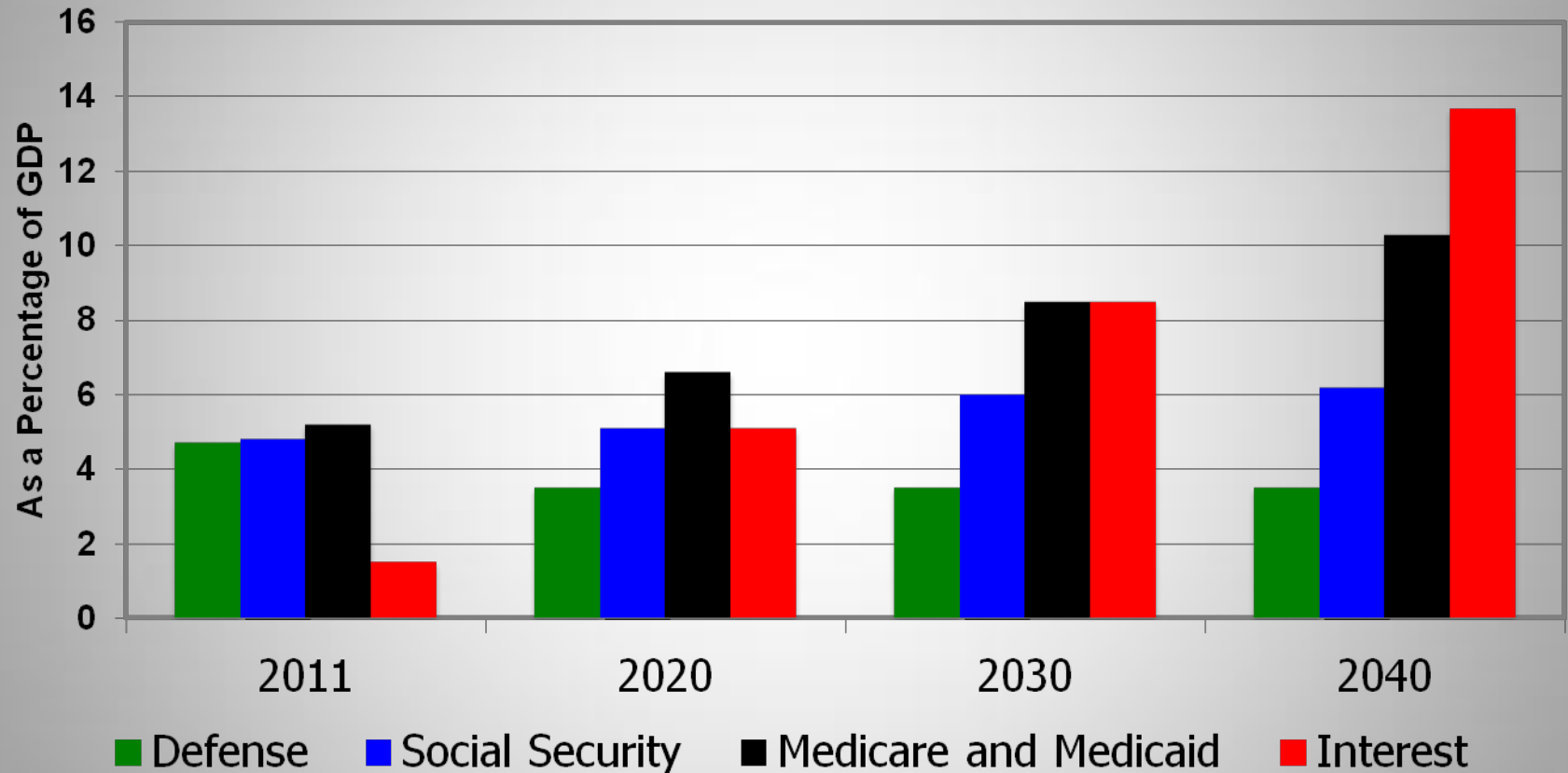
Federal Spending vs. Revenues as a Percent of GDP (FY 1980-2021)

CBO Baseline Compared to the Concord Coalition Plausible Baseline

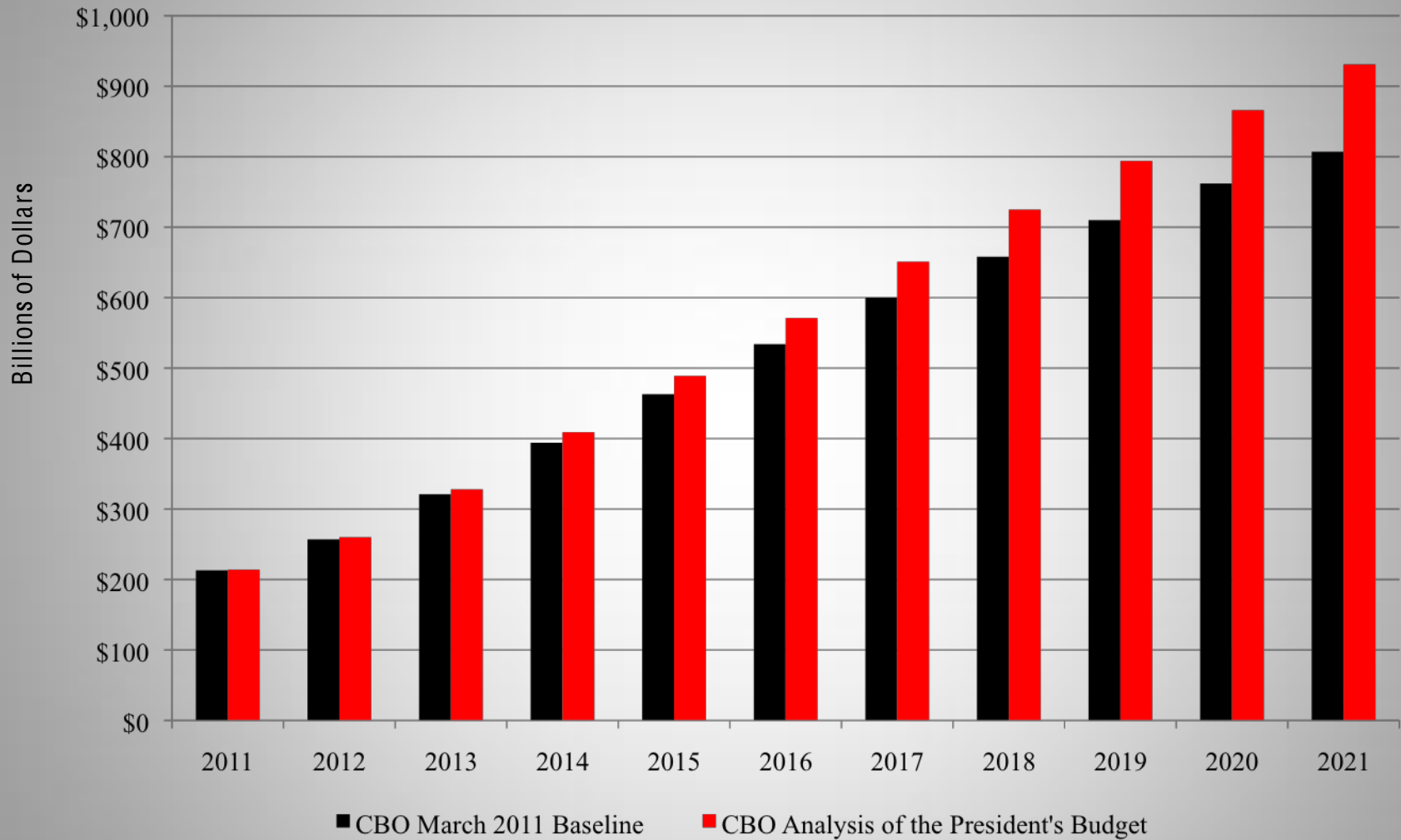


Source: Congressional Budget Office, March 2011 and Concord Coalition Analysis.

Projected Growth in Entitlement Spending and Interest are Far Greater than Defense Spending



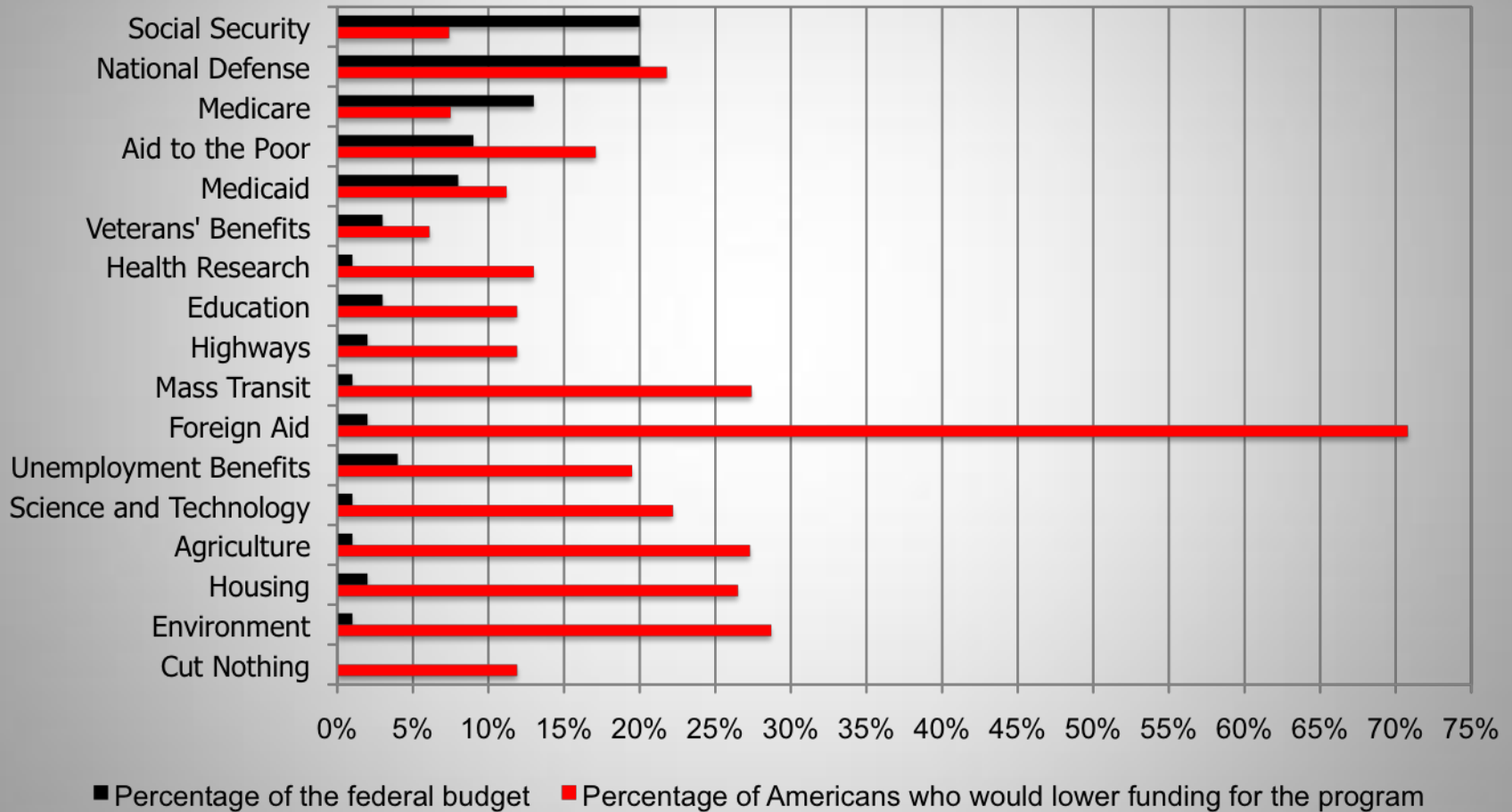
Interest Costs Go Through The Roof



Source: Congressional Budget Office March 2011.

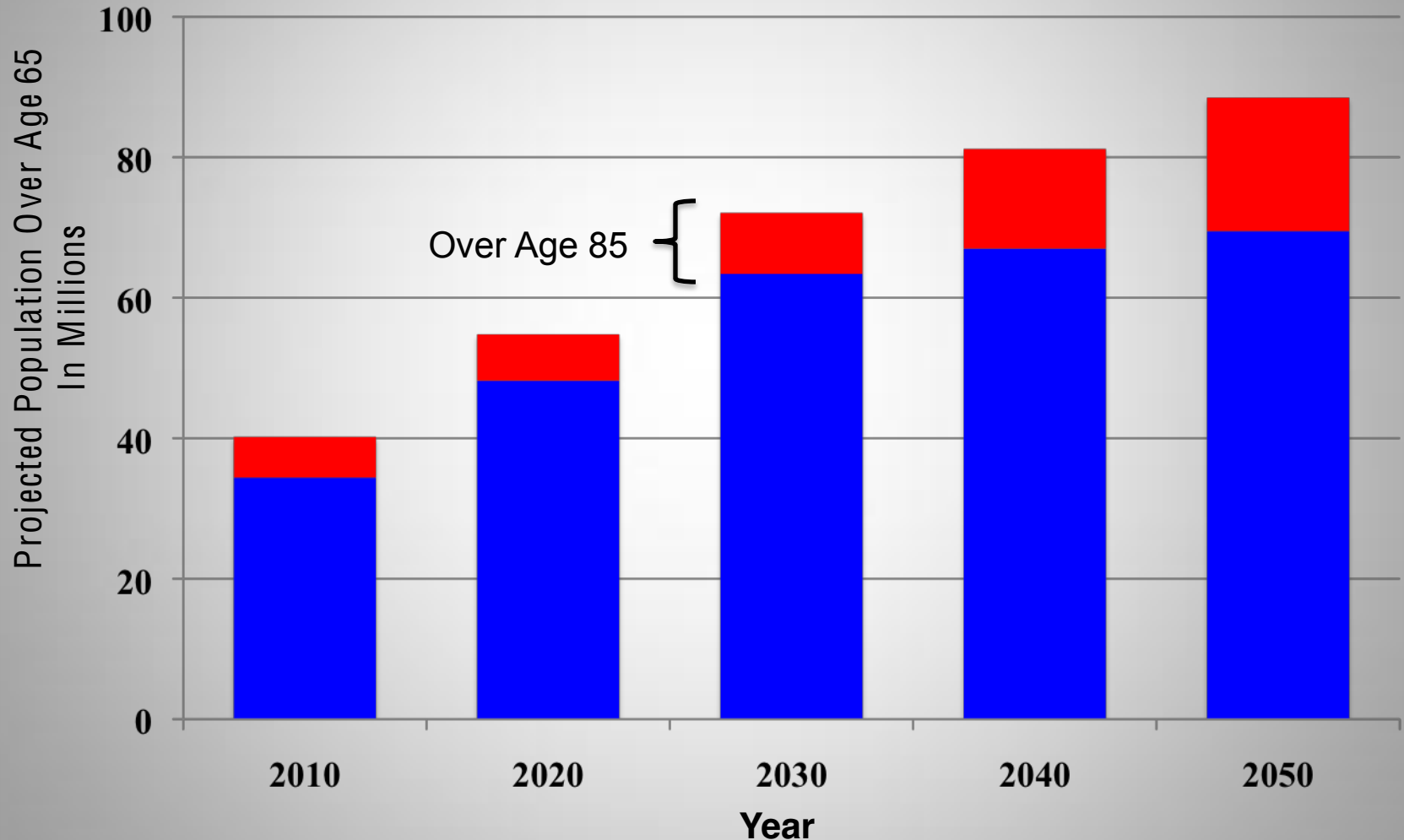
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Americans Want to Cut Spending – But Not on the Programs That Cost the Most



Source: *The Economist/YouGov Poll, April 2010 and Congressional Budget Office, January 2010.*

Americans Are Getting Older and Living Longer



Americans are living longer and having fewer children

Consequently, fewer workers are available
to support each Social Security recipient



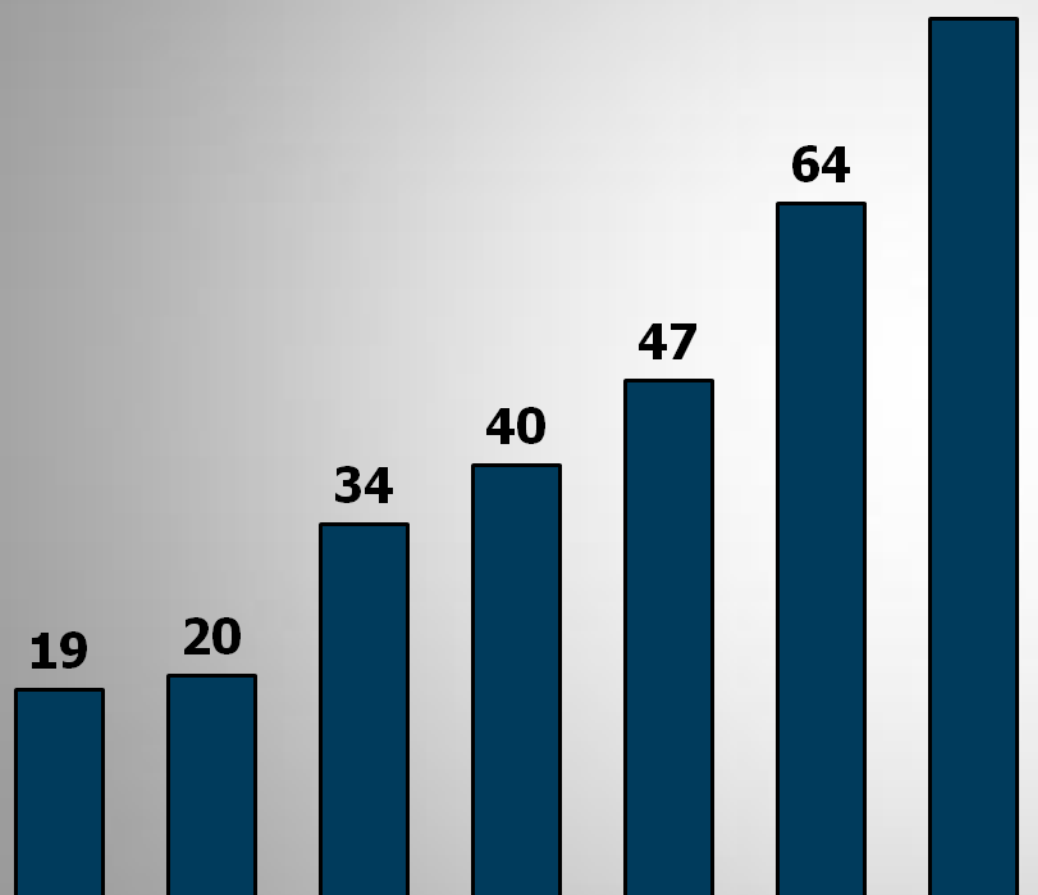
Source: Social Security and Medicare Trustees' Report, 2011.

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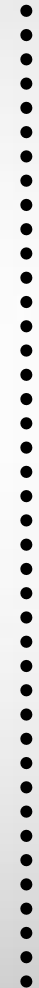
Historical and Projected Number of Medicare Beneficiaries and Number of Workers Per Beneficiary

Number of Beneficiaries (in millions)

80



Number of Workers Per Beneficiary



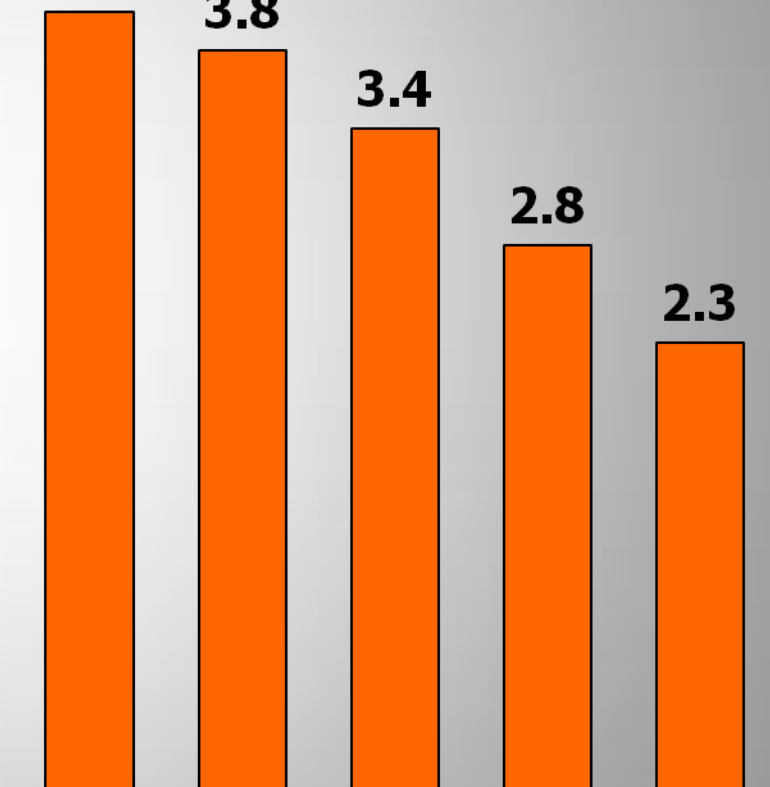
4.0

3.8

3.4

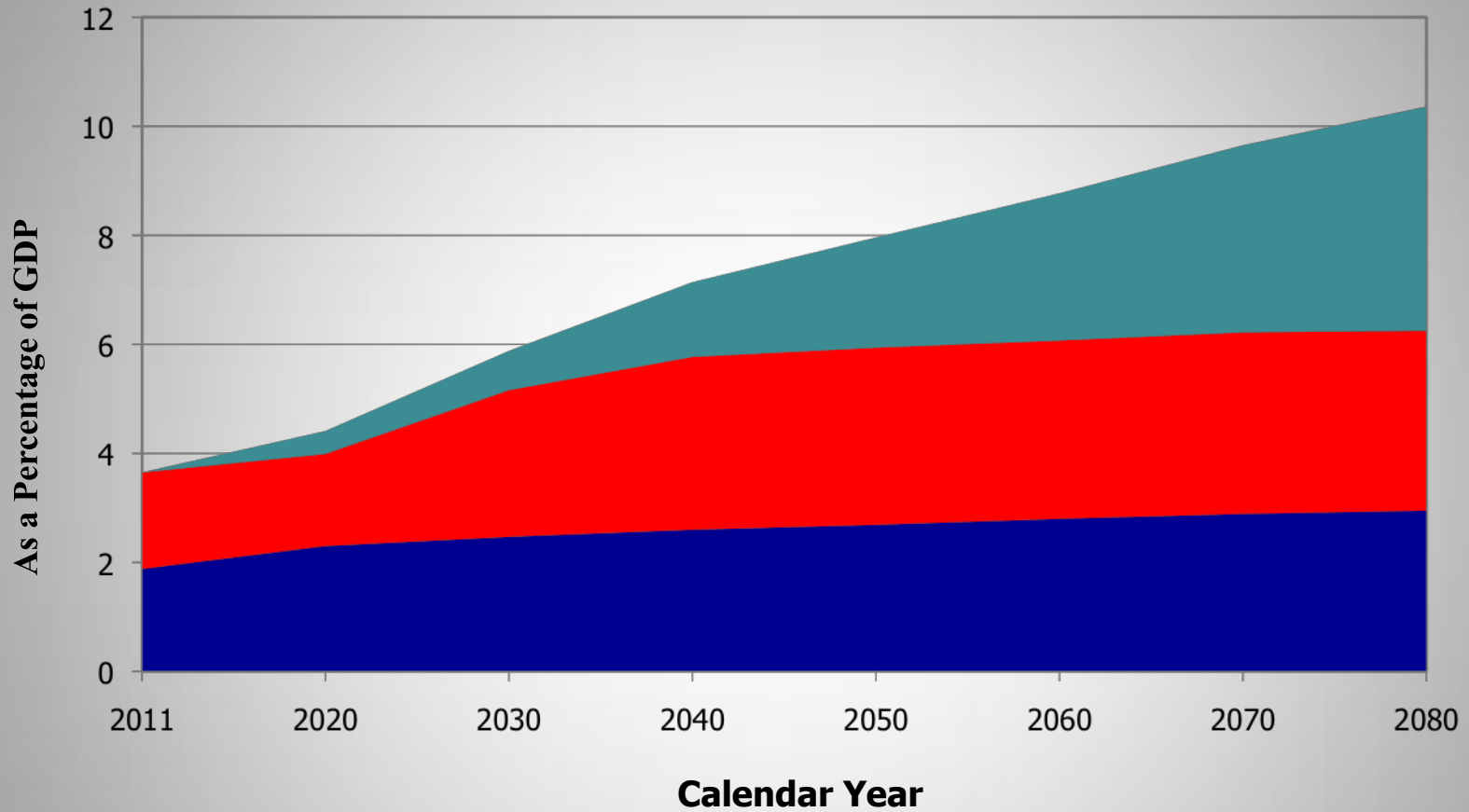
2.8




2.3



1966 1970 1990 2000 2010 2020 2030 : 2000 2007 2010 2020 2030

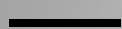
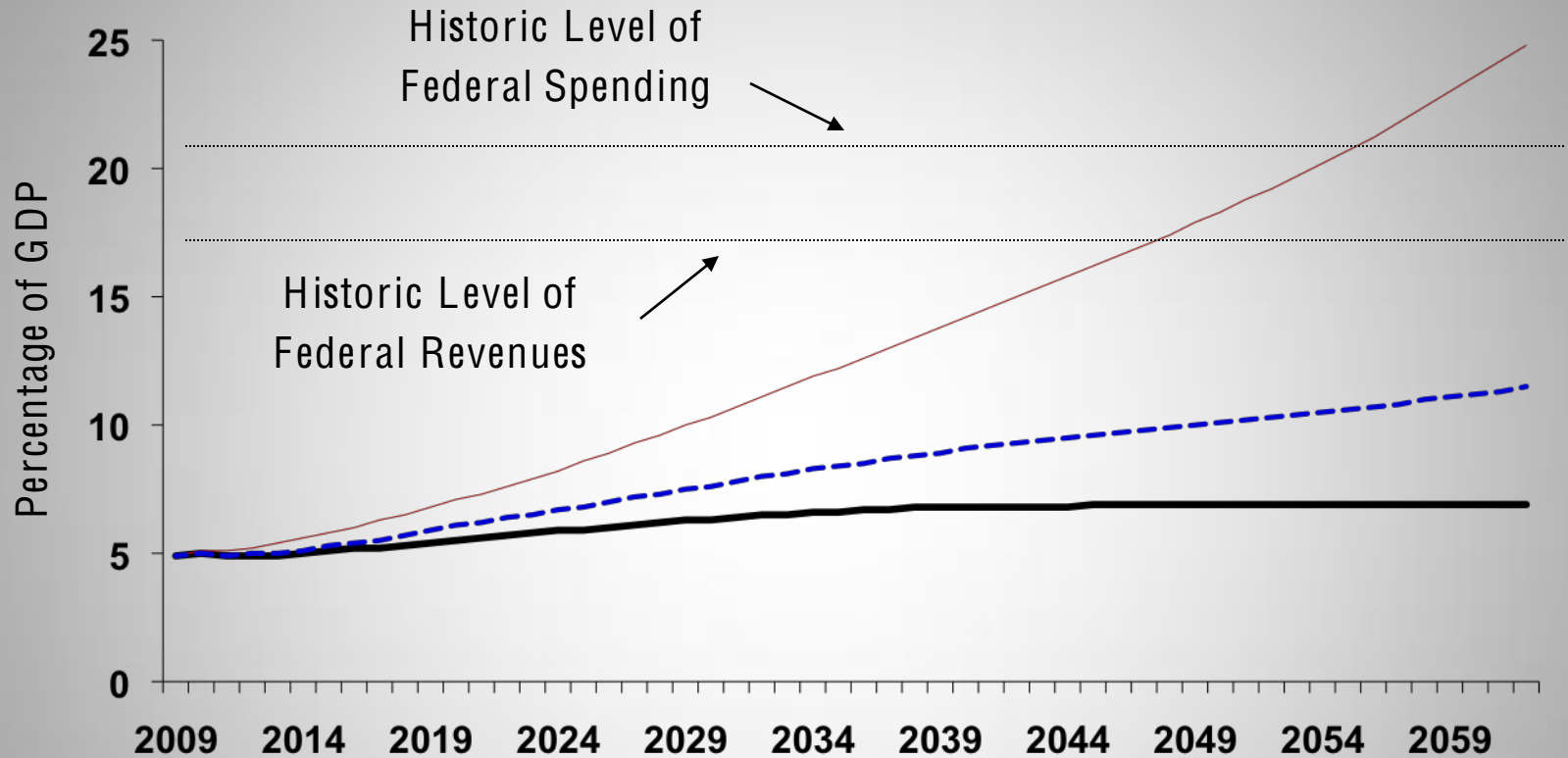
Medicare Costs Soar in the Coming Decades



-  General Revenues required to fund the program
-  Income from dedicated taxes, premiums, and state transfers
-  Projected additional expenditures under Alternative Scenario

Source: Medicare Trustees' Report, May, 2011.
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Health Care Costs are Rising Faster Than the Economy



Assumes that health care cost growth will not exceed GDP growth.

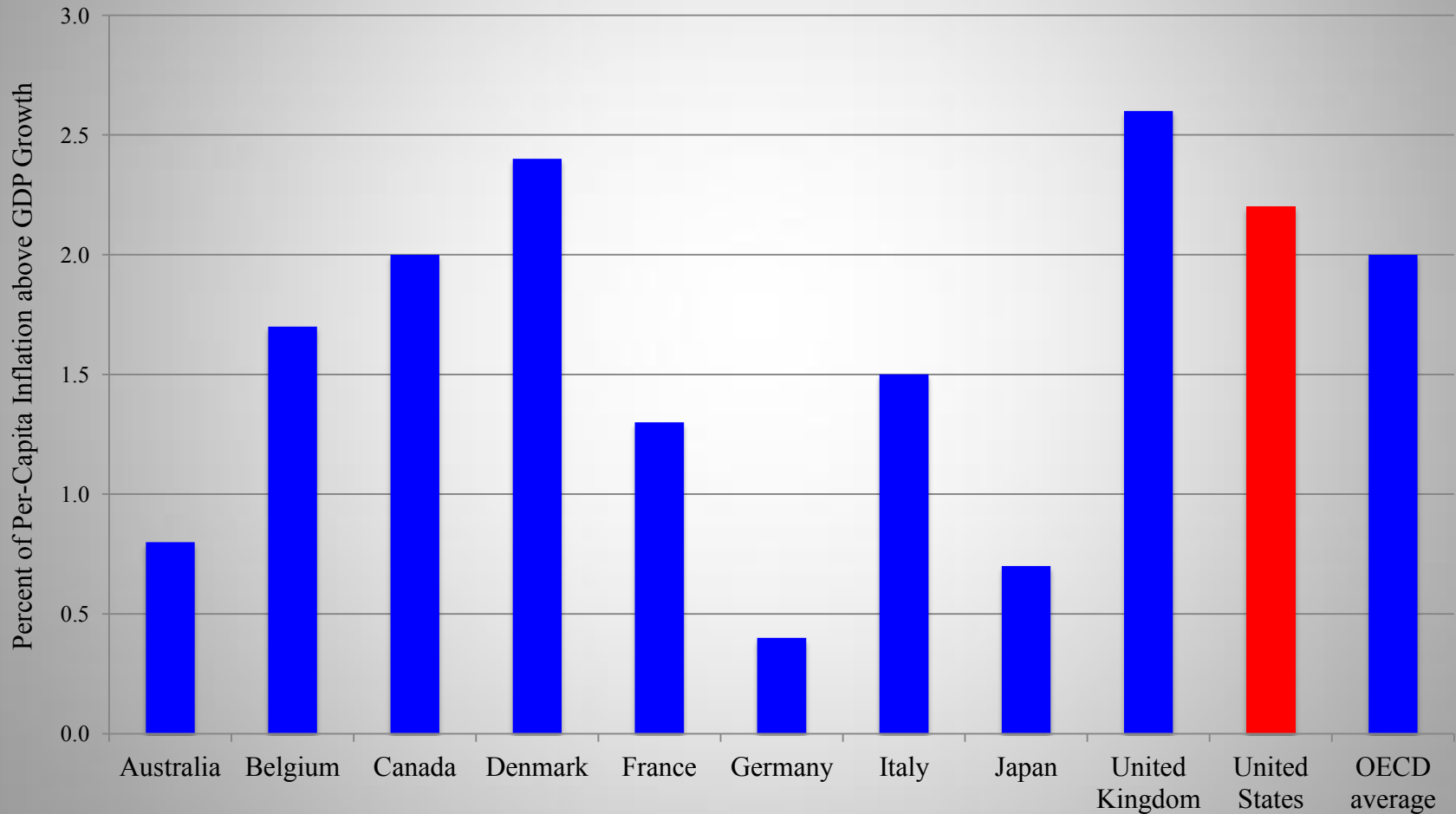


Assumes that health care cost growth continues at the average rate for the past 40 years (2.5 percentage points greater than GDP growth.)

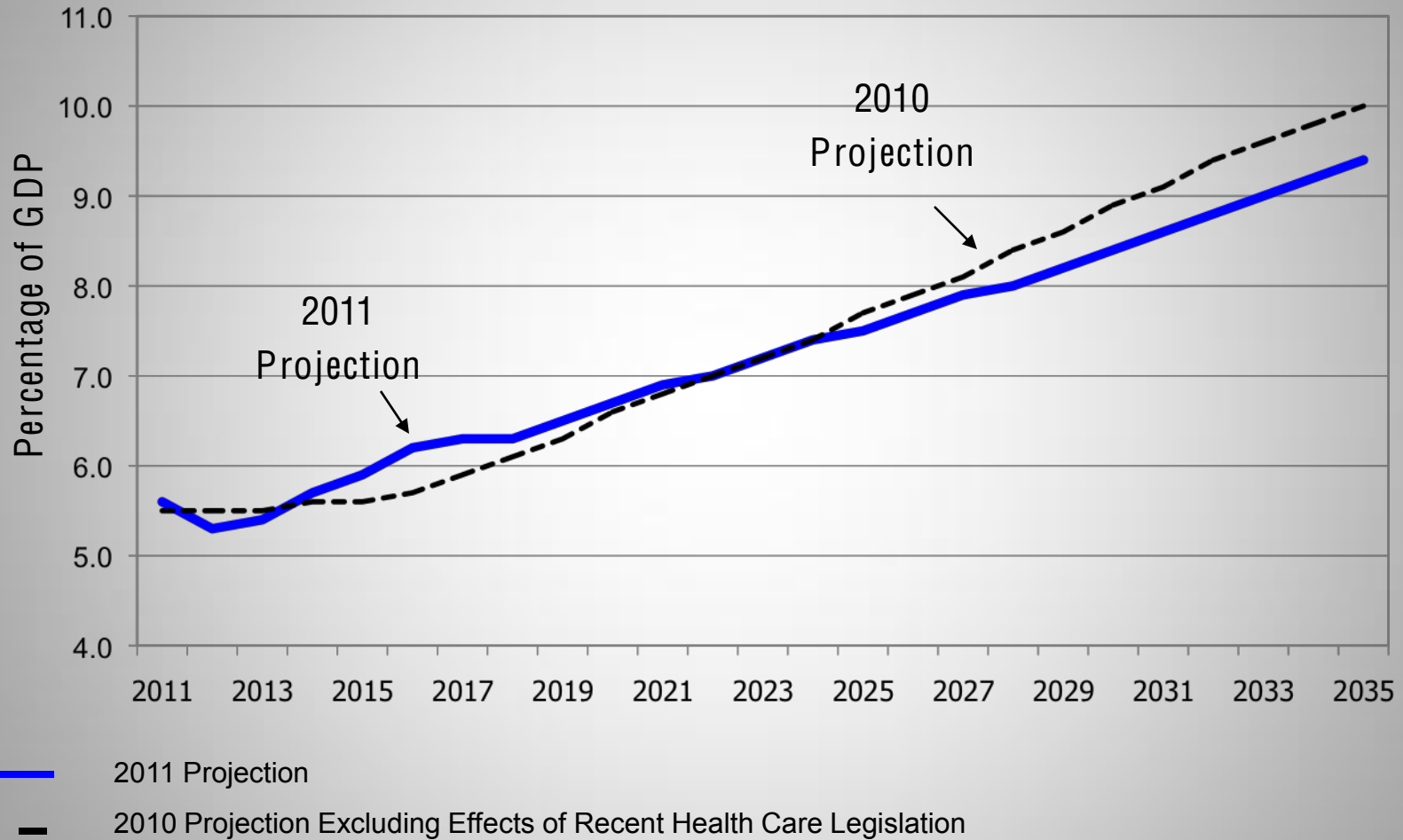


Assumes that health care cost growth rate declines to 1.0 percentage point greater than GDP growth—consistent with the assumption used by the Medicare Trustees.

Annual “Excess Cost Growth” in Health Expenditures, 2000-2008



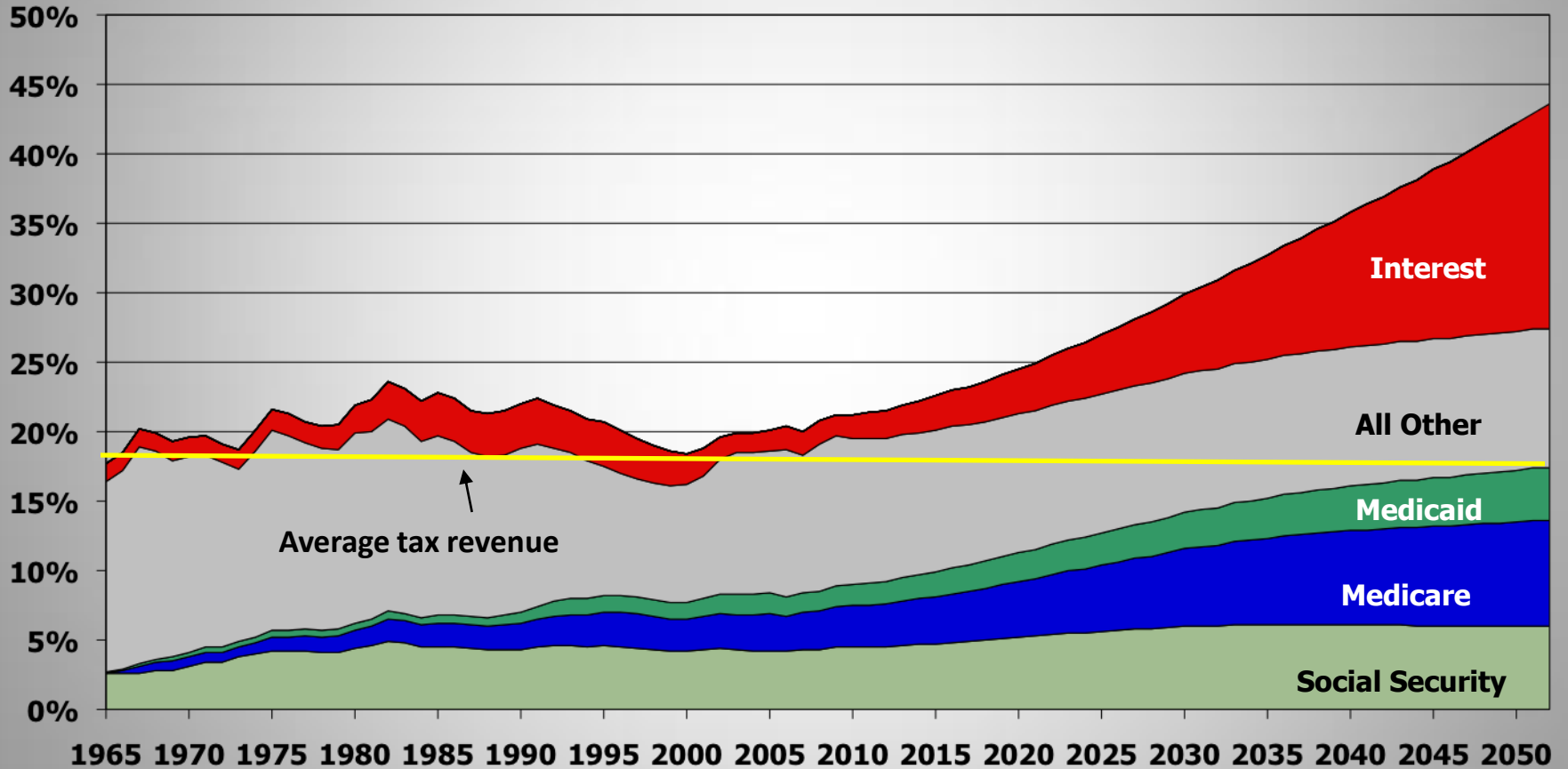
Federal Health Care Spending Under Current Law



Source: Congressional Budget Office, June 2010.
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Current fiscal policy is on an unsustainable path

Federal Outlays as a Percentage of GDP



Source: Government Accountability Office, 2010.
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The Scope of the Problem

In our travels around the country with experts from diverse perspectives, we have found agreement on the following key points:

- Current fiscal policy is unsustainable
- There are no easy solutions, such as cutting waste fraud and abuse or growing our way out of the problem.
- Finding solutions will require bipartisan cooperation and a willingness to discuss all options.
- Public engagement and understanding is vital in finding solutions.
- This is not about numbers. It is a moral issue.

Bi-Partisan Solutions?

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.
- Implement Chained CPI for all inflation indexed programs




Why Tax Policy Is the Most Promising Area for Bipartisan Deficit Reduction

- Lots of room to cut spending on the tax side of the budget, through base **broadening that reduces “tax expenditures”** and raises revenue without raising marginal tax rates.
- *Conservatives should like this:*
 - Makes tax system more efficient/less distortionary (“levels the playing field”);
 - Makes government *smaller*, not larger;
 - Does not target only the very richest households or corporations (avoids “class warfare”);
 - Encourages national saving and “supply-side” economic growth by reducing the deficit without raising marginal tax rates.
- *Liberals should like this:*
 - Tax expenditures disproportionately benefit the rich, so cutting them is one of the most progressive (“fair”) ways to reduce government spending;
 - Pursuing more “spending cuts” on tax side of budget avoids necessity of larger, “draconian” cuts to Medicare and Social Security;
 - Actually would *increase* the optimal size of government from a cost-benefit perspective.

Meeting the 4-Way Truths

- 1) It will be honest about the difficult truths about the national budget and the fact that success will require shared sacrifice.
- 2) It will describe possible and fair solutions that protect the neediest, where spending and revenue are balanced, and tax reform enhances economic efficiency.
- 3) It will call on good will and compromise for implementing any improvements in fiscal policy. No one will like all possible solutions, and all must give a little to succeed.
- 4) It will be beneficial to all – especially our children who are inheriting stifling debt and will live to see our nation decline if we do not get our financial house in order.

How Can I Make a Difference?

- Visit www.concordcoalition.org to learn more about these fiscal issues and sign up for our weekly Washington Budget Report.
- **Become a part of The Concord Coalition's volunteer** community and help us give the country a fiscal wake-up call.
- Lead the discussion on the issue of fiscal responsibility with friends, family and other members of your community.
- Tell your Representative and Senators in Congress that we need strong leadership for fiscal responsibility.
- Take personal responsibility for your own retirement and start saving now.
- Join our on-line communities:   
- Support The Concord Coalition. We need your help!