First Budget

Their Budget. Our Future.

The National Debt & Federal Budget: 2016 Presidential Election Issue Guide

The Concord Coalition

Fix the Debt

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The National Debt & Federal Budget: 2016 Presidential Election Issue Guide

In the months ahead presidential candidates will make many promises and offer ambitious economic plans. But within weeks of taking office the next president will have to fit these plans within a budget. A president's first budget is vitally important in outlining priorities and setting the tone for an administration's term in office. So the presidential campaigns should till the ground for action; it is critical that the next president use his or her first budget to put our nation on a more responsible fiscal course.

First Budget is a joint nonpartisan initiative of *The Concord Coalition* and the *Campaign to Fix the Debt* that will raise public awareness of the dangers posed by the nation's unsustainable budget policies and make solving this problem a high priority for 2016 presidential candidates. This initiative will encourage all candidates to answer an important question:

"If you are elected our next President, what will you do in your <u>first budget</u> to address the national debt?"

The national debt and related federal budget issues are surrounded by myths and misinformation - often amplified by candidates and others during campaigns. Concerned voters have a right and a responsibility to find out how the candidates would deal with our nation's unsustainable long-term fiscal path and to know whether what is being said is based on facts.

This guide is intended to serve as a nonpartisan resource to voters, media, and candidates on these issues. *We can no longer afford campaigns devoid of serious and substantive discussion about the challenges we face and this guide can arm those who want to elevate a fact-based dialogue throughout the 2016 race*.

This guide is organized by common themes that will be discussed by candidates and others regarding the debt and other federal budget issues over the course of the 2016 campaign. This is no time for false promises, vague rhetoric and petty partisan jabs; voters should insist on credible solutions -- the more specific, the better. Some of these solutions won't be easy, but doing nothing is the height of fiscal and generational irresponsibility.

Deficits and Debt

Do candidates acknowledge that although the deficit has gone down in recent years the growing national debt remains a critical challenge?

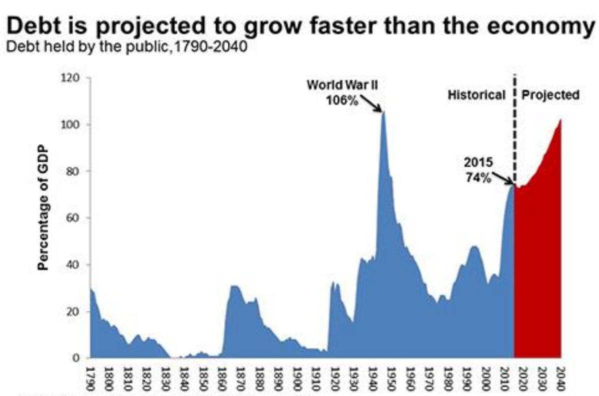
It is important to understand the difference between federal "deficits" vs "debt". These terms often are confused which can lead to misconceptions about the true state of our nation's fiscal challenges. *Deficits* are an annual measure of the difference between federal spending and revenue. Debt, on the other hand, is the sum of all past deficits that haven't been paid back – in other words, debt is the total amount the government owes. <u>Although deficits have fallen in recent years, debt has continued to grow and is projected to continue growing on an unsustainable path.</u>

Some facts to consider:

- Federal budget deficits, over $1 trillion each year from 2009-2011, have come down in recent years. However, they will begin rising again soon and are projected to be $454 billion in 2018, $767 billion in 2021 and back to over $1 trillion in 2025.

- Today the national debt held by the public is about $13 trillion,[1] which is 74 percent of the economy (GDP). This equates to about $105,000 per American family.

- The next president will face a debt path that will grow for the foreseeable future, rising from $14.3 trillion in his or her first year in office to just over $21 trillion after an eight-year term. As a share of the economy, debt will grow higher than it was in the immediate aftermath of World War II -- its largest level in history -- by 2040. This happens not because of another projected World War or great depression -- instead, projections assume a continuously growing economy and no major foreign wars, yet debt still skyrockets.



[1] All of the debt numbers in this document refer to "debt held by the public," which is currently at $13 trillion. This excludes more than $5 trillion of debt owed by the U.S. Treasury to other parts of the government, such as the Social Security trust funds. Because the debt that can be bought and sold on the open market determines interest rates, most economists think debt held by the public is a better measure of a country's exposure than gross debt.

The Debt and the Economy

Is addressing our national debt a key part of the candidates' economic plans?

Many often treat addressing our fiscal challenges and growing the economy as mutually exclusive policy goals, but they are interrelated. Failing to address the unsustainable long-term growth in the debt will have negative ramifications for the economic well-being of Americans.

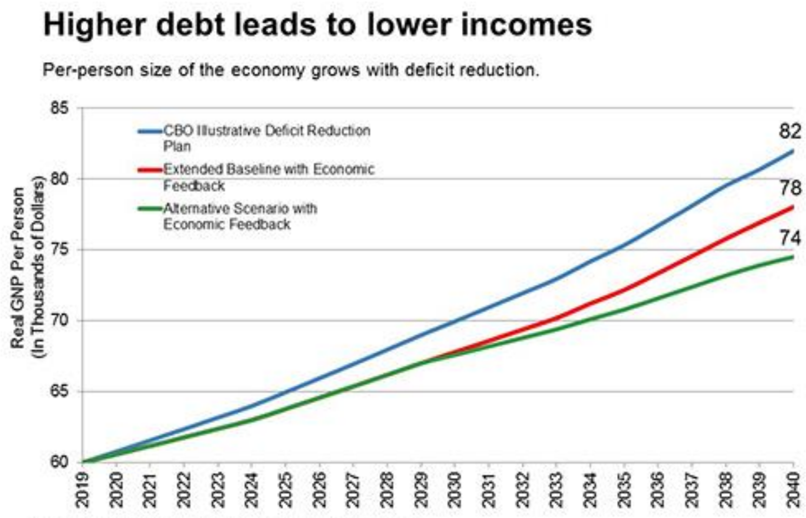
Some facts to consider:

- A high national debt leads to increased government borrowing. That borrowing crowds out productive investments in people, machinery, technology and research, resulting in slower economic growth, fewer job opportunities and lower wages. Meanwhile, rising debt can lead to higher interest rates, increasing costs of mortgages, car loans, student loans, and credit card debt.

- Growing debt also crowds out public investment by requiring an increasing share of the budget to go towards interest payments instead of into new public investments in education, infrastructure, and research and development.

- By 2030, 100 percent of the revenue collected will go toward interest payments and "mandatory spending" – the spending programs that grow on auto-pilot, leaving no room for the spending controlled through the annual appropriations process, which includes those investments, as well as national defense.

- Addressing deficits can be a source of strength. According to nonpartisan analysis by the Congressional Budget Office, a responsible deficit reduction plan could boost per-person economic growth by about $7,000 after 25 years, in today's dollars and could be implemented gradually to avoid slowing the economic recovery.



Source: Congressional Budget Office Long-Term Outlook, June 2015.

Real Drivers of the Debt

Do candidates have plans that address the core drivers of our unsustainable budget path, or do they put forward commonly cited non-solutions?

The answer to our fiscal problems is not simply cutting waste, fraud, and abuse, or relying only on growing the economy or raising taxes on the wealthy. The real cause of our fiscal problems is that we have a built-in mismatch between projected revenues and benefit programs that operate on autopilot such as Medicare, Medicaid and Social Security. As the population ages and per-person health care costs continue to rise these programs will become increasingly more expensive. Revenues are projected to grow as well, but not by enough to keep up, leading to growing deficits, debt and interest payments.

Some facts to consider:

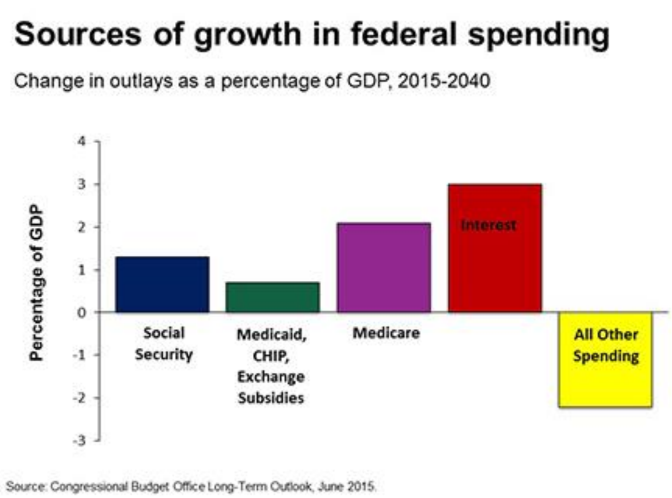
- By the end of the next president's theoretical second term, the major health and retirement programs, along with interest on the debt, will account for over two thirds of total spending -- up from 58 percent of spending in 2017, their first year in office.

- Interest on the debt is projected to become the fastest growing category of federal spending. In 2017 alone we will spend $304 billion on interest payments, an amount that grows to more than $750 billion by the end of the next president's second term -- more than the current combined federal spending on the Defense Department, education, transportation, and medical research.

- It is important to combat waste, fraud and abuse -- but there is no line item in the budget for these concerns, and even eliminating them would only marginally reduce the debt. Foreign aid, another commonly cited target for budget cuts, makes up just 1 percent of total federal spending.

- Economic growth is crucial but alone can't solve the debt problem. The amount of growth required would be unprecedented. Furthermore, many spending programs – including the large retirement and health care programs – grow faster when the economy does which counteracts some of the deficit-reduction benefits of economic growth.

- According to the nonpartisan Tax Policy Center, if we wanted to fix the problem only by raising taxes on those making over $250,000, the top rate would need to be over 100 percent.



Social Security

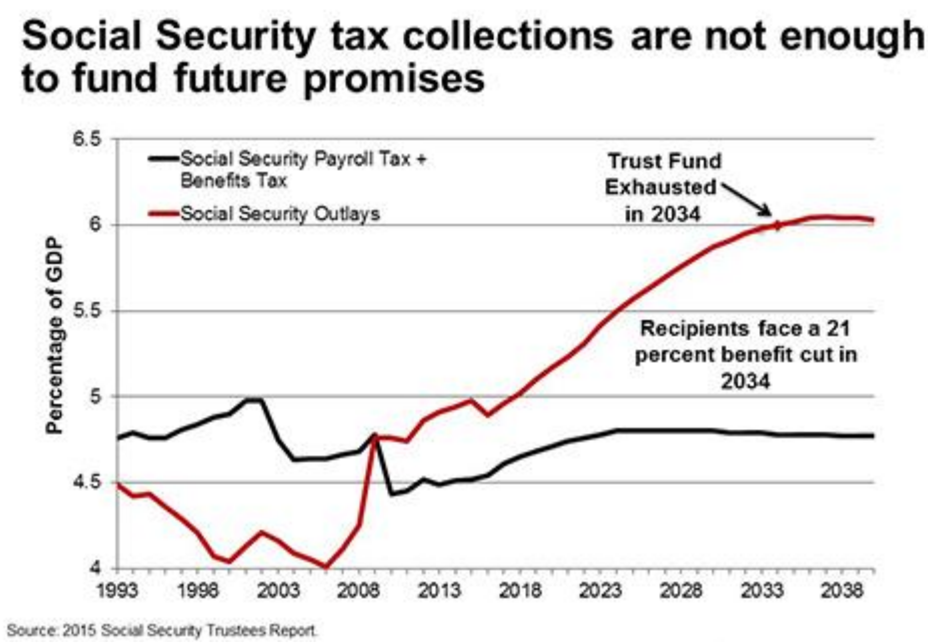
Do candidates offer plans to make Social Security solvent and secure for future generations?

Social Security is an important program that provides retirement and disability income to 59 million Americans. It is also the largest federal program, accounting for nearly one-quarter of all federal spending. Despite its dedicated revenues Social Security promises more benefits in the future than it can deliver. Since 2010 Social Security has been paying out more than it takes in on an annual basis and its Trustees warn that the program cannot sustain its projected long-run costs.

- The combined Social Security trust funds are projected to be depleted in 2034, which would result in an across-the-board 21 percent benefit cut. The Social Security Disability Insurance fund is projected to be depleted in late 2016.

- In 1960 there were approximately 5 workers for each Social Security beneficiary. As the baby boom generation retires, today's ratio of nearly three workers for each beneficiary will shrink to roughly two workers per beneficiary by 2030. This means without placing a larger tax burden on workers or cutting benefits to retirees, the program will incur large deficits.

- Waiting to address Social Security's finances will require larger cuts or tax increases, spreading this larger burden over fewer people, necessitate abrupt and less targeted changes, and leave workers with less time to plan and adjust. Making changes sooner rather than later will make it easier to design thoughtful, pro-growth, and well targeted reforms.



Health Care

Do candidates offer plans to rein in the growth of federal health care spending?

Despite recent slowdowns in federal health care spending it remains a large piece of the federal budget. The recent slowdown has led to lower growth projections in Medicare and other government programs, yet great uncertainty remains about how much of the slowdown represents a permanent shift to a more efficient health care system. Our aging population is the main driver of future health care spending because it results in more Medicare and Medicaid beneficiaries.

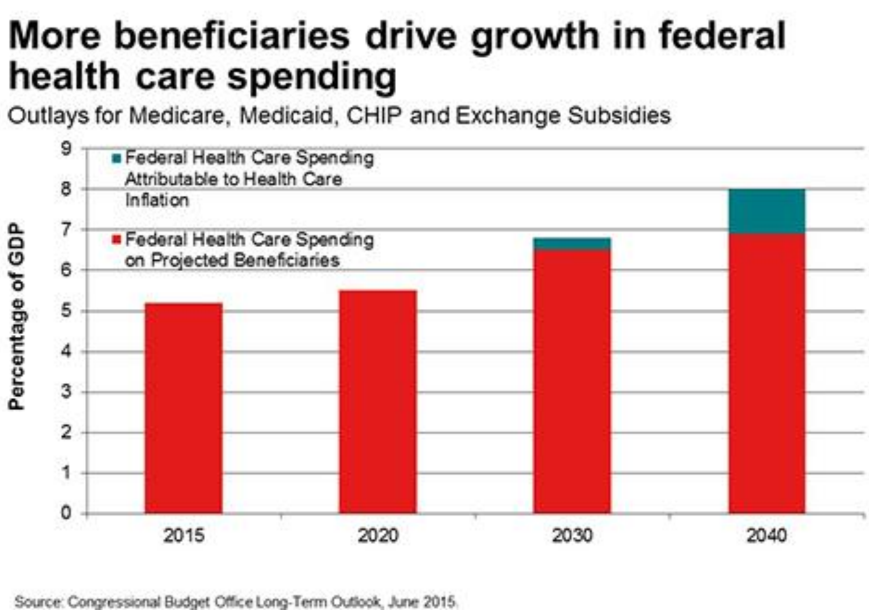
- One-sixth of all economic activity in the United States involves health care. Health care spending is the largest piece of the federal budget, comprising over one-quarter of all government spending in 2015 (more than $900 billion).

- Over an 8-year term, the next president would see annual federal health spending grow by 60 percent, from $1.1 trillion to $1.7 trillion.

- Spending on federal health care programs is projected to grow from 5 percent of the economy (GDP) to 8 percent of GDP over the next 25 years -- faster growth than in any other government programs both because of health care cost inflation and an aging population.

- Historically, health care costs have grown more quickly than the economy -- putting pressure on businesses, wages, and government programs. Every nonpartisan projection shows health care costs continuing to grow more quickly than the economy.

- The recent, temporary slowdown in cost growth makes this an important moment to address health care costs, with an opportunity to inject changes into the health care system and federal programs that can have long-lasting positive effects on the budget as well as the quality of care.



Taxes

Do candidates have a tax reform plan that will help put the national debt on a more sustainable path?

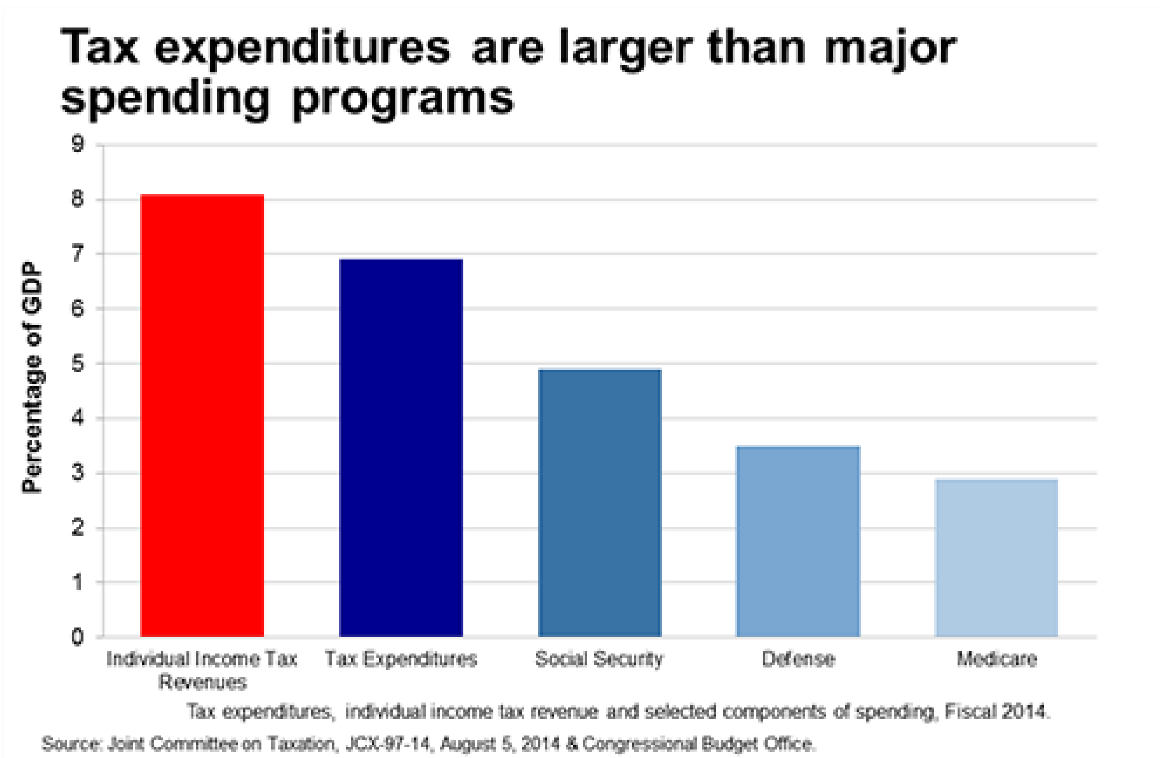
Federal revenues are not keeping pace with expenditures, a trend that will continue as federal spending on health and retirement programs are projected to increase. At the same time the U.S. tax code is complicated and inefficient and there is bipartisan agreement on the need for reform.

- The exemptions, deductions, credits and preferential rates within the income tax system are often called “tax expenditures” because they are essentially spending programs in disguise. They have much the same impact as if the government had simply written checks to the beneficiaries but they generally receive far less scrutiny than direct spending.

- Tax expenditures total more than $1 trillion a year in foregone federal government revenue.

- Many bipartisan groups have suggested cutting these provisions to make the tax code simpler, fairer and to promote economic growth.

- Comprehensive tax reform is possible in a way that lowers tax rates for everyone, retains progressivity while bringing in additional revenue to reduce the deficit.



Create Space for Critical Investments

Do candidates' plans leave room for critical investments to promote growth, opportunity, and security?

Increasingly, the federal budget is on autopilot. Interest and mandatory spending continue to grow faster than the economy or the tax base, increasingly crowding out federal spending on appropriated "discretionary" programs such as education, transportation, research and development, and defense. Candidates should have fiscally responsible plans that leave space for critical investments that will grow the economy.

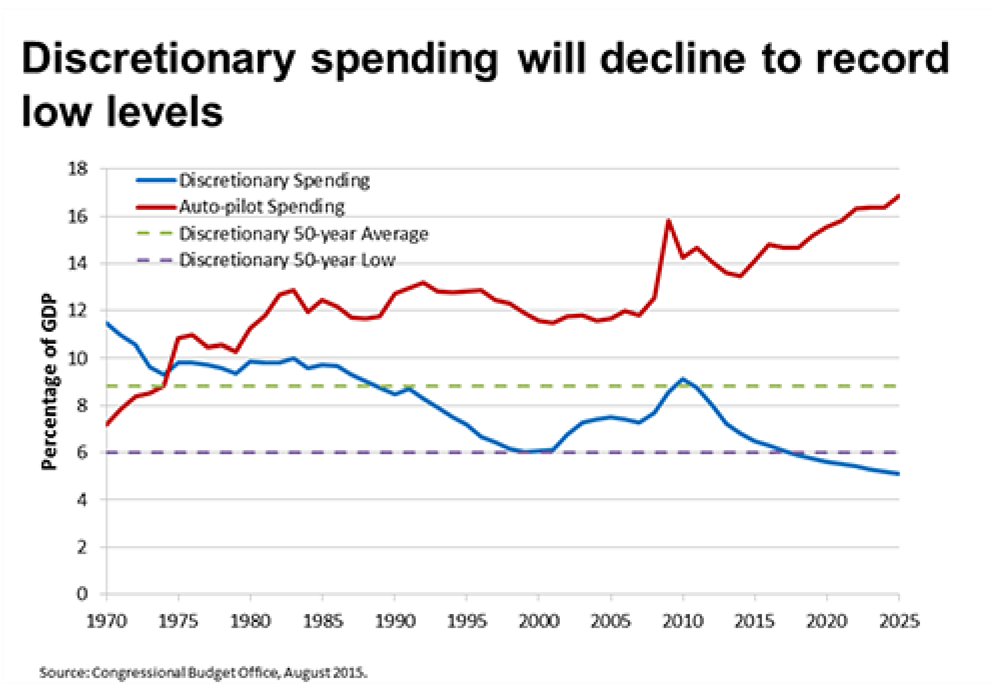
Some Facts to Consider:

- An increasing share of the budget is on auto-pilot. In 1970, mandatory spending including interest was about 40 percent of the budget and discretionary spending was about 60 percent. By 1990, those ratios had reversed; and today, only 32 percent of the budget is discretionary – compared to 68 percent mandatory and interest. Over an 8-year term, the next president would see defense and non-defense discretionary spending fall further to less than one quarter of the budget in order to make room for growing entitlement and interest costs.

- Federal investment spending has already been declining for years. Forty years ago the government spent 4.1 percent of GDP and 22 percent of the budget on investments. It now spends only 2.7 percent of GDP and 13 percent of the budget on investments.

- Spending cuts enacted over the last five years have focused almost entirely on cutting the discretionary budget rather than addressing the serious long-term growth of entitlements.

- Under current law, defense and non-defense discretionary spending will both fall to their lowest level relative to GDP in modern history before 2020, even as spending on Social Security, Medicare, and Medicaid rise to historical highs.



Help Make the Debt a Top Issue in 2016

The debt is every candidate's running mate. The debt will be there when the next president takes the Oath of Office and it will have an influence on every new initiative he or she may propose. So it is best now, during the campaign, for candidates to prepare themselves and the public for the tough choices ahead. In order to deal with the national debt responsibly, First Budget asks 2016 presidential candidates to do the following during their campaigns:

1. Acknowledge that the long term debt is a serious PROBLEM

Given budget projections, it will not be credible to deny the problem or pretend that economic growth or waste reduction alone will solve it. Failure to acknowledge this problem will allow high debt levels to persist, resulting in slower wage growth and higher cost of living, among many other consequences.

2. Make dealing with the debt a top policy PRIORITY in their campaign

The debt does not need to be a candidate's only campaign priority, but it must be among the top priorities in order to have a mandate for action. Candidates must make a clear, serious commitment to address the debt; they cannot just state that it must be dealt with at an undefined time the future. Candidates can also make the debt a priority by committing to address it in their First Budget.

3. Put forward a PLAN for what they would do, not what they wouldn't do

Candidates need to put forth credible plans that deal with the long-term structural mismatch between growing benefit promises and current revenues. At a minimum, candidates must not tie their hands by taking certain items off the table during the campaign.

4. Explain how they would PAY for their policy initiatives

No matter what candidates' priorities might be, these campaign promises must fit within a sustainable budget. For example, advocating for a more activist government, a more robust military, or lower taxes must be done in tandem with information about how these plans will affect the debt.

5. Use their platform to engage and educate the PUBLIC about the tough choices in order to prepare for action once in office

Candidates must engage the public on the magnitude of the problem, the importance of acting sooner rather than later and why their plan has the best solution. Additionally, candidates must be willing to consider credible alternatives offered by others and work towards building a consensus.

About First Budget

First Budget is a joint nonpartisan initiative of The Concord Coalition and the Campaign to Fix the Debt that will raise public awareness of the dangers posed by the nation's unsustainable budget policies and make solving this problem a high priority for the 2016 presidential candidates. Our effort starts with the early nominating contests in Iowa and New Hampshire and will bring together volunteers, business leaders, students and others, to deliver an emphatic message of fiscal and generational responsibility to presidential candidates, the media, and voters.

If you would like to learn more or volunteer to help the First Budget initiative, please contact: National Office: Mike Murphy, mmurphy@fixthedebt.org; Iowa: Sara Imhof, simhof@concordcoalition.org; New Hampshire: Chase Hagaman, chagaman@concordcoalition.org

About the Concord Coalition
The Concord Coalition is a nationwide, nonpartisan, grassroots organization advocating generationally responsible fiscal policy. The Concord Coalition was founded in 1992 by the late former Senator Paul Tsongas (D-MA), late former Senator B. Warren Rudman (R-NH), and former U.S. Secretary of Commerce Peter Peterson. Former U. S. Representatives Mike Castle (R-DE) and John Tanner (D-TN) serve as Co-Chairs. The Concord Coalition is dedicated to educating the public about the causes and consequences of federal budget deficits, the long-term challenges facing America's unsustainable entitlement programs, and how to build a sound economy for future generations. The Concord Coalition's national field staff and loyal group of volunteers cover the country holding lectures, leading interactive exercises, conducting classes, giving media interviews, and briefing elected officials and their staffs.

About the Campaign to Fix the Debt
The Campaign to Fix the Debt is a nonpartisan movement to put America on a better fiscal and economic path. We have come together from a variety of social, economic and political perspectives, around the common belief that America's growing federal debt threatens our future and that we must address it. The Campaign mobilizes key communities – including leaders from business, government, and policy – and people all across America who want to see elected officials step up to solve our nation's fiscal challenges.

Additional Resources

Learn the basics
Learn key facts from the Campaign to Fix the Debt
Check out The Concord Coalition's key charts and graphs

Try to fix this on your own
Stabilize the debt using CRFB's budget simulator
Engage others in The Concord Coalition's interactive Principles & Priorities budget exercise