

# Fiscal Days of Reckoning

National Tax Association – 102<sup>nd</sup> Annual Conference on Taxation  
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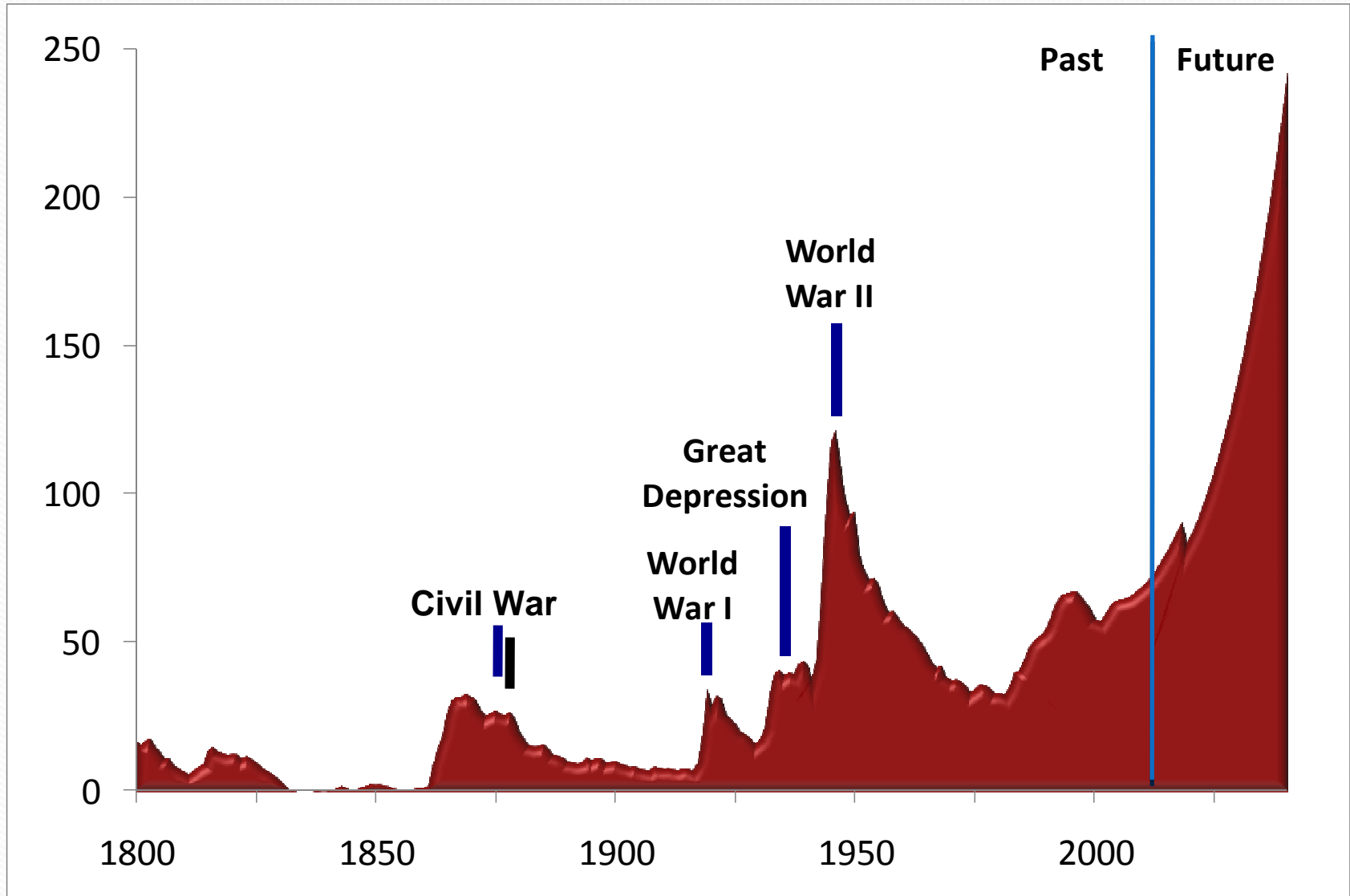
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# Outline

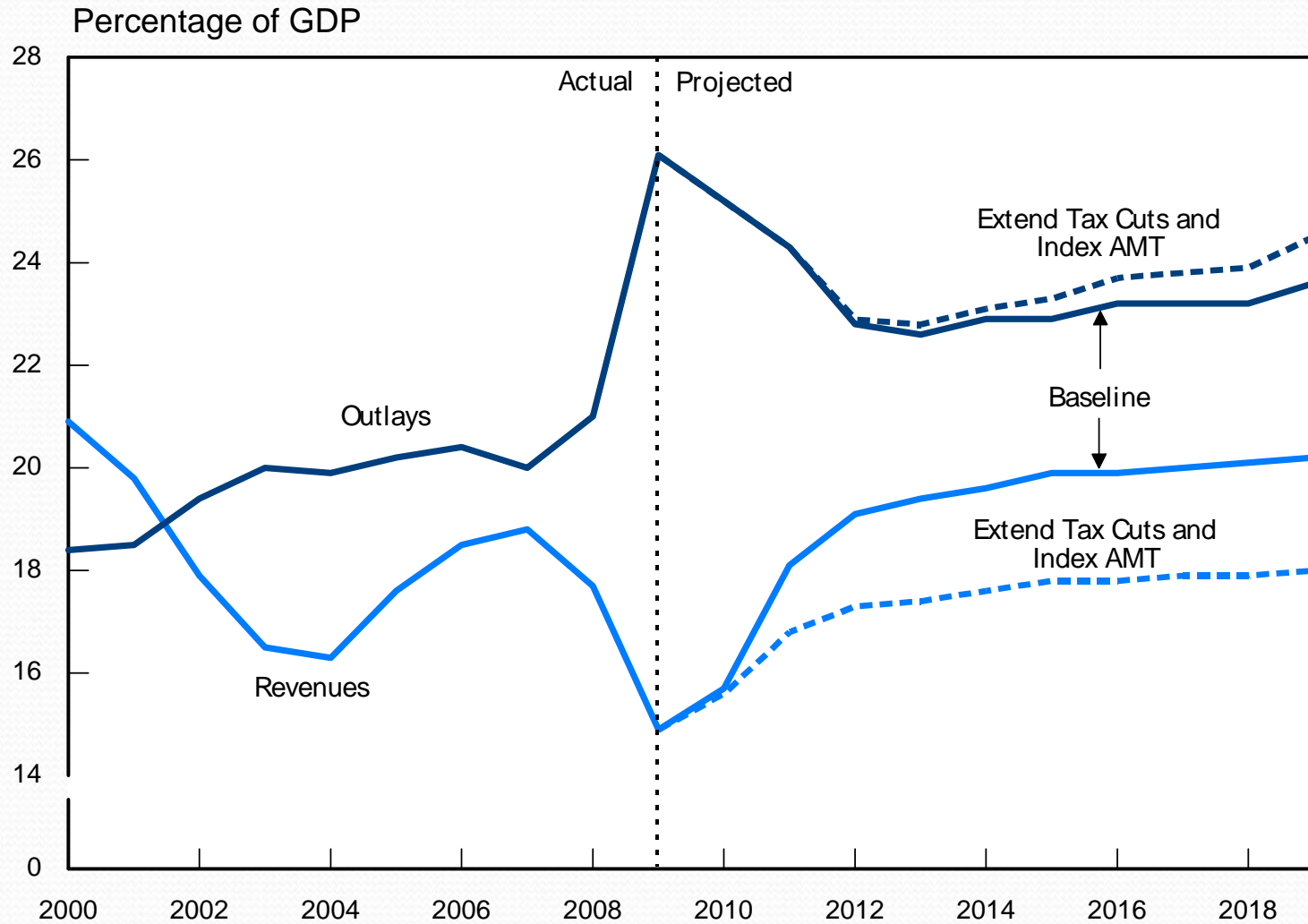
- The current fiscal mess
- The health and retirement squeeze
- Removal of all “give” or “slack”
- Budget for a declining nation (even if  $\text{deficits}=0$ )
- A cautionary note of optimism on projections
- Some possible solutions

# The U.S. Federal Debt (Percentage of GDP)

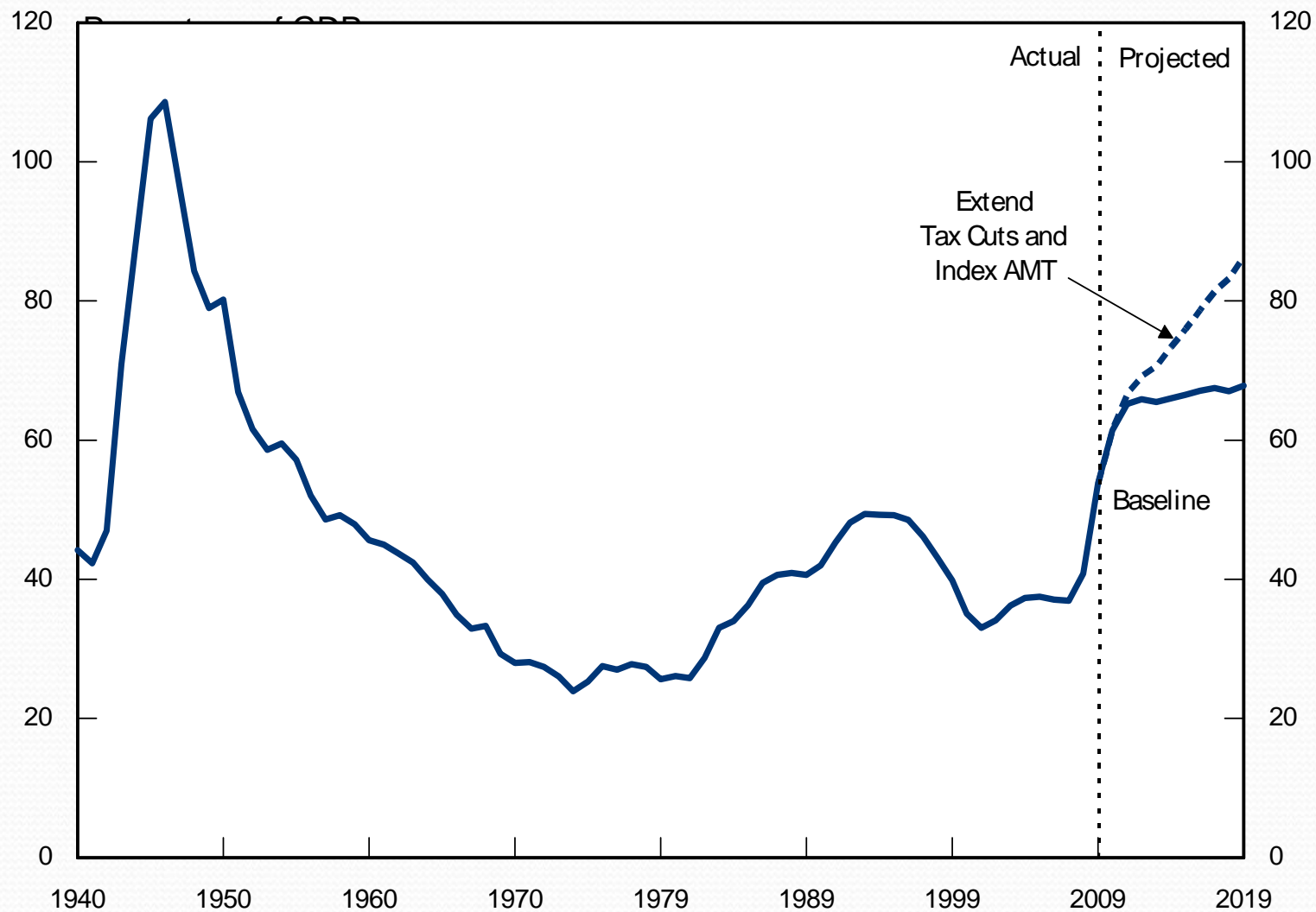


SOURCE: PGPF compilation. Projections based upon official government sources.

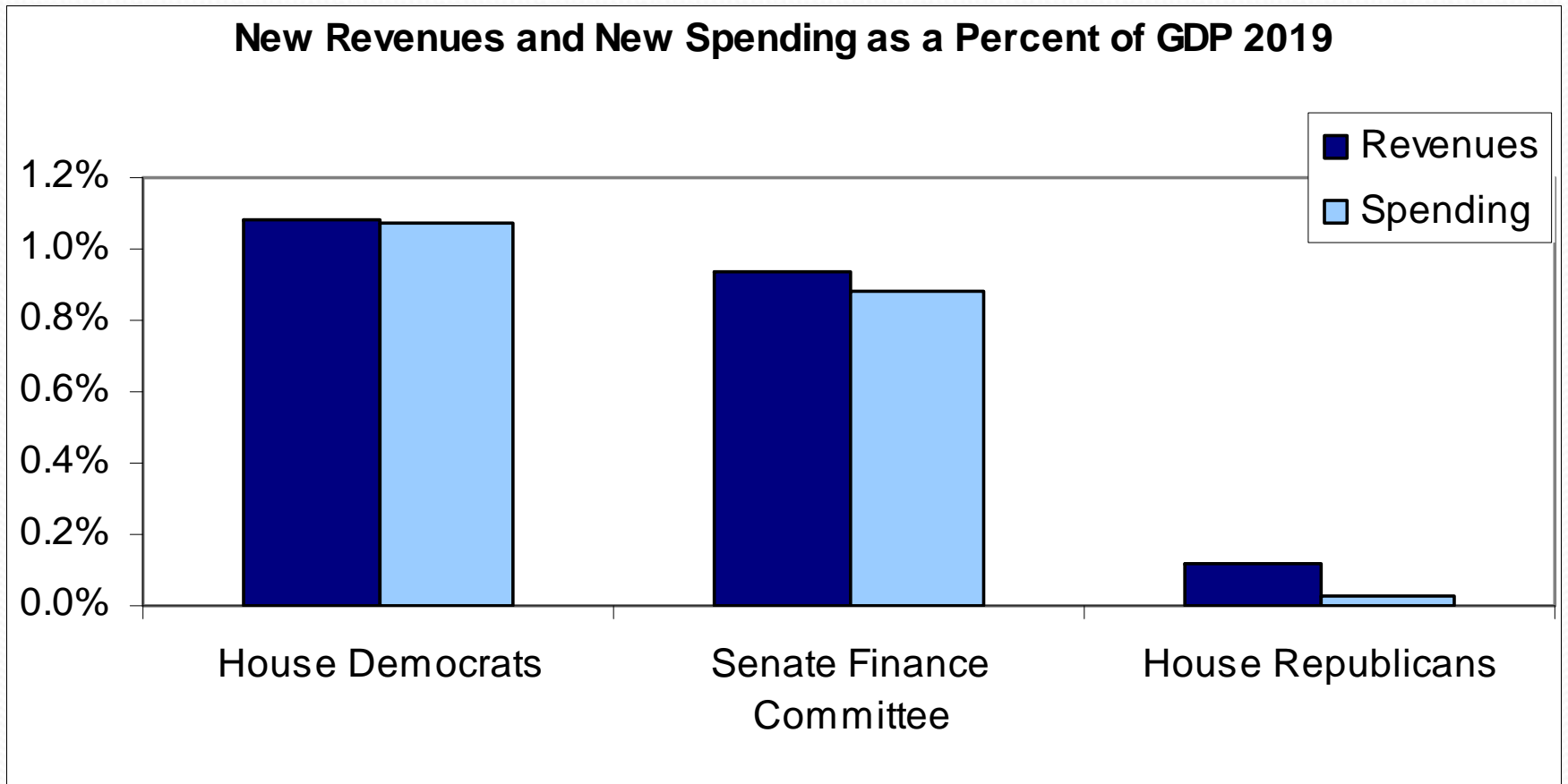
# CBO/Elmendorf Slide on Revenues and Outlays Under Policy Alternative to Extend Tax Cuts and Index Alternative Minimum Tax



# Federal Debt Held by the Public

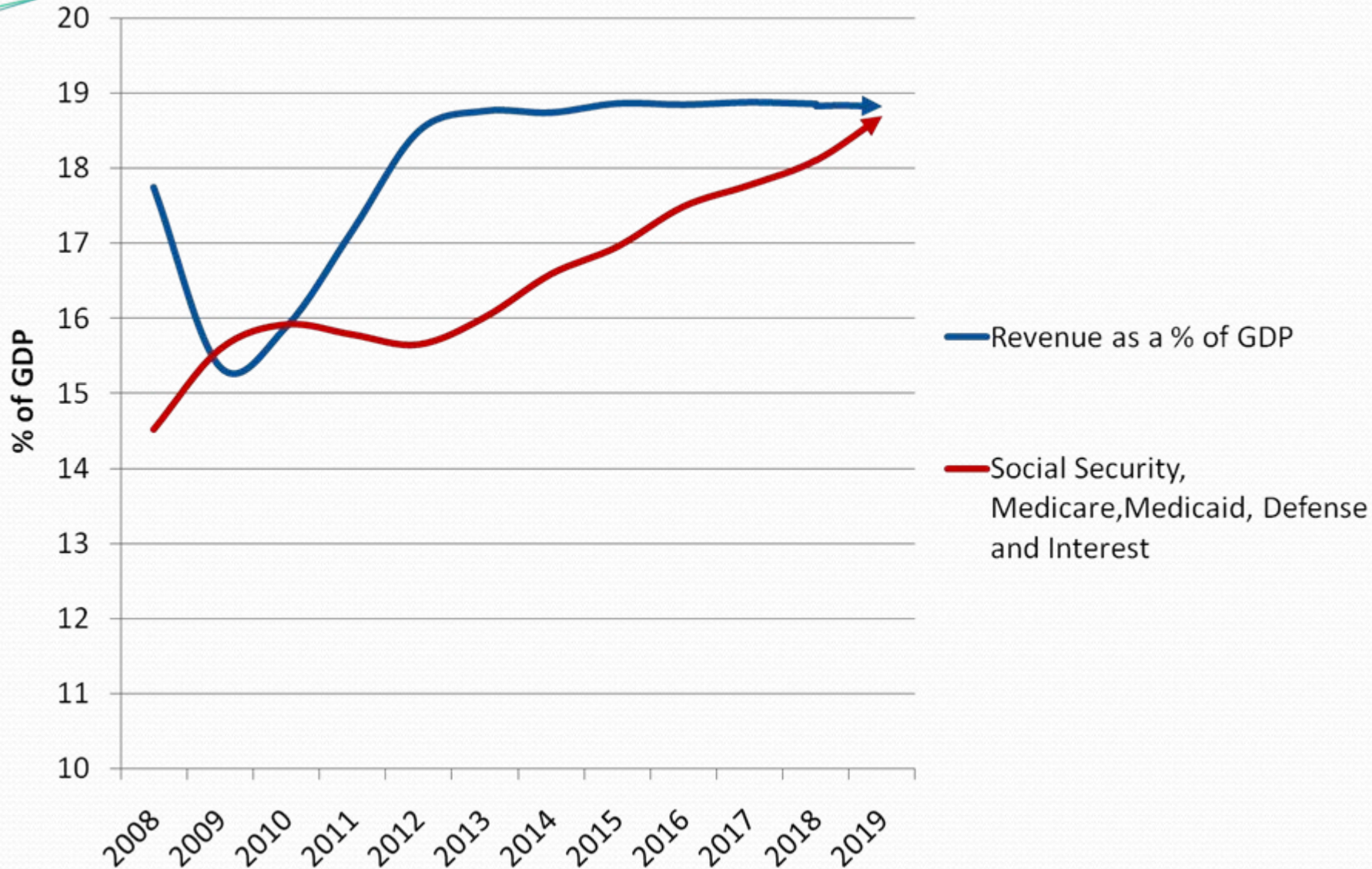


# Effect of Health Reform on the Budget



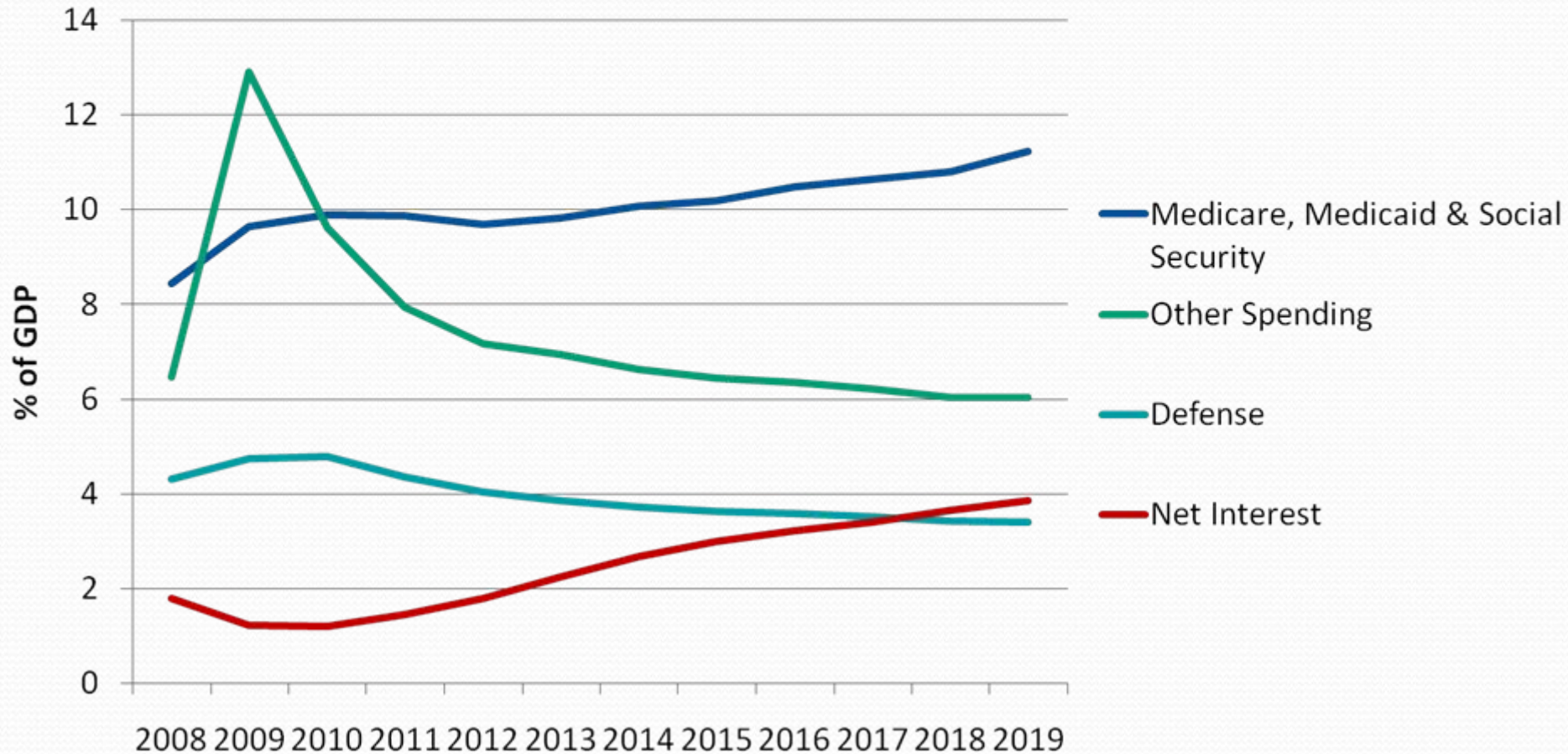
Source: C. Eugene Steuerle and Stephanie Rennane. Calculations based on data from the CBO Budget and Economic Outlook (August 2009) and the US Budget Watch Updated Charts Comparing the Health Reform Bills: Displaying the Fiscal Implications of Reform Plan, November 5, 2009.

# President Obama's Budget Squeeze



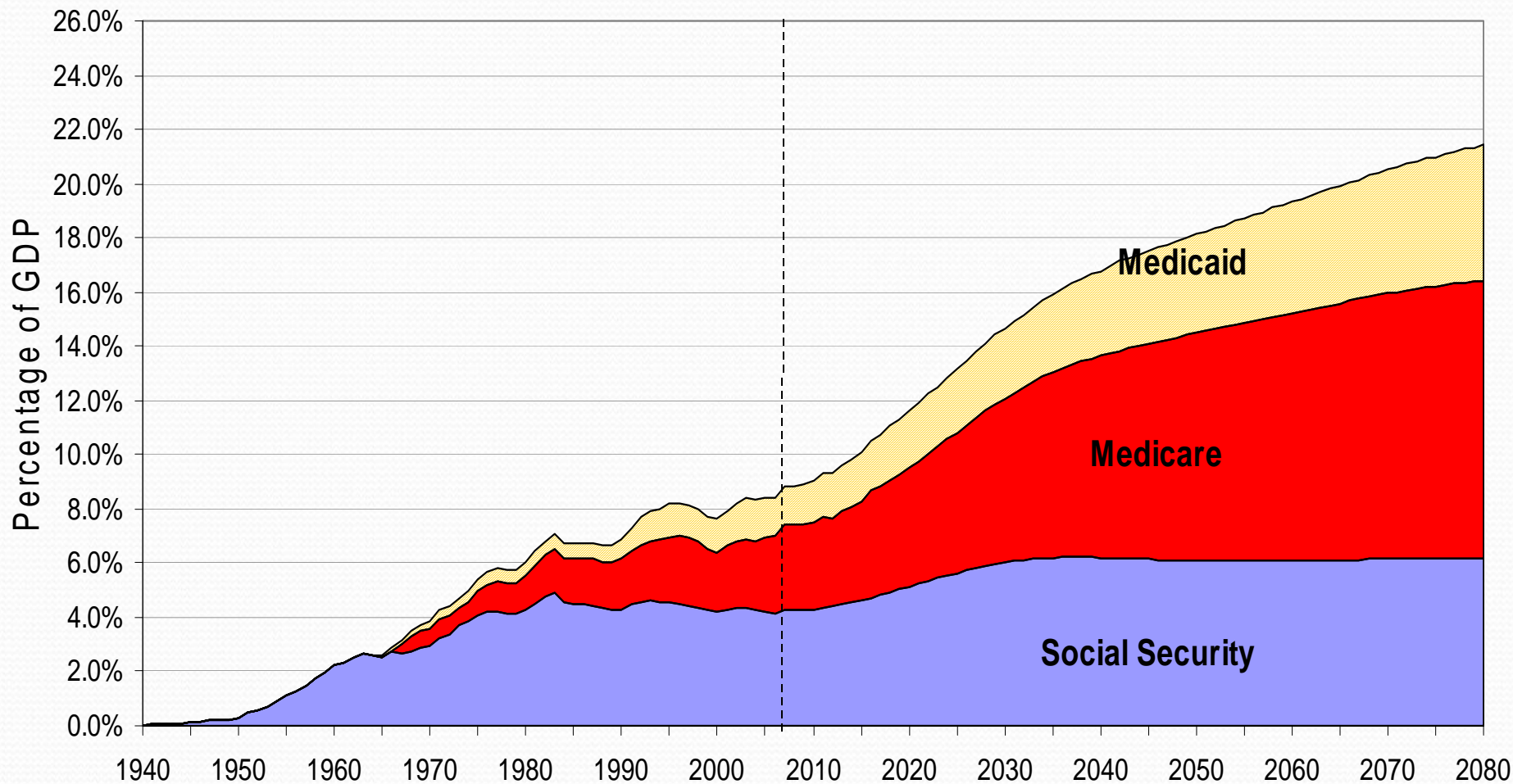
Source: Gene Steuerle and Tim Roper based on *A Preliminary Analysis of the President's Budget and Update of CBO's Budget and Economic Outlook* CBO (March 2009)

# President Obama's Budget and Our National Priorities



Source: Gene Steuerle and Tim Roper based on *A Preliminary Analysis of the President's Budget and an Update of CBO's Budget and Economic Outlook* CBO March 2009

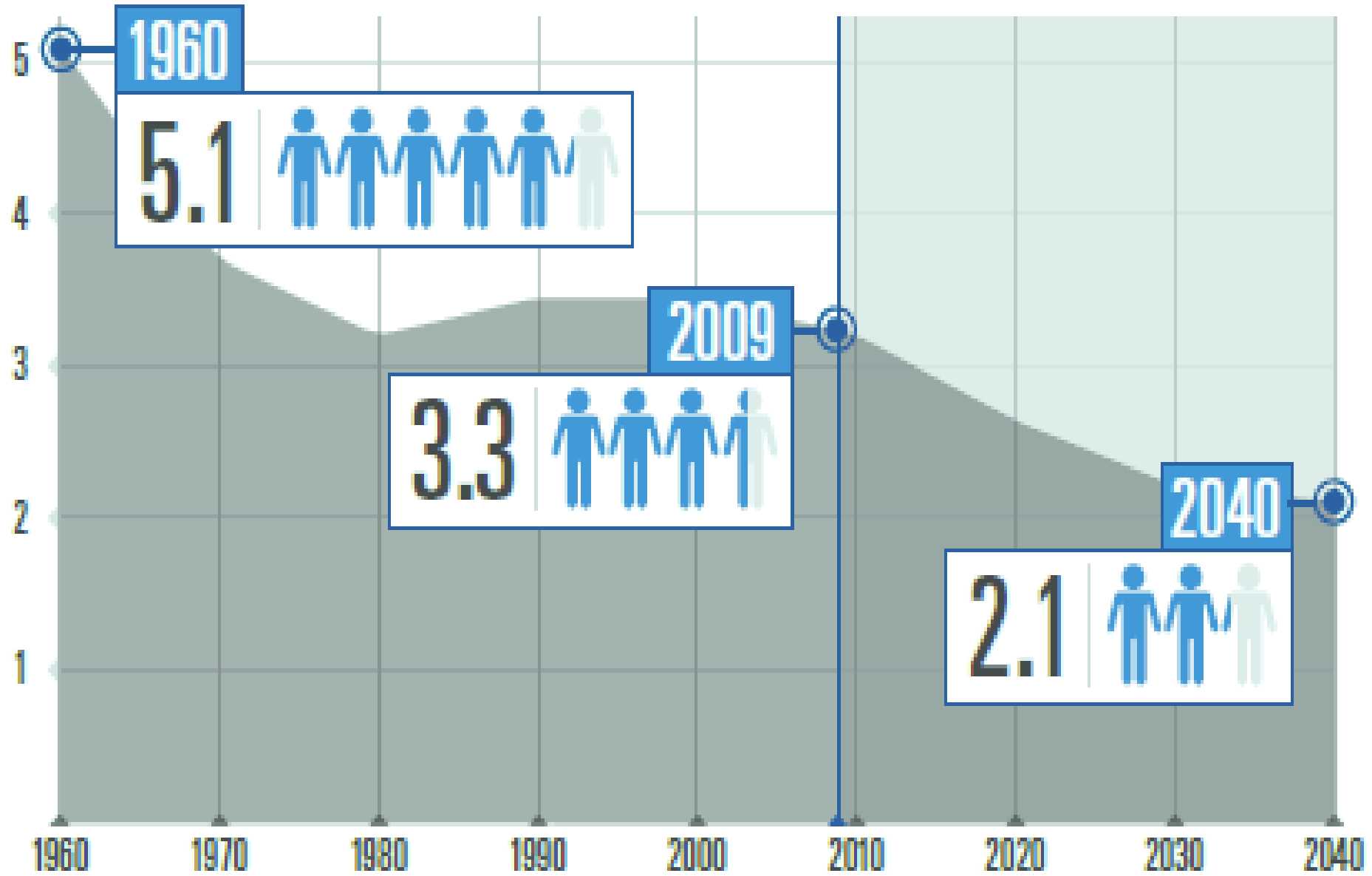
# Federal Social Security, Medicare, and Medicaid Outlays, FY 1940-2080



Note: Authors used January 2007 CBO data for Social Security, Medicare, and Medicaid through 2017, and grew Social Security and Medicare levels with 2006 Trustees data and Medicaid with 2005 CBO data.

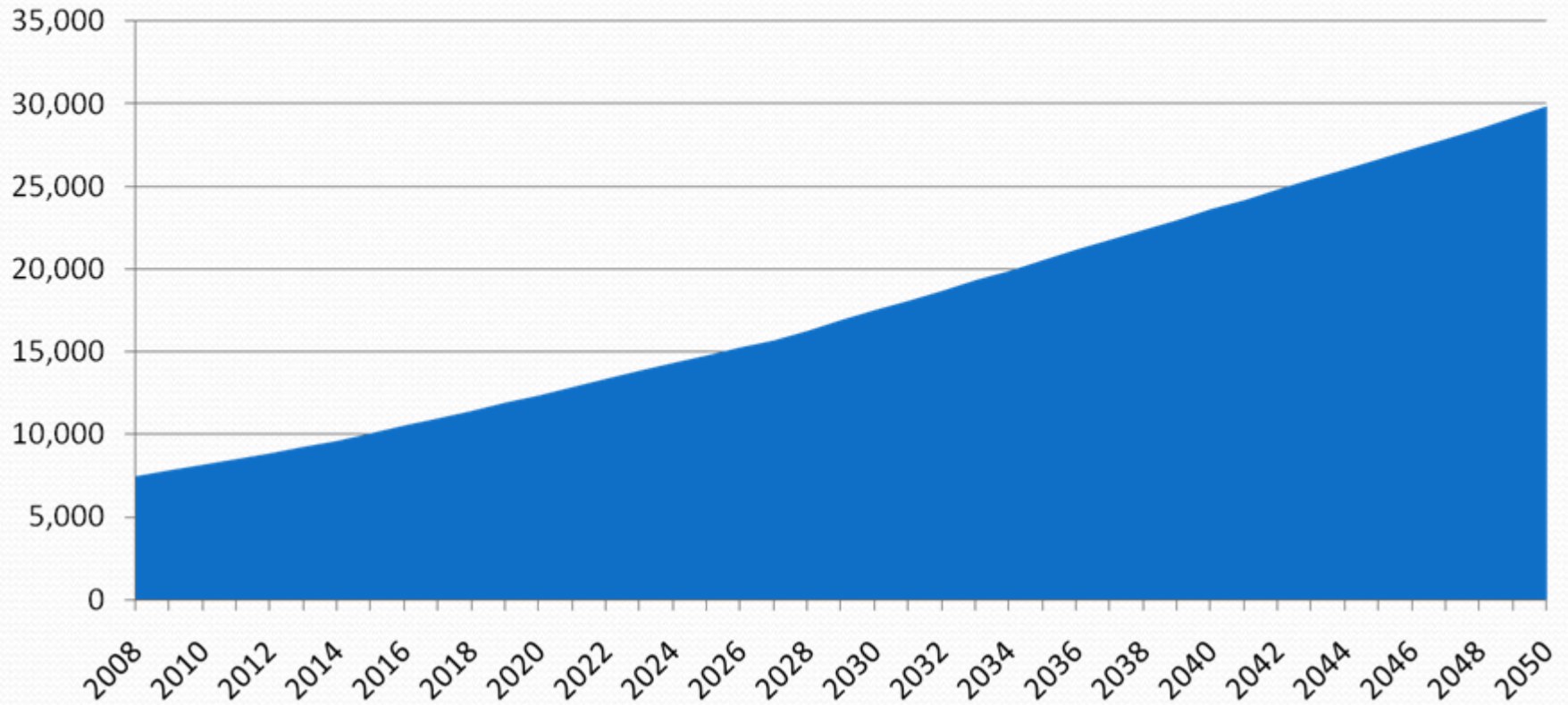
Source: C. Eugene Steuerle, Adam Carasso, Gillian Reynolds, The Urban Institute, 2007.

# COVERED WORKERS PER SOCIAL SECURITY BENEFICIARY

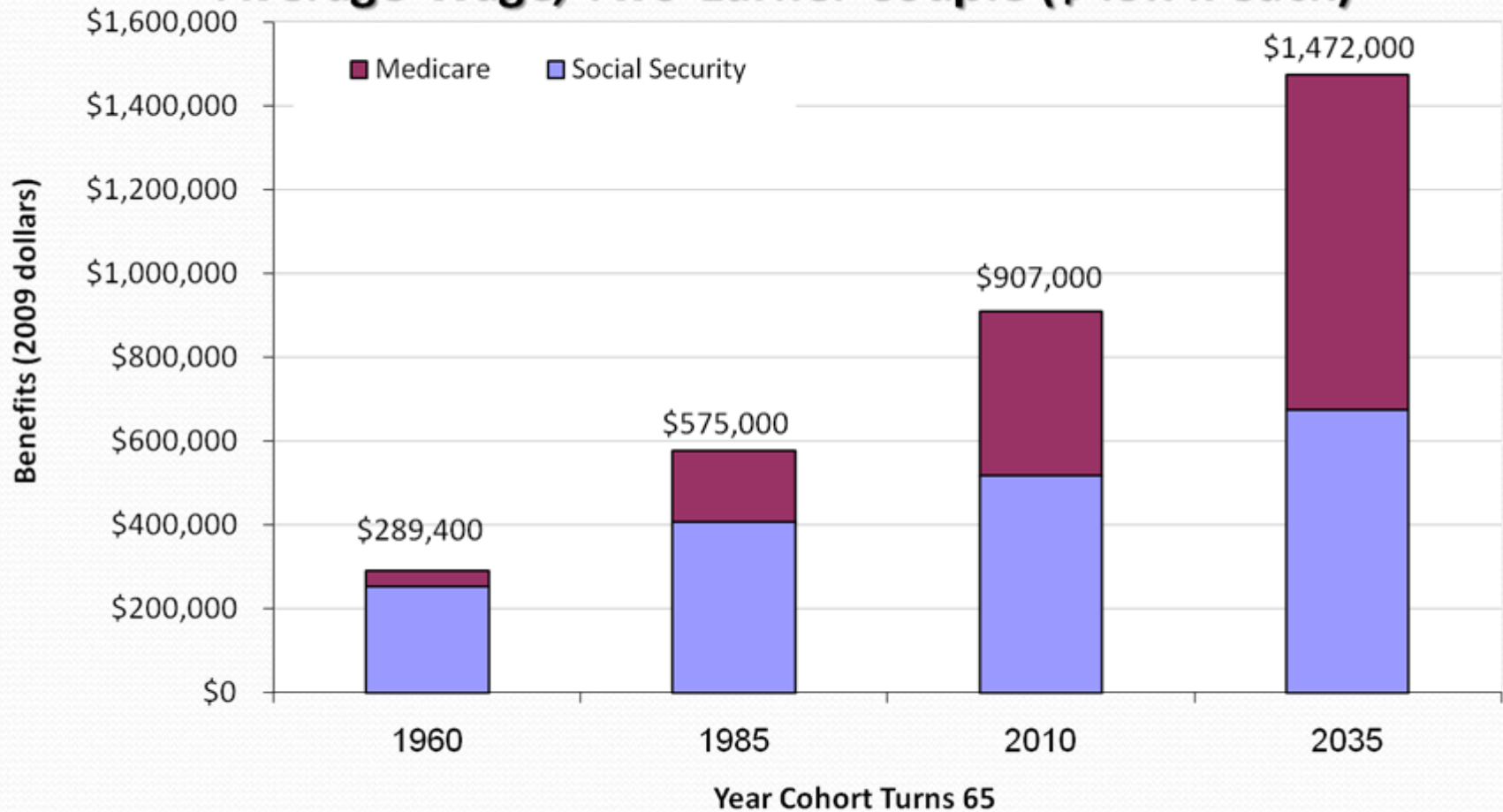


SOURCE: Social Security Administration

# Projected Real Health Care Costs Per Person 2008-2050 (2008 Dollars)



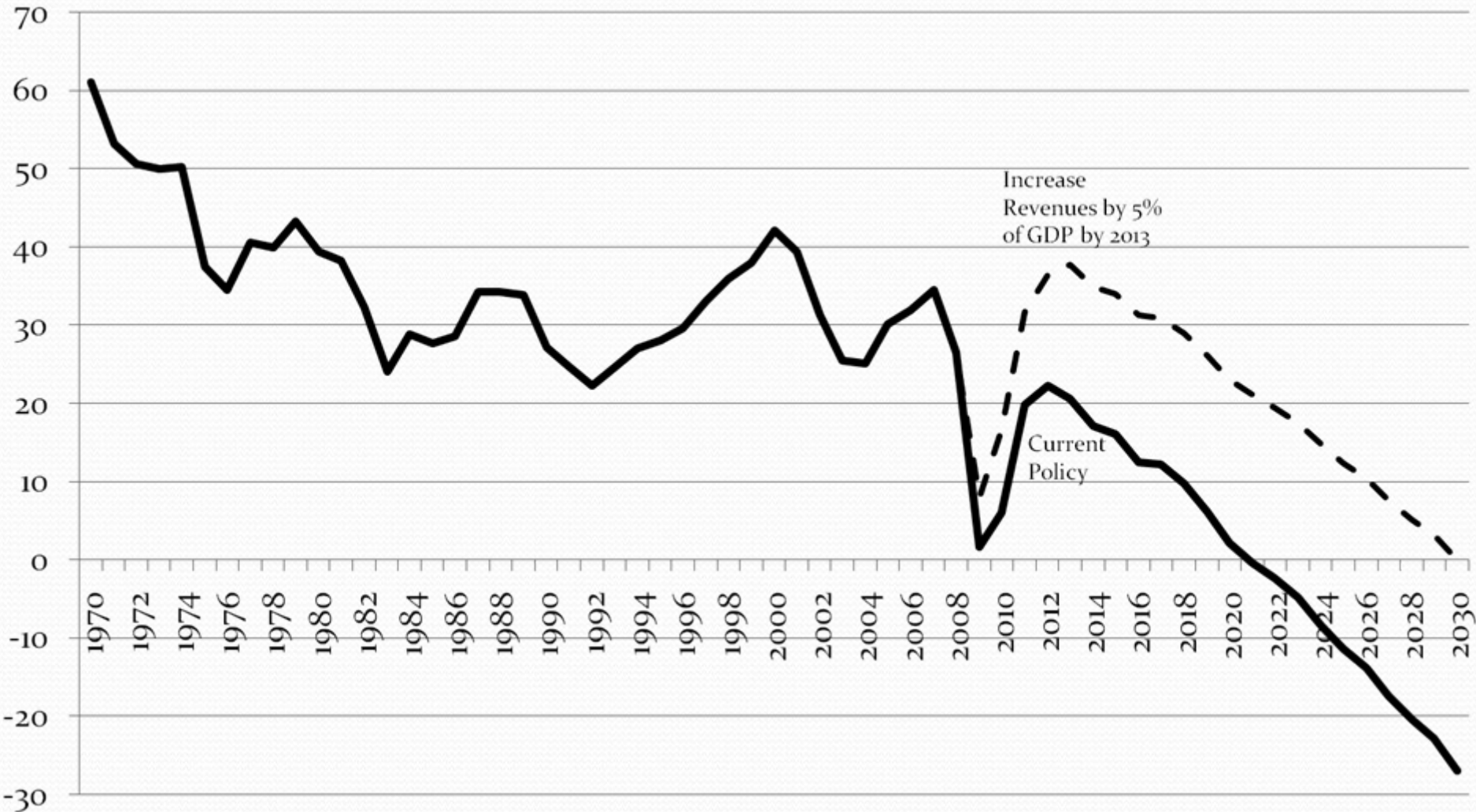
## Social Security and Expected\* Medicare Benefits for Average-Wage, Two-Earner Couple (\$43.7k each)



\* Expected rather than realized benefits. Notes: The "average" wage profiles are those hypothetical profiles used by the Social Security Administration in its analyses. Lifetime amounts are rounded and discounted to present value at age 65 using a 2 percent real interest rate and adjusted for mortality. Projections based on intermediate assumptions of the 2008 OASDI and HI/SMI Trustees Reports. Includes Medicare Part D. Source: Adam Carasso and C. Eugene Steuerle, 2008.

# Steuerle-Roeper Fiscal Democracy Index

Percent of Revenues not Allocated by Previously Elected Officials to Mandatory Programs (Including Interest)

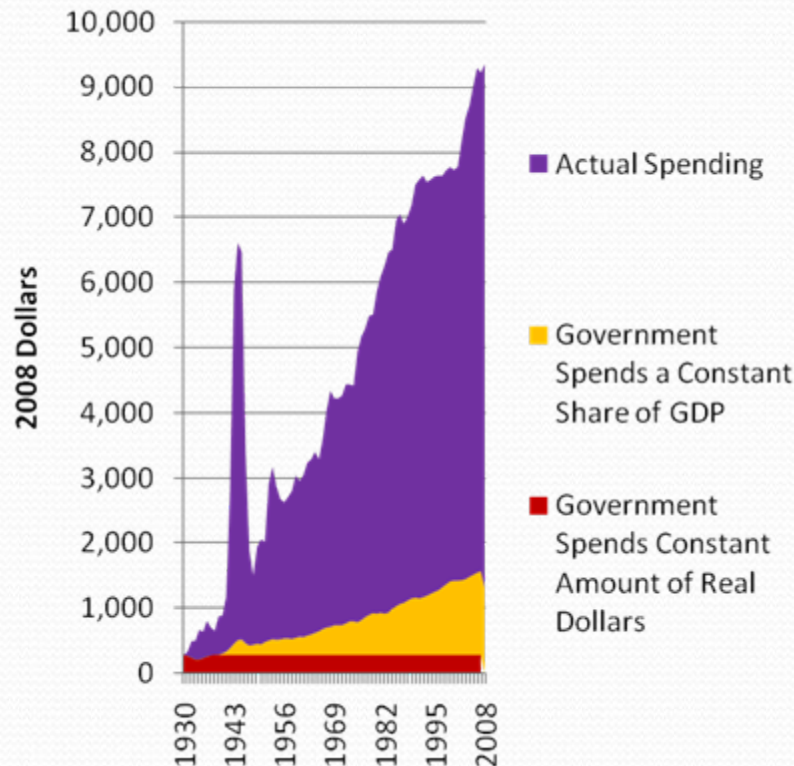


Source: Calculations based on data from OMB and CBO. The 2009 data point excludes TARP spending.

# Real Per Capita Federal Spending

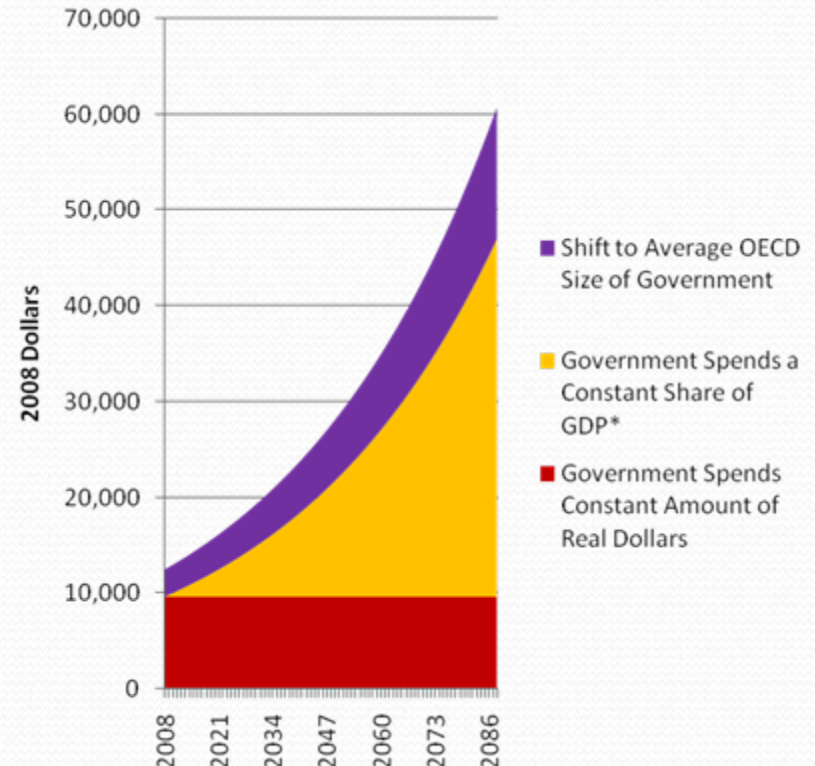
## Historical Growth:

Legislative and Economic 1930-2008



## Projected Growth:

With and Without Gov't Expansion 2008-2086



\*Assumes 2% real per capita GDP growth, based on the average historical rate from 1977 to 2007.

Note: Current and projected government spending excludes the currently debated stimulus package.

Source: Gene Steuerle and Tim Roper. Authors' estimates, based on the *Budget of the U.S. Government FY 2009* and past years and the U.S. Census.

# **A Budget for a Declining Nation?**

- **Less saving (long-run)**
- **Less work**
- **Reduced investment**
- **Increased dependence upon foreign lenders**
- **Reduced investment in our children**

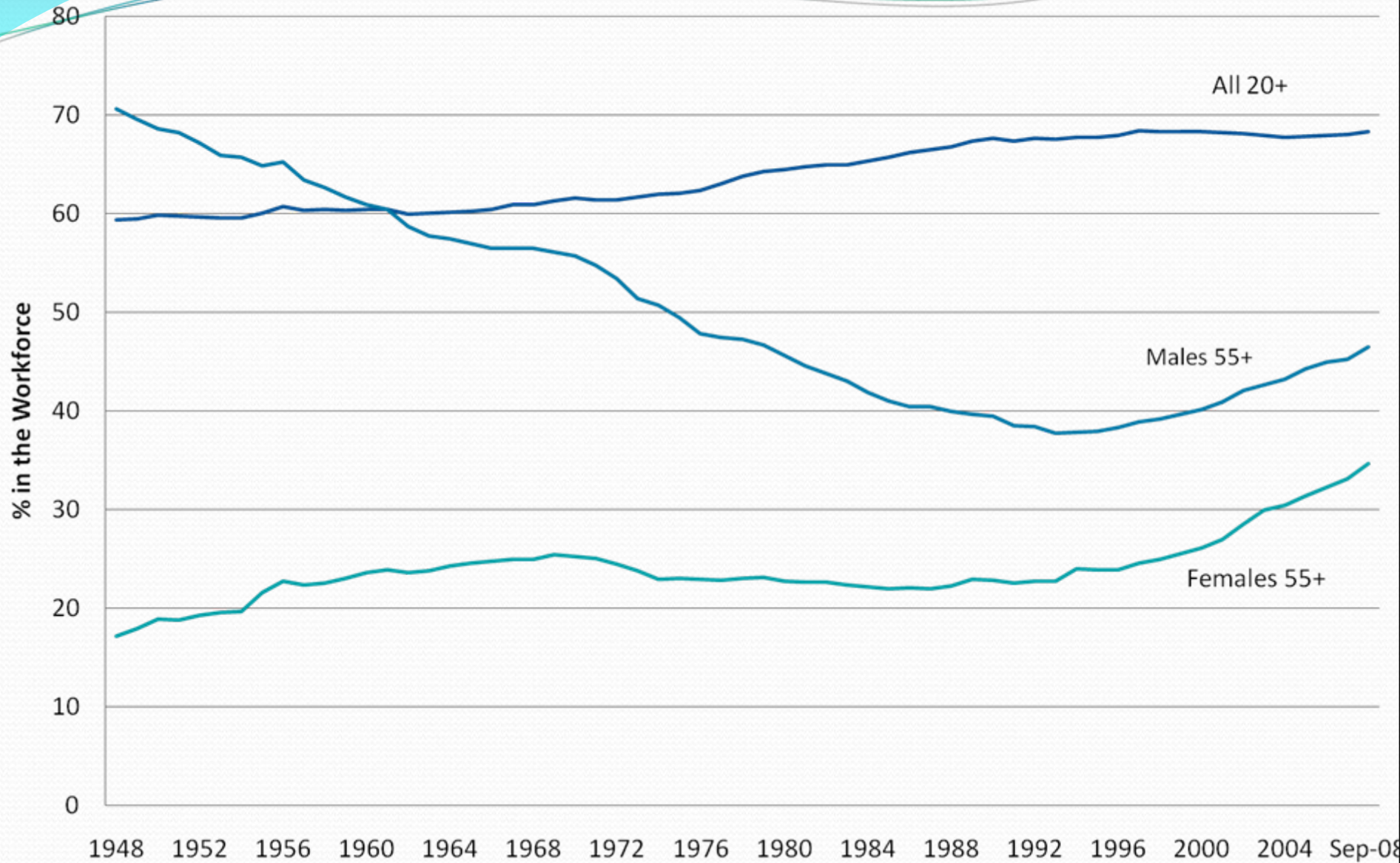
# Poor Allocation of Retirement & Health Dollars – Regardless of Cost

- Social Security
  - Increasingly to younger & healthier
  - Threatens elderly well-being later in retirement
- Health
  - Acute over preventative care
  - Specialization over primary care
  - Chronic care over cures
- Both
  - Gains in health & longevity shifted into higher costs for younger generations

# Why Projections Might be Wrong

- Health:
  - Constant rates of excess health cost growth
    - Mean constantly DECLINING rates of growth in non-health consumption
- Retirement
  - Projections generally ignore demand for labor
    - Re-interpreting postwar labor history
- Is government policy “exogenous” to irresistible pressures?

# Labor Force Participation Rates: Males and Females Aged 55+ vs. the Adult Population, 1948-2004



# Some Solutions

- Additional work
  - less drop in employment
- Bundling and voucher-izing health
  - movement away from fee for service
- Placing budgets on each government program
  - to provide incentives for improvement
- Reallocating budgets to needs, such as
  - greater anti-poverty protection
  - removal of discrimination against single heads of household
  - relatively more for prevention and primary care