

BROOKINGS

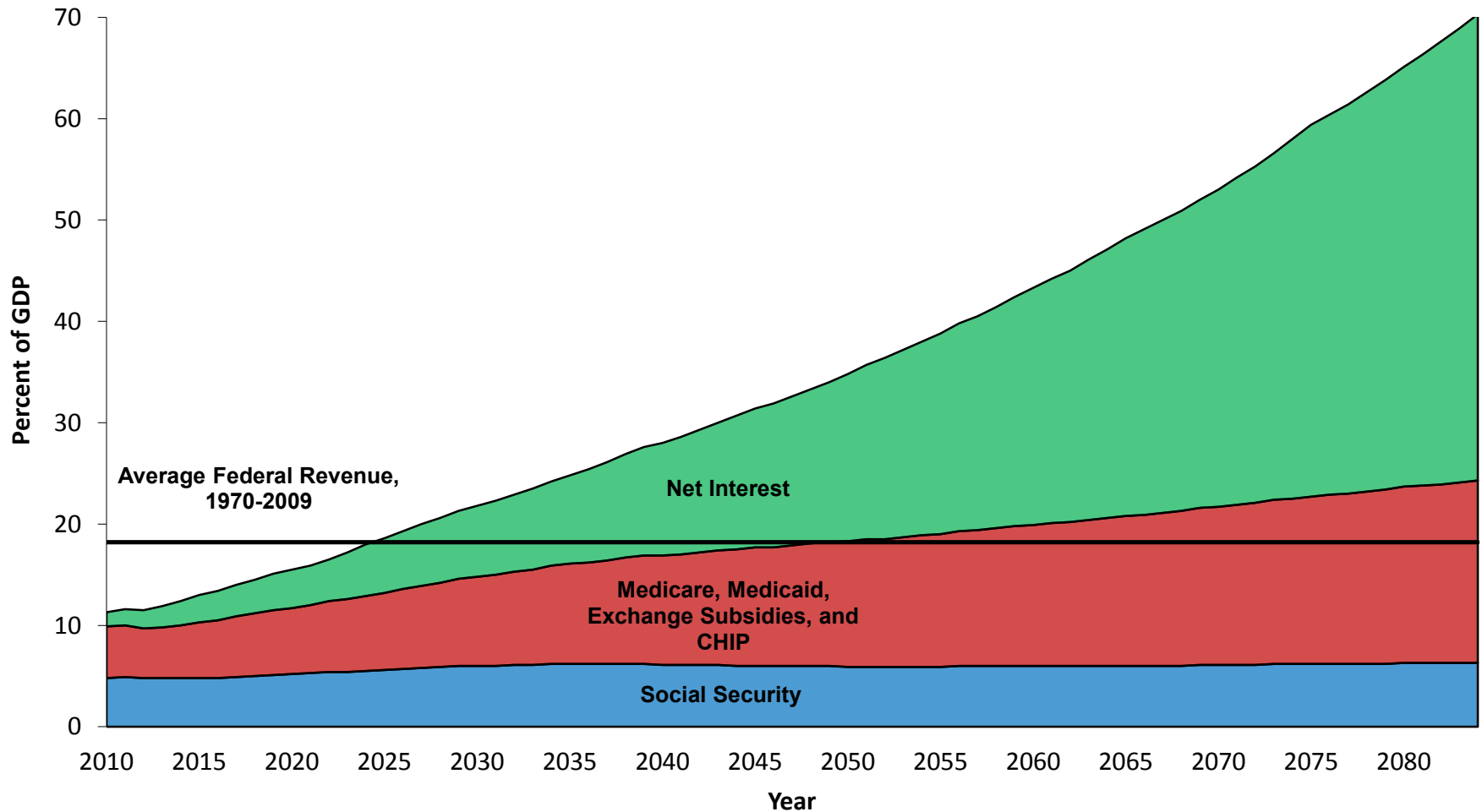
QUALITY. INDEPENDENCE. IMPACT.

Deficit Negotiations and the Supercommittee

Ron Haskins

October 19, 2011

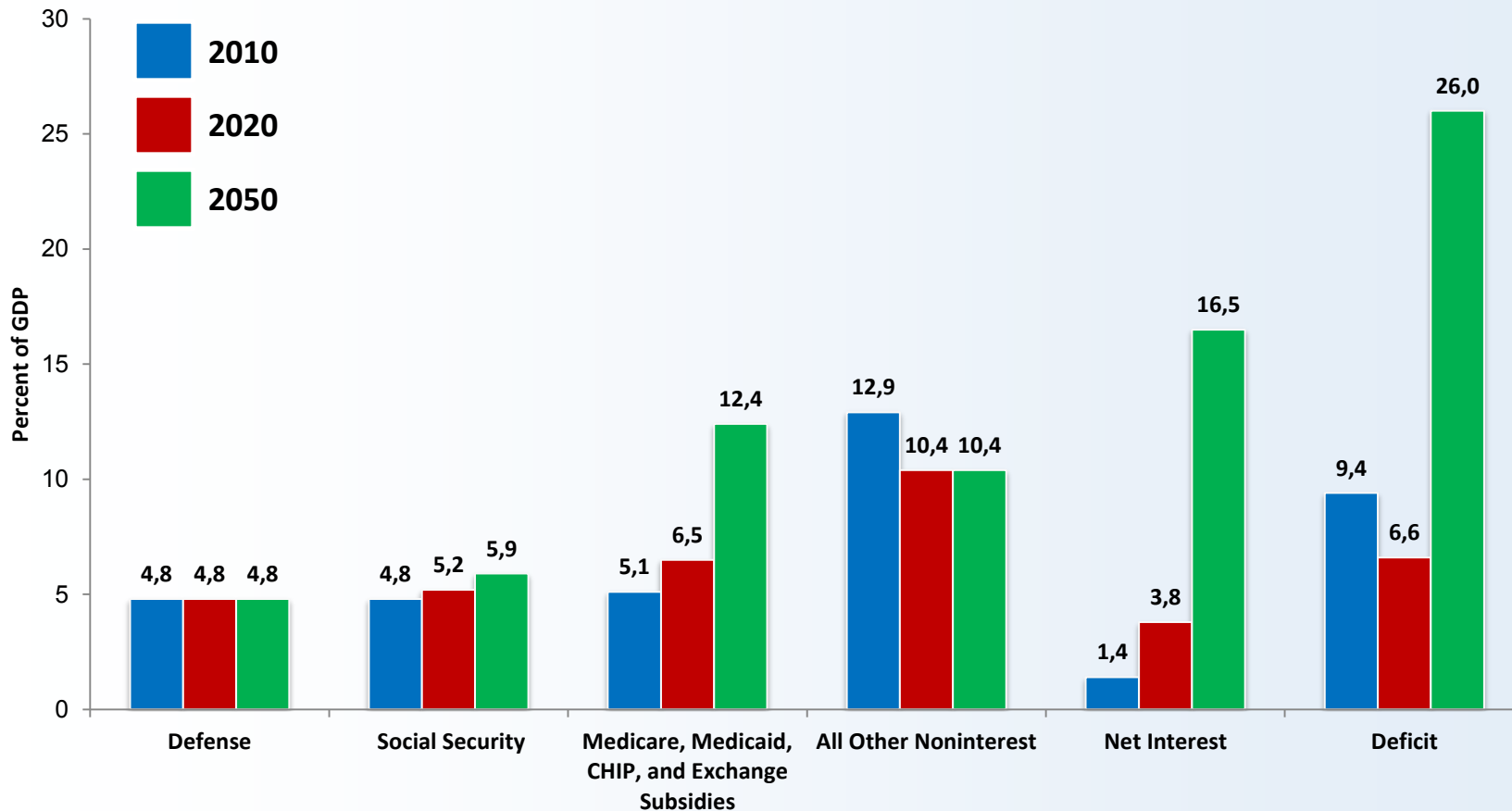
The Unsustainable Fiscal Path, 2010-2080



Source: Congressional Budget Office, "Supplemental Data for the Congressional Budget Office's Long-Term Budget Outlook (June 2010)," available at <http://www.cbo.gov/ftpdocs/115xx/doc11579/LTBO-2010data.xls>.

Note: Based on the Alternative Fiscal Scenario.

Spending and the Deficit as a Percentage of GDP in 2010, 2020, and 2050



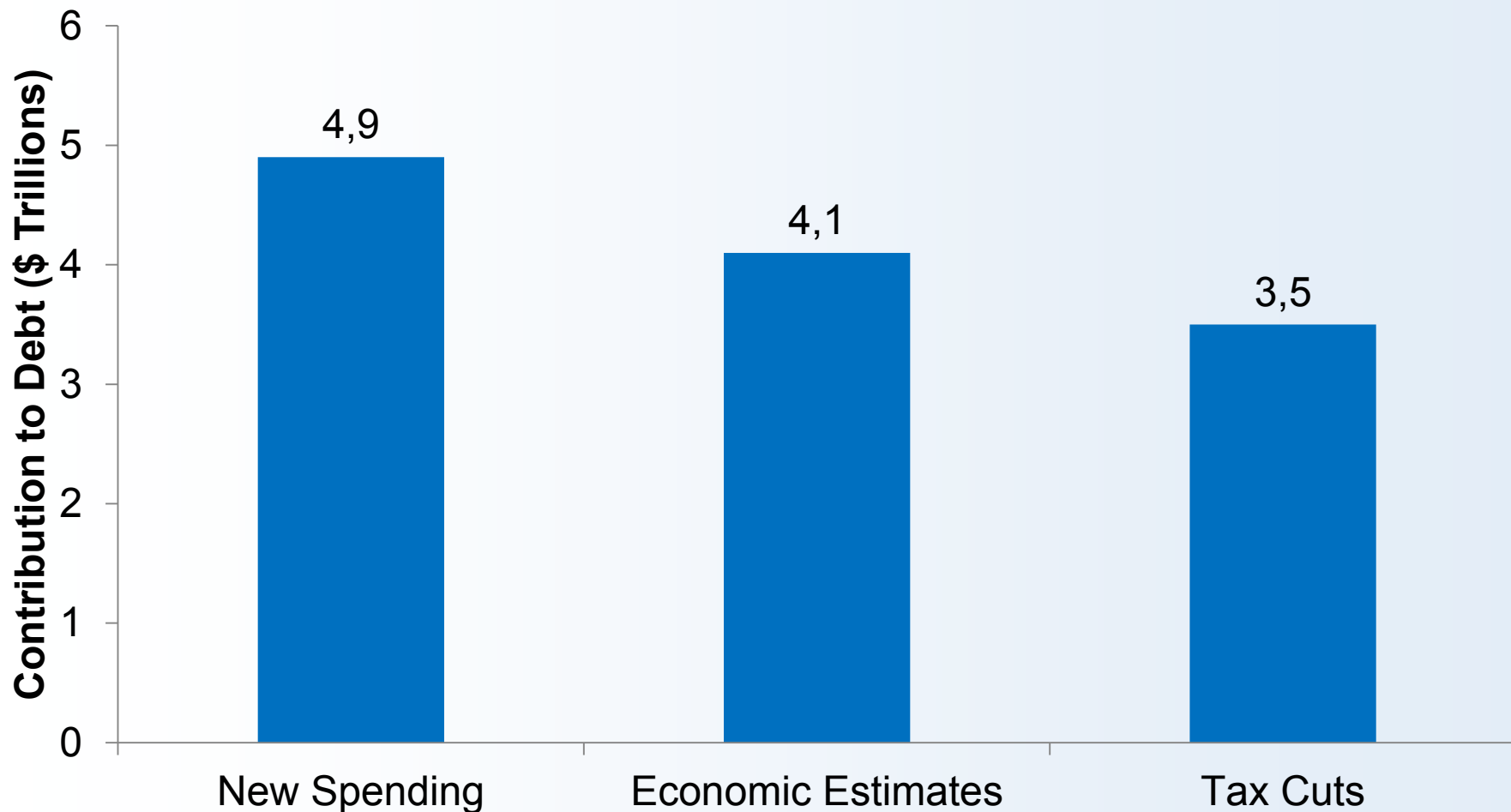
Source: Congressional Budget Office, "Supplemental Data for the Congressional Budget Office's Long-Term Budget Outlook (June 2010)," available at <http://www.cbo.gov/ftpdocs/115xx/doc11579/LTBO-2010data.xls>.

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.

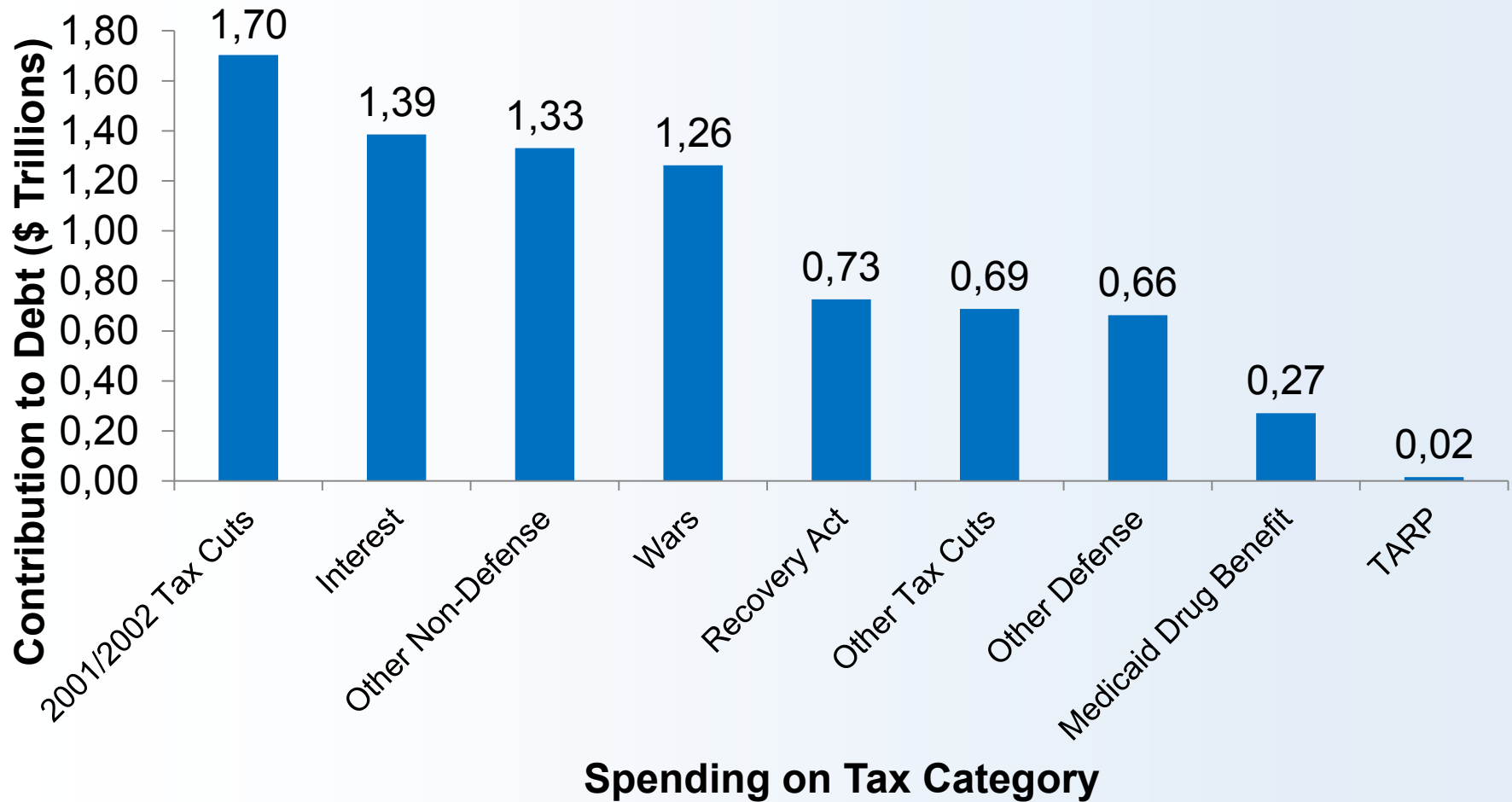
Overview of Presentation

- 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, Economic Estimates, Tax Cuts, 2001-2011



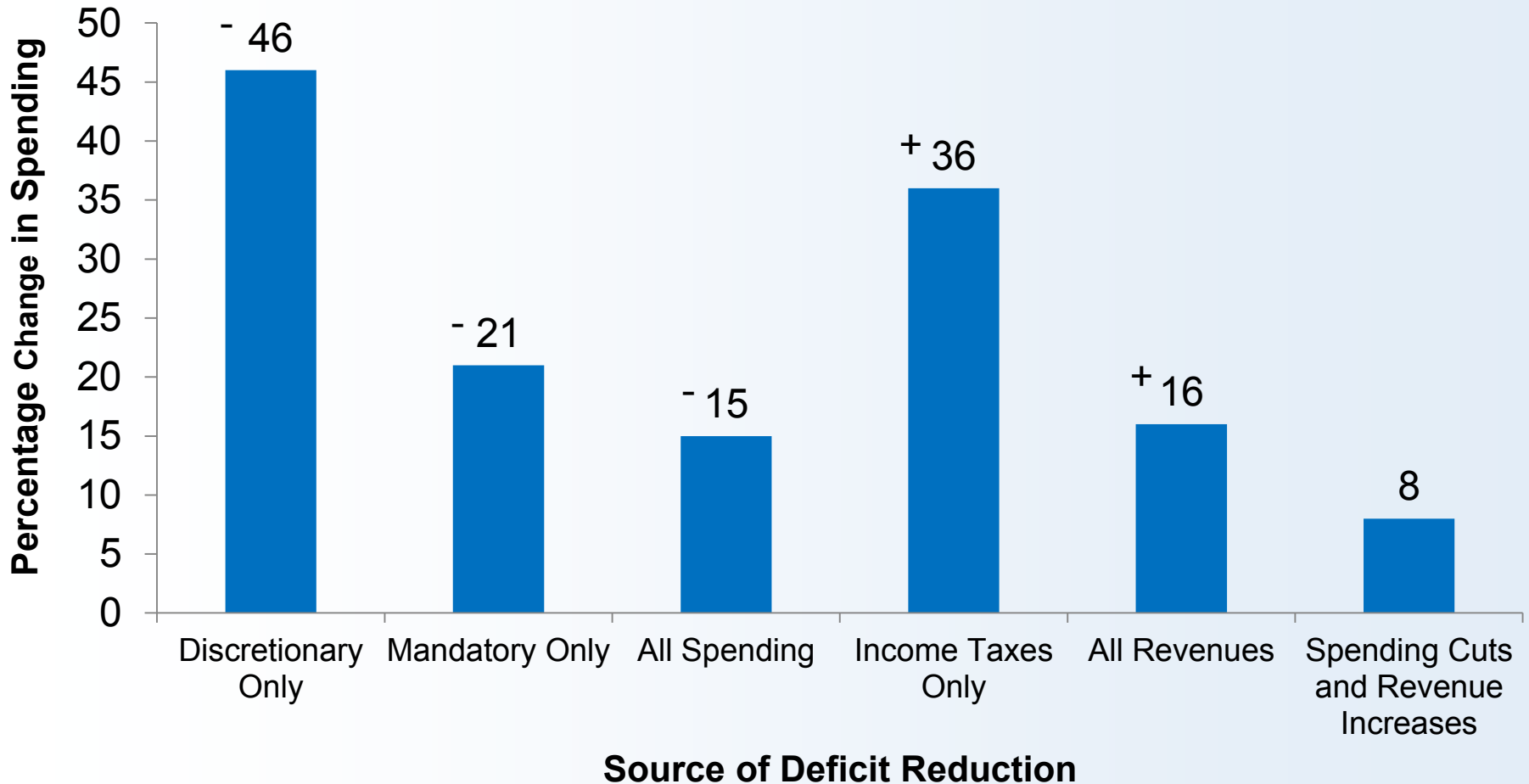
Causes of Increased U.S. Debt: Spending and Tax Cuts by Category, 2001-2011



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



Note: Current policy baseline; \$6.1 trillion deficit reduction in 2021 (assuming tranche 1 of debt ceiling agreement has been achieved, \$917 billion cut).
Source: Pew, "10 Essential Fiscal Charts," 2011.

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

Got What They Wanted?

What They Wanted

Democrats

Republicans

Cuts in Defense

Yes

No

No Cuts in Big Entitlements

Yes

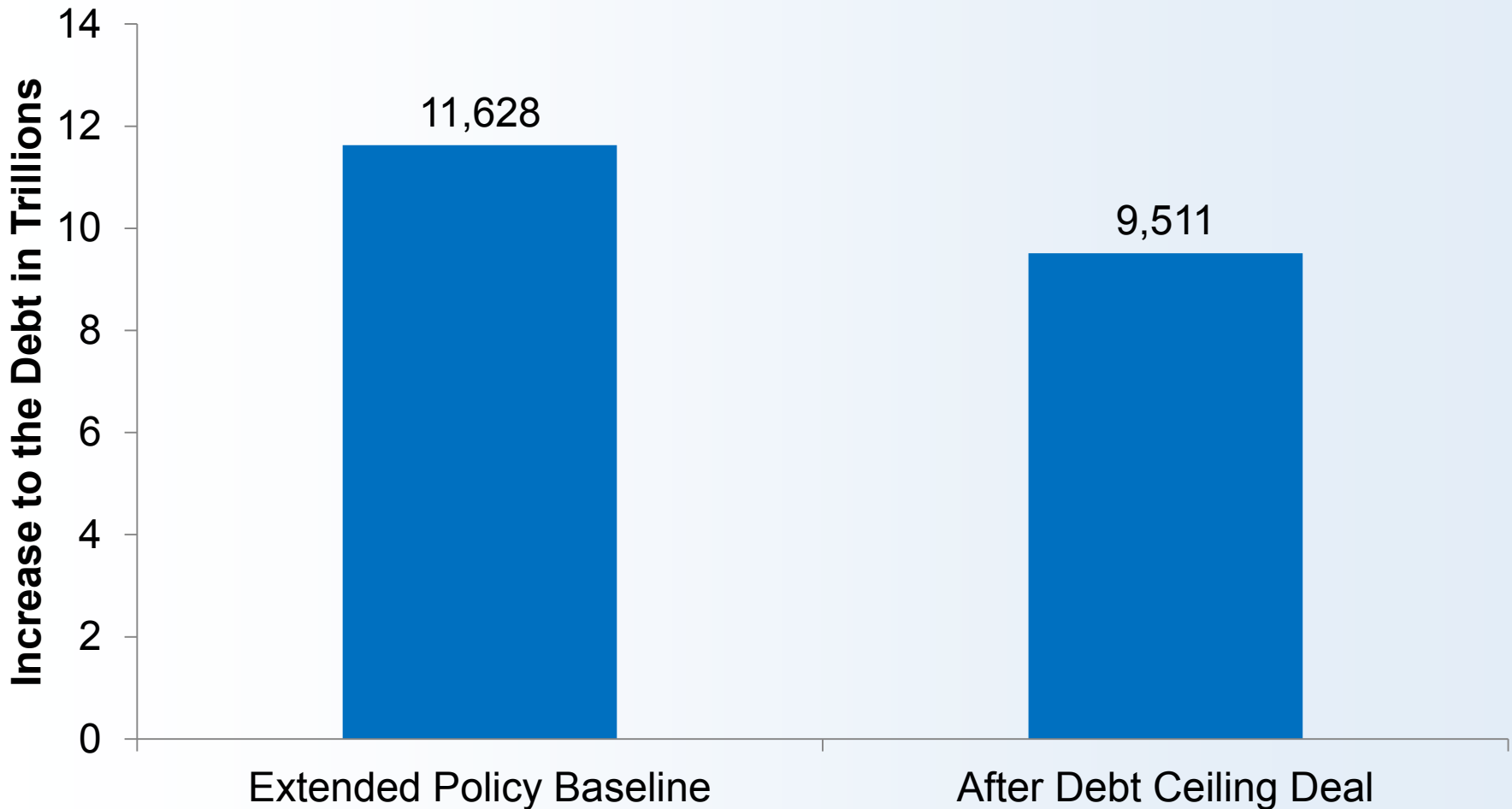
No

No Tax Increases

No

Yes

Impact of Debt Ceiling Deal on Increase in the Federal Debt, 2012-2021

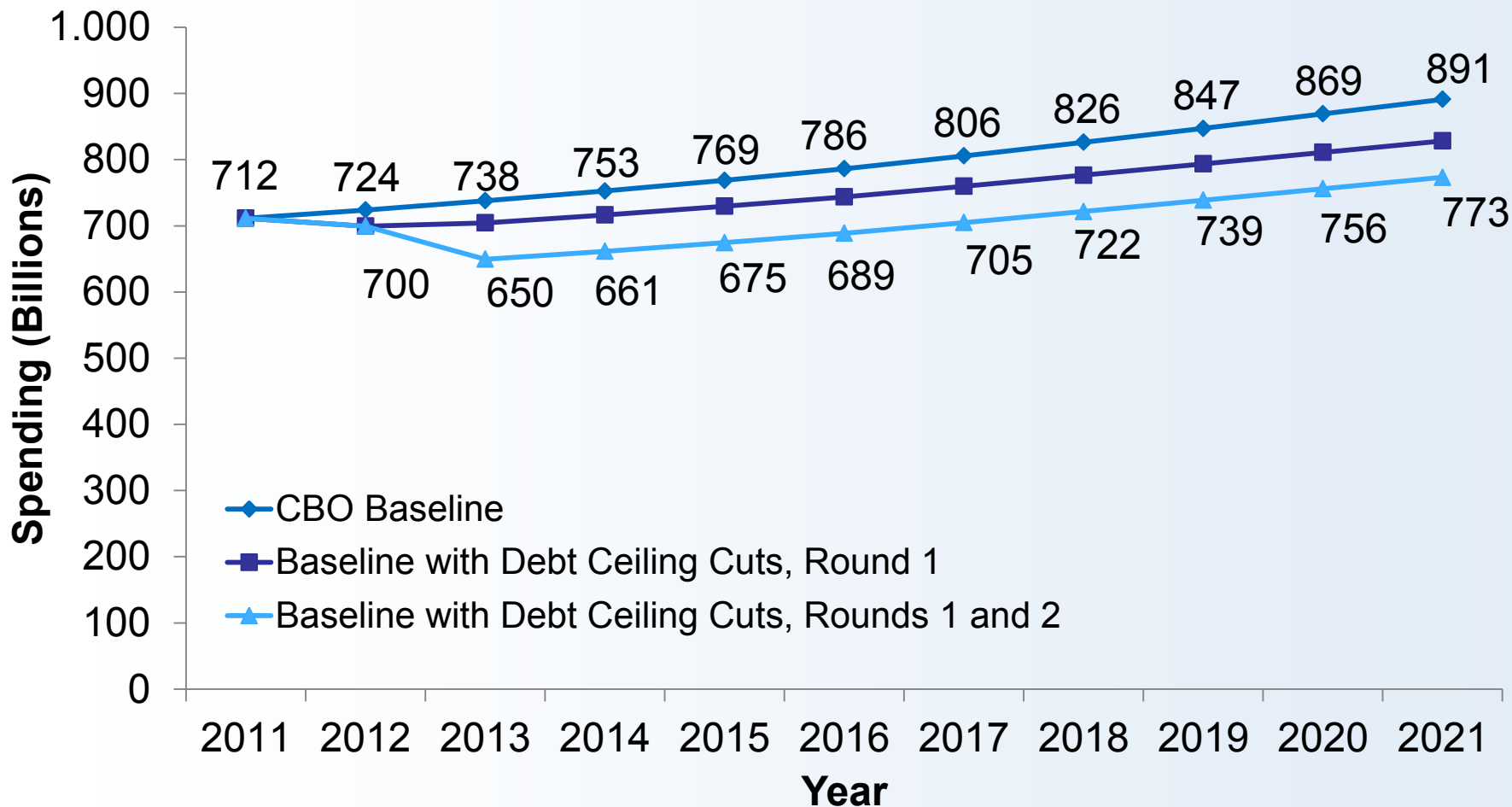


Source: Congressional Budget Office, "Summary Data for the Alternative Fiscal Scenario," from *Long Term Budget and Economic Outlook* (June, 2011) and "Table 3: Effect on the Deficit of the Budget Control Act of 2011," from *Impact of the Budget Control Act of 2011* (August 1, 2011).

Discretionary Spending Caps

- 10 Years; \$917 Billion
- Half Domestic; Half Defense/Security
- Firewall Between Domestic and Defense (2012 only)
- Action So Far

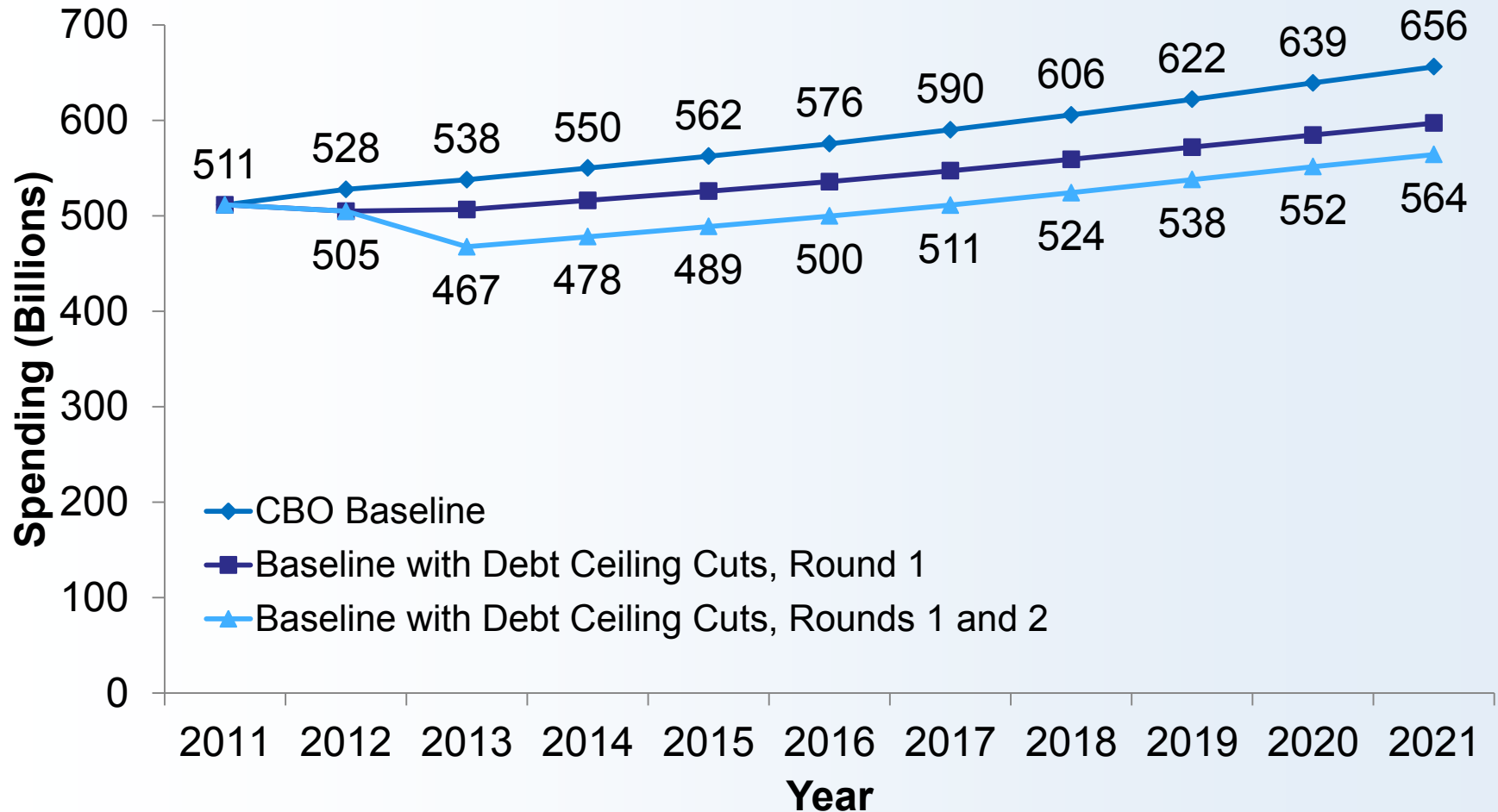
Impacts of Debt Ceiling Cuts on Defense Spending, 2012-2021



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).

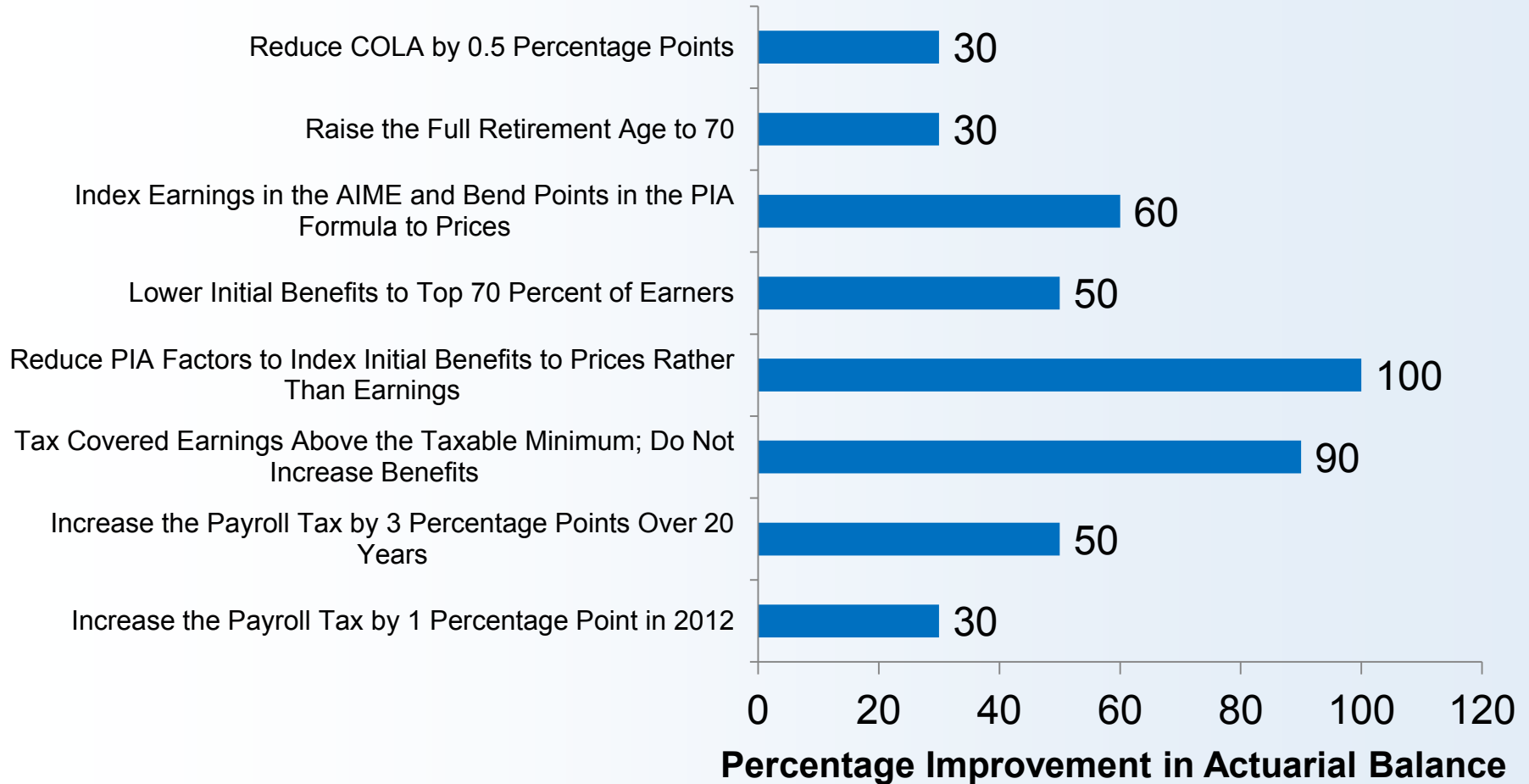
Overview of Supercommittee

- 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

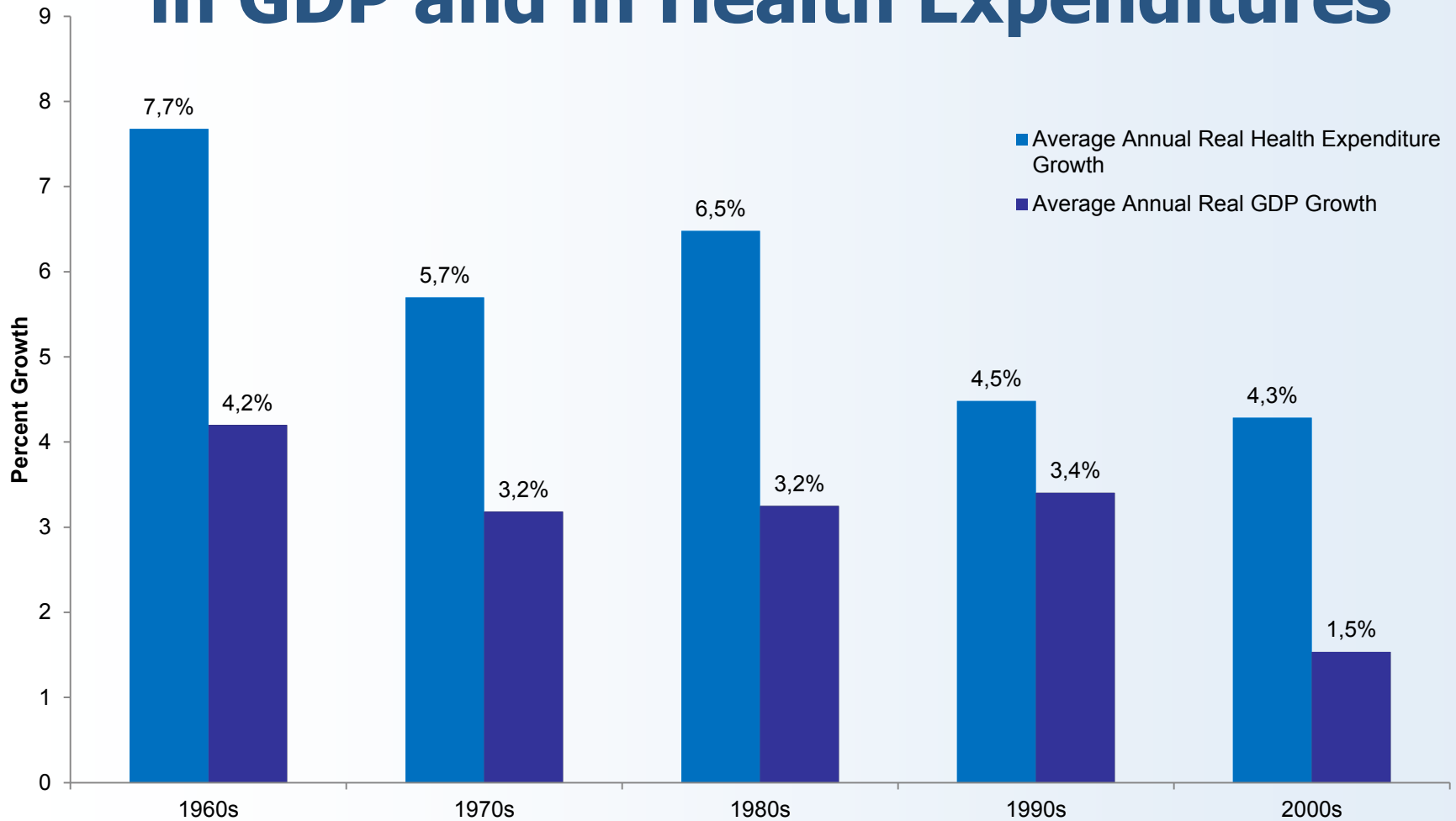
Taking Action:

- Social Security Reforms
- Medicare Reforms
- Tax Increases

Taking Action: Social Security Reforms



Annual Average Real Growth in GDP and in Health Expenditures



Note: The 2000s consist of 2000-2009.

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.

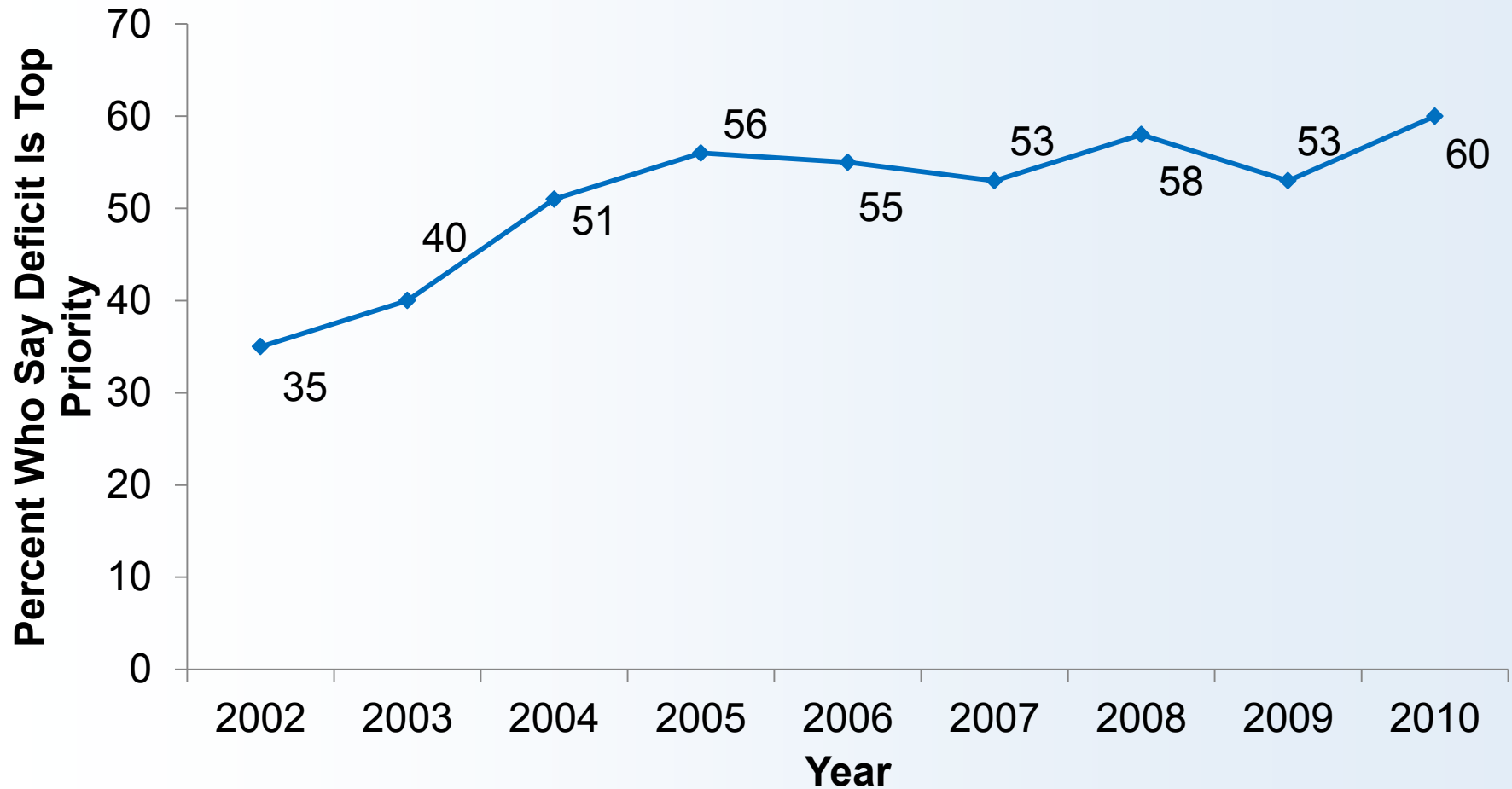
Taking Action: Medicare Reform Premium Support

- Service Areas
- Mandatory Health Care Services
- Open Market; Bids from Any Entity
- Central Clearing House
- Setting Annual Premium Amounts
- Adjustments to Premium

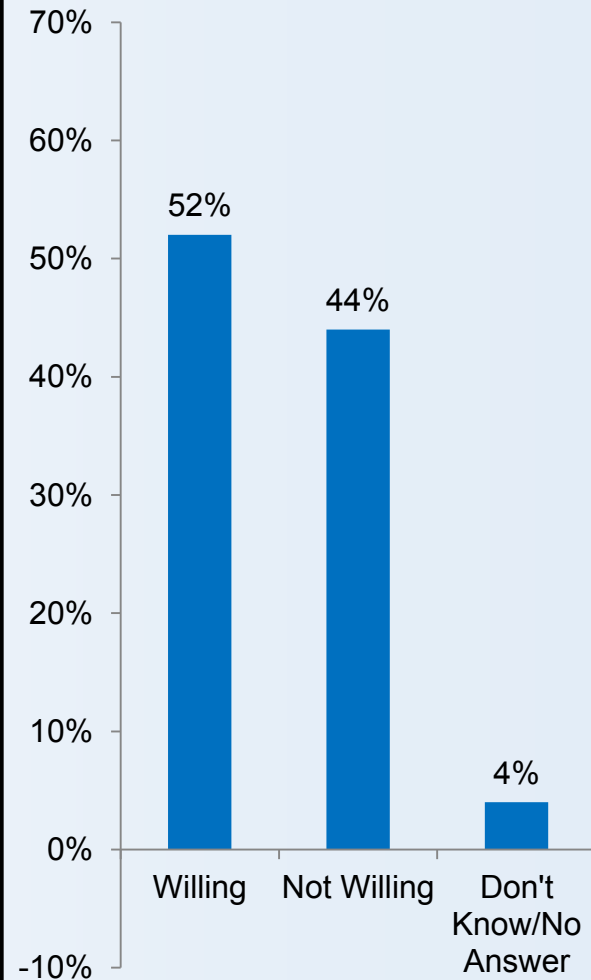
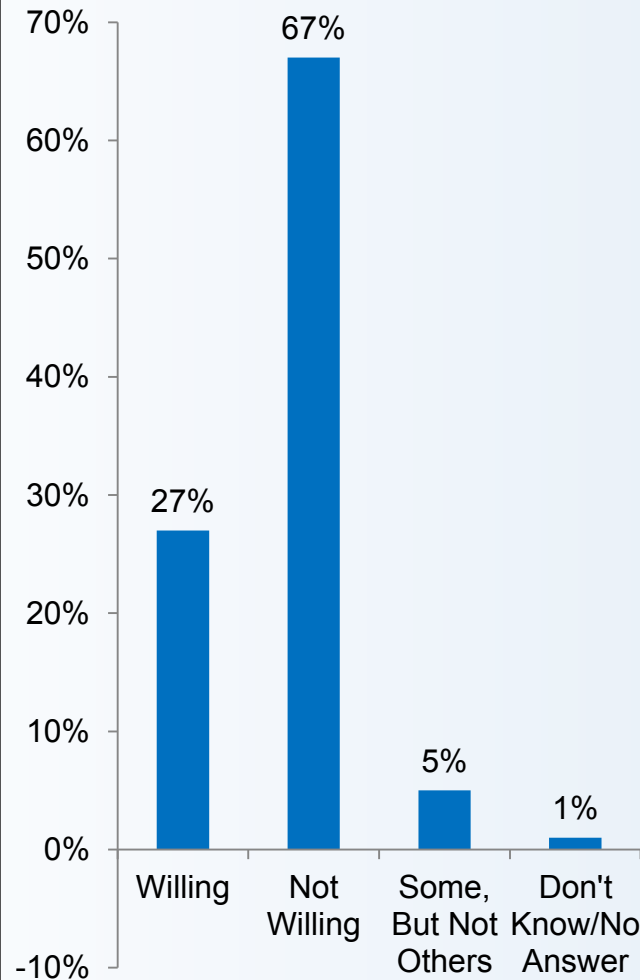
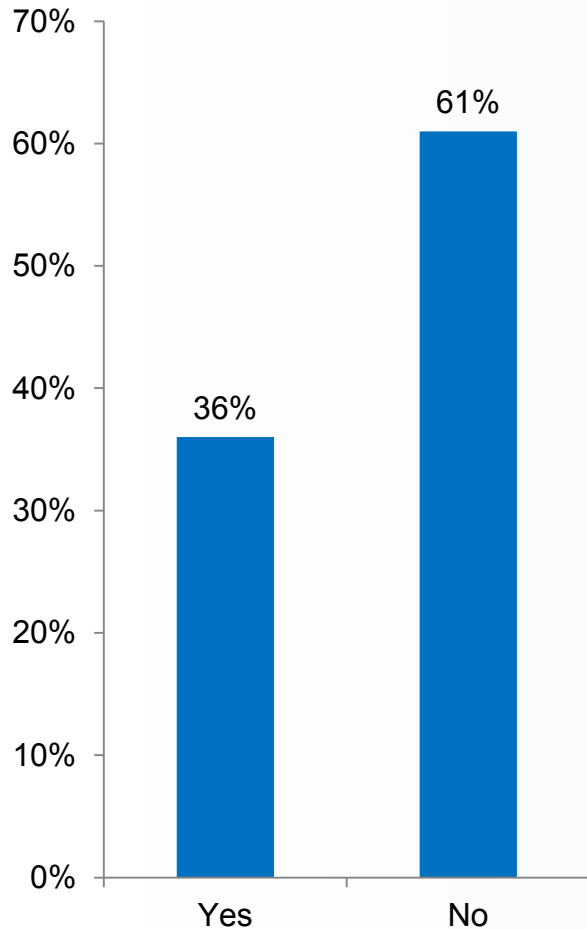
Taking Action: Reducing Tax Expenditures

Item	Cost (in Billions)
Mortgage Interest	\$93.8
Property Taxes on Real Property	\$22.8
Capital Gains on Sales of Principle Residences	\$16.5
Reduced Rates of Dividends / Long-Term Capital Gains	\$84.2
Capital Gains at Death	\$31.7
Investment Income on Life Insurance	\$25.7
Charitable Contributions	\$34.5
Employer Contributions for Health Care, Health Premiums	\$117.3
EITC	\$52.4
State Taxes	\$43.6
Total = \$522.5 Billion	

Polls: The Deficit Is Top Priority



Polls: Public Support for Sacrifice



Source: Gallup, April 2011.

Source: CBS News Poll, January 2011.

Source: CBS News Poll, January 2011.

Polls: Willingness To Cut Specific Programs

