

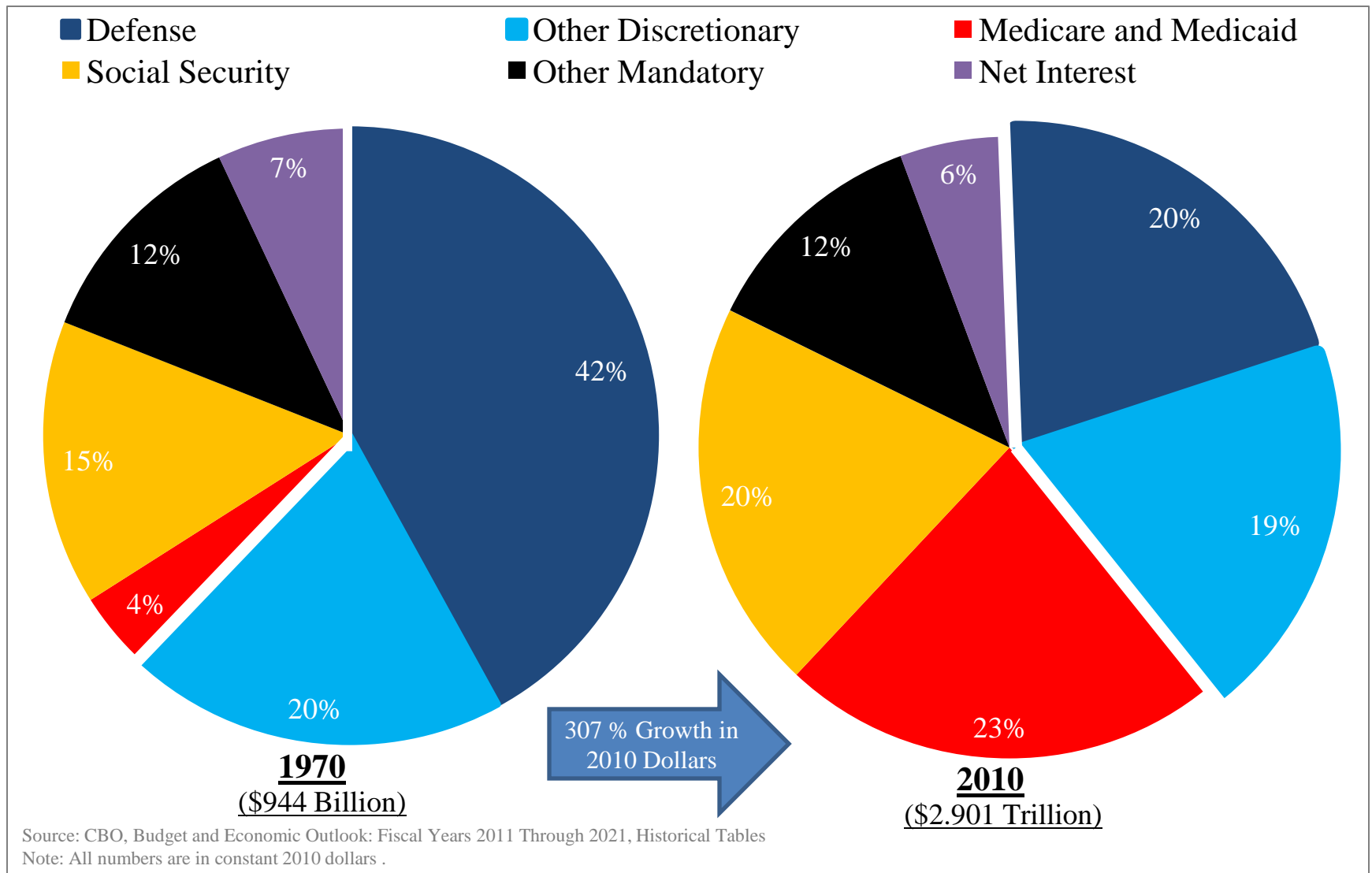


# Comeback America: Restoring Fiscal Sanity

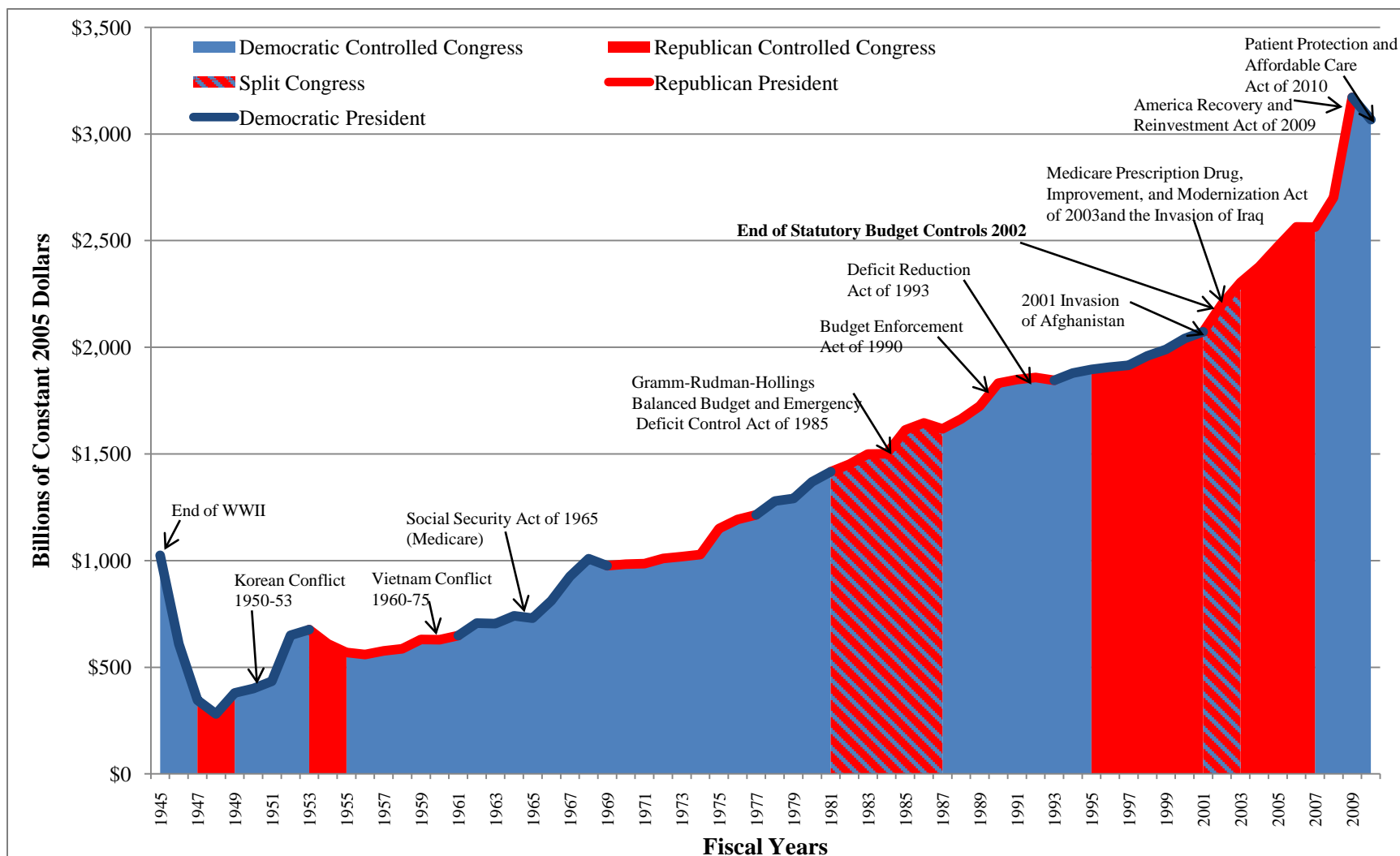
Washington, D.C.  
July 20, 2011

Hon. David M. Walker  
Founder and CEO  
The Comeback America Initiative  
and  
Former Comptroller General of the United States

# Composition of Federal Spending (% of Total Outlays)

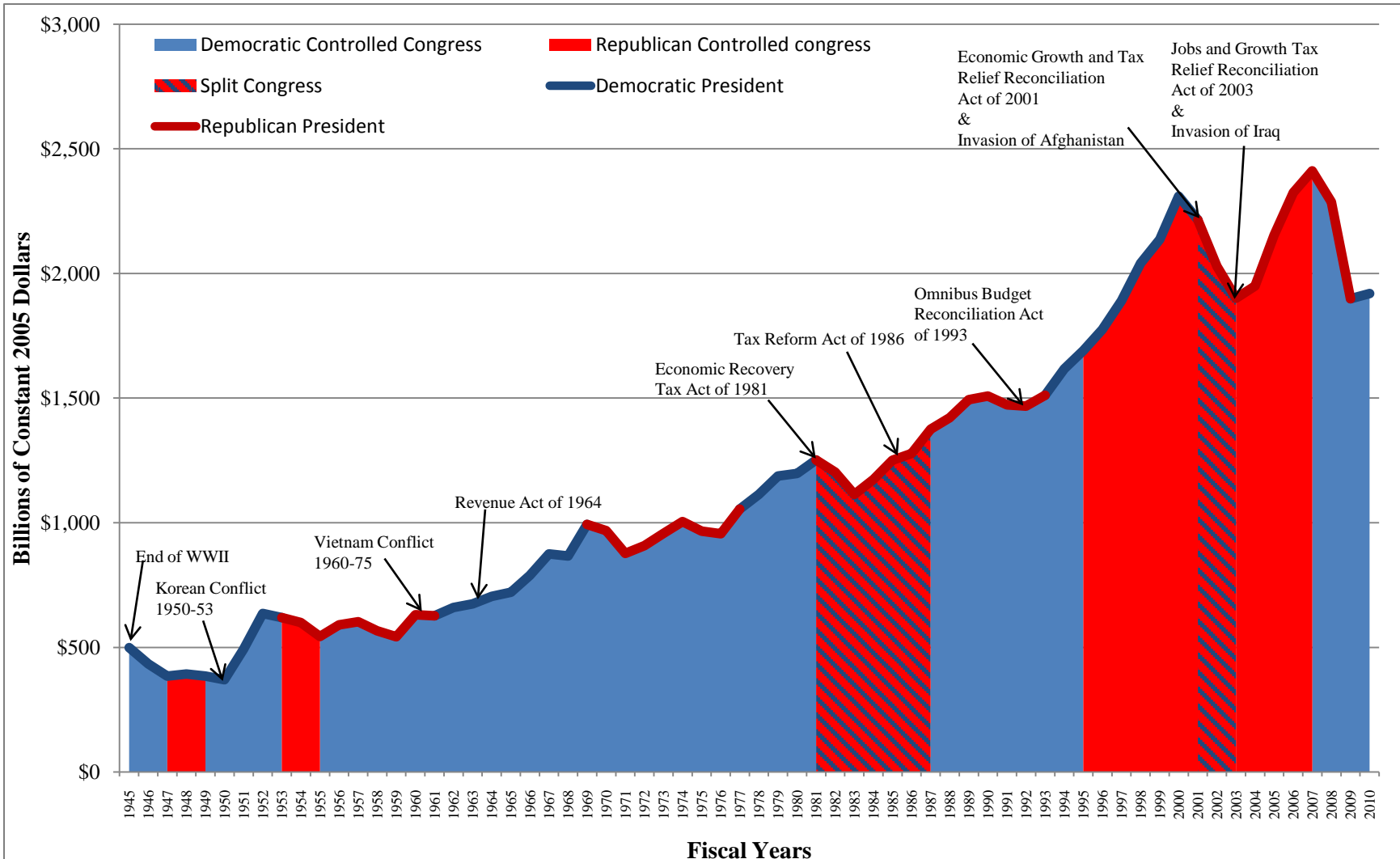


# Federal Spending & the Political Party in Power



Source: OMB, Budget, Historical Tables, Table 1.3—Summary of Receipts, Outlays, and Surpluses or Deficits (–) in Current Dollars, Constant (FY 2005) Dollars, and as Percentages of GDP: 1940–2016

# Federal Revenues & the Political Party in Power

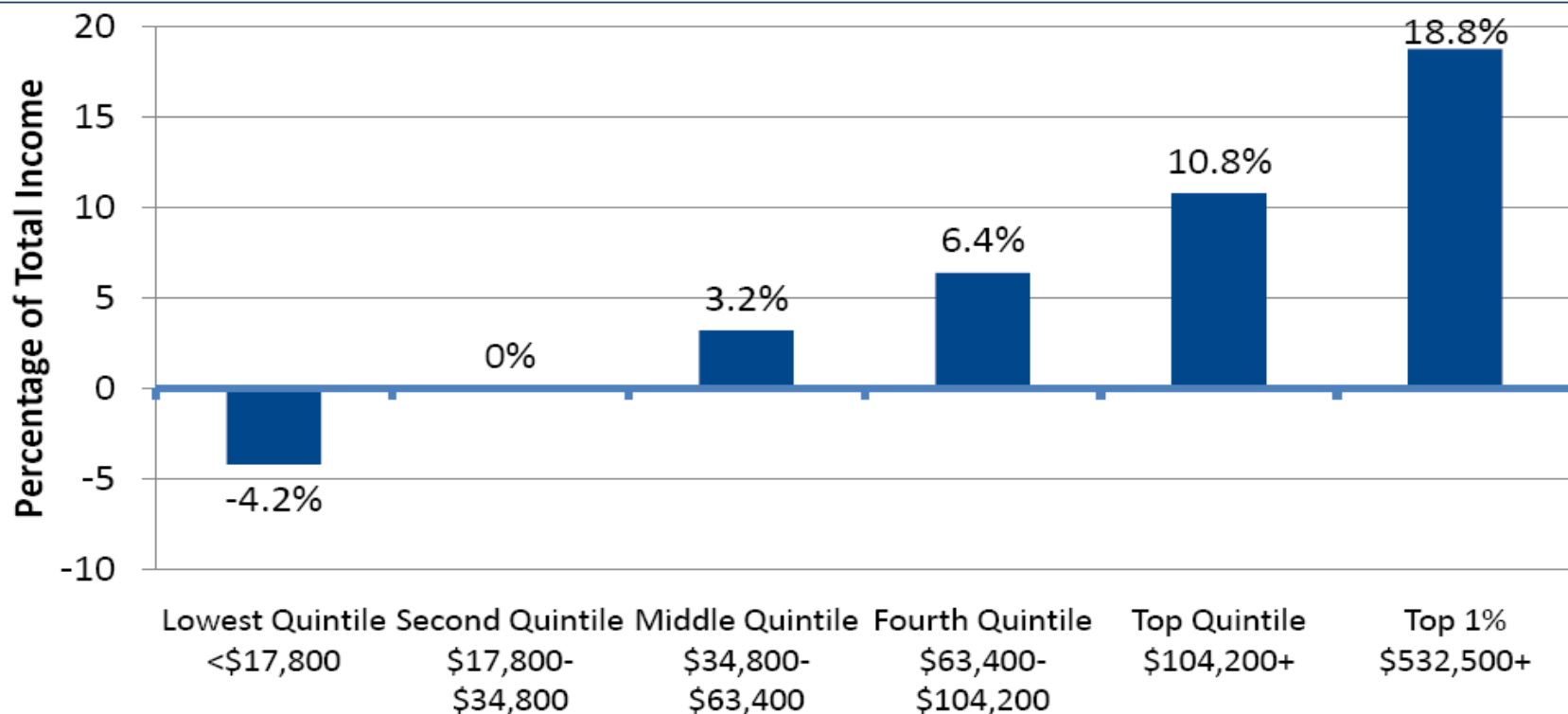


Source: OMB, Budget, Historical Tables, Table 1.3—Summary of Receipts, Outlays, and Surpluses or Deficits (–) in Current Dollars, Constant (FY 2005) Dollars, and as Percentages of GDP: 1940–2016

# Effective Tax Rates



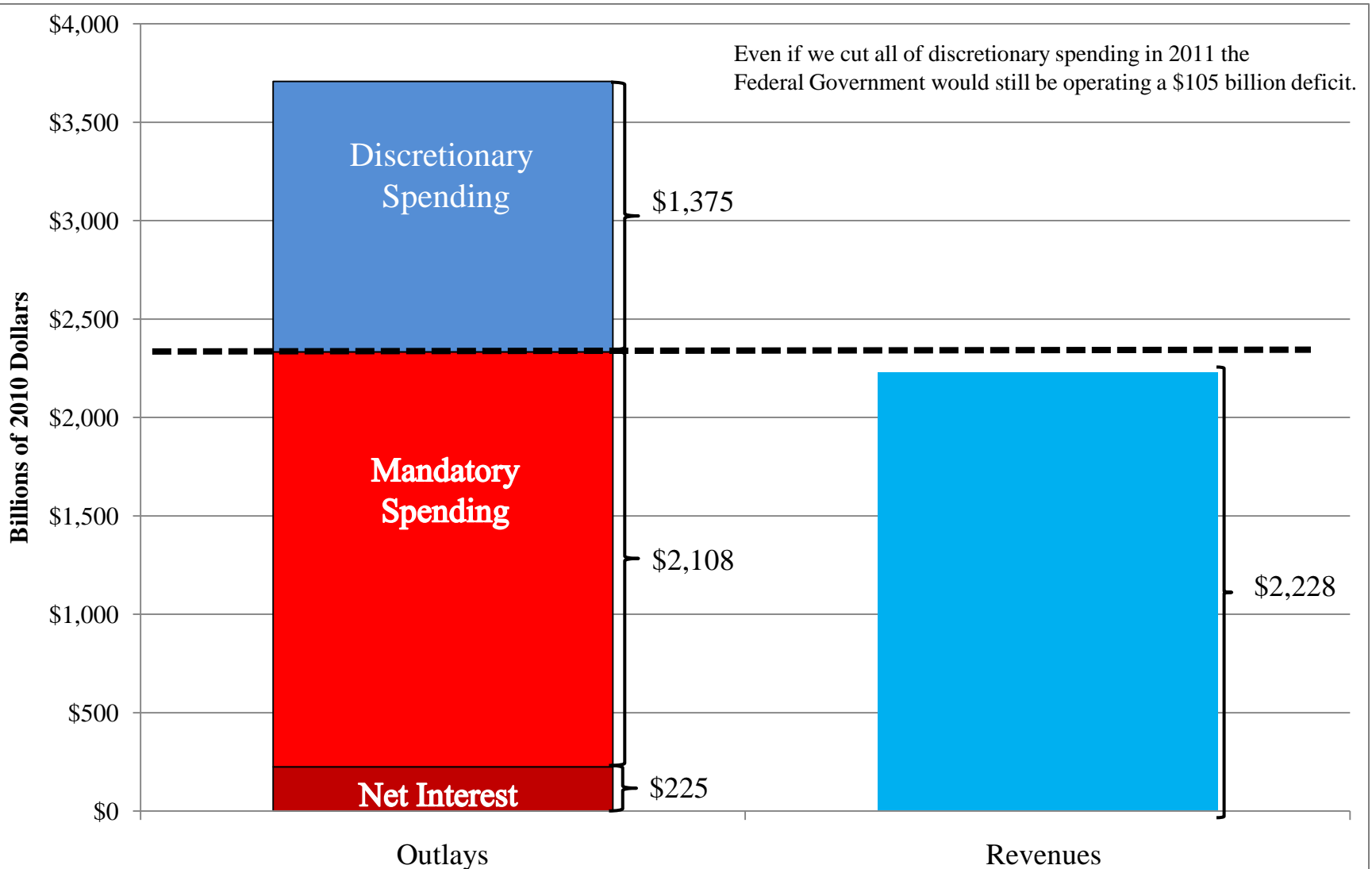
Effective median individual income tax rates are negative or zero for households with incomes below \$34,800



SOURCE: Data from the Tax Policy Center. Compiled by PGPF.

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# Fiscal Gap 2011

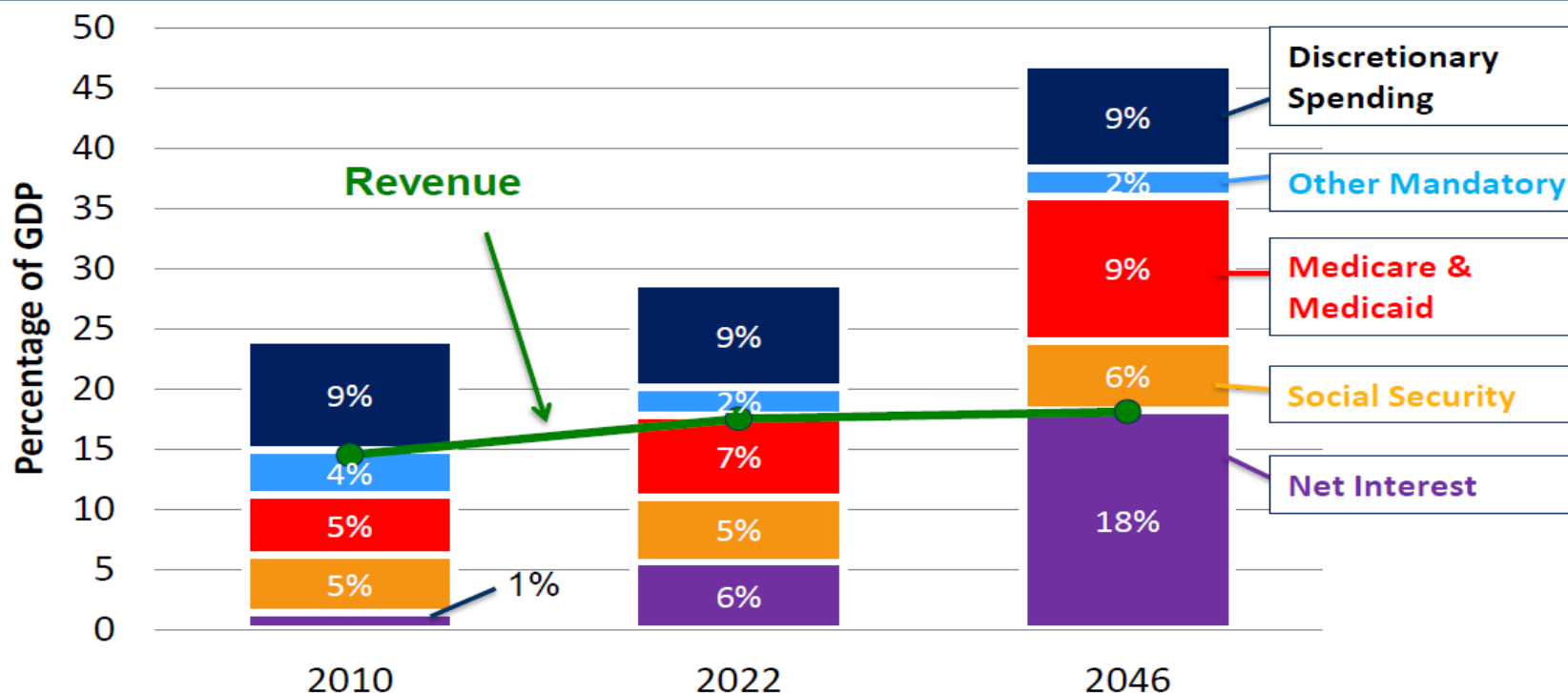


SOURCE: CBO, The Budget and Economic Outlook: Fiscal Years 2011 to 2021, Projections Data, Table 1-4. Compiled by TCAII.

# Our Fiscal Future



Without reforms, by 2022, future revenues will only cover Social Security, Medicare, Medicaid, and interest on the debt. By 2046, revenues won't even cover interest costs.



SOURCE: Data from the Government Accountability Office *The Federal Government's Long-Term Fiscal Outlook: January 2010 Update*, alternative simulation using Congressional Budget Office assumptions. Compiled by PGPF.

NOTE: Baseline interest rate is assumed to be 5.0 percent.

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# Federal Financial Hole

## (For Fiscal 2000 and 2010)

In Trillions of Dollars	2000	2010	
Explicit Liabilities	\$ 6.9	\$16.4	
•Publicly Held Debt	3.4	9.1	
•Military & Civilian Pensions & Retiree Health	2.8	5.7	
•Other Major Fiscal Exposures	0.7	1.6	
Commitments & Contingencies	0.5	2.1	
E.g. Pension Benefit Guaranty Corporation, Undelivered Orders			
		Trustees' Estimates	Actuary's Alternative Scenario
Social Insurance Promises	13.0	30.8	43.1
•Future Social Security Benefits	3.8	8.0	8.0
•Future Medicare Benefits	9.2	22.8	35.1
▪Future Medicare Part A Benefits	2.7	2.7	7.3
▪Future Medicare Part B Benefits	6.5	12.9	20.6
▪Future Medicare Part D Benefits	-	7.2	7.2
<b>Total</b>	<b>\$20.4</b>	<b>\$49.3</b>	<b>\$61.6</b>

SOURCE: Data from the Department of Treasury, 2010 Financial Report of the United States Government.

NOTE: Numbers may not add due to rounding. Trustees' Estimates for Medicare and Social Security benefits are from the Social Security and Medicare Trustees reports, which are as of January 1, 2010 and show social insurance promises for the next 75 years. Estimates for the Actuary's Alternative Scenario are found in note 26 of the 2010 Financial Report of the United States. Future liabilities are discounted to present value based on a real interest rate of 2.9% and CPI growth of 2.8%. The totals do not include liabilities on the balance sheets of Fannie Mae, Freddie Mac, and the Federal Reserve. Assets of the U.S. government not included.



# Fiscal Fitness Index: Overall Results

Rank	Country	Rank	Country
1	Australia	18	Mexico
2	New Zealand	19	Israel
3	Estonia	20	Slovenia
4	Sweden	21	Austria
5	China	22	Finland
6	Luxembourg	23	France
7	Chile	24	Spain
8	Denmark	25	Germany
9	United Kingdom	26	Belgium
10	Brazil	27	Italy
11	Canada	<b>28</b>	<b>United States</b>
12	India	29	Hungary
13	Poland	30	Ireland
14	Netherlands	31	Japan*
15	Norway	32	Iceland**
16	Slovakia	33	Portugal
17	Korea	34	Greece

Source: Sovereign Fiscal Responsibility Index.

Note: \*Japan's debt was downgraded by Moody's 1/29/11.

\*\* Iceland's Sustainable Fiscal Path reflects reforms enacted after an IMF bailout and there is a legal case pending in regard to foreign losses incurred due to the failure of Landsbanki.

# Feasibility Test

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## Fiscal Reforms Must Meet a Feasibility Test:

- 1) Do they make economic sense?
- 2) Are they socially equitable?
- 3) Are they culturally acceptable?
- 4) Do they pass a math test?
- 5) Are they politically feasible?
- 6) Can they achieve significant bipartisan support?

# Preemptive (Prudent) Framework Examples

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- Budget Controls & Process Reforms
  - PAYGO rules on spending and taxes.
  - Spending caps that only exempt interest and Social Security.
  - Debt/GDP targets with automatic enforcement mechanisms.
- Social Security
  - Focus most changes on people under age 55.
  - Increase early and full retirement age.
  - Modify cost-of-living index formula.
  - Make benefit formula more progressive.
  - Consider a taxable wage base increase.
- Healthcare
  - Repeal the CLASS Act provisions of the ACA.
  - Subject federal health expenditures to an annual budget.
  - Transform federal payment system to an evidence-based and outcome-oriented approach.
  - Rationalize healthcare promises.
  - Reduce taxpayer subsidies to higher income beneficiaries.



# Preemptive (Prudent) Framework Cont.

## Examples

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- **Defense**
  - Reduce U.S. forces in Iraq and Afghanistan to no more than 45K by Dec. 31, 2014.
  - Require DoD planning to consider current and expected resource levels.
  - Require the DoD to implement the systemic acquisition and contracting reforms recommended by the GAO.
  - Reduce DoD overhead by at least 25%.
  
- **Other Spending**
  - Switch all relevant federal benefits programs to chain-linked CPI.
  - Reduce discretionary spending to 2008 levels adjusted for inflation.
  - Reform federal insurance programs and tax payer subsidies.
  - Make \$500 billion in additional during fiscal 2012-2013.
  
- **Revenues**
  - Do not allow federal revenues to exceed 21.5% of GDP.
  - Move to enact comprehensive income tax reform that eliminates and targets tax expenditures while reducing the top marginal tax rate for individuals and corporations to no more than 25%.
  - Allow corporations to deduct dividends paid.
  - Consider a consumption tax of up to 5% if necessary.

# Reactive (Crisis) Framework

## Examples

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### Reactive Framework Differences

(This framework is in case Washington fails to properly manage the debt and interest rates rise.)

- Social Security
  - Reforms will impact everyone under the age of 60.
  - Increase retirement eligibility ages one additional year.
  - Taxable wage base would increase in 2014.
  
- Healthcare
  - Repeal Affordable Care Act and Medicare Modernization Act
  - Accelerate the increase in the eligibility age for Medicare.
  - Accelerate changes in reducing health care subsidies for higher income individuals.
  - Delay move towards universal healthcare.

# Reactive (Crisis) Framework Cont.

## Examples

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- Defense
  - Accelerate all actions in making the Pentagon and military forces more efficient.
  - Accelerate troop withdrawals in Iraq & Afghanistan to 2012.
- Other Spending
  - Accelerate changes and lower spending caps.
  - Eliminate additional investments in fiscal 2012-2013.
- Revenues
  - Repeal the Middle Class Tax Relief Act of 2010.
  - Impose temporary deficit surcharge of 0.7% for 2013-2014.

# Comparison

	Baseline		EPI		CAI Preemptive Framework	
	<u>2021</u>	<u>2035</u>	<u>2021</u>	<u>2035</u>	<u>2021</u>	<u>2035</u>
Receipts	20.8%	23.3%	21.6%	24.1%	20.8%	21.5%
Outlays	24.0%	28.3%	24.5%	27.8%	21.8%	23.1%
Deficit*	3.2%	5.0%	2.9%	3.7%	1.0%	1.5%
Debt	76.7%	91.5%	76.5%	81.7%	62.9%	51.4%

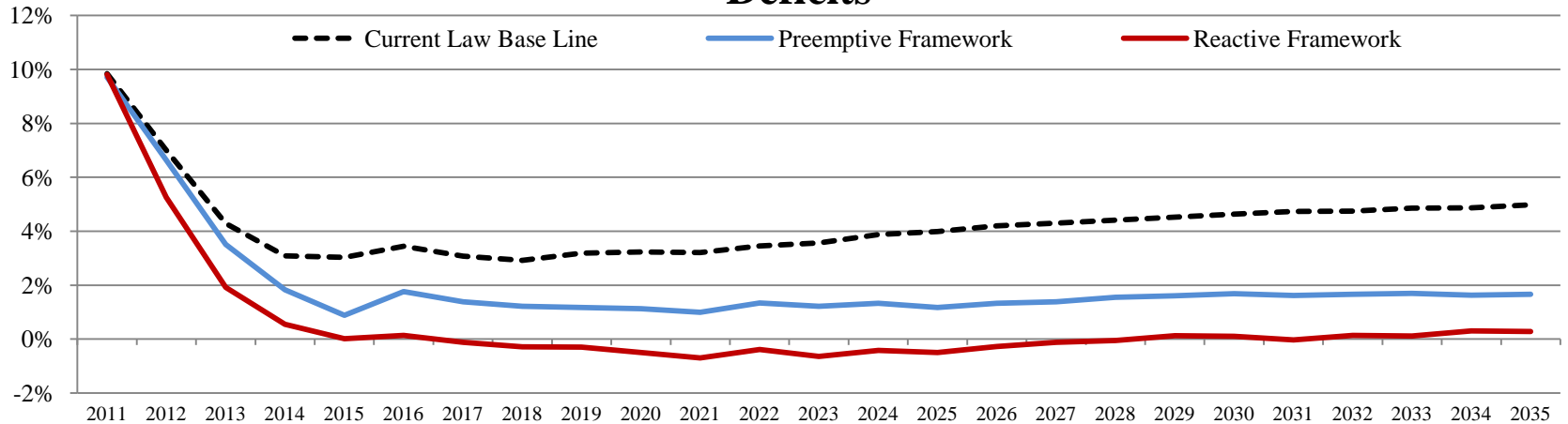
  

	CAI Reactive Framework		Heritage		Fiscal Commission	
	<u>2021</u>	<u>2035</u>	<u>2021</u>	<u>2035</u>	<u>2021</u>	<u>2035</u>
Receipts	20.8%	21.5%	18.3%	18.5%	20.3%	21.0%
Outlays	20.1%	21.8%	18.1%	17.7%	21.8%	21.0%
Deficit*	-0.7%	0.3%	-0.2%	-0.8%	1.6%	0.0%
Debt	50.9%	28.2%	58.2%	30.0%	68.5%	40.0%

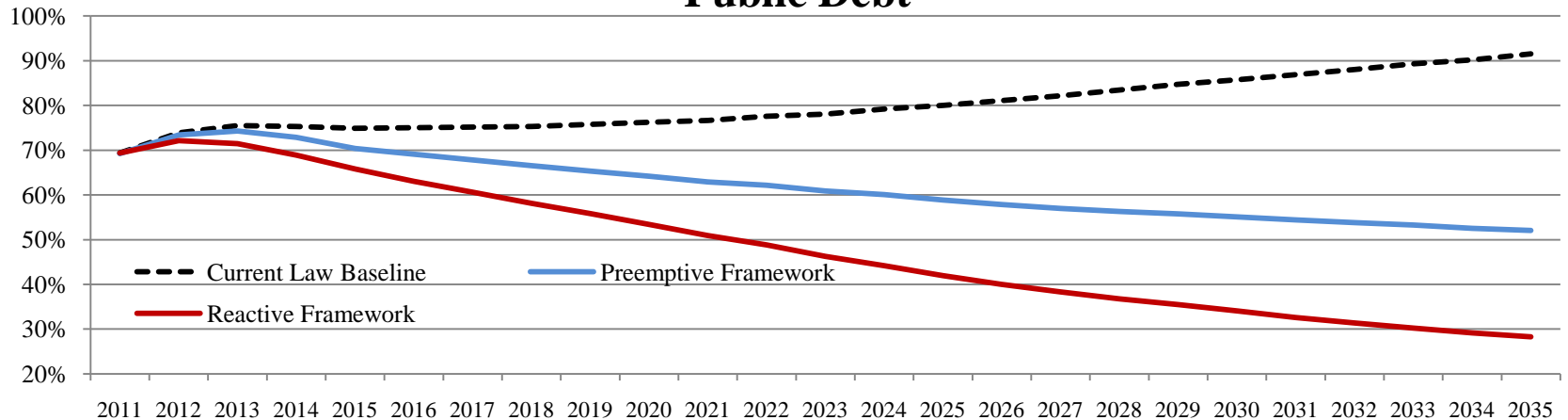
Note: Fiscal Commission data for 2021 is from the Commission for a Responsible Federal Budget re-estimate of the Fiscal Plan and data for 2035 is taken from the assumptions found within the Fiscal Commission report "The Moment or Truth". Deficit\*: Negative numbers represent surpluses.

# Results Cont.

## Deficits



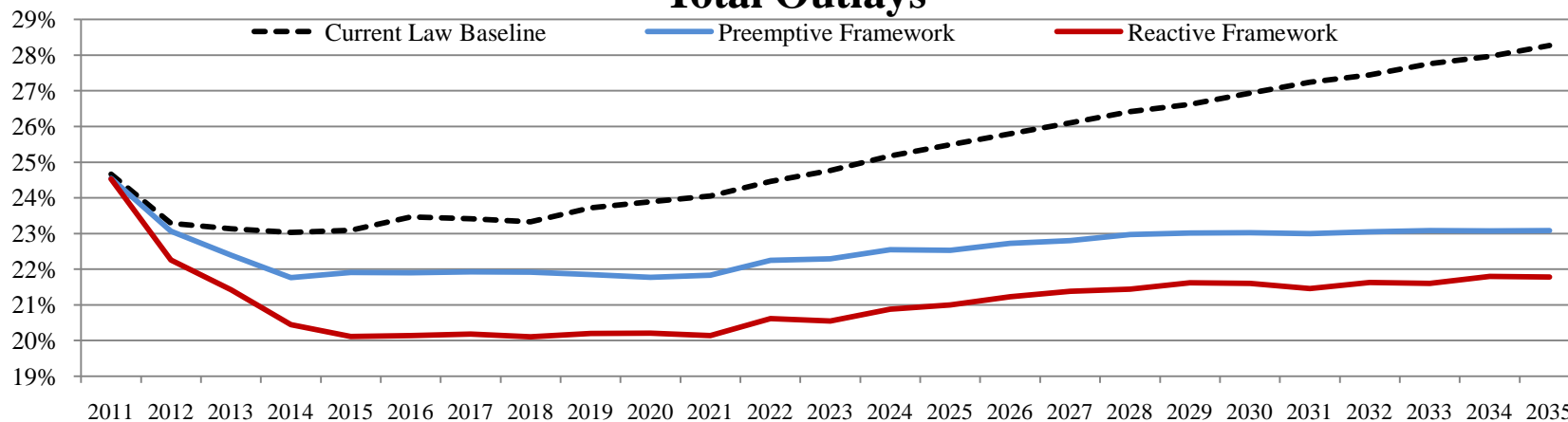
## Public Debt



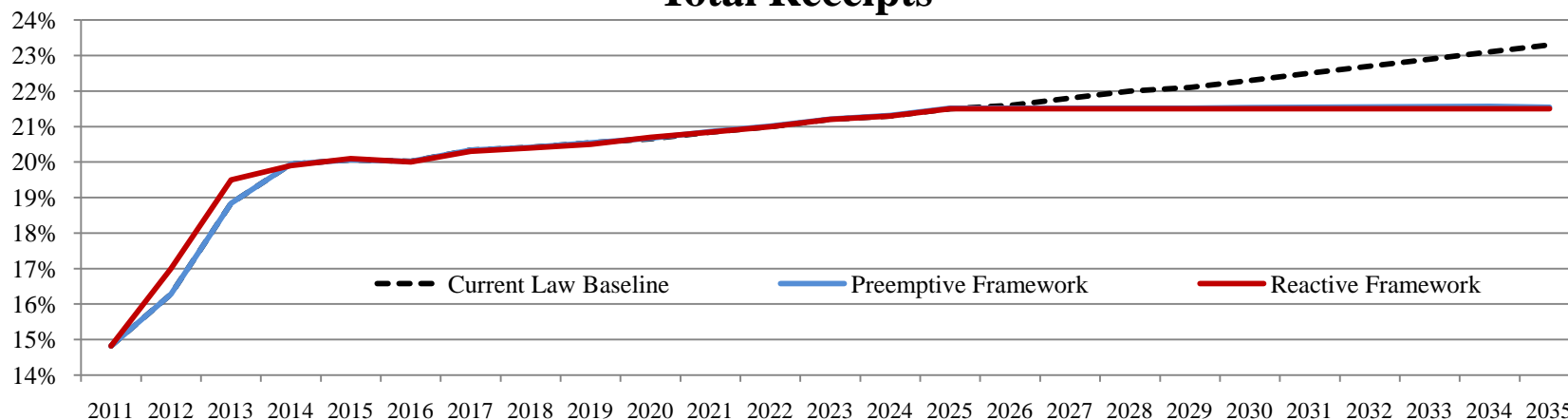


# Results

## Total Outlays

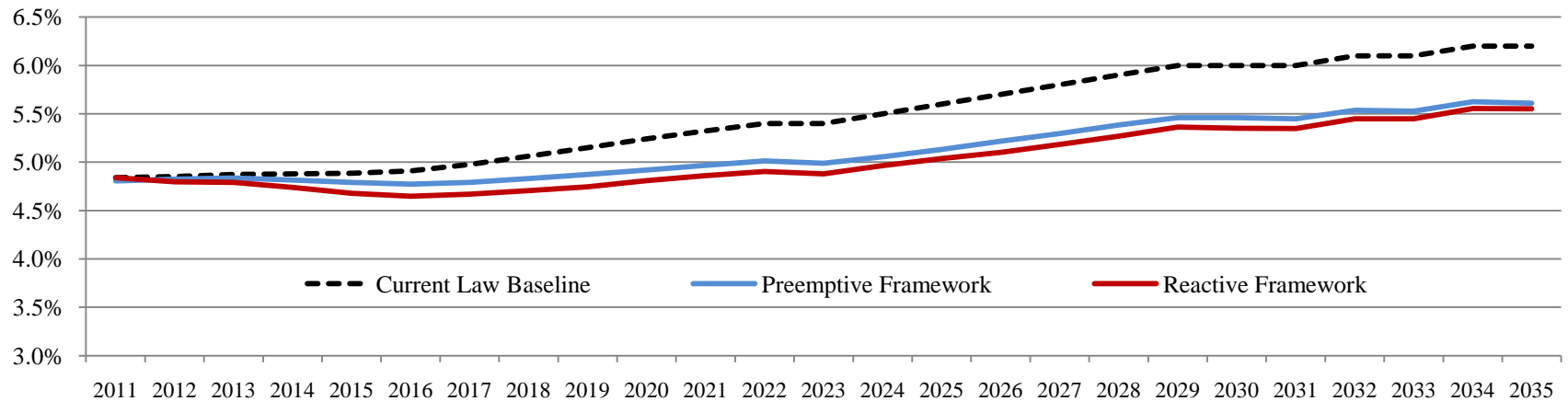


## Total Receipts



# Results Cont.

## Social Security



## Health

