Fiscal Days of Reckoning

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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 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

Percentage of GDP

Actual vs. Projected Outlays and Revenues

- Extend Tax Cuts and Index AMT
- Baseline
- Extend Tax Cuts and Index AMT

Federal Debt Held by the Public

Percentage of GDP

Actual Projected

Extend Tax Cuts and Index AMT

Baseline

0 20 40 60 80 100 120

Effect of Health Reform on the Budget

New Revenues and New Spending as a Percent of GDP 2019

President Obama's Budget Squeeze

Source: Gene Steuerle and Tim Roeper 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 Roeper 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.
Projected Real Health Care Costs Per Person
2008-2050
(2008 Dollars)

Source: PGPF calculations based on data from the Congressional Budget Office and the U.S. Census.
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.
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 Roeper. 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

% in the Workforce

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