

Taming the Federal Budget Deficit

A Grand Compromise ?

The National Association of State Workforce Agencies
&
Direct Employers' Association

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Is the Deficit an Issue? Should it be?

Q: What is your single most important issue in your choice for the President?

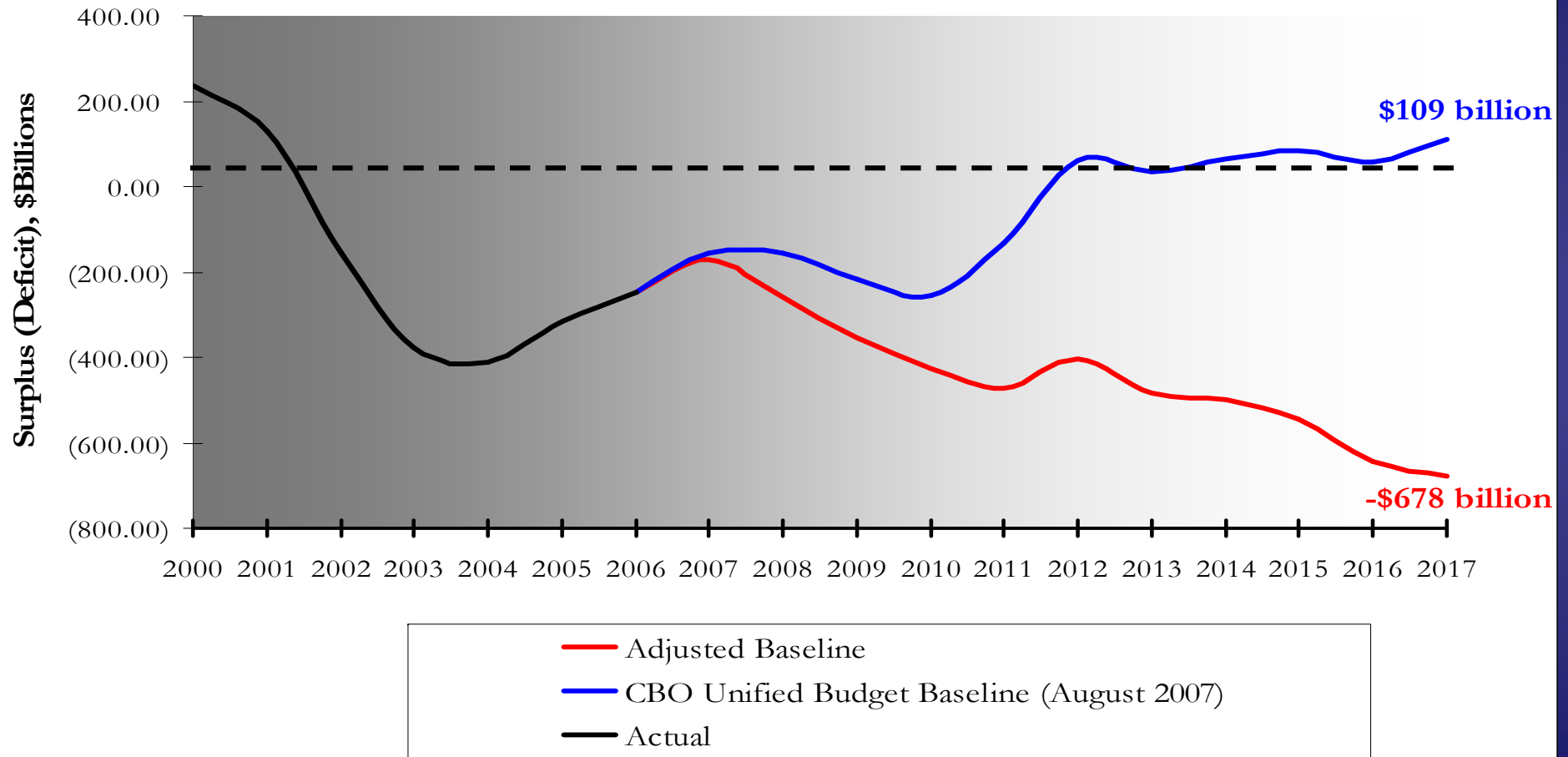
A:	1/12/08	12/9/07	11/1/07	9/7/07
Economy/Jobs	29	24	14	11
Iraq/War in Iraq	20	23	29	35
Health Care	10	10	13	13
Budget deficit	*	*	1	1

Q: Which is the single most important economic issue facing your family?

A:	
Health care costs	24
Inflation	23
Gasoline Prices	16
High Taxes	12
Personal Debt	5

Deficit/ Surplus Budget Projections

FY 2000 – FY 2017 (\$ in Billions)

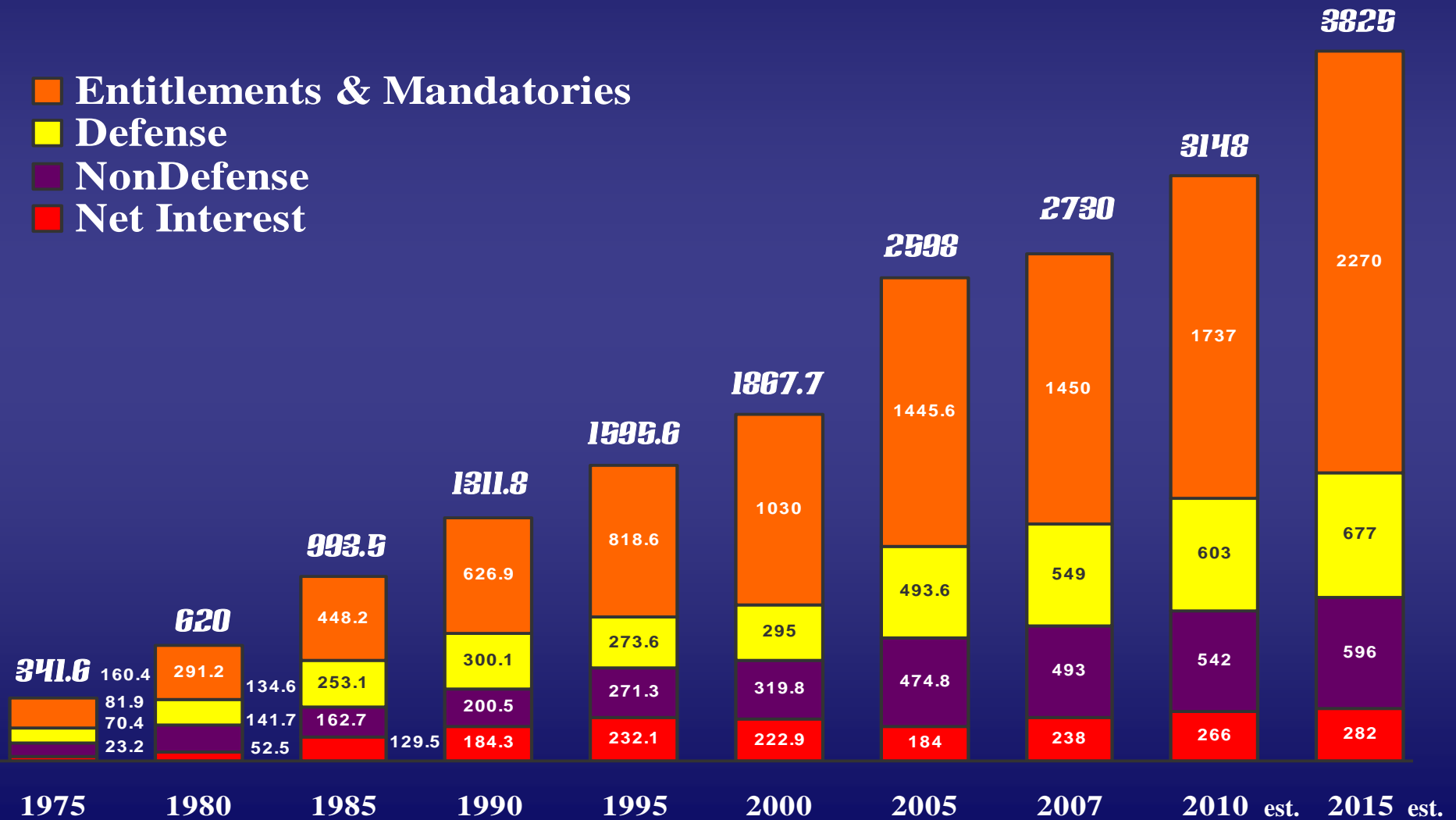


Source: Author's calculations from Brookings-Urban Tax Policy Center, Budget Outlook Tables, August 2007, Appendix 2

Major Components of the Budget

FY 1970 – FY 2015

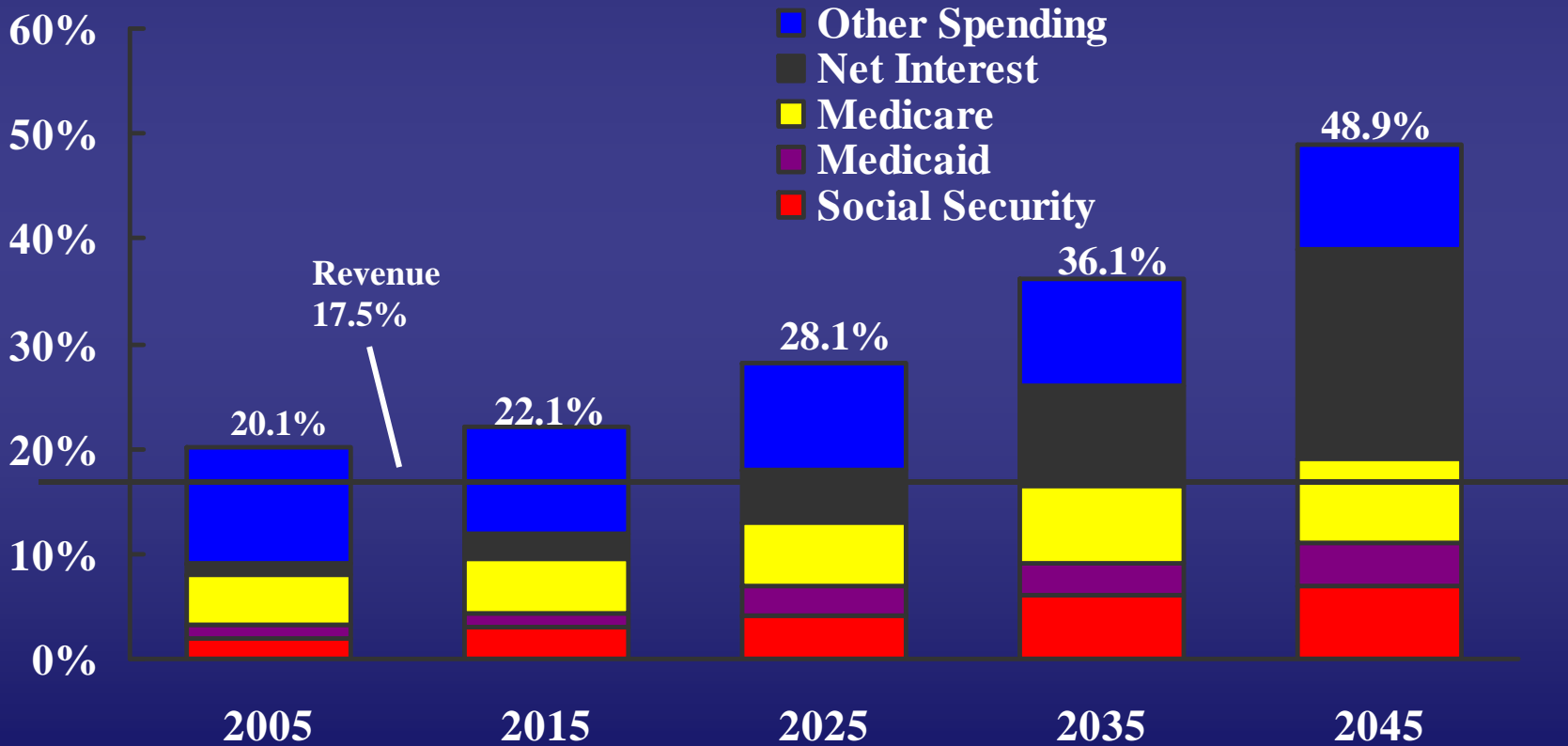
(Outlays in Billions of Dollars)



Entitlements Swamp Revenues – 2035

(Assumes discretionary spending grows with GDP and all expiring tax provisions extended.)

(percent of GDP)

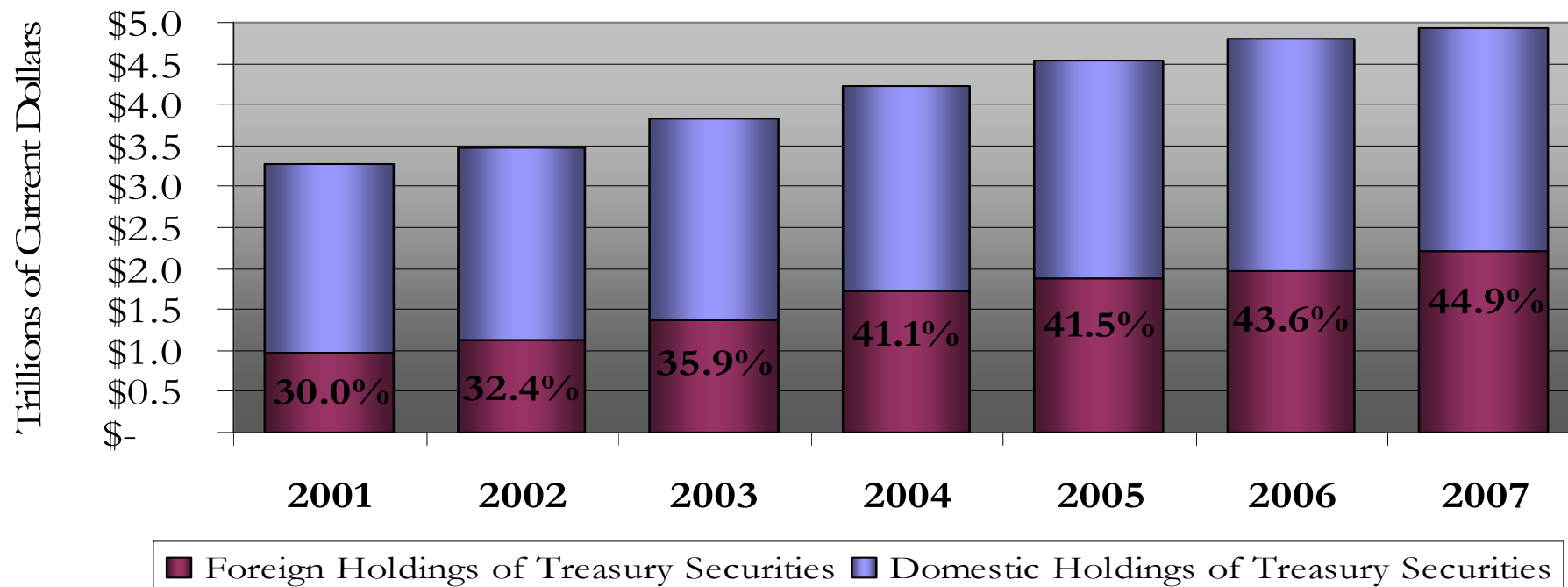


Deficits Do Matter – Why?

- Pose serious threat to the economy.
- Increases dependence on foreigners and non-U.S. central banks.
- Increasing national debt – increasing debt service.
- Shift costs of government to future generations.
- Circumscribe and constrain country's ability to respond to future emergencies or needed public investments.

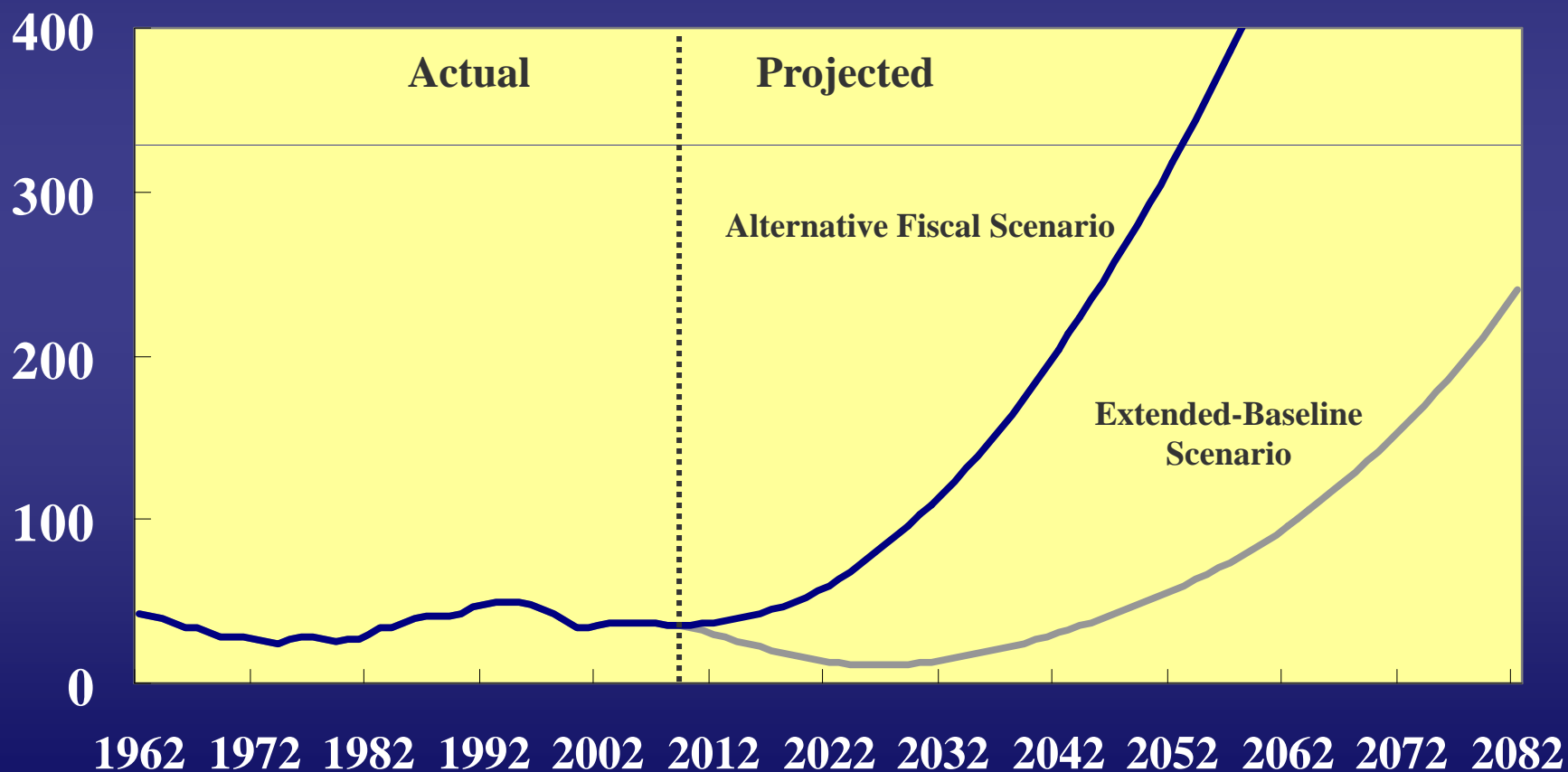
Dependence on Foreigners

Foreign Holdings as a Share of Net Federal Debt
(debt held by the public)



Source: U.S. Treasury Department (through June 2007) and U.S. Bureau of Public Debt (through June 2007)

Federal Debt Held by the Public as a Percentage of Gross Domestic Product Under CBO's Long-Term Budget Scenarios

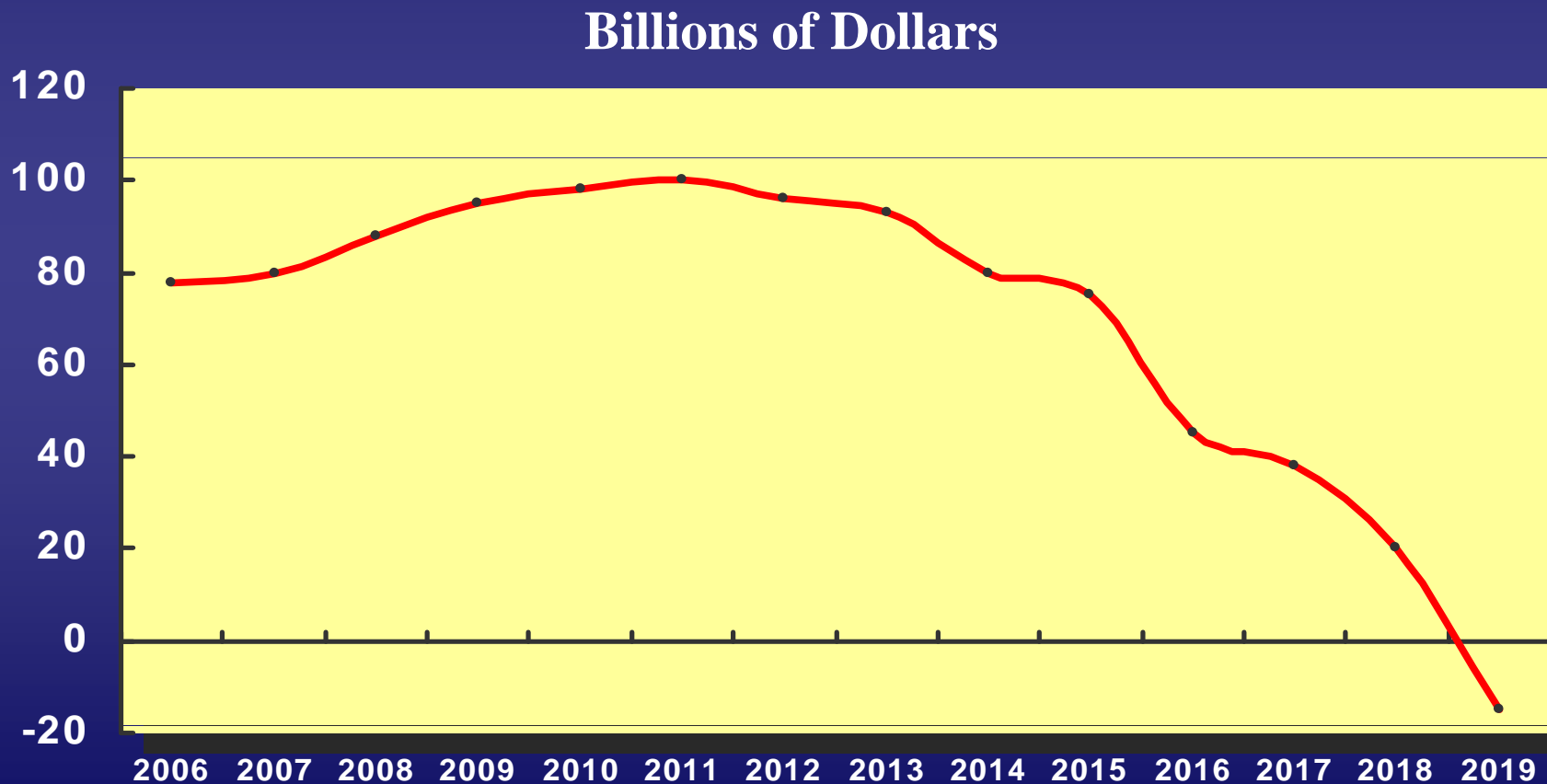


Principles for a Compromise

- Balance of spending restraint and revenue increases.
- Sensitivity to impact of higher marginal tax rates.
- Sensitivity to tax burden and spending restraint be fairly distributed.
- Emphasis on improving efficacy of government, elimination of poor performing programs.
- Not smaller or larger government – smarter and efficient.
- Recognition that non-defense share is small, while entitlement programs (health care) driving spending.

Annual Social Security Trust Fund Surpluses Excluding Interest

FY 2006-2016

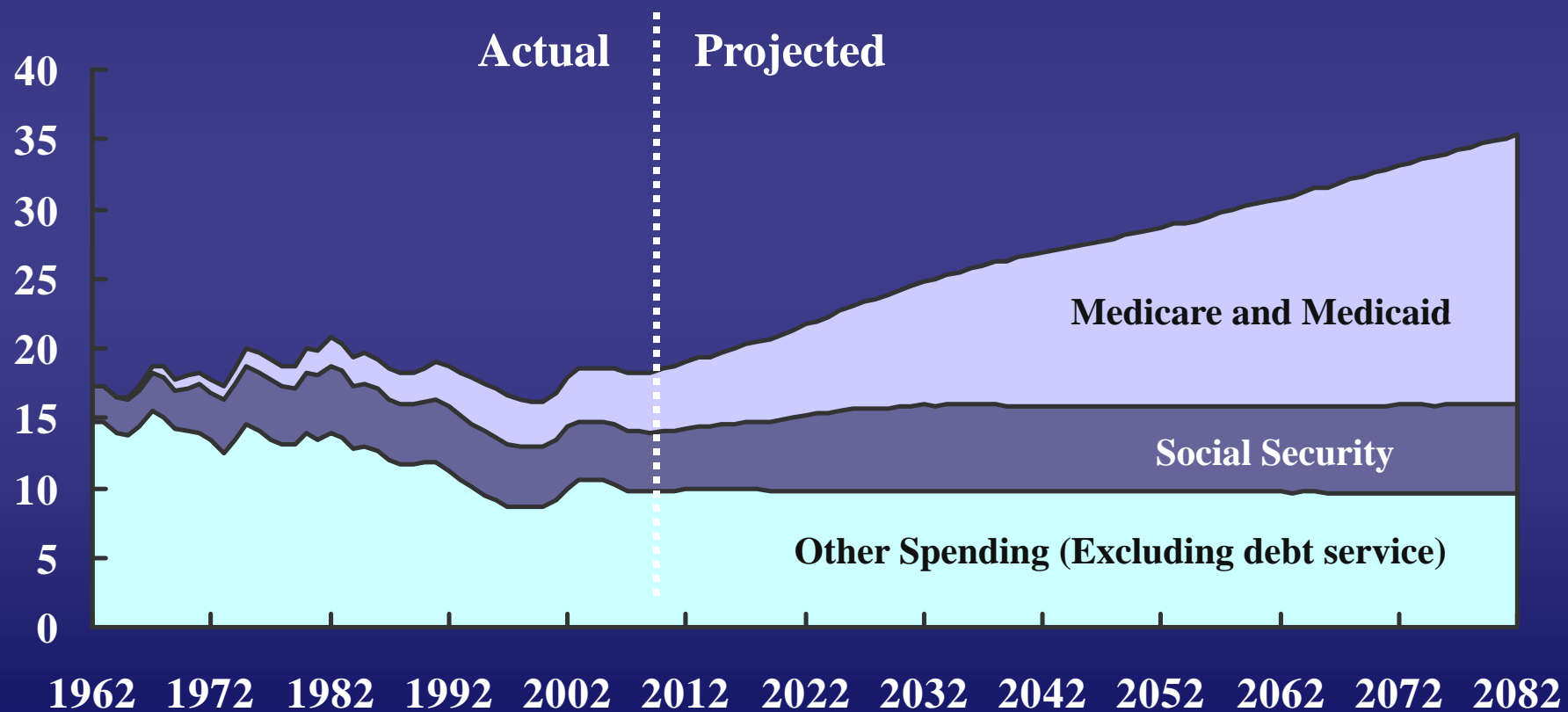


Social Security Reform Options

- Adjust age of retirement or index to longevity
- Encourage people to work longer
- Reduce future benefits for better-off while maintaining for less well-off
- Mandate *additional* savings for retirement in personal accounts
- Raise payroll tax cap

Federal Spending Under CBO's Alternative Fiscal Scenario

Percentage of Gross Domestic Product



Health Care Reform -- Critical

- **Balance public and private roles.**
 - **Basic minimum benefit package for all, universal access for all.**
 - **Align provider and consumer incentives around what works. Modify the fee for service system of payments.**
 - **Balance technology with costs and benefits (comparative effectiveness).**
 - **Improve quality measurements.**
 - **Pay for performance, value-based provider payments.**
 - **Subsidies related to income; access & community rating**
 - **Reduce/cap/eliminate employer provided health insurance exclusion – expand incentives for individual plans.**
 - **Chronic disease management, individual responsibility, health IT, electronic medical records.**

Tax Reform Options

- Fix the AMT/Tax Reform Broadly
- Do not extend all of expiring 20010/11 tax cuts
- Eliminate or reform existing deductions, credits, and other preferences
- Increase compliance
- Enact new taxes (e.g. on energy and/or on consumption)

Proposals to Budget Balance in 2013.

(In billions of \$'s.)

	“Taming”	Senate	House	POTUS
Projected Deficit:	\$188	\$188	\$188	\$188
Revenue Increases/Decreases:	+206	+258	+258	--
Outlay Reductions:				
Discretionary	-127	- 88	- 70	- 147
Mandatory	- 38	- 1	0	- 34
Debt service	- 1	- 1	- 1	+ 14
Subtotal:				
Additional investments:	+ 40	NA	NA	NA
Projected surplus/deficit	+144	+ 160	+158	- 21

Projected Deficit in 2013 assumes extension of all expiring tax provisions and discretionary spending grows at rate of nominal GDP.

What Candidates Should Do

- Commit to balance in 5 yrs; put nation on sustainable course thereafter
- Pledge to work in a bipartisan way
- Put all options on table
- Be honest about magnitude of challenge and types of changes that will be needed
- Propose reforms to process, while acknowledging that these alone not enough



