

# U.S. Currently Borrowing 40 Cents of Every Dollar It Spends

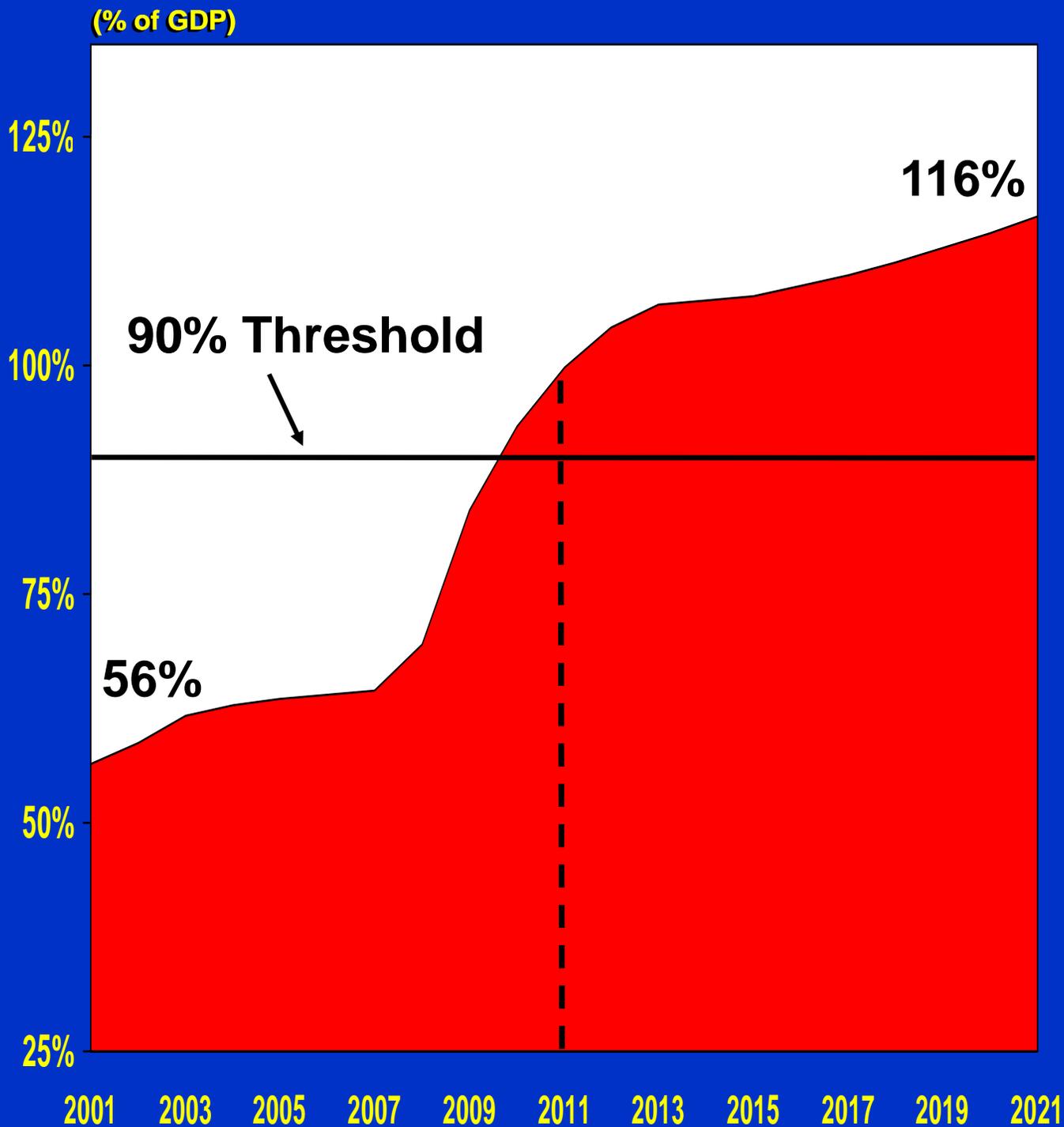


# **Admiral Mullen on Debt Threat**

**“Our national debt is  
our biggest national  
security threat.”**

**–Admiral Mike Mullen, Chairman of  
the Joint Chiefs of Staff  
“Tribute to the Troops” Breakfast  
June 24, 2010**

# Gross Debt as Percent of GDP



Source: OMB, CBO

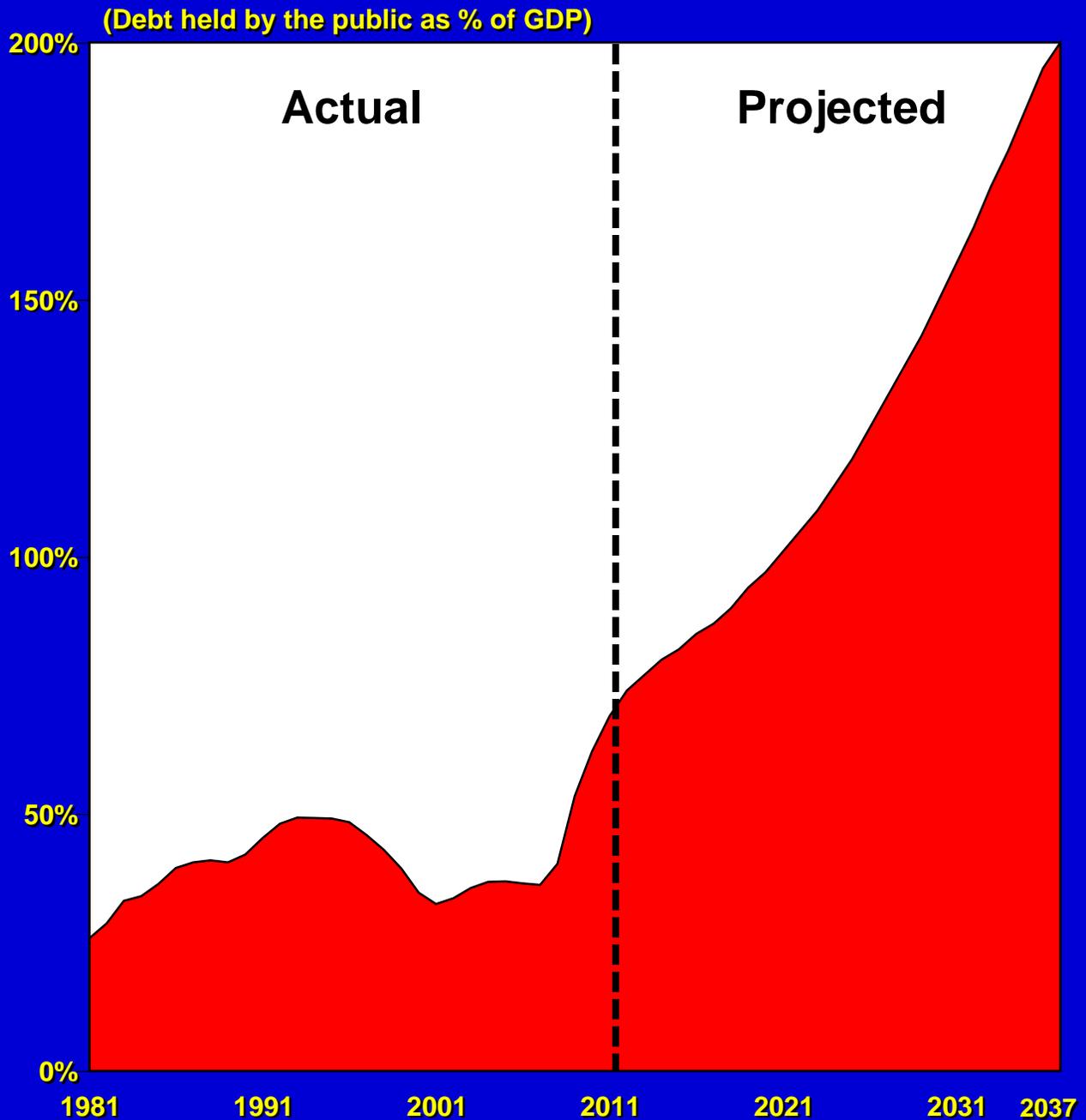
Note: 2011-2021 reflects CBO March 2011 baseline adjusted for extension of middle-class tax cuts, estate tax at 2009 levels, AMT relief, Doc fix extended, and CBO drawdown scenario.

# **Economists Reinhart and Rogoff on Danger of Gross Debt Above 90 Percent of GDP Threshold**

**“We examine the experience of 44 countries spanning up to two centuries of data on central government debt, inflation and growth. Our main finding is that across both advanced countries and emerging markets, high debt / GDP levels (90 percent and above) are associated with notably lower growth outcomes.”**

**– Carmen M. Reinhart and Kenneth S. Rogoff  
“Growth in a Time of Debt,” American  
Economic Review: Papers & Proceedings  
May 2010**

# CBO Long-Term Debt Outlook



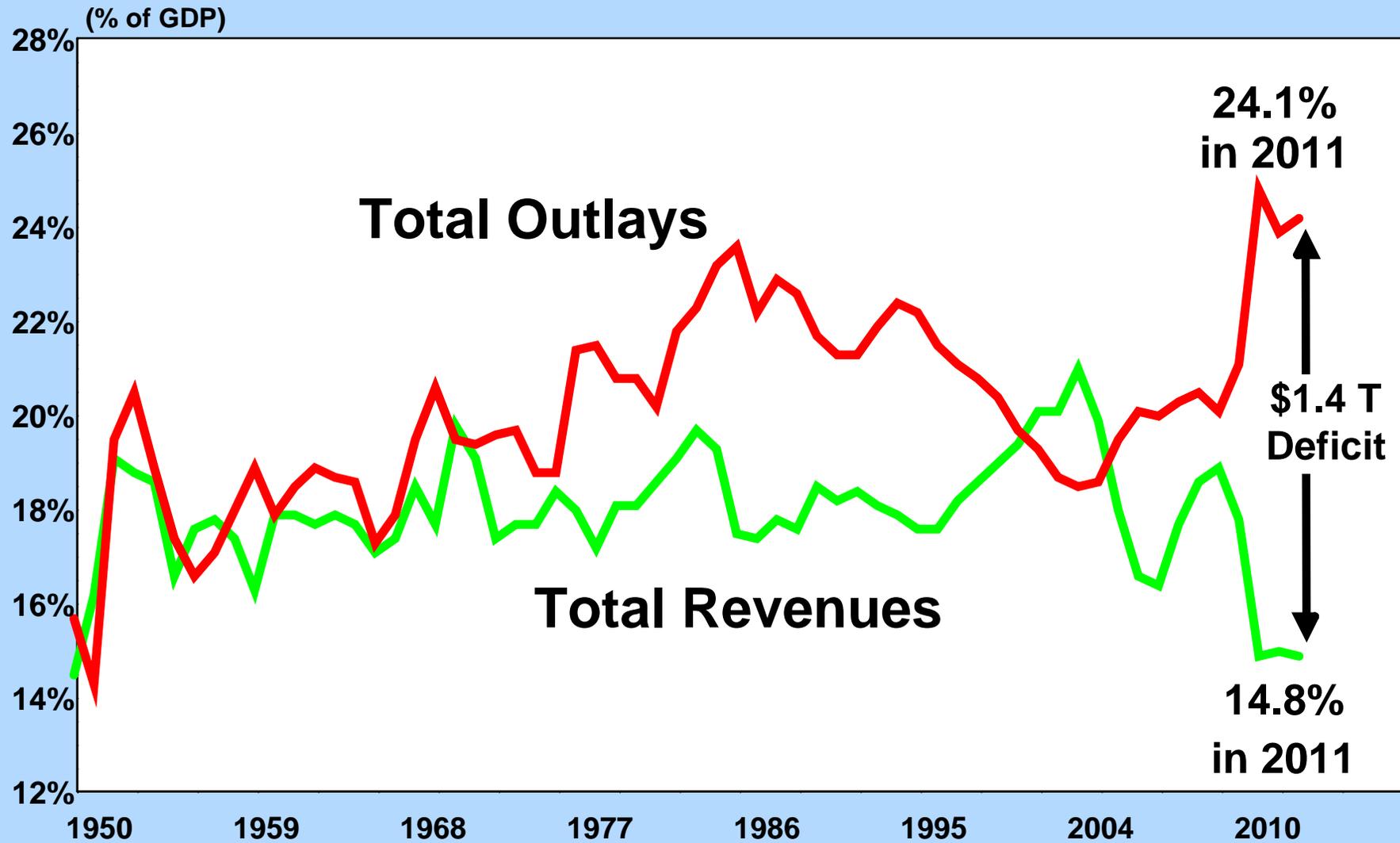
Source: CBO Long-Term Budget Outlook, June 2011  
Note: CBO alternative fiscal scenario.

**Every one percentage  
point increase in  
interest rates adds  
\$1.3 T to deficits  
over ten years.**

**Source: CBO**

**Note: Increase in interest rates above current baseline levels.**

# Spending and Revenues



Sources: OMB, CBO

# On the way to a surplus, a \$12 trillion U.S. detour

In 2001, the nation looked to be debt-free in a decade. In 2011, it's anything but.

BY LORI MONTGOMERY

The nation's unnerving descent into debt began a decade ago with a choice, not a crisis.

In January 2001, with the budget balanced and clear sailing ahead, the Congressional Budget Office forecast ever-larger annual surpluses indefinitely. The outlook was so rosy, the CBO said, that Washington would have enough money by the end of the decade to pay off everything it owed.

Voices of caution were swept aside in the rush to take advantage of the apparent bounty. Political leaders chose to cut taxes, jack up spending and, for the first time in U.S. history, wage two wars solely with borrowed funds. "In the end, the floodgates opened," said former senator Pete

Big-ticket spending initiated by the Bush administration accounts for 12 percent of the shift. The Iraq and Afghanistan wars have added \$1.3 trillion in new borrowing. A new prescription drug benefit for Medicare recipients contributed \$272 billion. The Troubled Assets Relief Program bank bailout, which infuriated voters and led to the defeat of several legislators in 2010, added just \$16 billion — and may eventually cost nothing as financial institutions repay the Treasury.

Obama's 2009 economic stimulus, a favorite target of Republi-

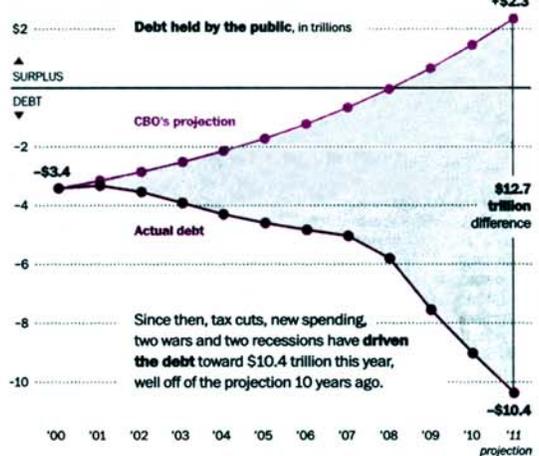
The biggest culprit, by far, has been an erosion of tax revenue triggered largely by two recessions and multiple rounds of tax cuts. Together, the economy and the tax bills enacted under former president George W. Bush, and to a lesser extent by President Obama, wiped out \$6.3 trillion in anticipated revenue. That's nearly half of the \$12.7 trillion swing from projected surpluses to real debt. Federal tax collections now stand at their lowest level as a percentage of the economy in 60 years.

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debt — and of the difficulty of re-balancing the budget without new tax revenue.

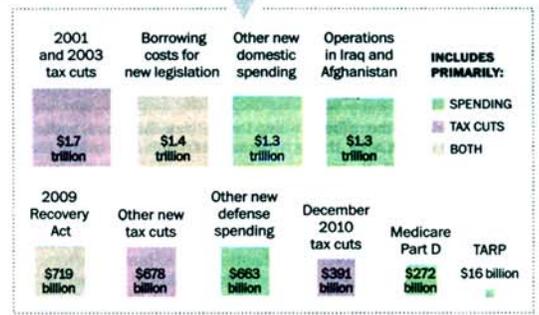
## From surplus to debt

In 2000, the United States had \$3.4 trillion in debt held by the public. Based on policies in place at the time, the Congressional Budget Office projected in 2001 that the country could pay off its debt by the year 2008 and by 2011 have a \$2.3 trillion surplus.



## How we got here

The difference between the surplus projected for 2011 and the actual debt level is approaching \$12.7 trillion. New legislation, made up of spending as well as tax cuts, contributed to most of this difference.



SOURCE: Pew Fiscal Analysis Initiative analysis of CBO data ALICIA PARLAPIANO/THE WASHINGTON POST

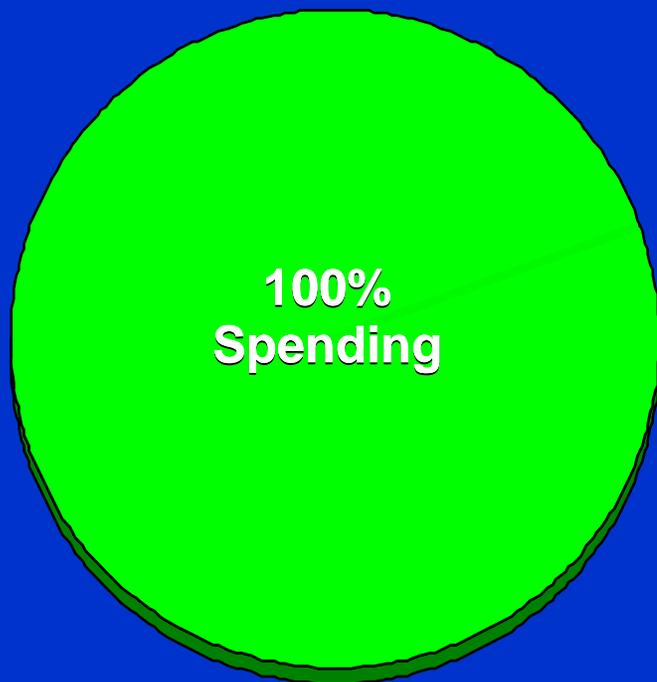
document of fiscal discipline in the wake of the surpluses clearly didn't help. "Nobody pushed for paying for this stuff," he said. Not even after "it became very clear in

the middle of 2003 that the line had turned on us. And the surpluses as far as the eye could see were no longer there."

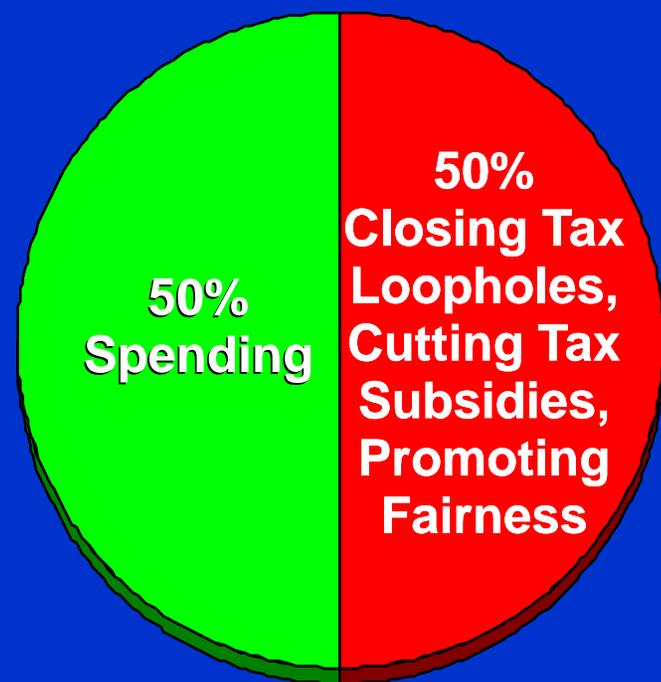
montgomery@washpost.com

# Budget Framework Achieves Savings in Far More Balanced Way Than House GOP Plan 2012 - 2021

## House GOP



## Budget Framework

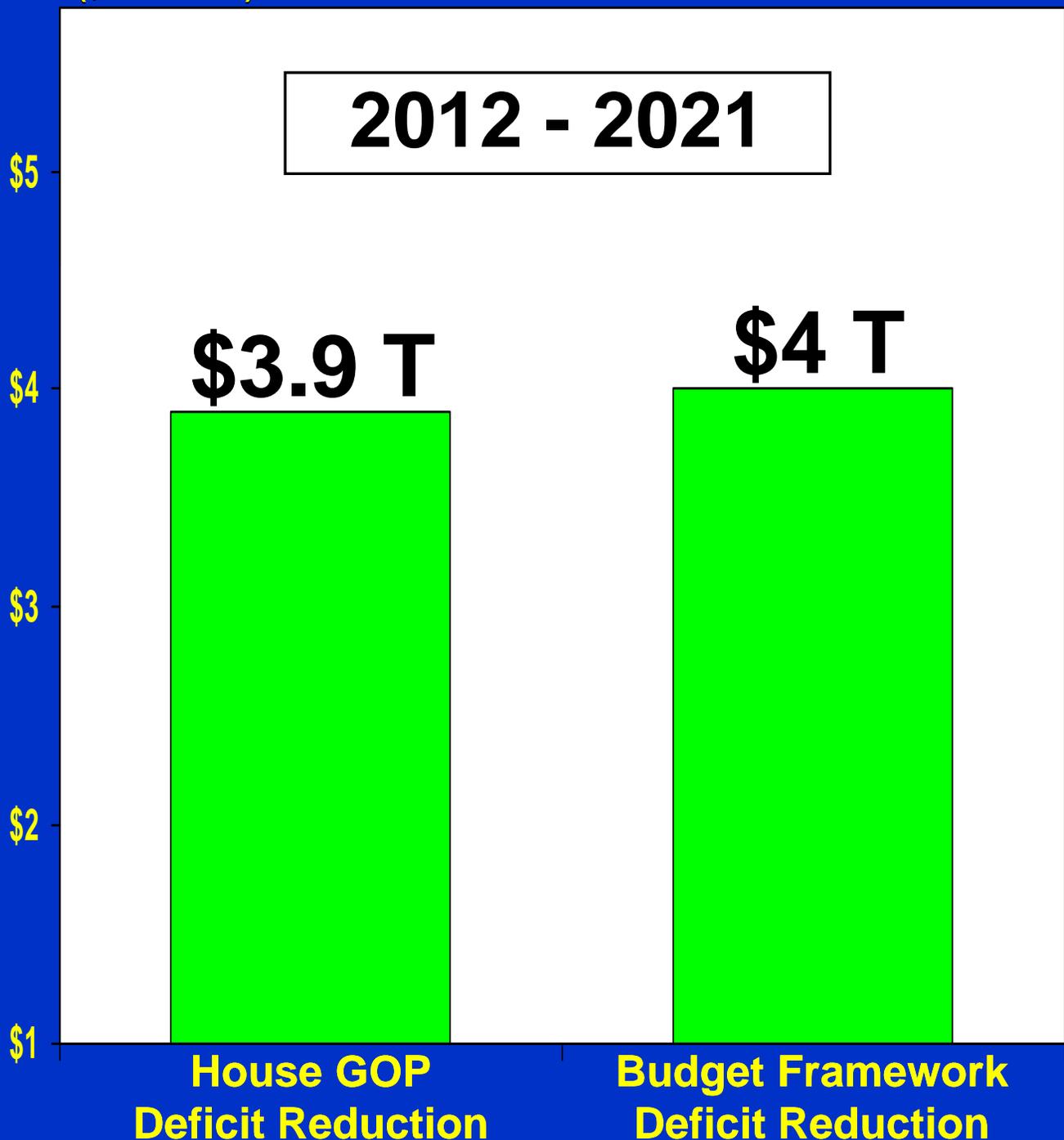


Source: HBC, SBC

Note: Savings relative to plausible baseline.

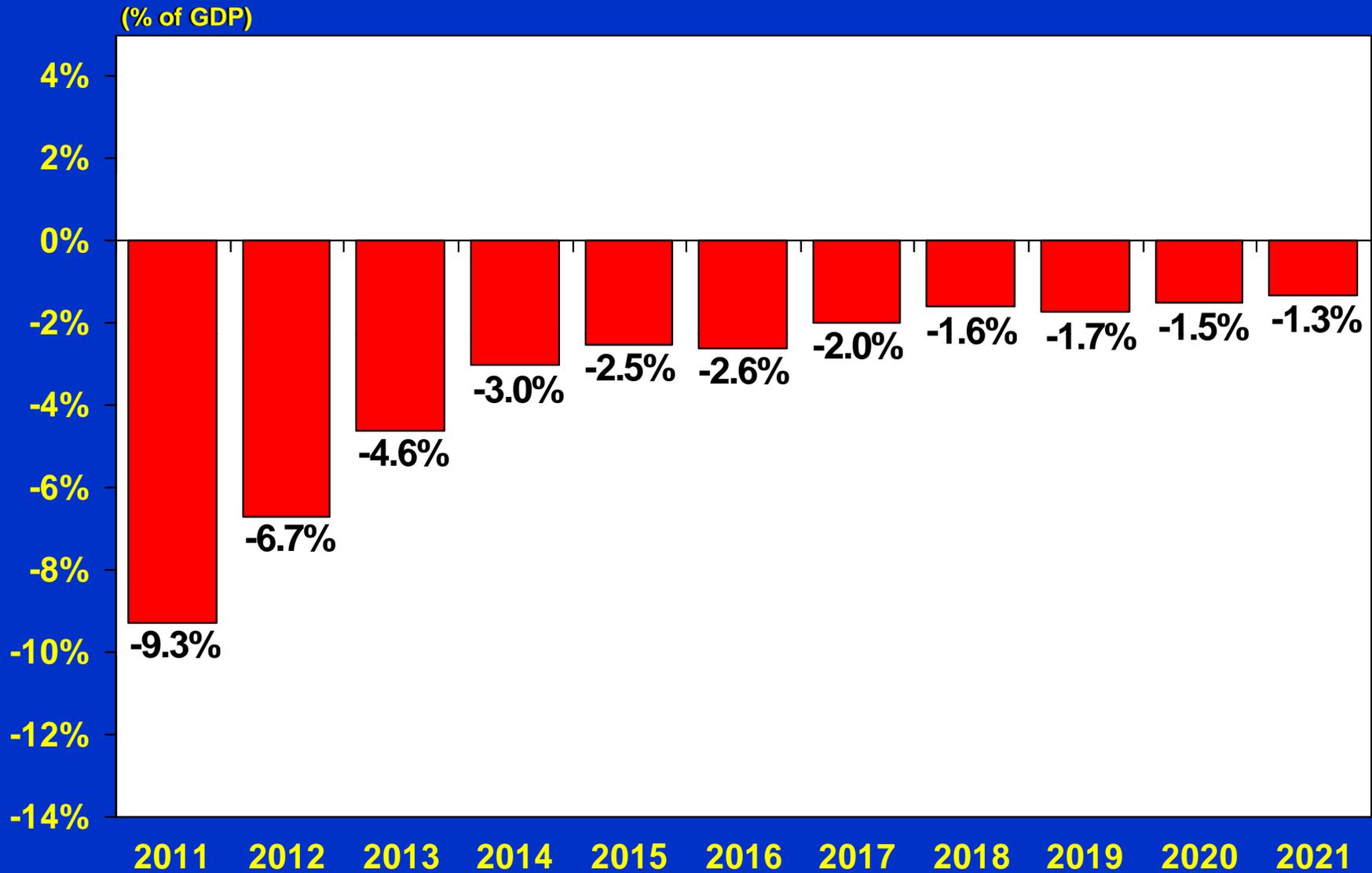
# Budget Framework Includes Roughly Same Amount of Deficit Reduction as House GOP Plan

(\$ in trillions)

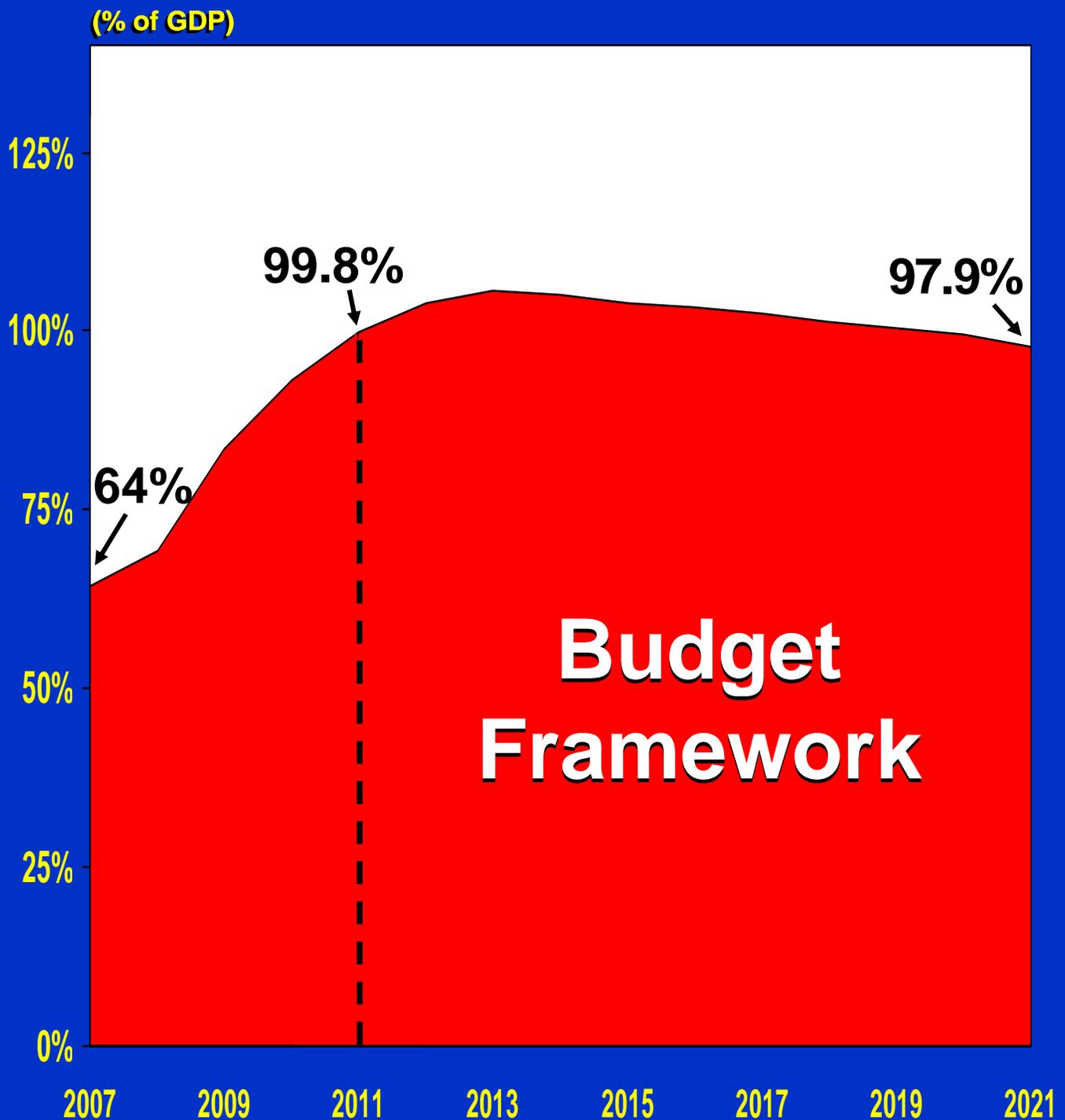


Source: HBC, SBC

# Deficit as % of GDP Under Budget Framework



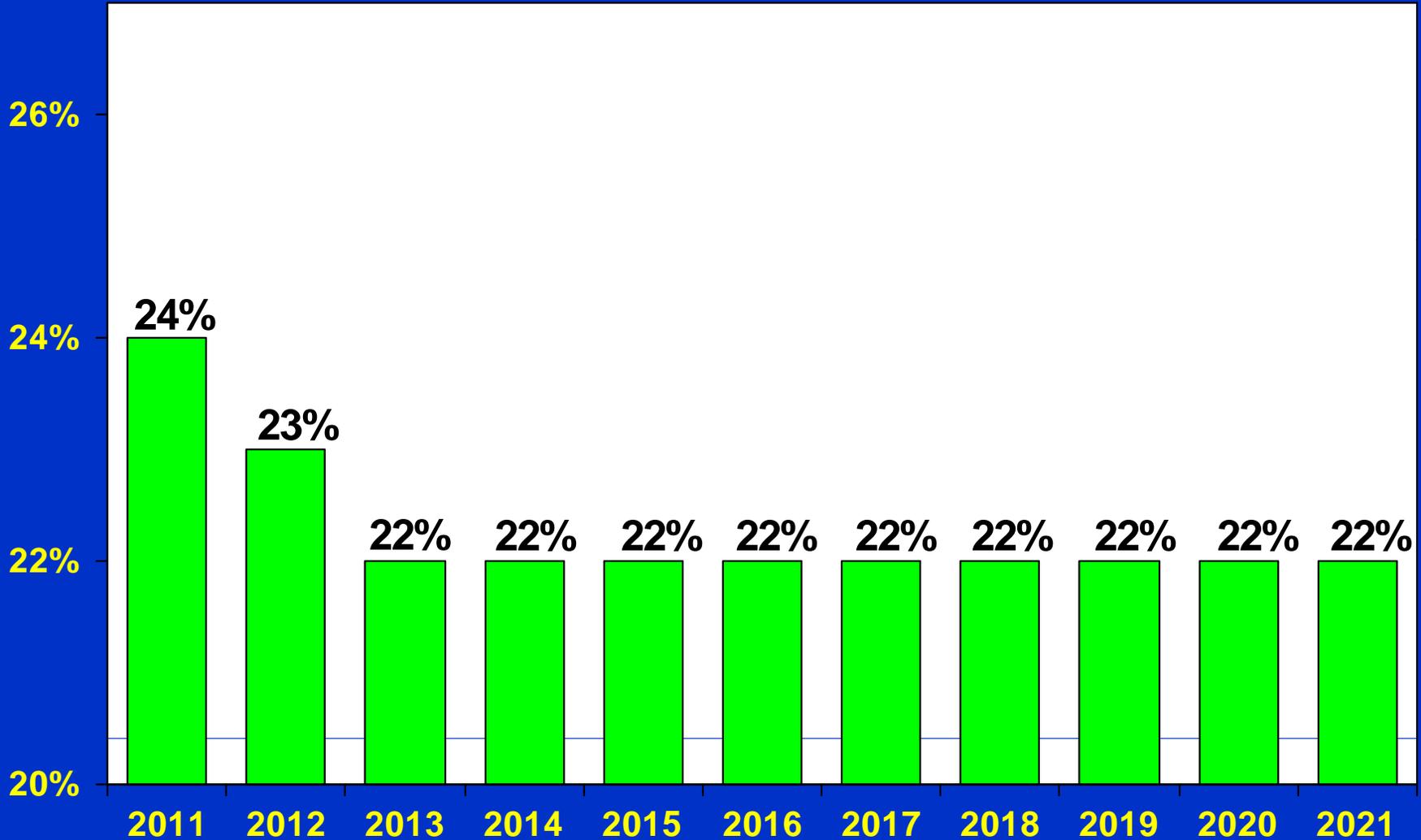
# Gross Debt as % of GDP Under Budget Framework



Source: OMB, SBC

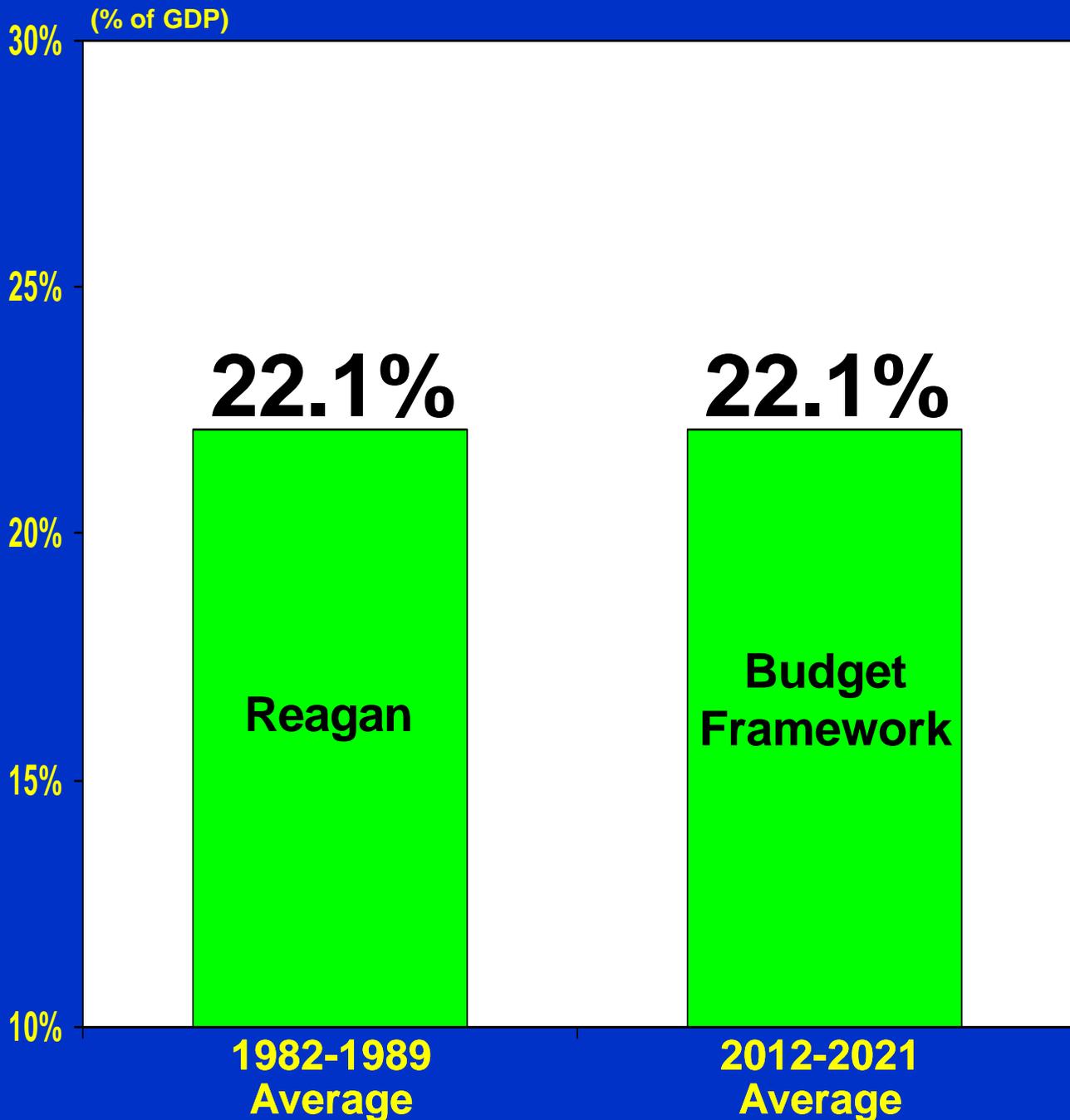
# Spending as Percent of GDP Under Budget Framework

(% of GDP)



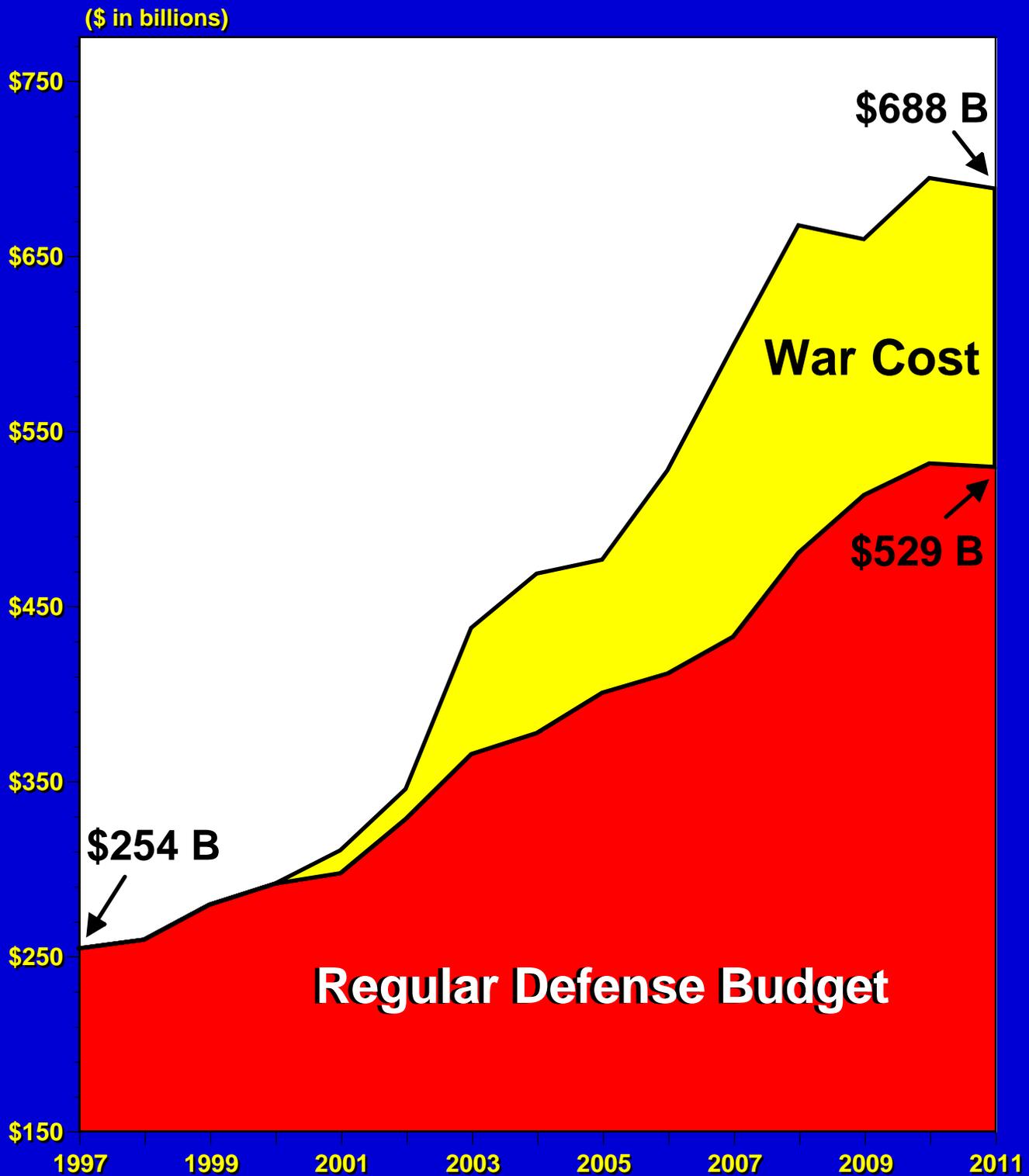
Source: SBC

# Reagan vs. Budget Framework Spending Comparison



Source: OMB, SBC

# Defense Budget Growth



Source: OMB, CBO

# Defense Secretary Gates on Defense Funding

**“...[T]he budget of the Pentagon almost doubled during the last decade. But our capabilities didn’t particularly expand. A lot of that money went into infrastructure and overhead and, frankly, I think a culture that had an open checkbook.”**

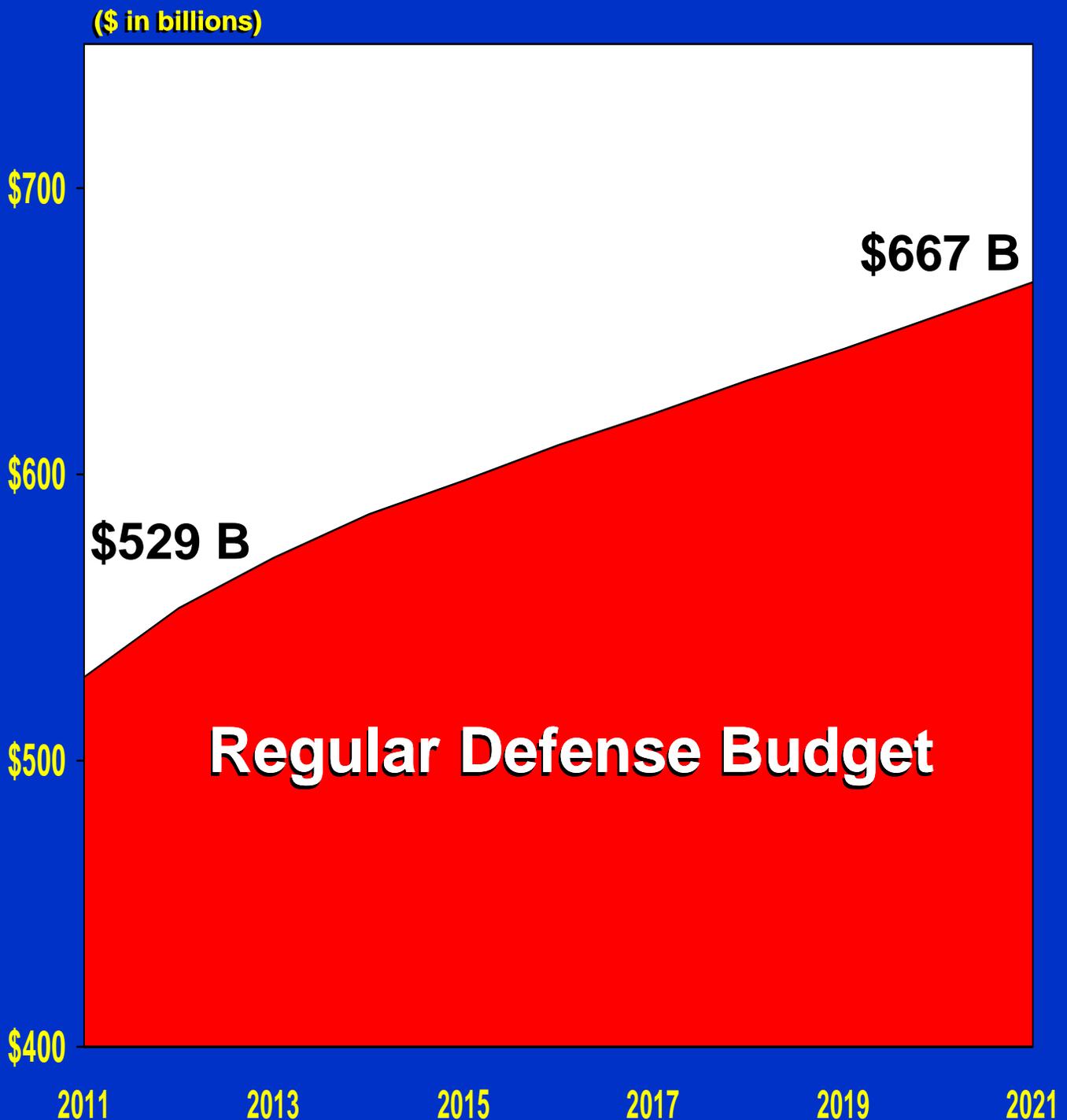
**–Secretary of Defense Robert Gates  
Interview on CBS’s *60 Minutes*  
May 15, 2011**

# Representative Ryan on Defense Savings

**“There are a lot of savings  
you can get in defense...  
There’s a lot of waste over  
there, for sure.”**

**– Representative Paul Ryan (R-WI)  
Remarks to Peterson Foundation  
2010 Fiscal Summit  
April 28, 2010**

# Defense Funding Under House Republican Plan

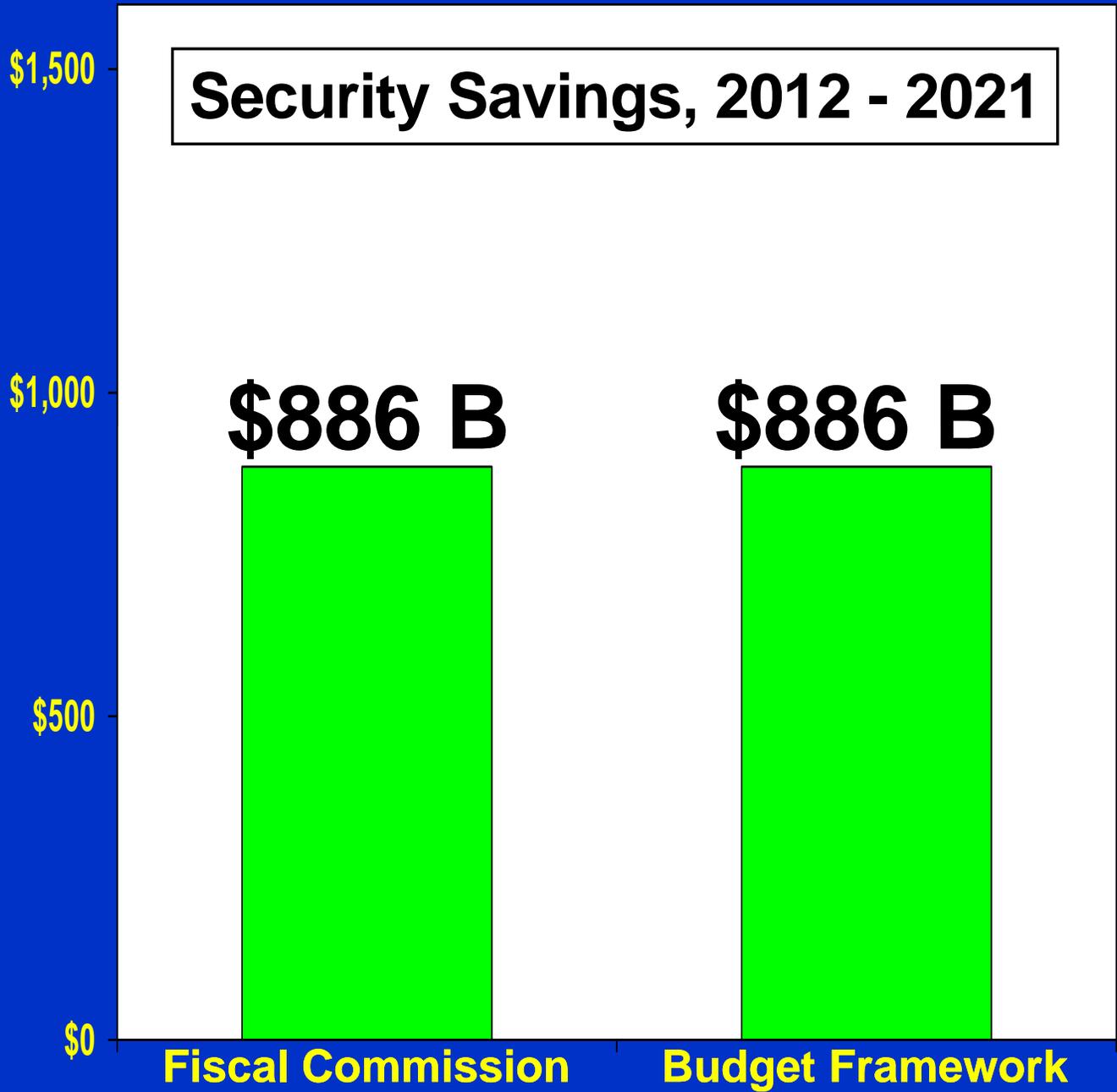


Source: HBC

Note: DoD funding; excluding war cost

# Budget Framework Matches Fiscal Commission Savings in Security Over 10 Years

(\$ in billions)



Source: SBC

Note: Savings compared to CBO March baseline, excluding war funding.

# **Government-Wide Savings in Budget Framework**

- **Freeze Member pay for 3 years**
- **Freeze Legislative branch and White House budgets for 3 years**
- **Freeze civilian pay for 2 years**
- **Reduce federal vehicle fleet by 20%**
- **Reduce travel costs of federal agencies by 20%**
- **Reduce federal printing costs by \$1 B by 2015**
- **Reduce number of contractors**

# House Republican Plan on Revenue

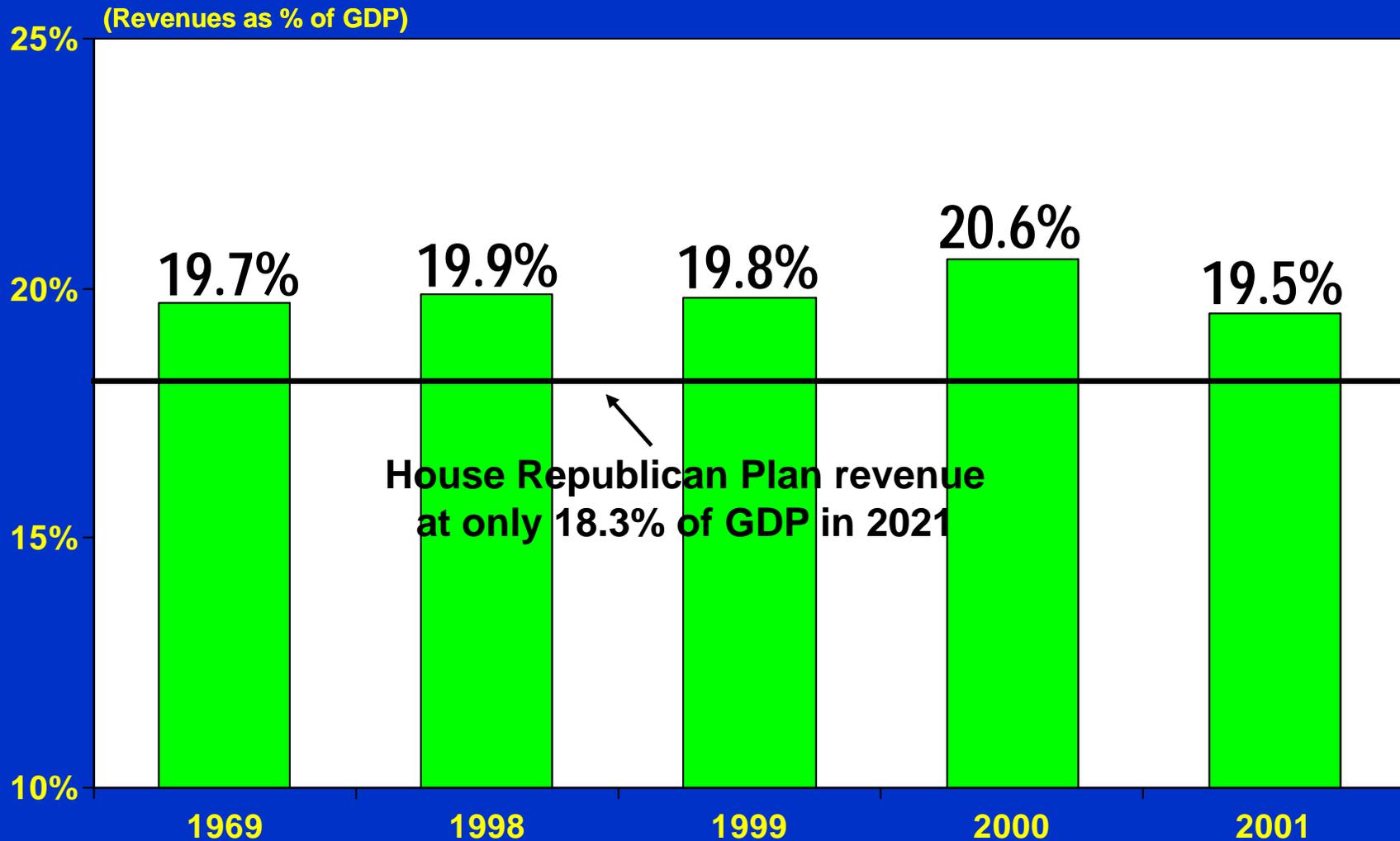
- **Cut revenue \$4.2 T below CBO baseline**
- **\$1 T in tax cuts for wealthiest**
  - **extend top rate cuts**
  - **\$5 M estate tax exemption**
- **Revenues reach only 18.3% of GDP by 2021**

# Former Reagan Economic Advisor Bartlett on House Republican Plan

“Distributionally, the Ryan plan is a monstrosity. The rich would receive huge tax cuts while the social safety net would be shredded to pay for them. Even as an opening bid to begin budget negotiations with the Democrats, the Ryan plan cannot be taken seriously. It is less of a wish list than a fairy tale utterly disconnected from the real world, backed up by make-believe numbers and unreasonable assumptions. Ryan’s plan isn’t even an act of courage; it’s just pandering to the Tea Party. A real act of courage would have been for him to admit, as all serious budget analysts know, that revenues will have to rise well above 19 percent of GDP to stabilize the debt.”

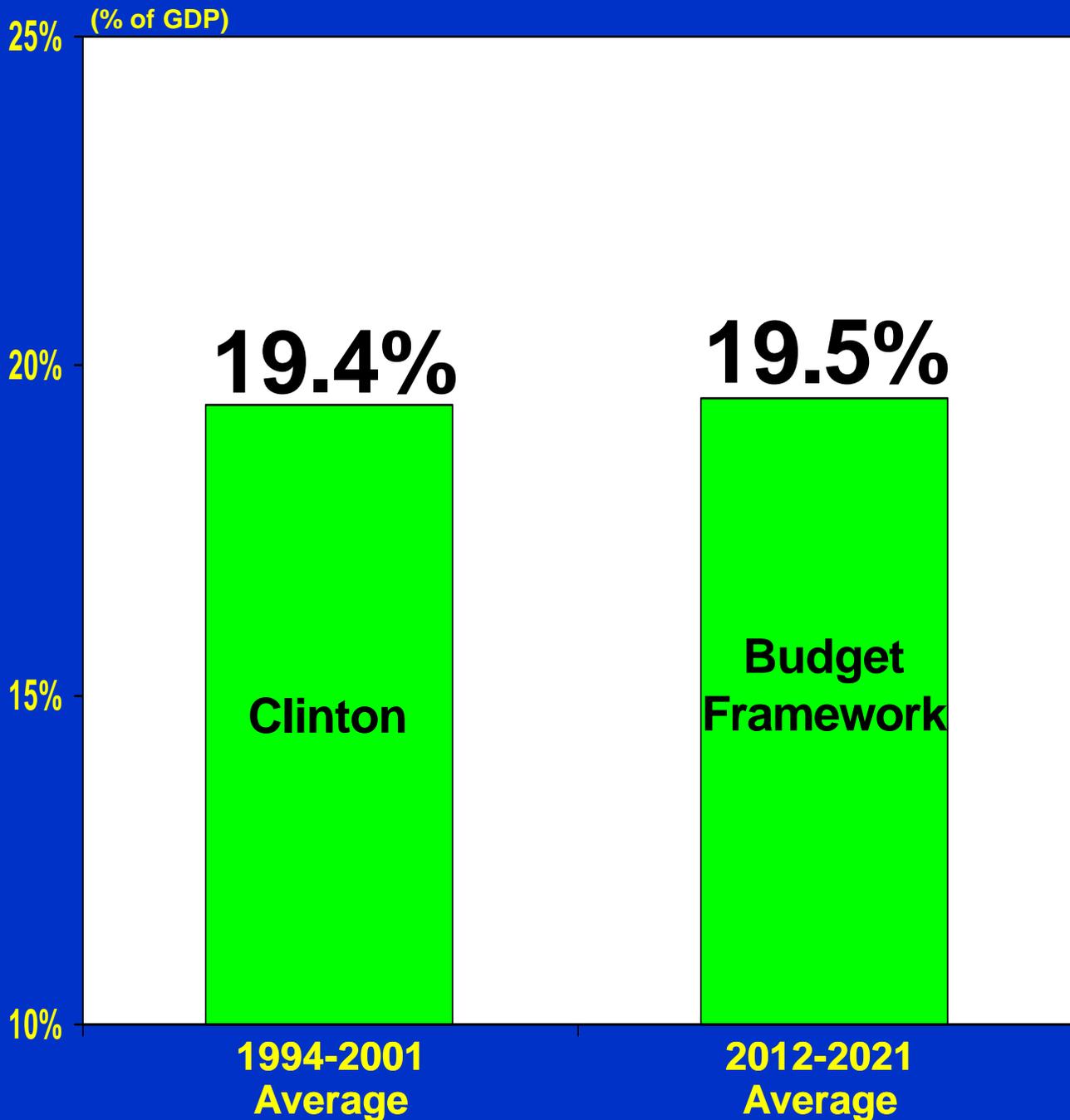
– **Former Reagan Administration Economic Advisor  
Bruce Bartlett**  
**Capital Gains and Games Blog, *Imbalanced  
Budget: Ryan Gives Wealthy a Free Pass***  
**April 11, 2011**

# Last Five Times Budget in Surplus, Revenues Near 20% of GDP



Source: OMB

# Clinton vs. Budget Framework Revenue Comparison



Source: OMB, SBC

# **Tax Fairness Proposals in Budget Framework**

- **Tax reform that simplifies tax code – scales back tax loopholes**
- **Protects middle class**
- **Improves progressivity and fairness of code**
- **Promotes economic growth and U.S. competitiveness**
- **Addresses tax gap, offshore tax havens, and abusive shelters**
- **Ensures corporations pay their fair share**

# Revenue Assumptions in Budget Framework

- **Assumes:**
  - Tax cuts extended for singles up to \$500K, couples up to \$1M
  - For those over \$500K / \$1M: top rate at 39.6%, cap gains and dividends at 20%
  - AMT relief extended
  - Estate tax at '09 level extended
- **Assumes net \$2 T of additional funds from closing tax loopholes, cutting tax subsidies, promoting tax fairness**
  - Over ten years relative to plausible baseline
- **Assumes tax preferences for individuals reduced 9%-17%, depending on amount of offshore havens and abusive shelters closed**
  - Rate cuts could be achieved by reducing them further
- **Assumes corporate rate lowered to 29%, offset by reducing corporate tax expenditures and closing corporate loopholes**
- **Specific policies to be determined by Finance Committee**

## **Revenue losses over 10 years:**

<b>Individual tax preferences</b>	<b>\$14 T</b>
<b>Offshore tax havens / abusive shelters</b>	<b>\$1.4 T</b>

## **Percent reduction in tax preferences needed assuming different amounts recovered from offshore tax havens / abusive shelters:**

<b>Recover 0% of tax haven / shelter loss</b>	<b>17%</b>
<b>Recover 20% of tax haven / shelter loss</b>	<b>15%</b>
<b>Recover 40% of tax haven / shelter loss</b>	<b>13%</b>
<b>Recover 60% of tax haven / shelter loss</b>	<b>11%</b>
<b>Recover 80% of tax haven / shelter loss</b>	<b>9%</b>

# **Under CBO Scoring, Budget Framework Includes \$765 B Tax Cut**

## **Tax Cuts Include:**

**Extension of middle-class tax cuts**

**AMT relief**

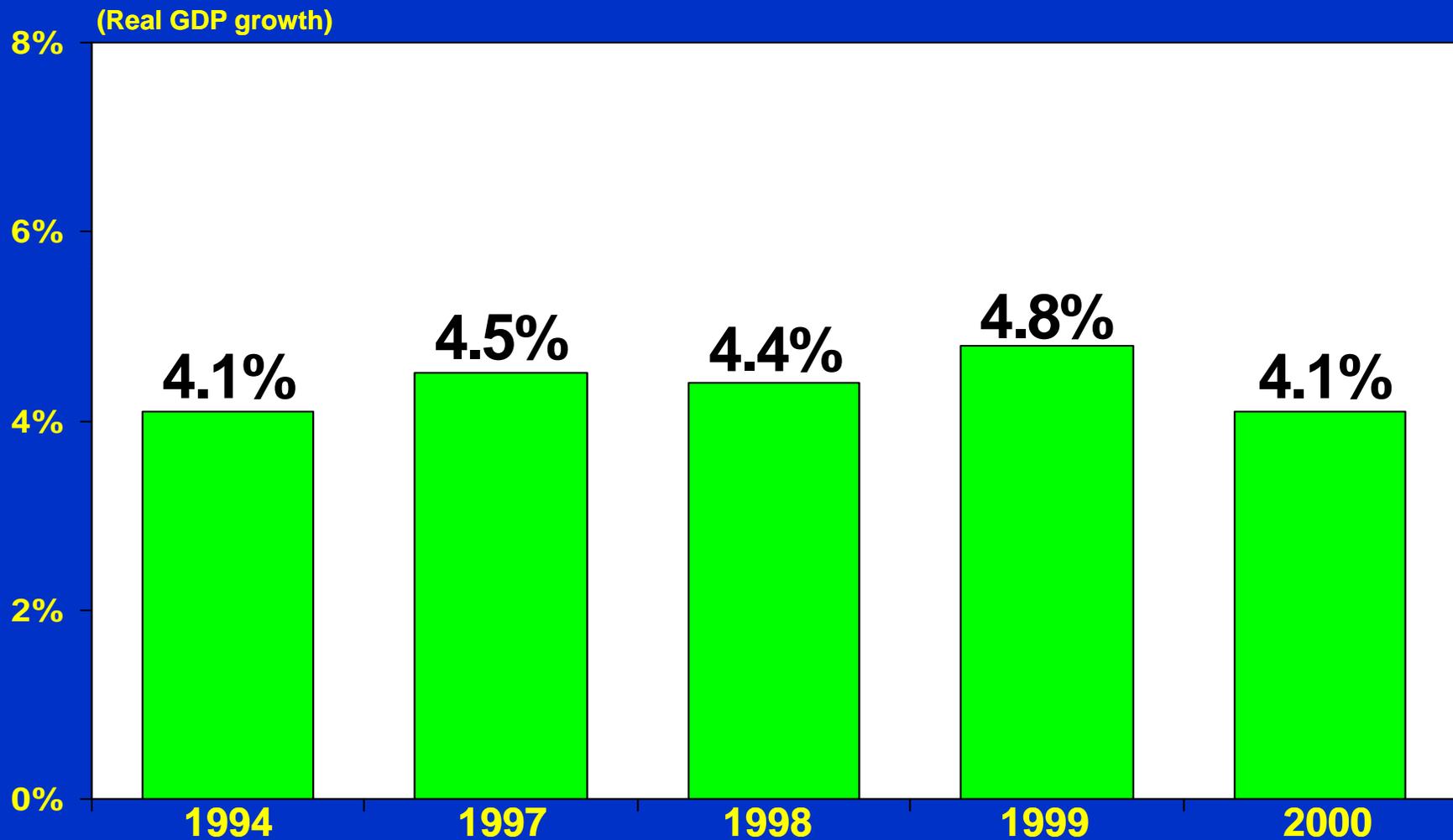
**Estate tax reform at 2009 levels**

**Note: The framework also provides \$262 B of tax relief through the extension of refundable tax credits for a total of \$1 T.**

# **Last Time Top Rate Was 39.6%, We Experienced Longest Period of Uninterrupted Economic Growth in U.S. History**

- **39 quarters of economic growth**
  - **1991–2000**
- **24 million jobs created**
  - **Best record ever**

# Last Five Times Economic Growth Was Above 4%, Top Tax Rate Was 39.6%



Source: Bureau of Labor Statistics and Tax Policy Center

# **Economist Feldstein on Need to Reduce Tax Expenditures**

**“Cutting tax expenditures is really the best way to reduce government spending.... [E]liminating tax expenditures does not increase marginal tax rates or reduce the reward for saving, investment or risk-taking. It would also increase overall economic efficiency by removing incentives that distort private spending decisions. And eliminating or consolidating the large number of overlapping tax-based subsidies would also greatly simplify tax filing. In short, cutting tax expenditures is not at all like other ways of raising revenue.”**

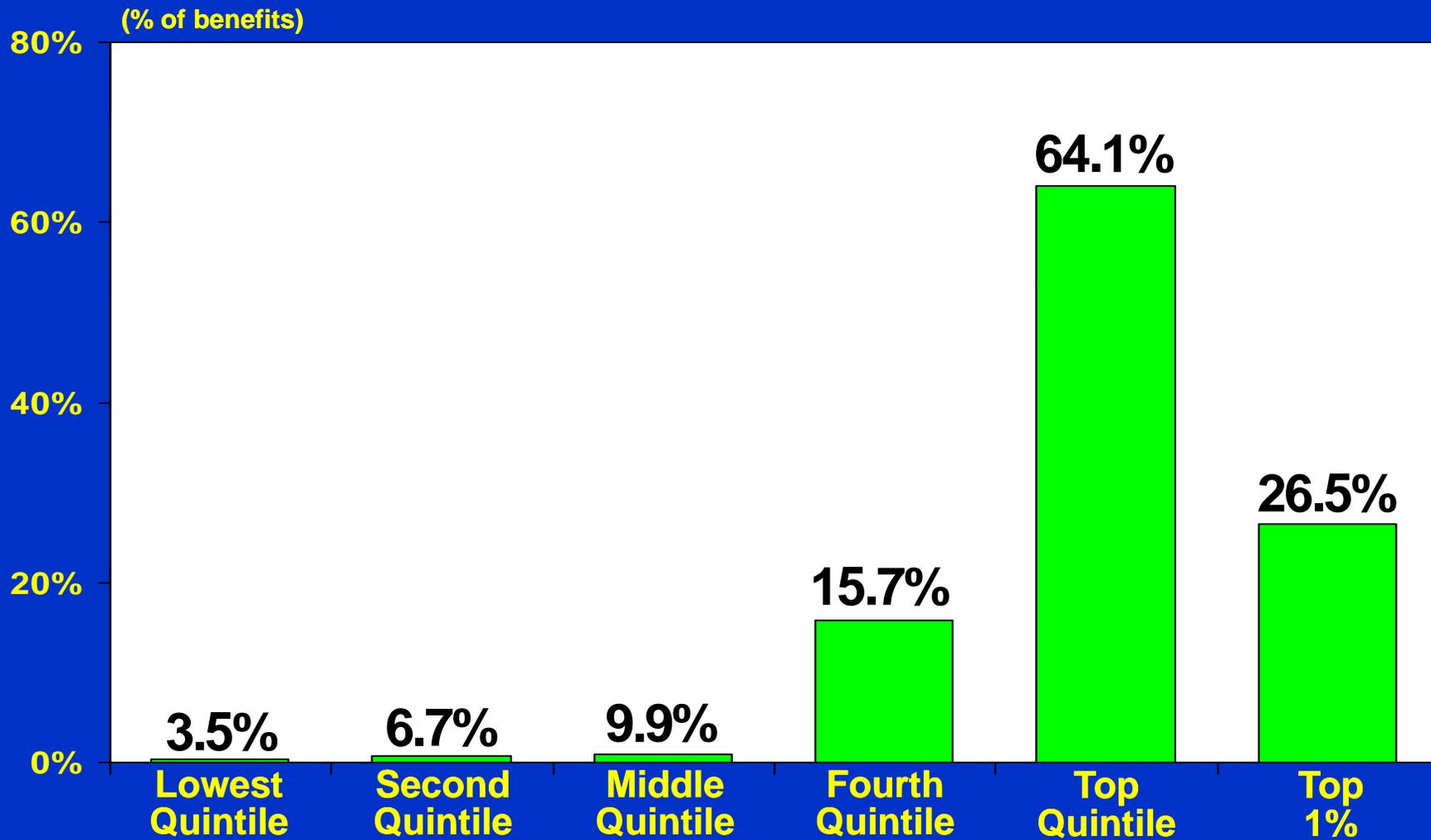
**– Martin Feldstein  
Professor of Economics at Harvard University  
Chairman of Council of Economic Advisers under President Reagan  
“The ‘Tax Expenditure’ Solution for Our National Debt,”  
*Wall Street Journal*  
July 20, 2010**

# Former Fed Chairman Greenspan on Tax Expenditures

**“I think that the Republicans ought to identify a very significant amount of so-called tax expenditures which in fact are misclassified. They are expenditures, they are outlays and many are subsidies and subsidies are not the type of thing that you want for an efficient market system. There are a lot of them.”**

**–Former Fed Chairman Alan Greenspan  
Comments on CNBC’s *The Closing Bell*  
June 30, 2011**

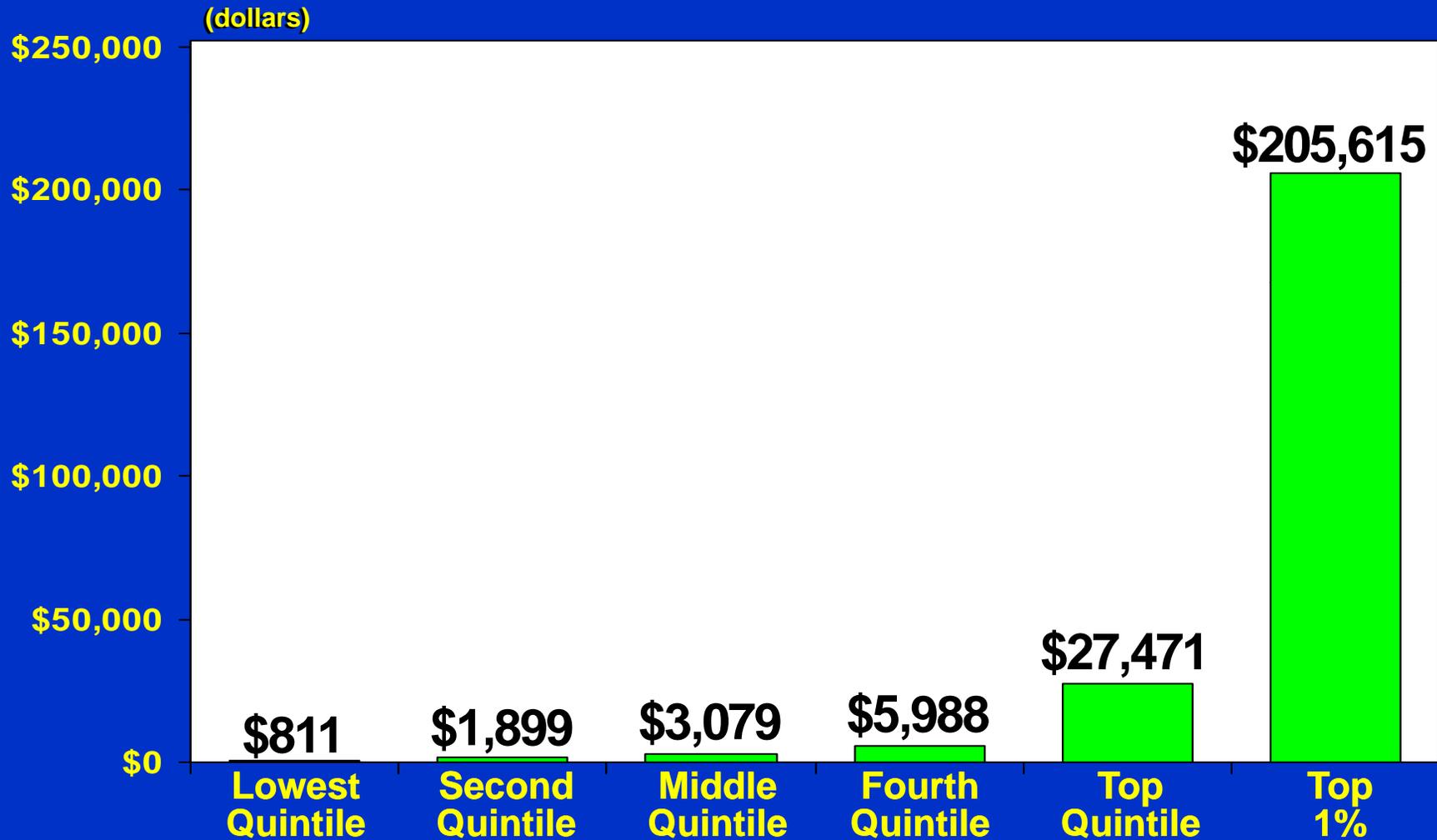
# Distribution of Benefits from Tax Expenditures



Source: Tax Policy Center

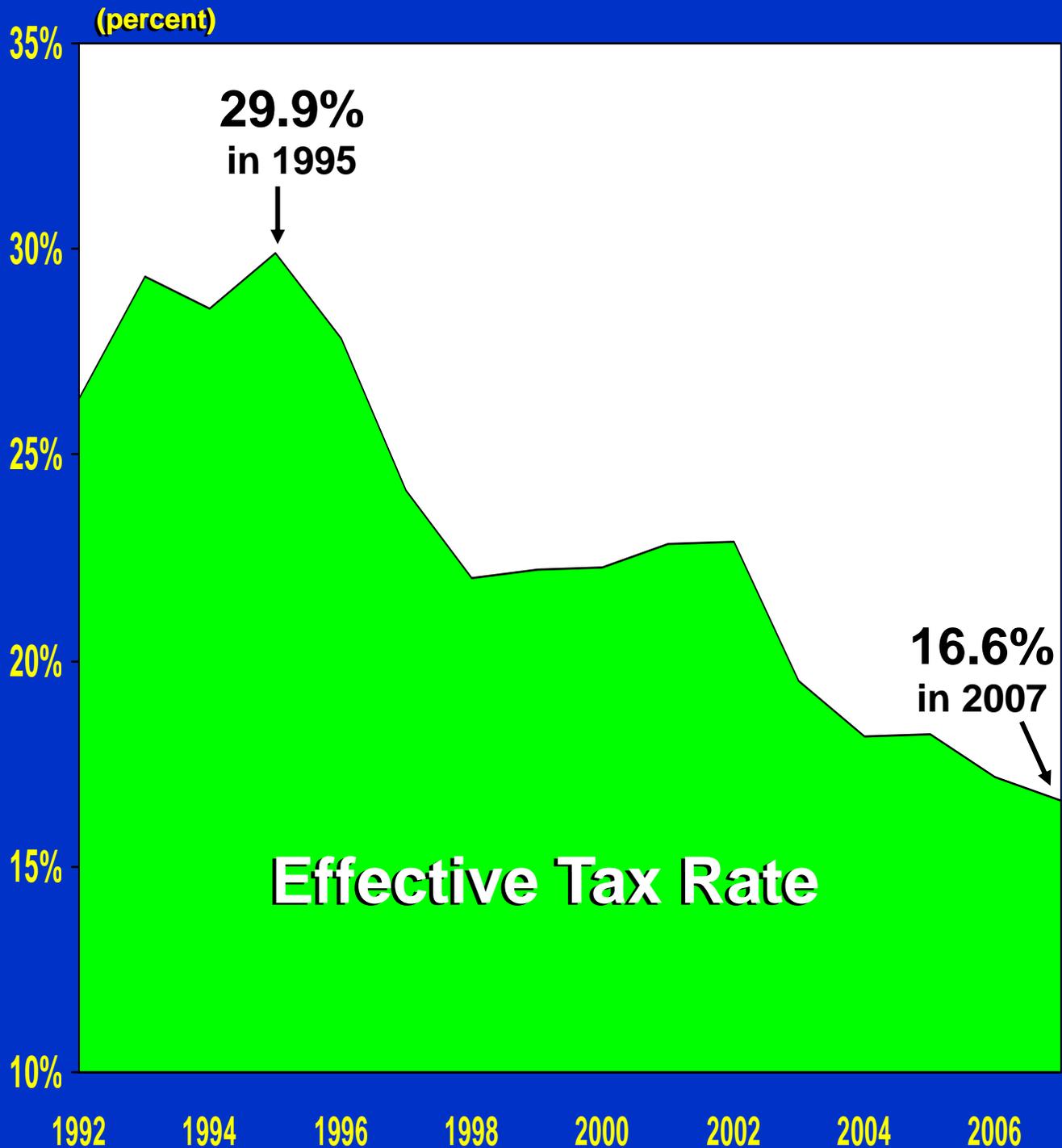
Note: Distribution of benefits in 2015.

# Increase in After-Tax Income from Tax Expenditures



Source: SBC calculations using data from Tax Policy Center  
Note: Reflects estimates for 2011 tax year.

# Effective Tax Rate for 400 Wealthiest Taxpayers



Source: IRS

# Five-Story Cayman Islands Building That 18,857 Companies Call Home



# **Offshore Tax Haven Abuse Proliferating**

**“Experts have estimated that the total loss to the Treasury from offshore tax evasion alone approaches \$100 billion per year, including \$40 to \$70 billion from individuals and another \$30 billion from corporations engaging in offshore tax evasion. Abusive tax shelters add tens of billions of dollars more.”**

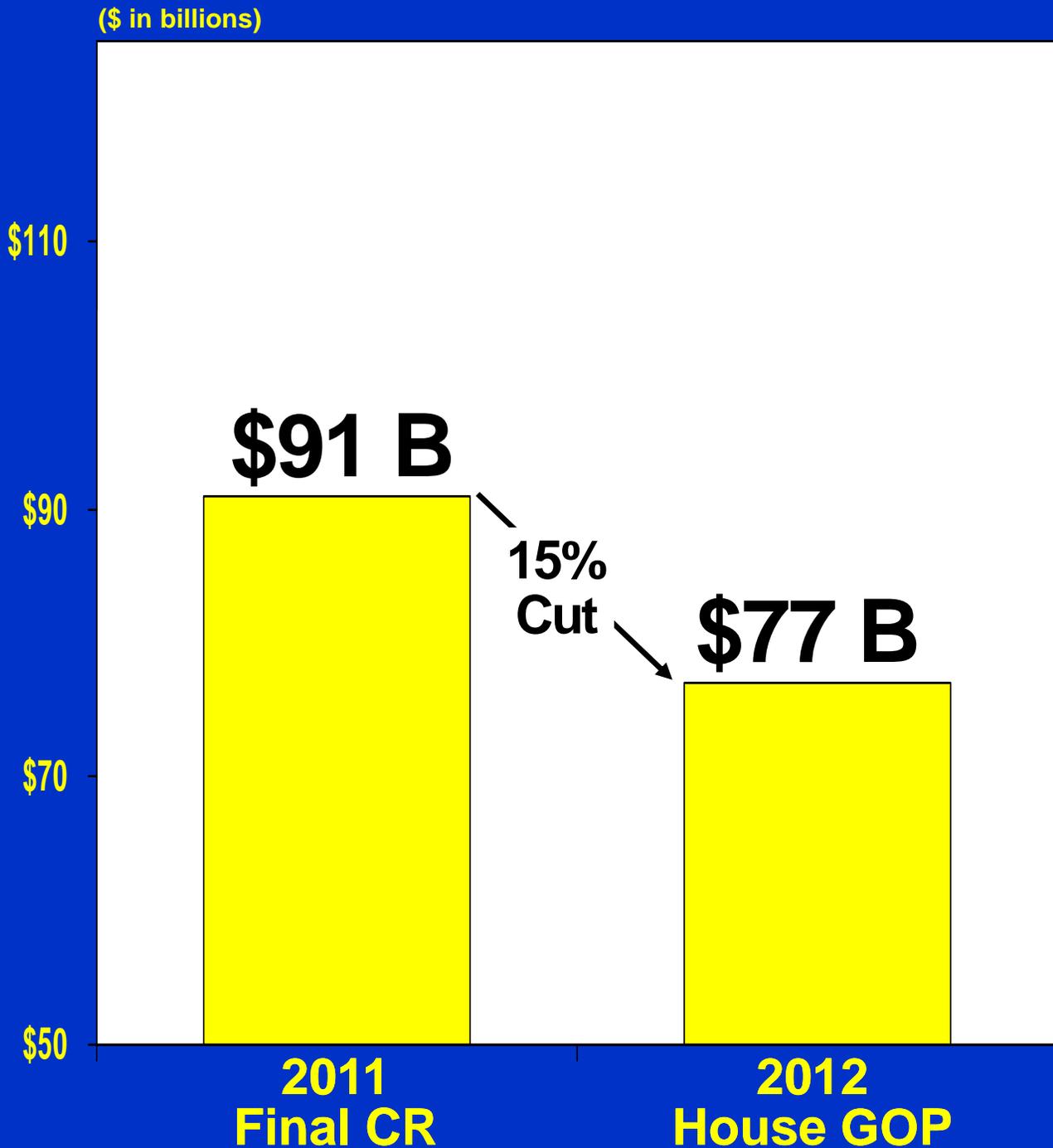
**– Press Release  
Senate Homeland Security and  
Governmental Affairs Permanent  
Subcommittee on Investigations  
February 17, 2007**

# Importance of Education to U.S. Economy

**“An educated population is a key source of economic growth.... Broad access to education was, by and large, a major factor in the United States economic dominance in the 20th century and in the creation of a broad middle class. Indeed, the American dream of upward mobility both within and across generations has been tied to access to education.”**

**– Harvard Economists Claudia Goldin and Lawrence Katz  
“The Future of Inequality: The Other Reason Education Matters So Much”  
Milken Institute Review  
Third Quarter 2009**

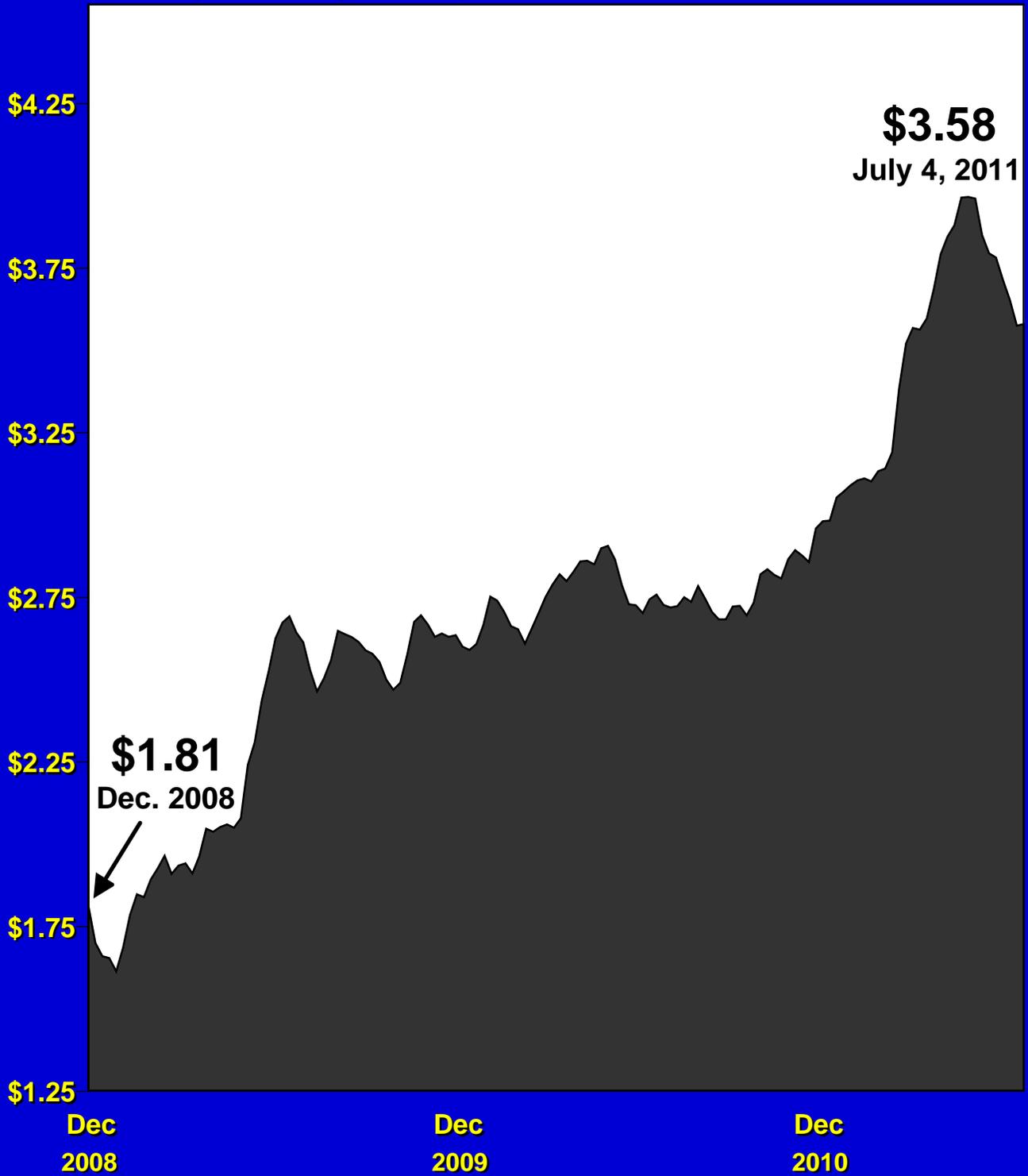
# Education Funding Under House Republican Plan



Source: CBO, HBC  
Note: Function 500

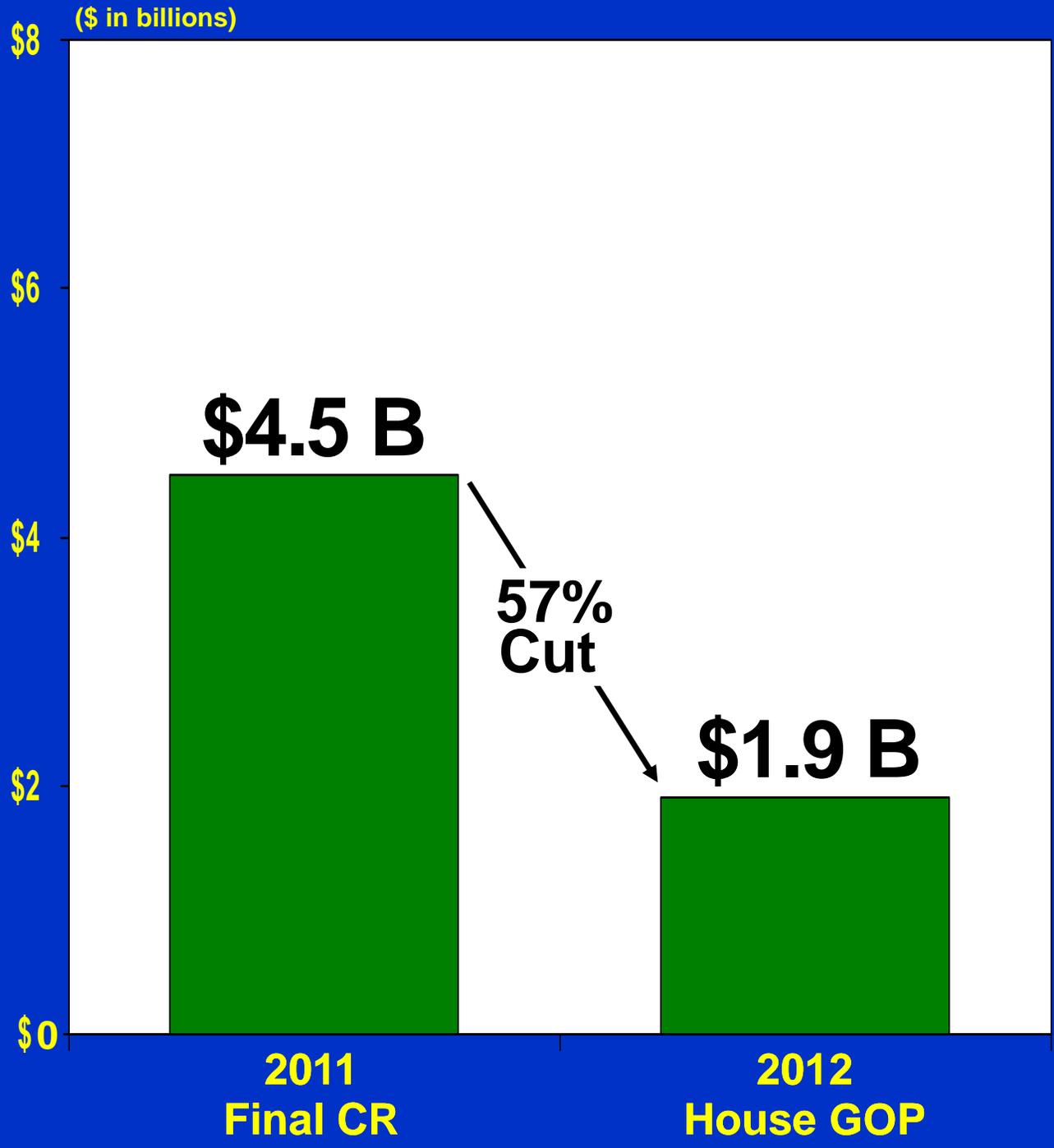
# Price of Gasoline

(Average price of gallon of gas in U.S., dollars)



Source: Energy Information Administration  
Note: U.S. regular all formulations retail gas prices; weekly data

# Energy Funding Under House Republican Plan



Source: CBO, HBC  
Note: Function 270

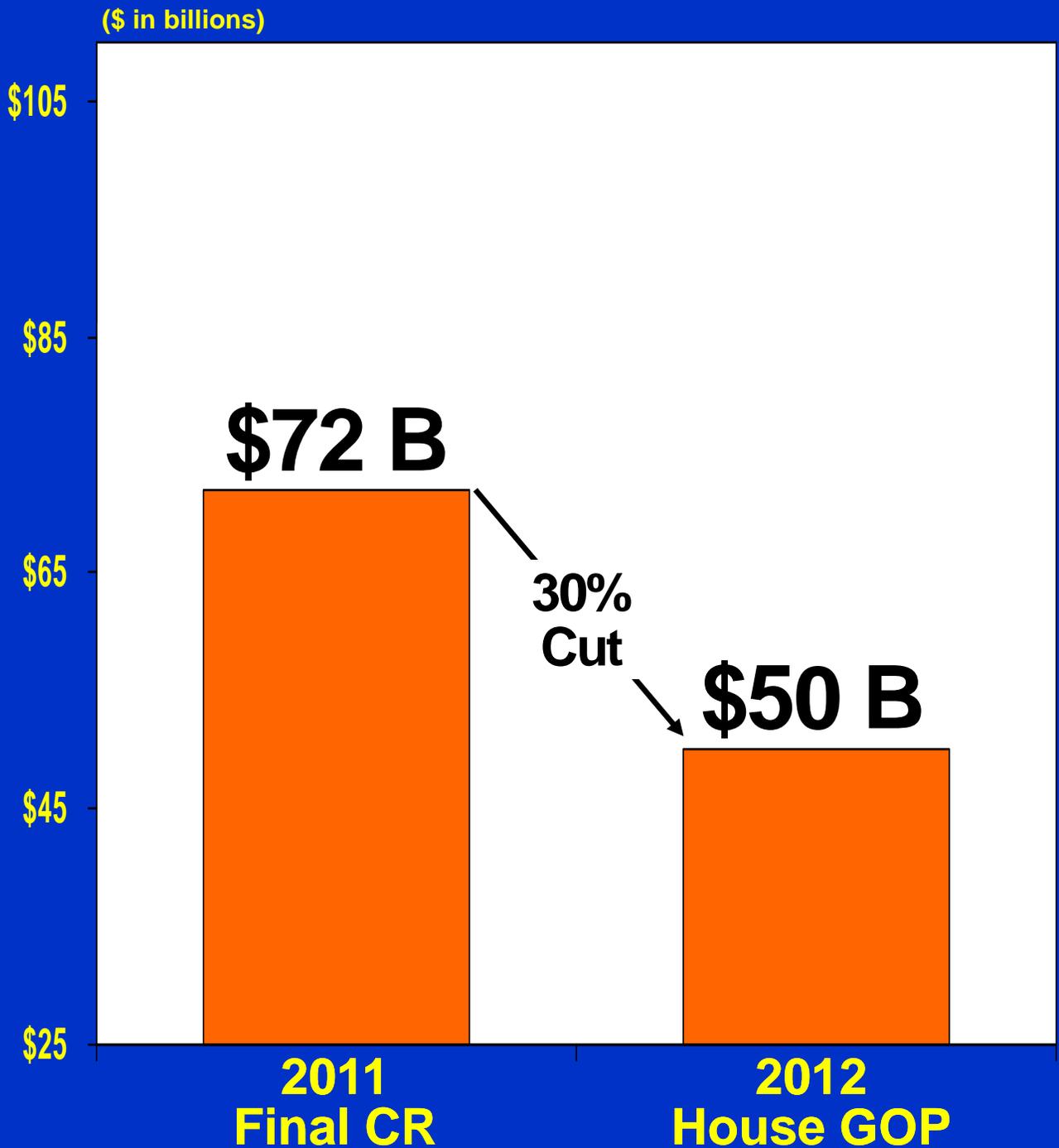
# **U.S. Chamber of Commerce on Importance of Infrastructure Funding**

**“If we don’t change course ... over the next five years, the economy could forego as much as \$336 billion in lost economic growth as transportation networks continue to deteriorate....**

**“I am well aware of the fiscal constraints facing this Congress and the nation. But we must avoid cutting off our nose to spite our face. Without proper investment and attention to our infrastructure, the United States’ economic stability, potential for job growth, global competitiveness, and quality of life are all at risk.”**

**– Thomas Donohue  
President and CEO of U.S. Chamber of Commerce  
Testimony before Senate EPW Committee  
February 16, 2011**

# Transportation Funding Under House Republican Plan



Source: CBO, HBC

Note: Function 400, excluding discretionary funding for Department of Homeland Security Agencies (TSA and Coast Guard).

# House Republican Health Care Plan

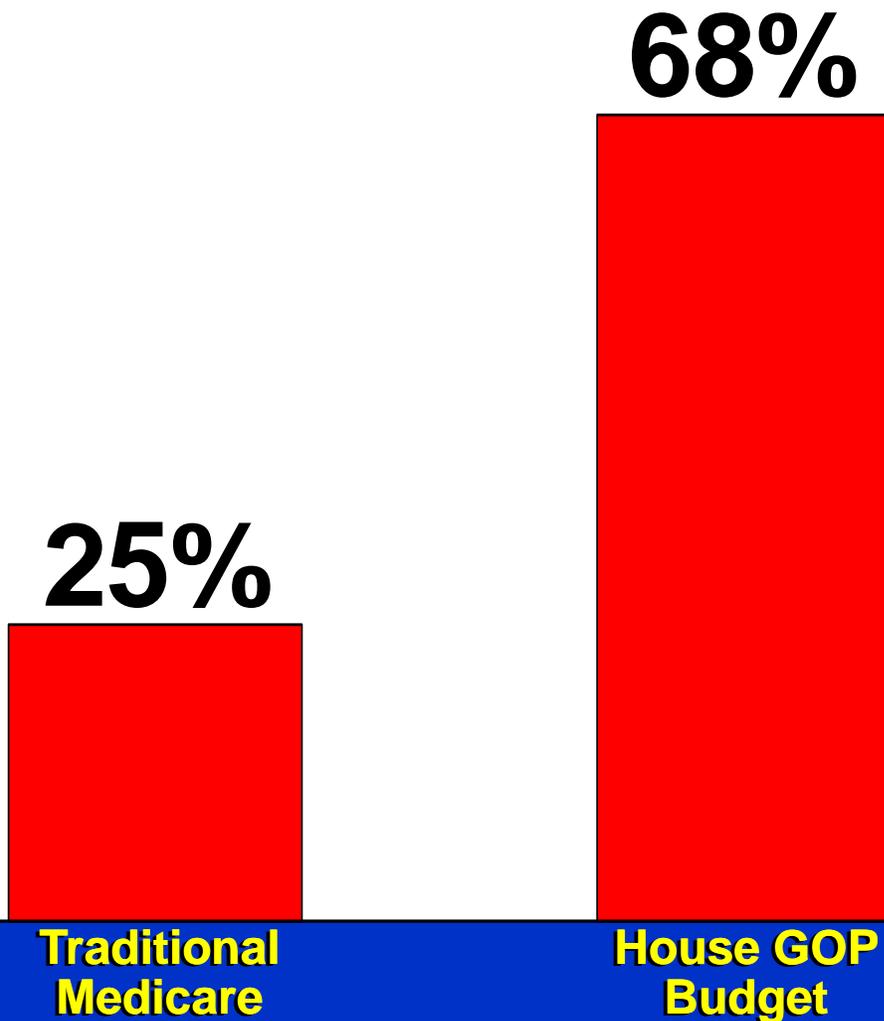
- **End Medicare as we know it**
  - replace with voucher system
  - reopen prescription drug “donut” hole
- **Block grant Medicaid**
  - shift costs onto seniors, children, disabled, states
  - end counter-cyclical nature of program
- **Defund health reform**
  - eliminate exchanges, affordability credits, expanded coverage
  - increase number of uninsured by at least 34 million

# House Republican Plan Would Dramatically Increase Health Care Spending by Seniors

(percent of costs)

100%  
80%  
60%  
40%  
20%  
0%

Average Percentage of Health Care Costs Borne by Typical 65-Year-Old Medicare Beneficiary in 2030



Source: CBO

Note: Traditional Medicare figure based on CBO's extended baseline scenario. Represents total traditional Medicare spending on a comparable basis to total spending under the House GOP plan.

# Health Care in Budget Framework

- **Rejects House GOP approach**
- **Large health care savings  
already enacted**

# Overview of Budget Framework

- **\$4 T in deficit reduction over ten years**
  - Roughly \$5 T if measured on same basis as Fiscal Commission
- **Stabilizes debt by 2014; cuts deficit to 2.5% of GDP by 2015 and 1.3% of GDP by 2021**
- **Tax reform that simplifies code, closes loopholes, goes after offshore havens and abusive shelters, restores fairness**
- **Rejects House GOP plan to end Medicare as we know it**
- **Protects education, energy, infrastructure investments**
- **Balanced deficit and debt reduction plan**
  - 50-50 ratio between spending cuts and revenue from closing tax loopholes, cutting tax subsidies, promoting tax fairness