

Why Deficits Matter

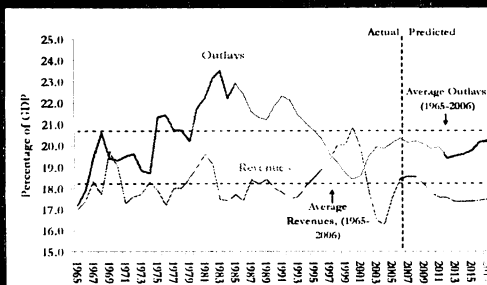
And What We Should Expect from
our Presidential Candidates in 2008

Isabel Sawhill, Senior Fellow, Brookings Institution
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The Problem

- Current Projected Deficit (FY 2007): \$158 B
- Projected by 2017: \$678 B
- Over longer-run totally unsustainable because of rising costs of entitlements
- By 2030, three major programs absorb all revenues under current law
- Need to reform both revenues and entitlements

Federal Revenue and Outlays



Source: FY 2007 Budget of the United States Government, Historical Table L2; Author's calculations from Brookings-Urban Tax Policy Center, Budget Outlook Tables, March 2007, Appendix 2

Why Deficits Matter

- Dependence on foreign lenders
- Rapidly rising debt service costs
- Burden on future generations
- Weakened ability to meet contingencies or invest in future

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

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Health Reform

- Need for a longer-term vision, e.g.,
 - Basic package for all (evidence-based)
 - Subsidies related to income; access to community rates
 - Limits on spending via a national health care budget or a health care voucher
 - Fund via earmarked VAT so that decisions to spend more on health care linked to higher taxes
 - Health likely to absorb more of our rising incomes; we should have health care system we're willing to pay for.

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Tax Reform Options

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

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What Needs To Happen

- First and foremost, public recognition that deficits are a problem
- Public willingness to forgo tax cuts or accept spending cutbacks
- The sooner this is done, the less costly it will be
- Bipartisanship to make the tough choices
- Rules to help politicians stay fiscally responsible

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