Generational Outlook: The Federal Budget Now and in the Future

presented by
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THE CONCORD COALITION
www.concordcoalition.org

Composition of Projected FY 2012 Federal Government Revenues and Outlays
(Deficit: $1.128 Trillion)

Outlays: $3.56 trillion
Revenues: $2.44 trillion

*Includes all appropriated domestic spending such as education, transportation, homeland security, housing assistance and foreign aid.

Source: Congressional Budget Office, August 2012.
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Automatic expenditures are consuming a growing share of the budget

1972
- Mandatory: 56%
- Net Interest: 7%
- Discretionary: 37%

1992
- Mandatory: 39%
- Net Interest: 14%
- Discretionary: 47%

2012*
- Mandatory: 36%
- Net Interest: 6%
- Discretionary: 58%

2022*
- Mandatory: 25%
- Net Interest: 11%
- Discretionary: 64%

*Projected
Source: Congressional Budget Office, March 2012.

Outlays of Select Mandatory Spending Programs
(FY 2012 Projected)

<table>
<thead>
<tr>
<th>Program</th>
<th>FY 2012 Projected</th>
</tr>
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<tbody>
<tr>
<td>Social Security</td>
<td>$770</td>
</tr>
<tr>
<td>Medicare</td>
<td>$475</td>
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<tr>
<td>Medicaid</td>
<td>$262</td>
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<tr>
<td>Federal Retirement &amp; Disability</td>
<td>$144</td>
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<tr>
<td>Unemployment Comp.</td>
<td>$82</td>
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<tr>
<td>Earned Income &amp; Child Tax Credits</td>
<td>$79</td>
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<tr>
<td>Food Stamps</td>
<td>$80</td>
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<tr>
<td>Family Support</td>
<td>$26</td>
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<td>Child Nutrition</td>
<td>$19</td>
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<td>Agriculture</td>
<td>$13</td>
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</tbody>
</table>

Source: Congressional Budget Office, January 2012.

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Outlays of Select Non-Defense Discretionary Programs (FY 2012 Projected)

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<td>Education</td>
<td>$92</td>
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<td>Transp.</td>
<td>$86</td>
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<td>Housing Energy &amp; Nutrition Asst.</td>
<td>$61</td>
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<td>Veterans</td>
<td>$59</td>
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<td>Foreign Aid</td>
<td>$56</td>
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<td>Natural Resources</td>
<td>$35</td>
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<tr>
<td>Science, Space &amp; Technology</td>
<td>$30</td>
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<tr>
<td>General Government</td>
<td>$17</td>
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<tr>
<td>Agriculture</td>
<td>$6</td>
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</tbody>
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*Includes ground, air, and water

Source: Congressional Budget Office, January 2012.

Domestic Discretionary Projected to be Cut Dramatically Fiscal Years 2013-2022

- Historical Average (1972-2011)
- Lowest Level Since 1970
- CBO Baseline Jan 2011
- After BCA Discretionary Caps
- BCA Caps + Sequester

Source: Congressional Budget Office, January 2011, August 2012 and Concord Coalition analysis.

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Defence Discretionary Spending as a Percentage of GDP

Source: Congressional Budget Office, January 2012.

Largest Tax Expenditures
Fiscal Years 2010-2014

Tax expenditures are any reduction in income tax liabilities that result from special tax provisions or regulations that provide tax benefits to particular taxpayers. These special income tax provisions are referred to as tax expenditures because they may be considered analogous to direct outlay programs.

Source: Joint Committee on Taxation, JCT-13-31, February 28, 2013.

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How Marginal Tax Rates Work:
First Calculate “Taxable Income”

<table>
<thead>
<tr>
<th>Gross Income (Wages, Dividends, Capital Gains, Tips, etc.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>− Less Certain Deductions (IRA contributions, alimony payments, some educator and student expenses)</td>
</tr>
<tr>
<td>= Adjusted Gross Income (AGI)</td>
</tr>
<tr>
<td>− Less Standard Deduction (taken by 70% of taxpayers) Or Itemized Deductions (Charitable Contributions, Mortgage Interest, State &amp; Local Taxes, etc.)</td>
</tr>
<tr>
<td>= Taxable Income ($100,000 in this case)</td>
</tr>
</tbody>
</table>

How Marginal Tax Rates Work:
Only your taxable income in the last “bucket” get taxed at the highest rate. This highest rate also determines the value of your deductions.

$8,700 taxed @10%

$26,650 @15%

$50,300 @25%

$14,350 @28%

33%

35%

Note: 2012 Income Tax Rates/Brackets
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Who is at which rate?
Number of taxpayers at each marginal income tax rate


Federal Spending vs. Revenues as a Percentage of GDP (FY 1980-2012)

Source: Congressional Budget Office, January 2012.
Debt Held by the Public as a Percentage of GDP
1940-2011

Source: OMB Historical Tables and CBO, January 2012.
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Percentage of Debt Held by the Public
Owned by Foreigners
(1987-2011)

Source: United States Treasury Department, Treasury Bulletin, Table OFS-2, December 2011.
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What's The Deal?

The conventional wisdom is that the law Congress passed to postpone the “fiscal cliff” reduces the deficit by raising revenue from higher taxes on the wealthiest Americans. However, it actually adds to the deficit when compared to what was current law. That’s because the Bush-era tax cuts, scheduled to expire this year, were instead made permanent for 99% of Americans. Combined with the extension of emergency unemployment benefits and several expiring tax credits, the law actually increases deficits by $4 trillion over the next ten years.

Interest Costs Explode Under Current Policies

Source: Congressional Budget Office and Concord Coalition Analysis, January 2012.

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Sources of Growth in the Federal Budget
Fiscal Years 2012-2035

- Current Individual Income Taxes ~ 7.2%
- Current Defense Spending ~ 4.4%
- Interest

*Includes outlays for CHIP and exchange subsidies.

Source: Congressional Budget Office. Long-Term Budget Outlook, Alternative Fiscal Scenario, June 2012.
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Factors Explaining Future Federal Spending on Medicare, Medicaid, and Social Security

As a Percentage of GDP

Effect of Aging
Effect of Health Care Cost Growth

Percent of Growth Attributed to: 2035 2080

- Health Care Cost Growth 36% 56%
- Aging 64% 44%

Source: Congressional Budget Office, June 2010 & 2011.
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Americans are Living Longer and Having Fewer Children

Consequently, fewer workers are available to support each Social Security recipient

1960: 5.1 to 1  
Today: 2.9 to 1  
2029: 2.1 to 1


Medicare Costs Potentially Soar in Coming Decades


As a Percentage of GDP

Calendar Year
Federal Health Care Spending Under Current Law

Source: Congressional Budget Office, June 2010.

Debt Held by the Public as a Percentage of GDP 1940-2040

Source: GAO Analysis, Spring 2012 and OMB Historical Tables 2012.
Looking at the Commission Report

Figure 1: Debt as a Percent of GDP