

Deficits and Debt in the USA

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AGENDA:

- **Background**
- **Bush tax cuts & TARP**
- **Stimulus**
- **Obama Budget**
- **Current account deficit**
- **Quantitative easing**
- **Budgetary Control 2010-2011**
- **Fiscal Cliff**
- **20/21 by 2021...**

ISSUES TO PONDER....

- *Can President Obama cut the deficit?*
- *Will U.S. savings (\$329 billion) rise?*
- *Who will finance the USA this year...
and next year?*
 - current account deficit: \$475 billion/yr.
 - budget deficit \$973 billion/yr.?
- *Will China keep buying our debt?*
- *Will it revalue the Renminbi beyond 6.1/\$?*

BACKGROUND...

USA 1980 – Inefficient Markets

- GDP growth -0.3%, Unemployment 7.5%
- Inflation 10%, trade deficit \$28 billion
- Productivity -0.6%; U.L.C.'s up 10.3%
- Fiscal deficit 2.4% GDP, Interest rates 19%
- \$\$ depreciating

Reagan Revolution

- Tight monetary policy
- Cut taxes 25% + ITC and accelerated depreciation
- Continue deregulation of transportation, energy, telecommunications, banking
- Let dollar rise 63%

Consequences

- Deep recession (1982-83)
- Huge trade and current account deficits
- Massive fiscal deficits
- U.S. economy grows 3.4% annually
- Inflation and real interest rates drop
- Dollar appreciates
- War in Iraq

“Slick Willie’s” Run...

- Deficit Reduction Act (1993)
 - Maximum marginal tax rates hiked (41.5%)
 - Expenditures cut (\$112 bil./yr)
- Free trade (Uruguay Round & NAFTA)
- Investment boom



- Productivity grows 2.1%/year – mfg 4.1%
- GDP growth 4.1% per year
- Budget balanced
- Unit labor costs negative
- Dollar strengthens ('95-'01)
- Savings falls to 1%, current account to -\$410 bil.

The Budget and Economic Outlook:

Fiscal Years 2003–2012, January 2002

(billions of dollars)

	2002	2003	2004	2005	2006	2007	2008	2009	2020	2011	Total 2002– 2006	Total 2002– 2011
Total Surplus as Projected in January 2001	313	359	397	433	505	573	635	710	796	889	2,007	5,610
Changes												
Legislative												
Tax	-38	-91	-108	-107	-135	-152	-160	-168	-187	-130	-479	-1,275
Discretionary spending	-44	-49	-52	-54	-56	-57	-58	-59	-60	-61	-255	-550
Other	-4	-6	-5	-3	-4	-2	-2	-2	-2	-2	-23	-33
Debt service ^b	-5	-12	-22	-32	-44	-57	-72	-88	-106	-124	-114	-562
Subtotal	-91	-158	-186	-197	-238	-268	-293	-317	-355	-317	-870	-2,420
Economic	-148	-131	-95	-81	-75	-75	-76	-79	-82	-88	-530	-929
Technical	-94	-84	-62	-51	-64	-64	-65	-64	-65	-45	-356	-660
TOTAL CHARGES	-333	-373	-343	-330	-377	-406	-433	-460	-502	-450	-1,757	-4,008
Total Surplus or Deficit (-) as Projected in January 2002	-21	-14	54	103	128	166	202	250	294	439	250	1,602
MEMORANDUM												
Changes in the Surplus by Type of Discretionary Spending												
Defense	-33	-29	-29	-29	-29	-29	-30	-30	-31	-32	-149	-301
Nondefense	-11	-20	-23	-25	-26	-28	-28	-29	-29	-30	-106	-249

Source: Congressional Budget Office.

W's Tax Cuts, Terrorism and Deficits

September 11th

- Afghanistan
- Homeland Security
- Iraq
- Four tax cuts – EGTRAA \$1.3 tril ('01), \$100 bil ('02), JGTRAA \$360 bil ('03), \$156 bil ('04)



Consequences

- Fiscal surplus (\$236 bil) → deficit (**\$1,412 billion**)
- Savings 3% to -0.1%
- Debt rising from \$5.6 towards \$11.0 trillion (back to 74%/GDP)
- Current account deficit \$410 to \$731 billion
- Net foreign debt to \$2.4 trillion
- \$\$ collapsing...

Estimated Appropriations Provided for U.S. Operations in Afghanistan and Iraq and for Other War-Related Activities

(Billions of dollars of budget authority)

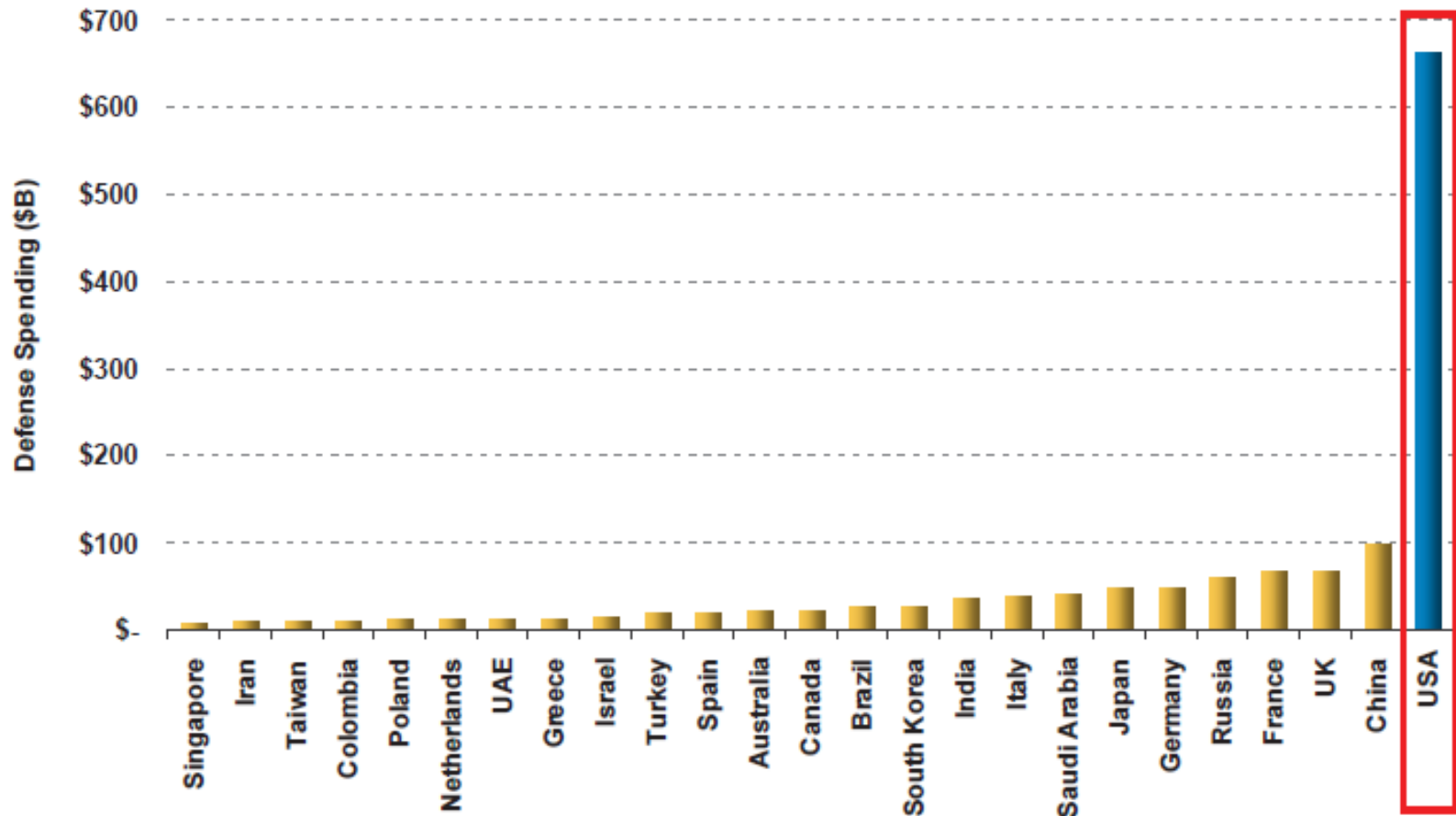
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total, 2001- 2012
Military Operations and Other Defense Activities^a													
Iraq	0	0	51	70	50	85	113	133	90	59	42	10	703
Afghanistan	0	12	12	13	8	12	24	29	38	87	98	89	421
Other ^b	14	5	18	5	11	13	15	13	13	5	6	6	123
Subtotal	14	18	80	88	69	110	152	175	140	151	146	104	1,246
Indigenous Security Forces^c													
Iraq	0	0	0	5	6	3	6	3	1	1	2	0	26
Afghanistan	*	0	0	0	1	2	7	3	6	9	12	11	51
Subtotal	*	0	0	5	7	5	13	6	7	10	13	11	77
Diplomatic Operations and Foreign Aid^d													
Iraq	0	0	3	15	1	3	3	3	2	2	0	4	36
Afghanistan	0	*	1	2	1	*	1	1	5	2	0	5	18
Other	*	1	5	*	*	*	*	*	1	*	0	2	10
Subtotal	*	2	8	17	3	3	4	5	7	4	0	11	64
Other Services and Activities^e													
Iraq	0	0	*	0	*	*	1	1	*	0	0	0	2
Afghanistan	0	0	0	0	*	*	*	*	*	0	0	0	*
Other	0	0	0	0	*	*	*	*	*	0	0	0	1
Subtotal	0	0	*	0	*	*	1	2	*	0	0	0	3
Total	14	19	88	110	79	118	170	187	154	165	159	127	1,390

Source: Congressional Budget Office.

Note: * = between zero and \$500 million.

While USA Inc. Ranks # 1 in Defense Spending...

Top 25 Countries by 2009 Defense Spending, 2009



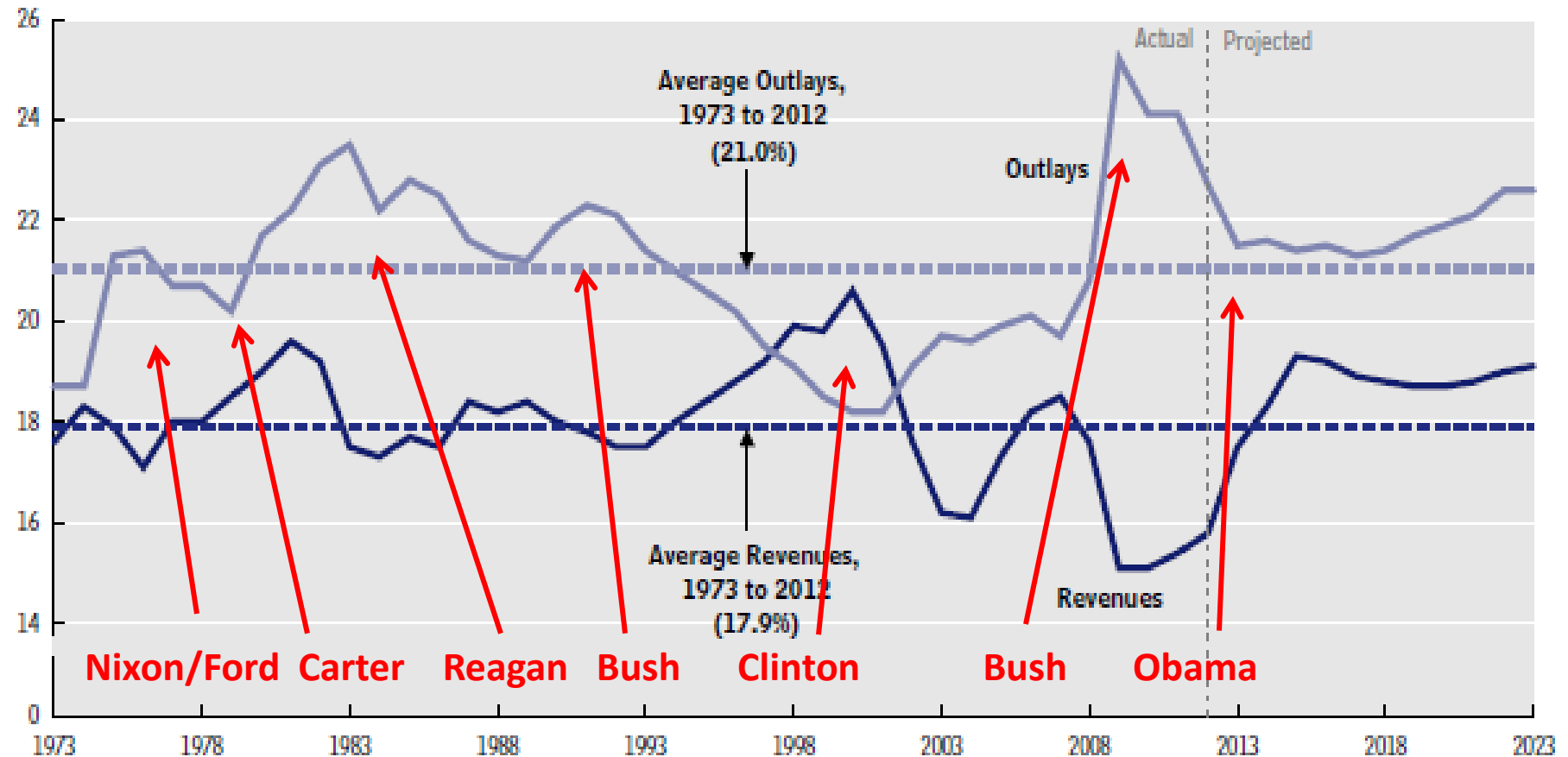
Note: Data for North Korea unavailable.

Source: Stockholm International Peace Research Institute.

USA Inc. | Income Statement Drilldown

Total Revenues and Outlays

(Percentage of gross domestic product)



Source: Congressional Budget Office.

Financial Crisis...

1. Real estate prices began falling first quarter 2007
2. Demand for CDOs began to decline in second quarter 2007
3. Bear Stearns could not cover liabilities – sold to JP Morgan & bail out by Treasury
4. Lehman Brothers – bankrupt
5. Morgan Stanley – sold to Japanese
6. Merrill Lynch – sold to Bank of America
7. Fannie Mae, Freddie Mac – taken over by government
9. AIG – taken over by government (\$129 billion)
9. Credit market frozen
10. Congress approves \$700 billion – Paulson – buy bad assets, re-Capitalize banks...
TARP - \$380 billion
11. Fed lowers interest rates – pumps liquidity (\$2.0 trillion) into market
12. Problems spread to rest of world
13. Stock market drops 20%+
14. Barack Obama elected
15. China unveils \$586 billion spending package
16. G-20 meet and agree to (1) increase IMF liquidity, (2) find joint regulatory solutions, and
(3) avoid protectionism
17. Another bailout for CitiCorp – \$41 billion + 306 bil bad assets
18. Bailout for GM and Chrysler
19. Stimulus package legislated – \$787 billion...
20. Obama proposes budget of \$3.8 trillion
21. Treasury announces Public Private Investment Program
22. Treasury/OCC perform “stress tests” on 21 large banks – \$75 bil. equity
23. Chrysler and then GM declare bankruptcy – restructured – U.S. gov’t owner
24. G-20 agree to “rebalancing” of world economy.

TARP Funding Disbursement (as of February 18, 2009)

Name	Bailout (in \$ millions)
Funds Committed Under Bush Administration	379,800
Funds Disbursed to Financial Firms	281,000
<i>of which:</i>	
Citigroup	50,000
Bank of America	45,000
AIG	40,000
JP Morgan Chase	25,000
Wells	24,800
Goldman Sachs Group	10,000
Morgan Stanley	10,000
PNC Financial Services	7,579
Bancorp	6,599
SunTrust	4,850
Capital One Financial Corp.	3,555
Regions Financial Corp.	3,500
Fifth Third Bancorp	3,408
American Express	3,389
Others	43,320
Pending	54,000
Automakers ^a	23,400
Other (including some funding for TALF)	21,400
Funds Allowed under the Obama Administration	320,000
TOTAL	699,800

Source: Adapted based on data from the U.S. Treasury Department

Congressional Budget Office's Fiscal and Macroeconomic Projections as of January 2009

	Actual		Projected									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Fiscal and macroeconomic data, billions of dollars												
Total revenues	2,524	2,357	2,533	2,825	3,124	3,353	3,544	3,746	3,929	4,122	4,309	4,505
Total outlays	2,978	3,543	3,236	3,323	3,388	3,610	3,794	3,980	4,201	4,355	4,497	4,740
Deficit (-) or surplus	-455	-1,186	-703	-498	-264	-257	-250	-234	-272	-234	-188	-235
On-budget	-638	-1,340	-843	-641	-412	-413	-411	-398	-434	-393	-342	-381
Off-budget	183	155	140	143	149	156	162	164	162	159	154	146
Debt held by public	5,803	7,193	7,829	8,238	8,475	8,516	8,734	8,925	9,149	9,335	9,127	9,344
Nominal GDP	14,224	14,257	14,452	15,137	16,048	17,035	17,986	18,864	19,703	20,537	21,397	22,278
Fiscal and macroeconomic data, billions of dollars												
Real GDP growth	1.2	-2.2	1.5	4.2	4.4	4.1	3.5	2.8	2.5	2.3	2.2	
Inflation (change in CPI)	4.1	0.1	1.7	1.8	2.0	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Unemployment rate	5.7	8.3	9.0	8.0	6.8	5.8	5.1	4.9	4.8	4.8	4.8	4.8
Three-month T bill rate	1.4	0.2	0.6	2.1	4.0	4.7	4.7	4.7	4.7	4.7	4.7	4.7

Source: Congressional Budget Office, The Budget and Economic Outlook: Fiscal Years 2009 to 2019, January 7, 2009, Table 5 and Table B1.

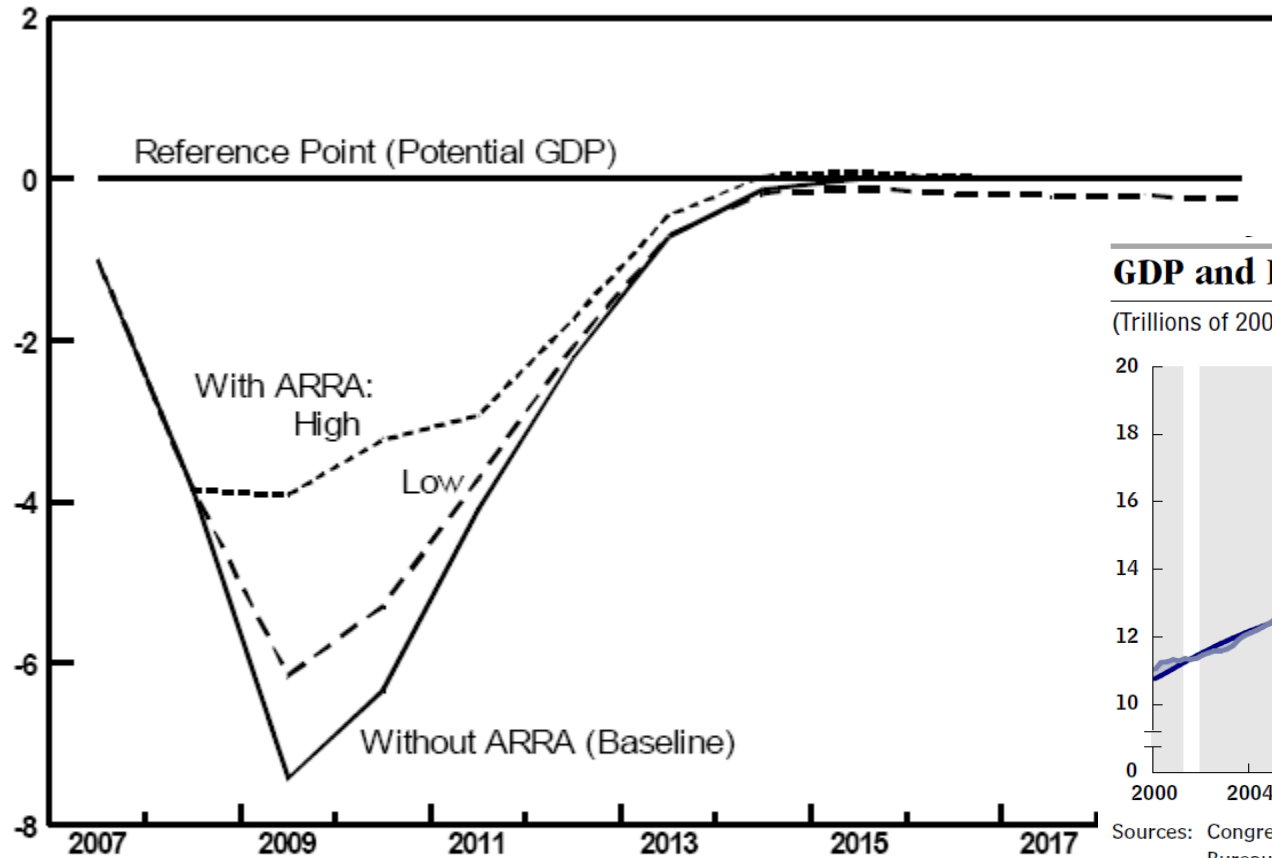
February: Fiscal Stimulus Package Breakdown

Category	Amount (in US\$ bln)	% of Total
Spending, of which:	308,481	39.2%
Labor, Health, Education, Volunteering, and Social Services	71,271	
Transportation and Housing	61,051	
Environment and Energy	50,775	
Farming and Food	26,431	
Commerce, Science and Justice	15,810	
Government	6,707	
Defense, Military, and Veterans	18,590	
Other	14,059	
Tax Cuts, of which:	288,339	36.6%
Individual	232,426	
Business	6,150	
Manufacturing	1,850	
Economy	6,501	
Infrastructure	19,638	
Energy and Other	20,127	
Individual Aid	14,443	
Aid (including individual and health care)	190,421	24.2%
TOTAL	787,241	100.0%

Source: Adapted by Dick Vietor based on various government documents.

Figure 1. Difference Between Potential GDP in CBO's Baseline and Actual GDP Without and With the Impact of the American Recovery and Reinvestment Act of 2009

(Percentage difference in the fourth quarter of each year)

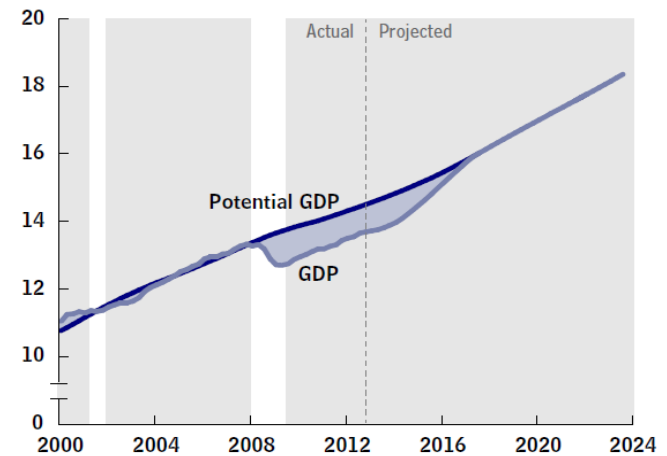


Source: Congressional Budget Office.

Notes: CBO's January 2009 baseline projection of potential gross domestic product (GDP) is set as a reference point. The projection of actual GDP without the effects of the American Recovery and Reinvestment Act of 2009 (ARRA) is CBO's January 2009 estimate, as presented in *The Budget and Economic Outlook: Fiscal Years 2009-2019*. The projections of actual GDP with the effects of ARRA incorporated (the high and low estimates) reflect a range of assumptions.

GDP and Potential GDP

(Trillions of 2005 dollars)



Sources: Congressional Budget Office; Department of Commerce, Bureau of Economic Analysis.

Notes: Potential gross domestic product (GDP) is CBO's estimate of the maximum sustainable level of output of the economy.

Estimated Effect of the Provisions of the American Recovery and Reinvestment Act of 2009

(Billions of dollars)

	Actual		Projected, 2012	Total		
	2009	2010		2013- 2019	2009- 2019	
Outlays						
Department of Health and Human Services programs						
Medicaid	32	40	12	1	7	91
Other	2	12	11	7	18	49
Refundable tax credits	3	45	38	4	1	91
Unemployment compensation ^a	28	33	1	1	4	66
Supplemental Nutrition Assistance Program	5	11	12	8	5	41
Department of Education programs						
State Fiscal Stabilization Fund	12	23	12	5	1	54
Other (Including Pell grants)	9	19	11	4	1	44
Department of Transportation programs	4	17	11	5	10	47
Department of Energy programs	1	8	11	9	10	39
Build America Bonds	*	1	4	4	27	36
Social Security	13	*	*	*	*	14
Other	7	25	22	13	8	75
Total Outlays	114	235	145	60	93	647
Revenues	-69^b	-170^b	*^b	11	44	-184
Total Direct Effect on the Deficit^c	-183	-405	-145	-49	-49	-831

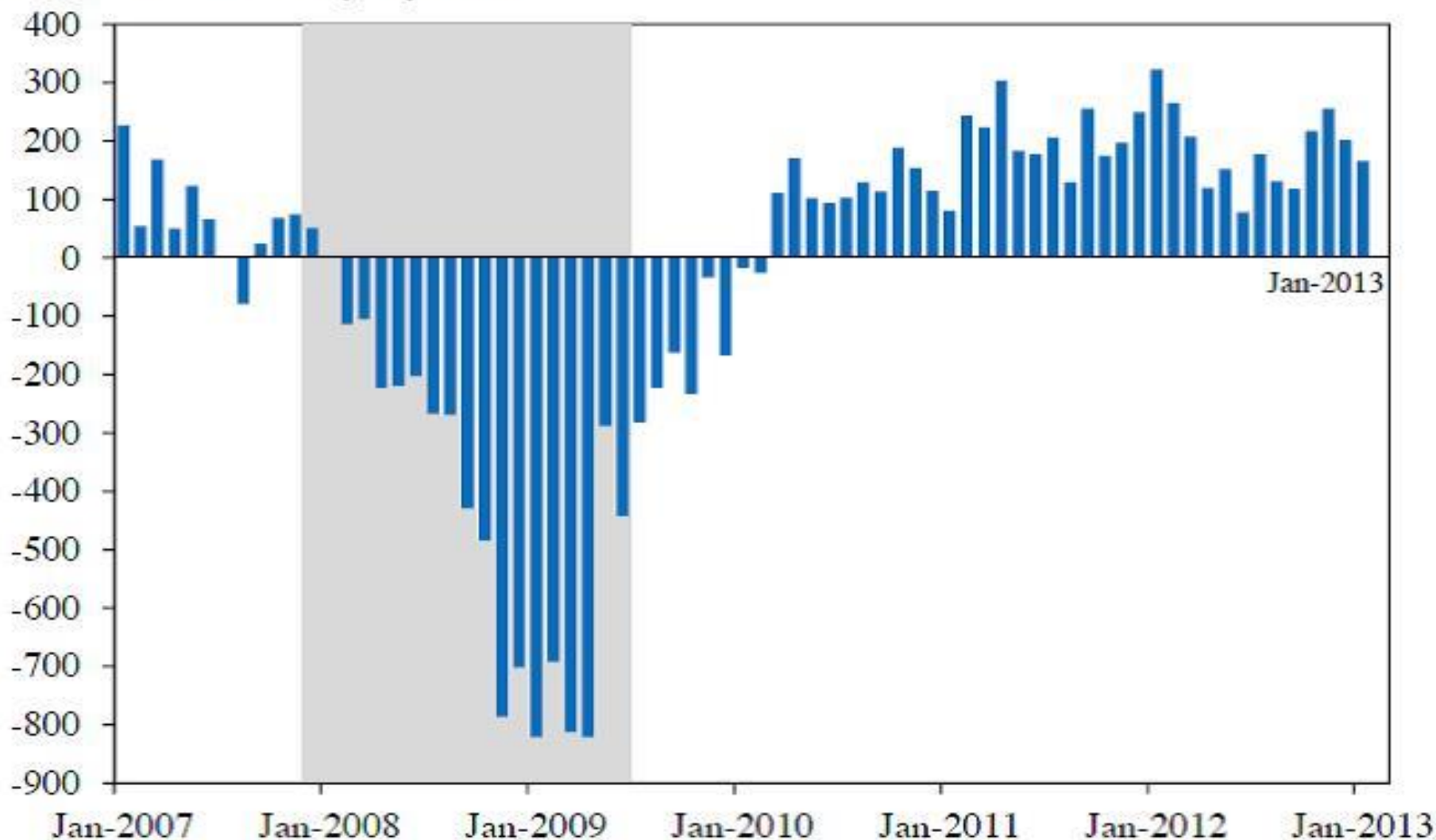
Sources: Congressional Budget Office; Department of the Treasury.

Estimated Output Multipliers of Major Provisions of the American Recovery and Reinvestment Act of 2009

Type of Activity	Estimated Output Multipliers ^a		Major Provisions of ARRA
	Low Estimate	High Estimate	
Purchases of Goods and Services by the Federal Government	1.0	2.5	Division A, Title II: Other; Title IV: Energy Efficiency and Renewable Energy; Title IV: Innovative Technology Loan Guarantee Program; Title IV: Other Energy Programs; Title V: Federal Buildings Fund; Title VIII: National Institutes of Health; Title VIII: Other Department of Health and Human Services
Transfer Payments to State and Local Governments for Infrastructure	1.0	2.5	Division A, Title VII: Clean Water and Drinking Water State Revolving Funds; Title XI: Other Housing Assistance; Title XII: Highway Construction; Title XII: Other Transportation
Transfer Payments to State and Local Governments for Other Purposes	0.7	1.8	Division A, Title VIII: Education for the Disadvantaged; Title VIII: Special Education; Title IX: State Fiscal Stabilization Fund; Division B, Title V: State Fiscal Relief Fund
Transfer Payments to Individuals	0.8	2.1	Division A, Title I: Supplemental Nutrition Assistance Program; Title VIII: Student Financial Assistance; Division B, Title I: Refundable Tax Credits; ^b Title II: Unemployment Compensation; Title III: Health Insurance Assistance ^c
One-Time Payments to Retirees	0.3	1.0	Division B, Title II: Economic Recovery Payments
Two-Year Tax Cuts for Lower- and Middle-Income People	0.6	1.5	Division B, Title I: Making Work Pay Credit; American Opportunity Tax Credit
One-Year Tax Cut for Higher-Income People	0.2	0.6	Increase in Individual AMT Exemption Amount
Extension of First-Time Homebuyer Credit	0.3	0.8	Extension of First-Time Homebuyer Credit
Corporate Tax Provisions Primarily Affecting Cash Flow	0	0.4	Deferral and Ratable Inclusion of Income Arising from Business Indebtedness Discharged by the Reacquisition of a Debt Instrument; Clarification of Regulations Related to Limitations on Certain Built-In Losses Following an Ownership Change; Recovery Zone Bonds; Qualified School Construction Bonds

Monthly Change in Private Nonfarm Payrolls, 2007–2013

Thousands, seasonally adjusted

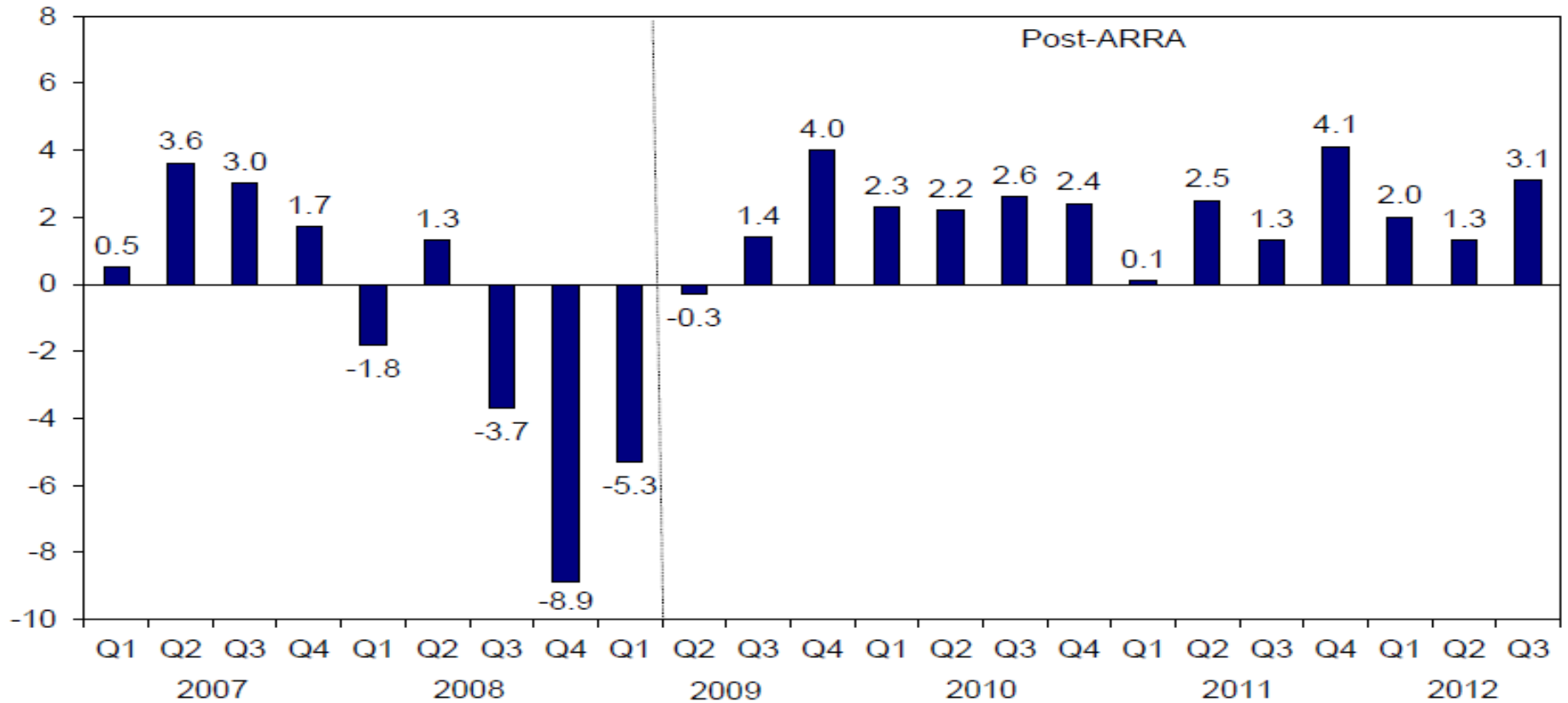


Note: Shading denotes recession.

Source: Bureau of Labor Statistics, Current Employment Statistics.

Figure 2. Real GDP Growth

Quarterly percent change, seasonally adjusted annual rate

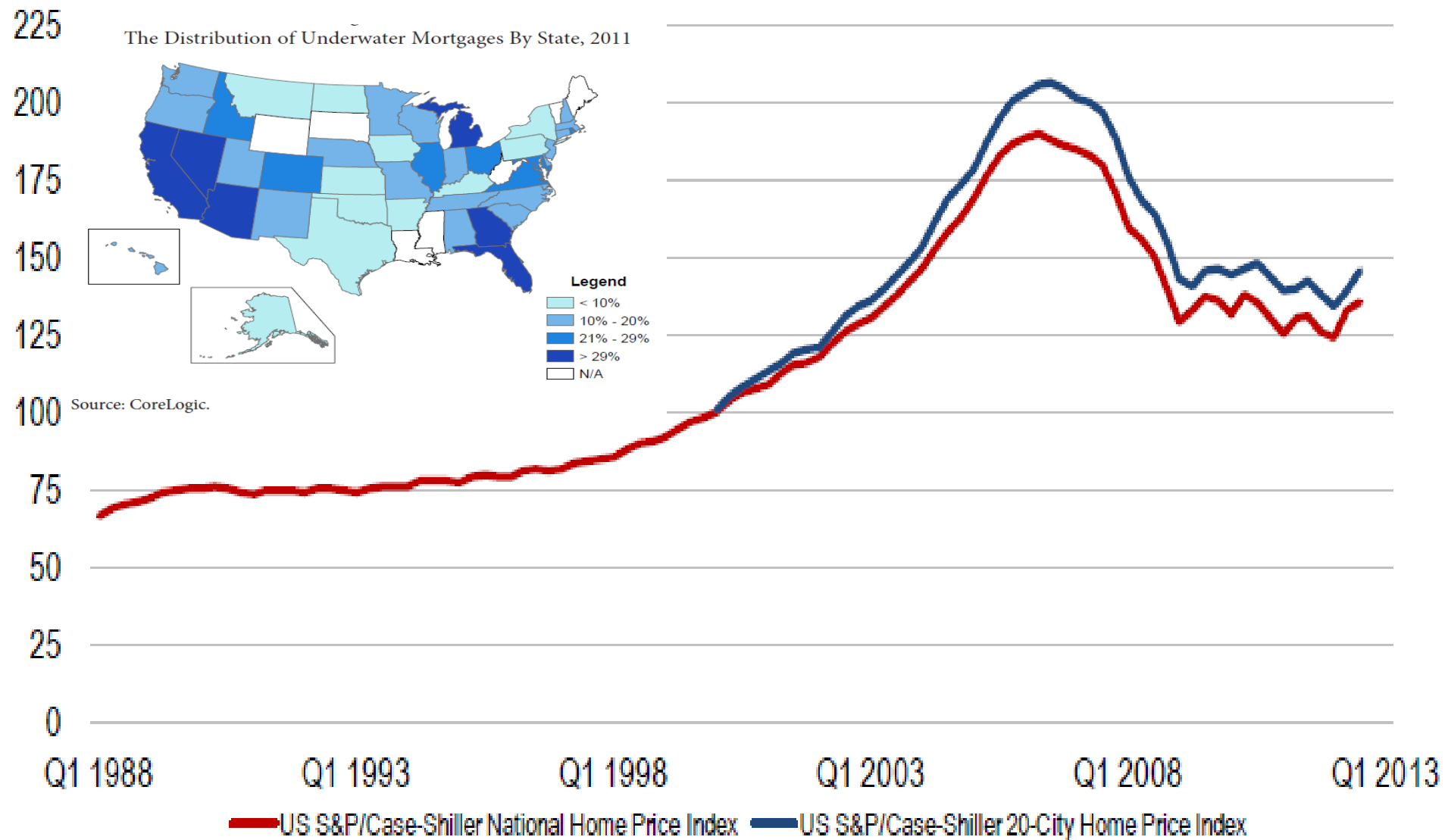


Source: U.S. Department of Commerce (Bureau of Economic Analysis).

	2009:Q2	2009:Q3	2009:Q4	2010:Q1	2010:Q2	2010:Q3	2010:Q4	2011:Q1	2011:Q2	2011:Q3	2011:Q4	2012:Q1	2012:Q2	2012:Q3
CEA: Model Approach	401,000	1,121,000	1,751,000	2,221,000	2,547,000	2,667,000	2,497,000	2,365,000	2,159,000	1,909,000	1,616,000	1,235,000	928,000	753,000
CBO: Low	100,000	300,000	500,000	600,000	700,000	700,000	600,000	600,000	500,000	400,000	300,000	200,000	200,000	200,000
CBO: High	500,000	1,200,000	1,900,000	2,700,000	3,400,000	3,600,000	3,500,000	3,300,000	2,900,000	2,400,000	2,000,000	1,500,000	1,200,000	900,000
IHS Global Insight	228,000	689,000	1,245,000	1,696,000	2,107,000	2,342,000	2,445,000	2,437,000	2,367,000	2,176,000	1,970,000	1,702,000	1,438,000	1,197,000
Macroeconomic Advisers	248,000	623,000	1,057,000	1,462,000	1,847,000	2,119,000	2,329,000	2,479,000	2,588,000	2,588,000	2,414,000	2,198,000	1,978,000	1,823,000
Mark Zandi, Moody's Economy.com	500,000	1,010,000	1,490,000	1,890,000	2,250,000	2,520,000	2,490,000	2,320,000	1,940,000	1,480,000	1,040,000	730,000	520,000	410,000

Sources: See text for details.

US S&P/Case-Shiller National Home Price Index (seasonally adjusted)

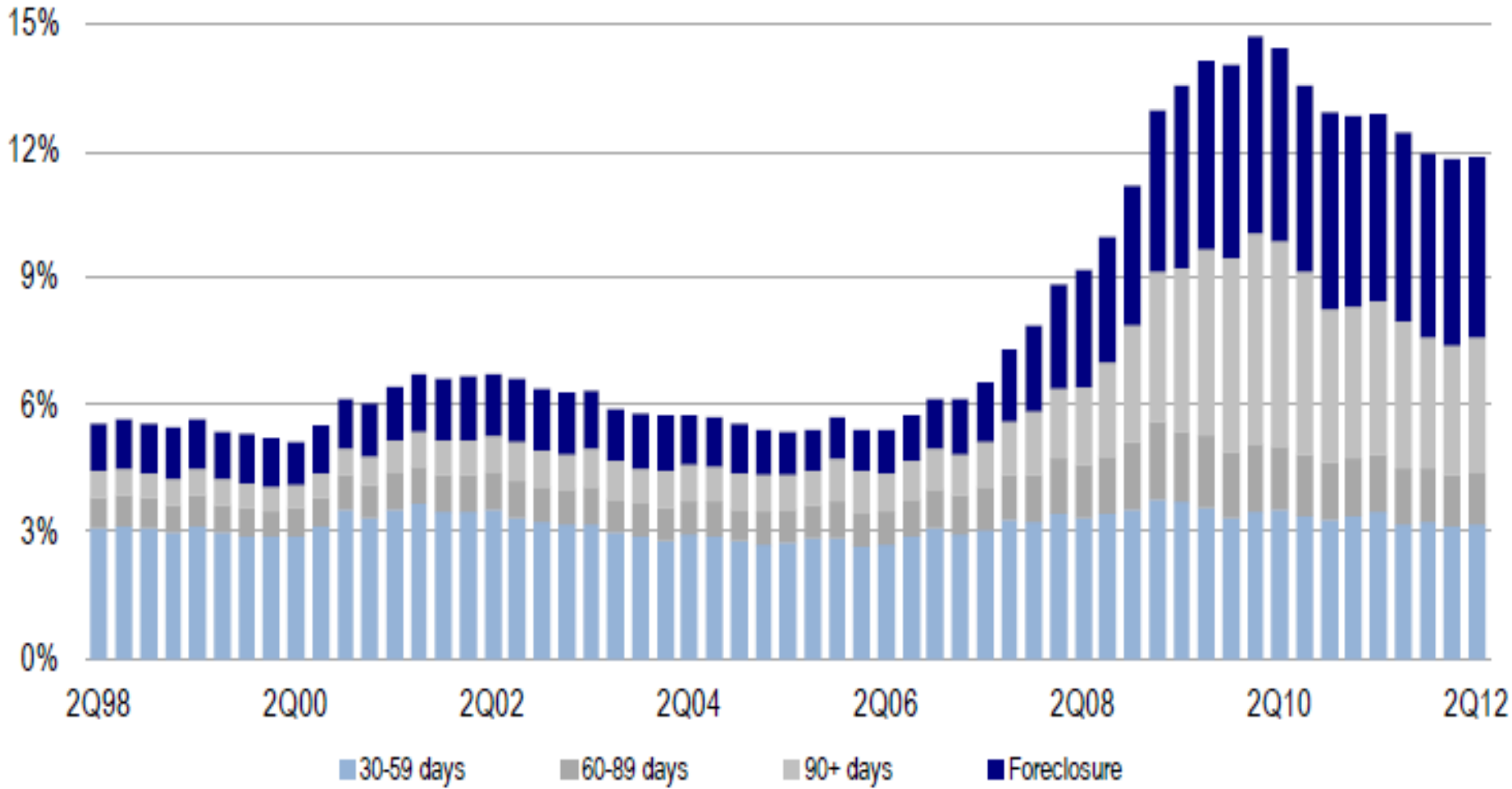


Source: CoreLogic.

— US S&P/Case-Shiller National Home Price Index — US S&P/Case-Shiller 20-City Home Price Index

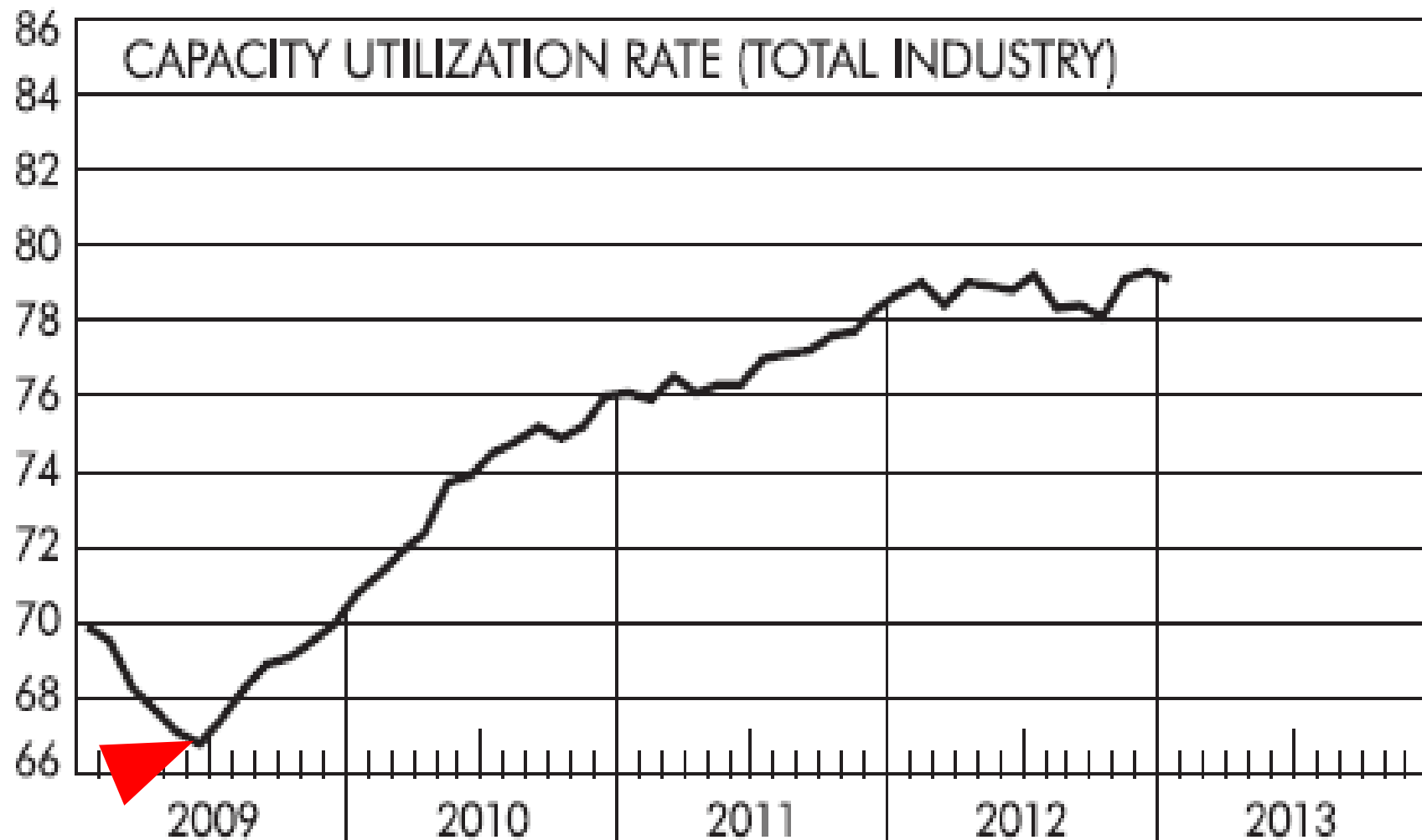
Mortgages Delinquent and in Foreclosure

(in percent of all mortgages)



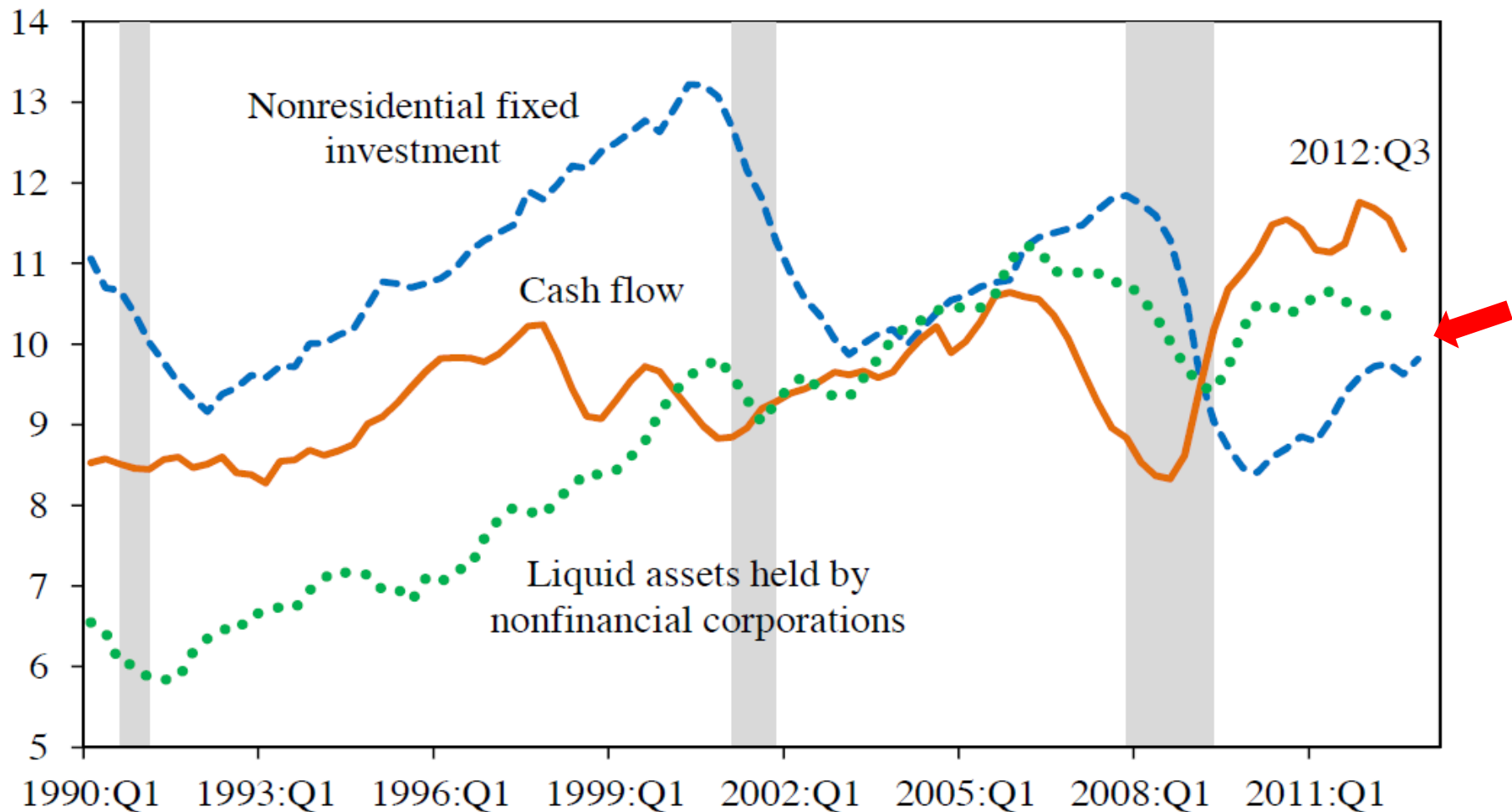
Source: CIRA as of 28 August 2012

PERCENT*



Business Fixed Investment and Cash Flow, 1990–2012

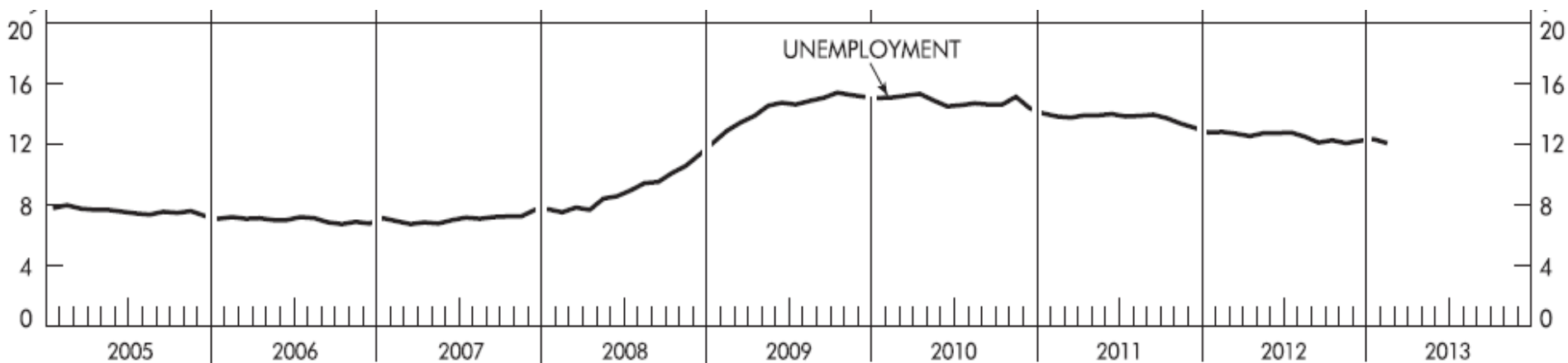
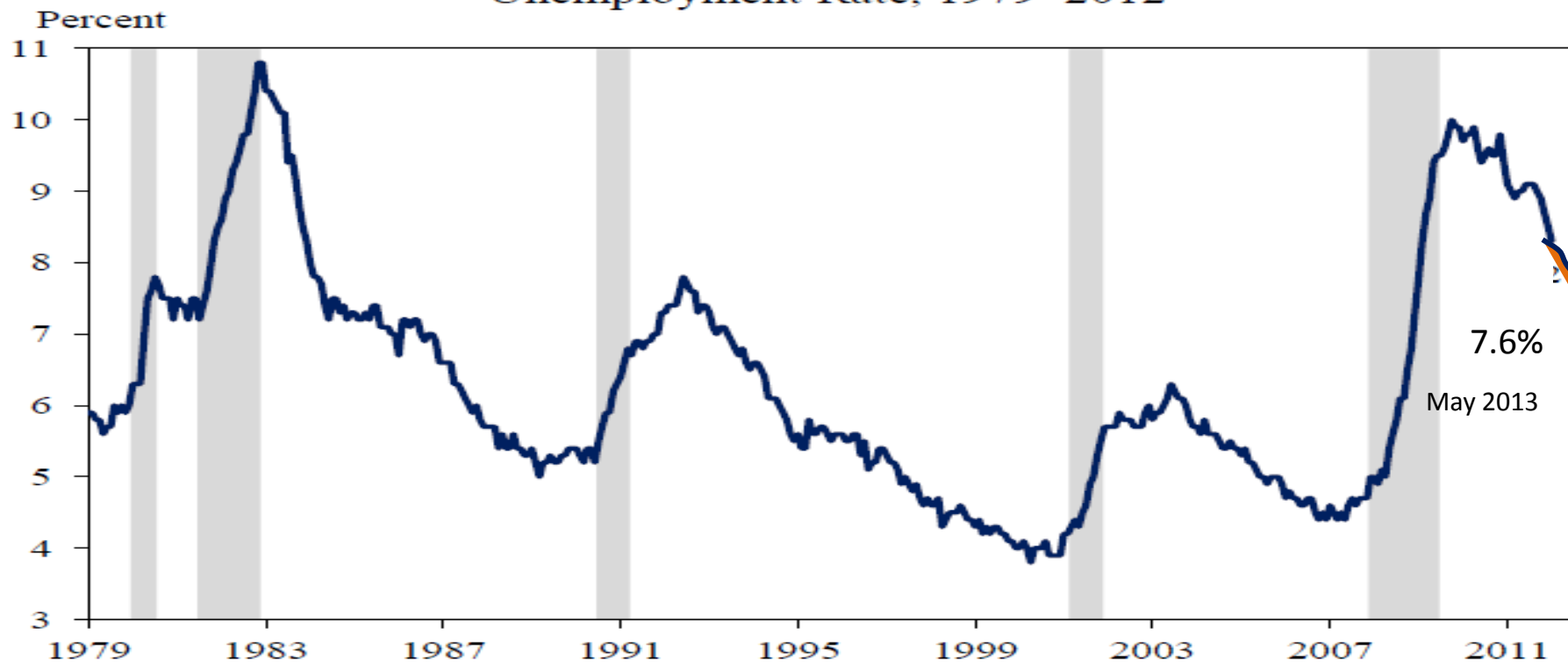
Percent of potential GDP



Note: Shading denotes recession. Potential GDP is a CBO estimate. Cash flow, from the National Income and Product Accounts, and liquid assets held by nonfinancial corporations are plotted using three-quarter moving averages. Nonresidential fixed investment line includes 2012:Q4.

Source: Bureau of Economic Analysis, National Income and Product Accounts; Federal Reserve Board, Z.1; Congressional Budget Office.

Unemployment Rate, 1979–2012

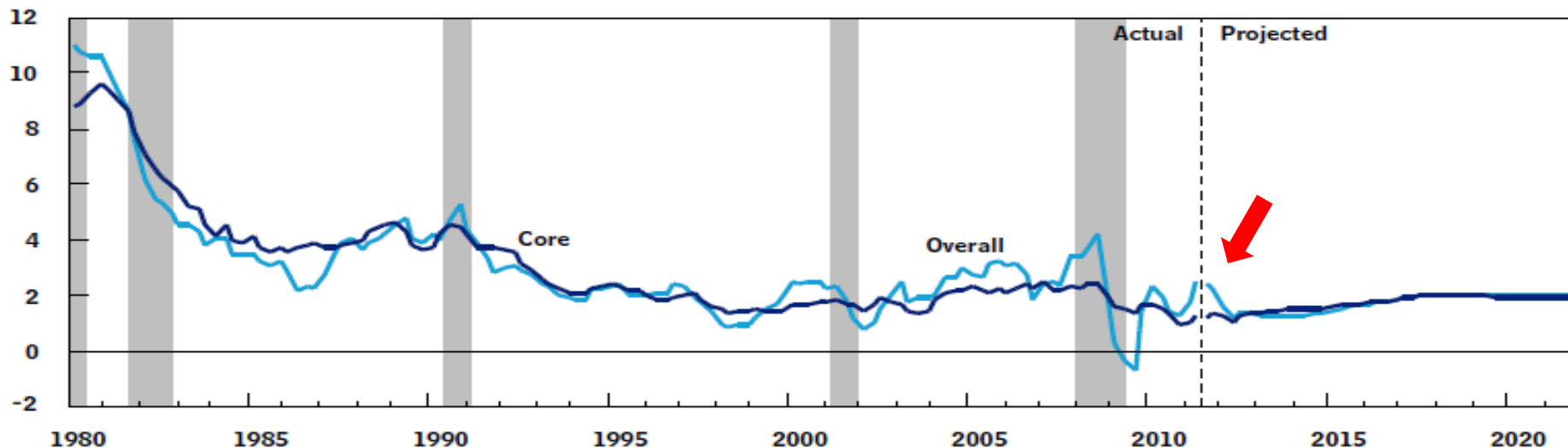


*16 YEARS OF AGE AND OVER
SOURCE: DEPARTMENT OF LABOR

COUNCIL OF ECONOMIC ADVISERS

Inflation

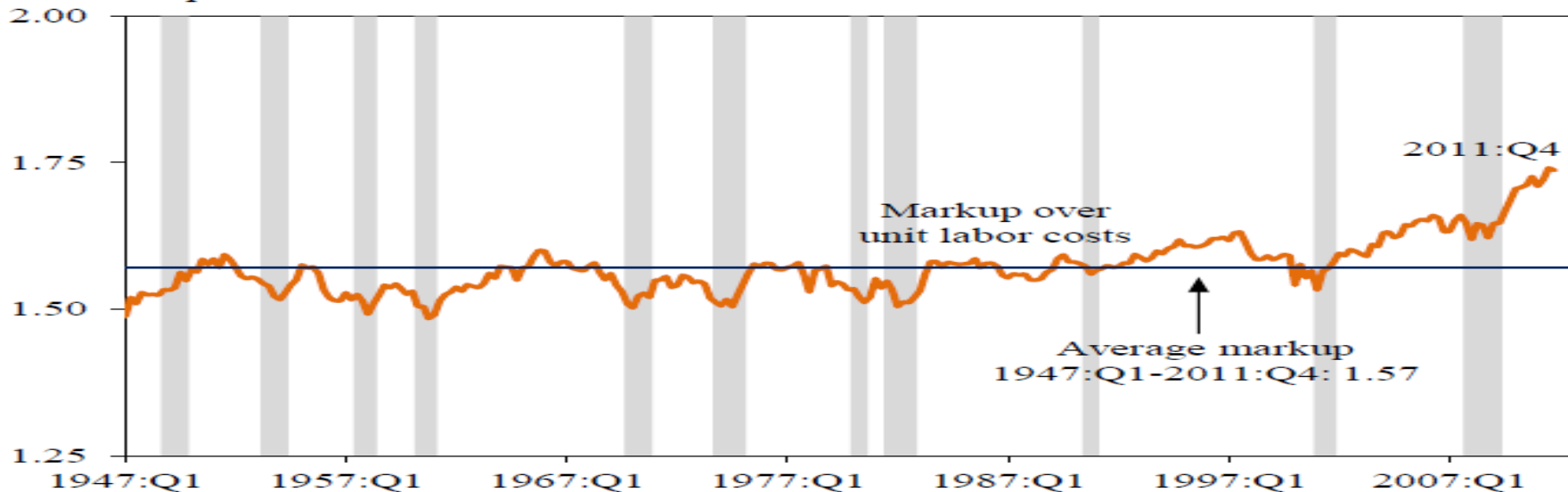
(Percentage change in prices from previous year)



Sources: Congressional Budget Office; Department of Commerce, Bureau of Economic Analysis.

Price Markup over Unit Labor Costs, Nonfarm Business, 1947–2011

Ratio of prices to unit labor costs

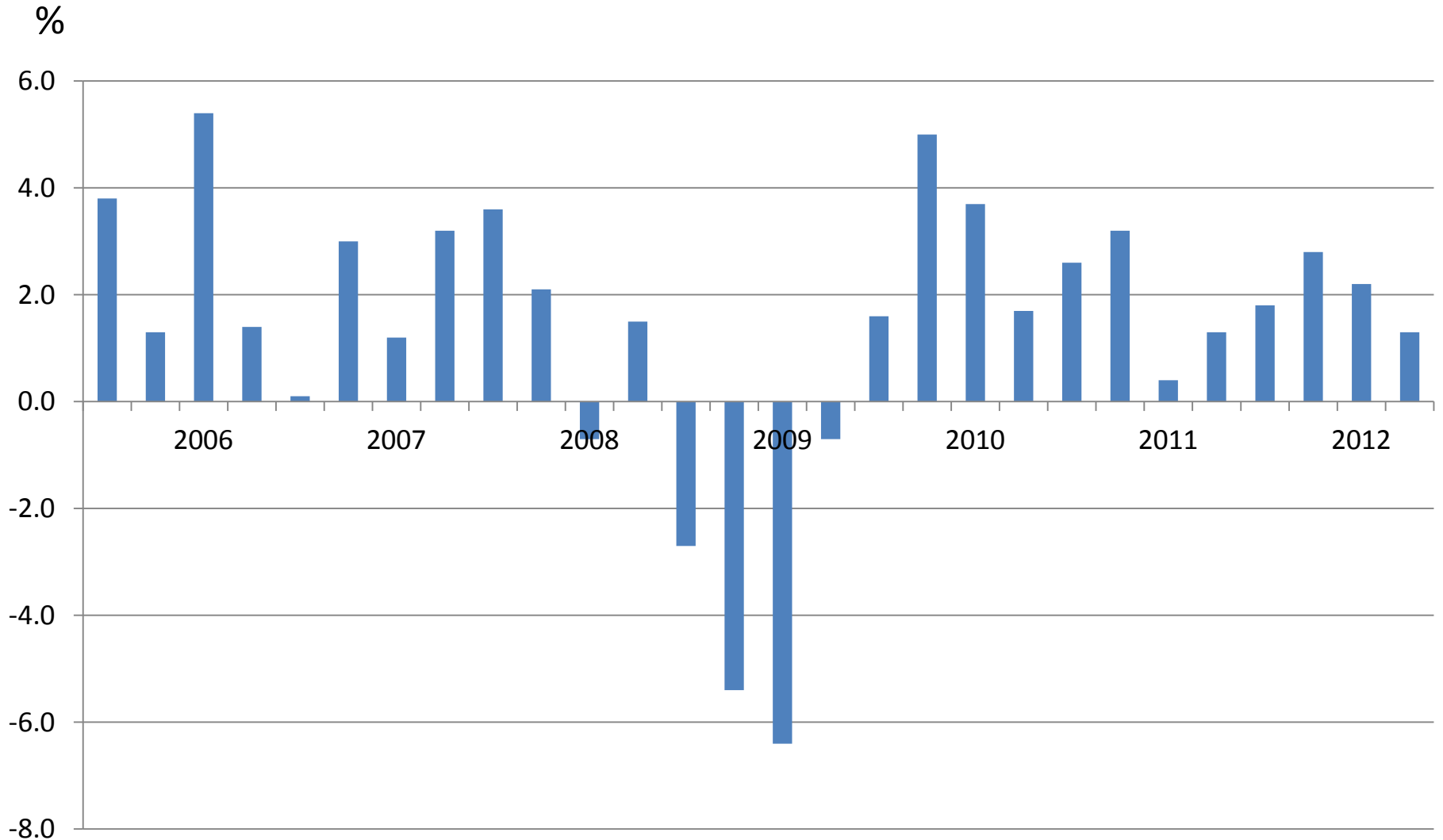


Note: Shading denotes recession.

Source: Bureau of Economic Analysis, National Income and Product Accounts; Bureau of Labor Statistics, Productivity and Costs; CEA calculations.

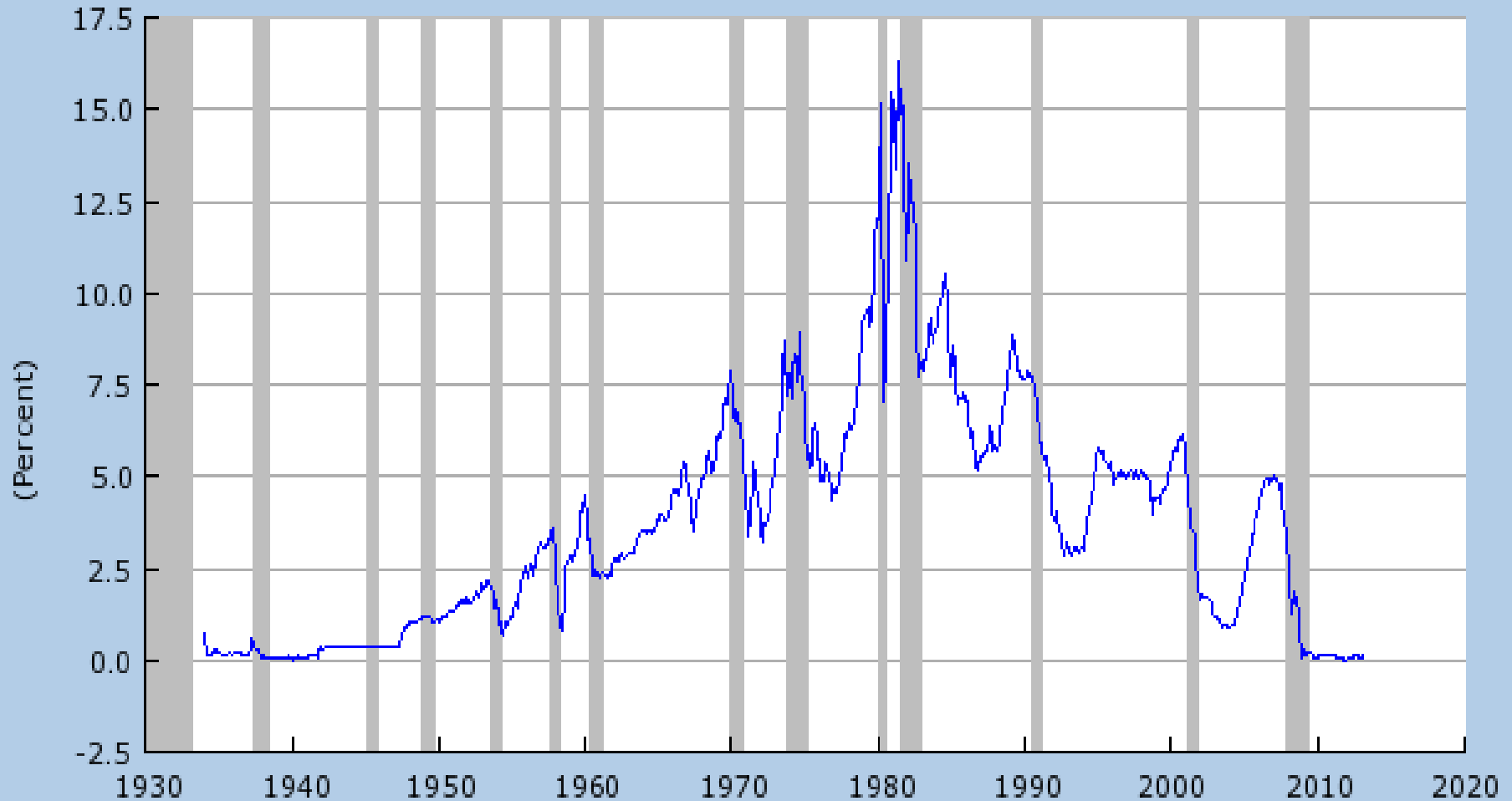
United States Real GDP, 2005-2012

(quarterly, billions of chained 2000 dollars)



Interest Rates

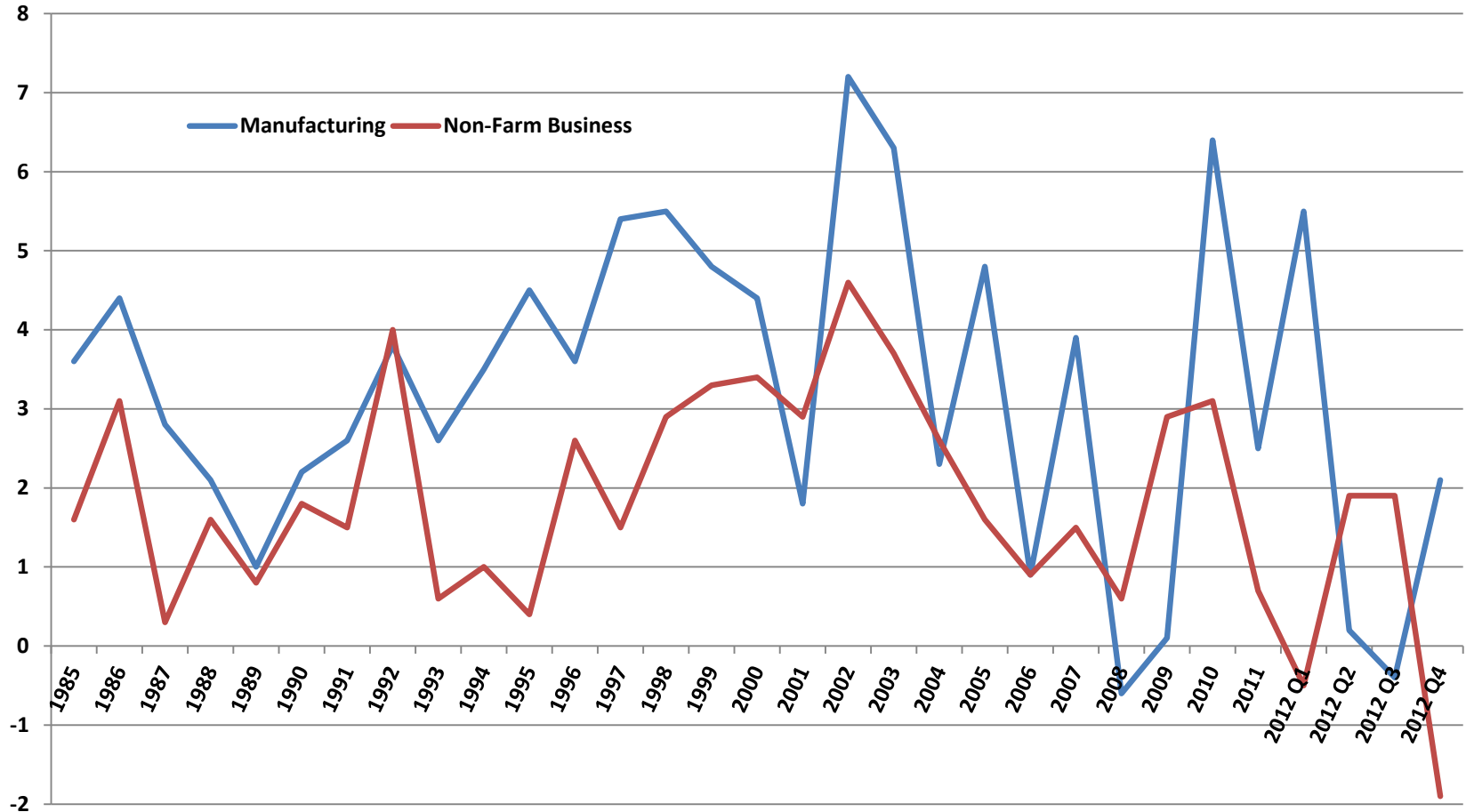
3-Month Treasury Bill: Secondary Market Rate (TB3MS)
Source: Board of Governors of the Federal Reserve System



Shaded areas indicate US recessions.
2013 research.stlouisfed.org

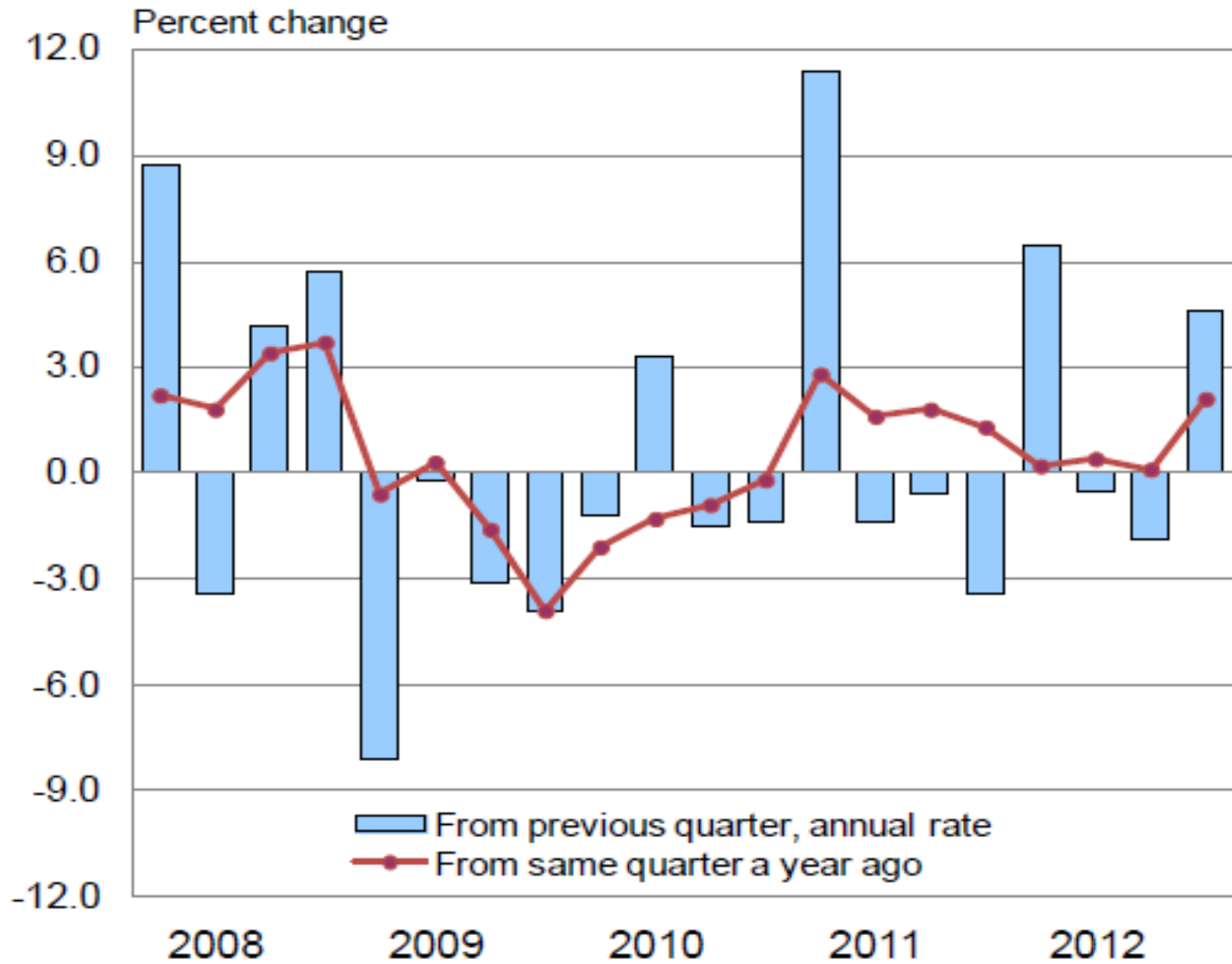
Good News – U.S. Productivity: 1984-2012(Q4)

Percent

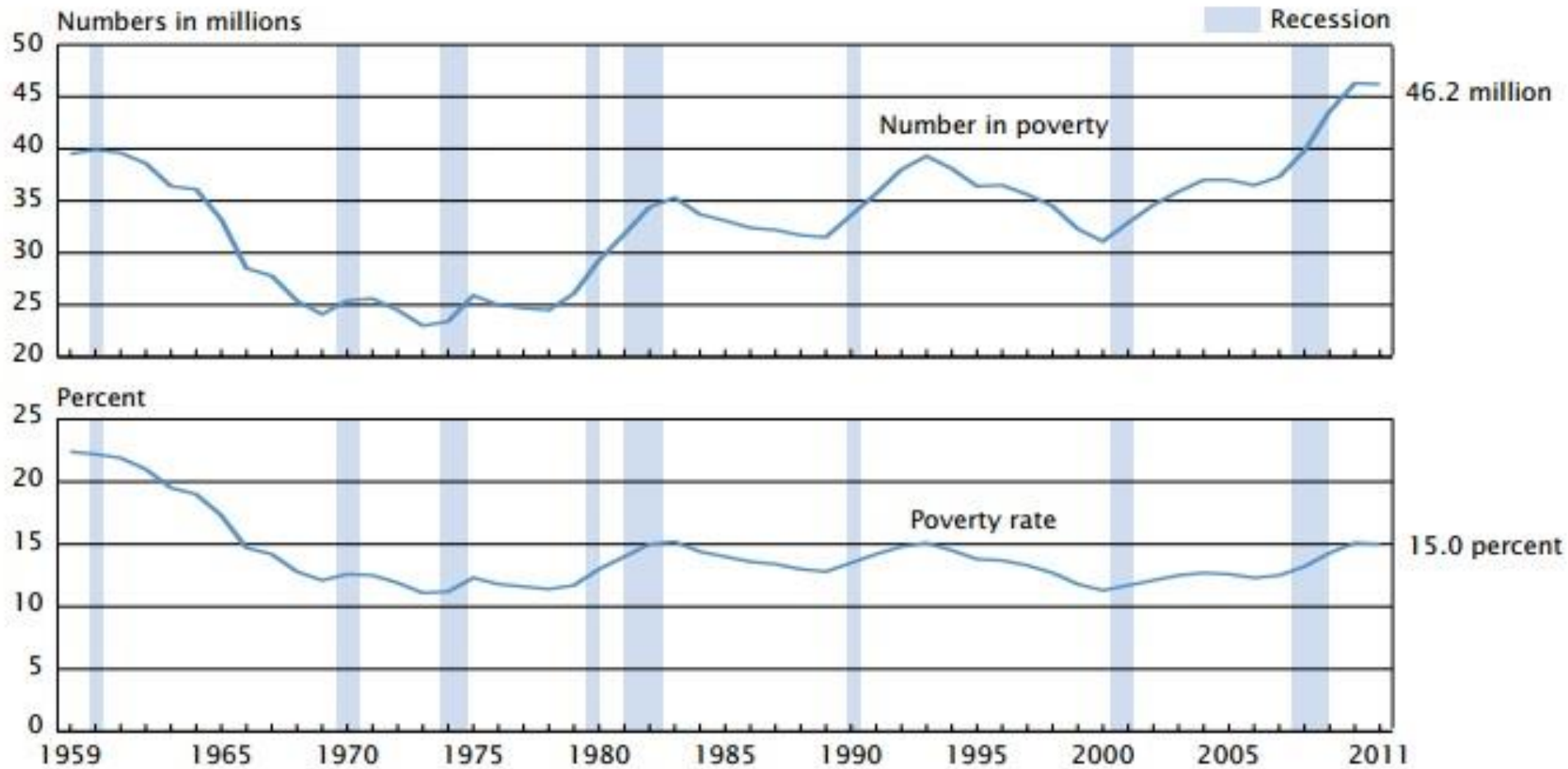


Source: Bureau of Labor Statistics, March 2013

USA Unit Labor Costs



Number in Poverty and Poverty Rate: 1959 to 2011

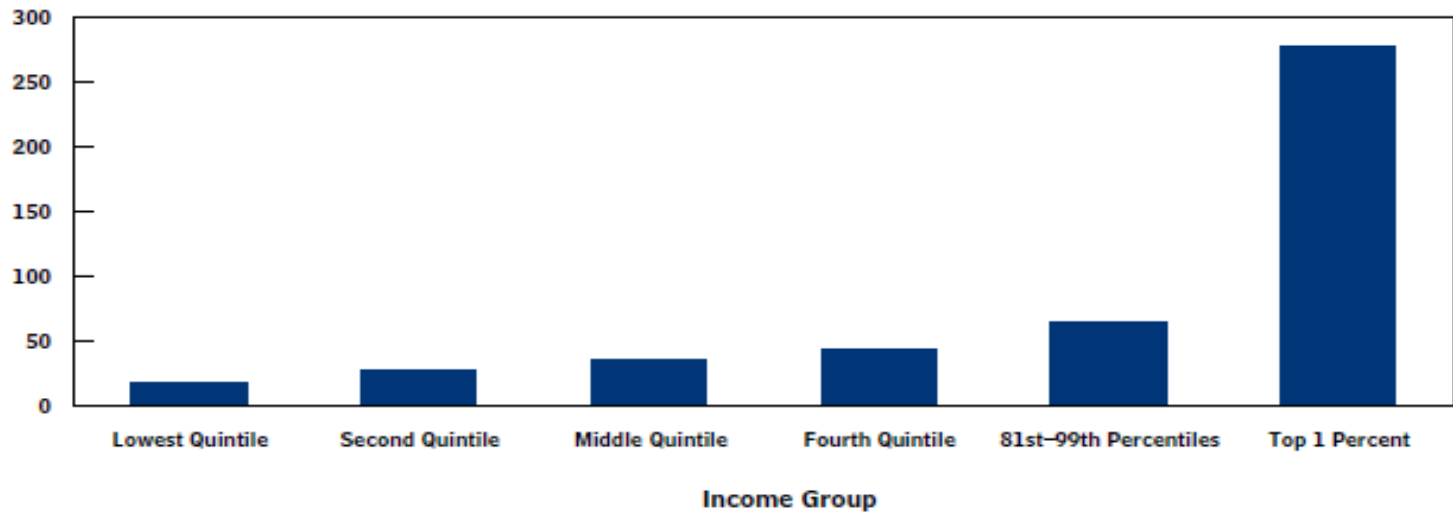


Note: The data points are placed at the midpoints of the respective years. For information on recessions, see Appendix A.

Source: U.S. Census Bureau, Current Population Survey, 1960 to 2012 Annual Social and Economic Supplements.

Growth in Real After-Tax Income from 1979 to 2007

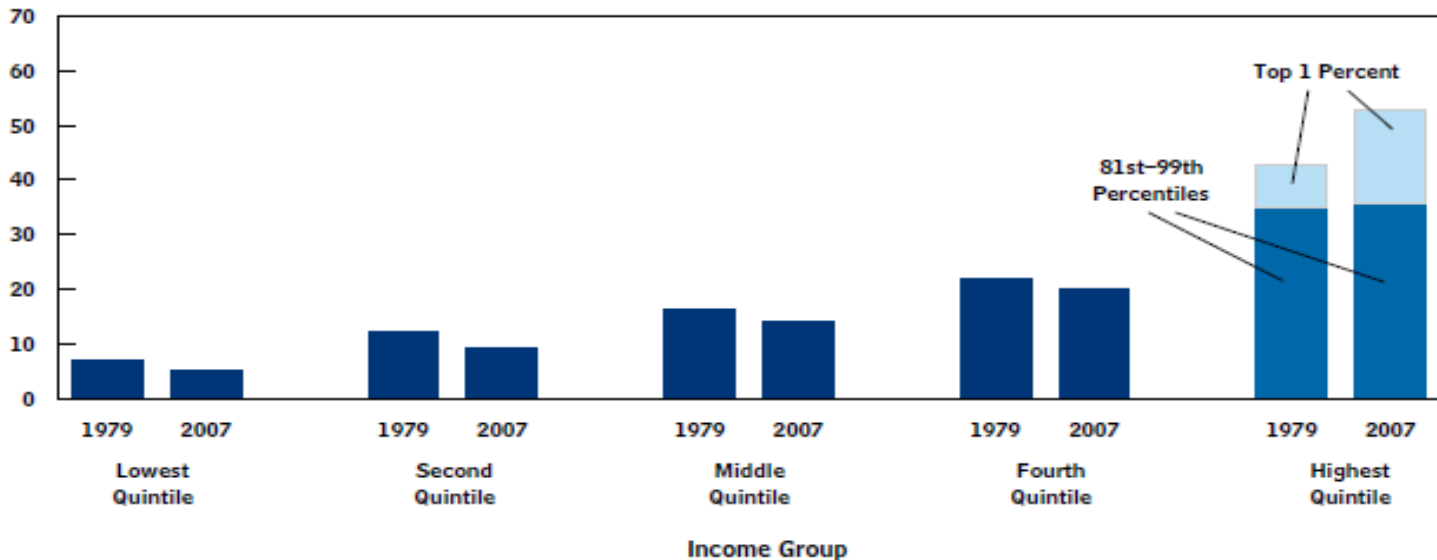
(Percent)



Source: Congressional Budget Office.

Shares of Income After Transfers and Federal Taxes, 1979 and 2007

(Percent)



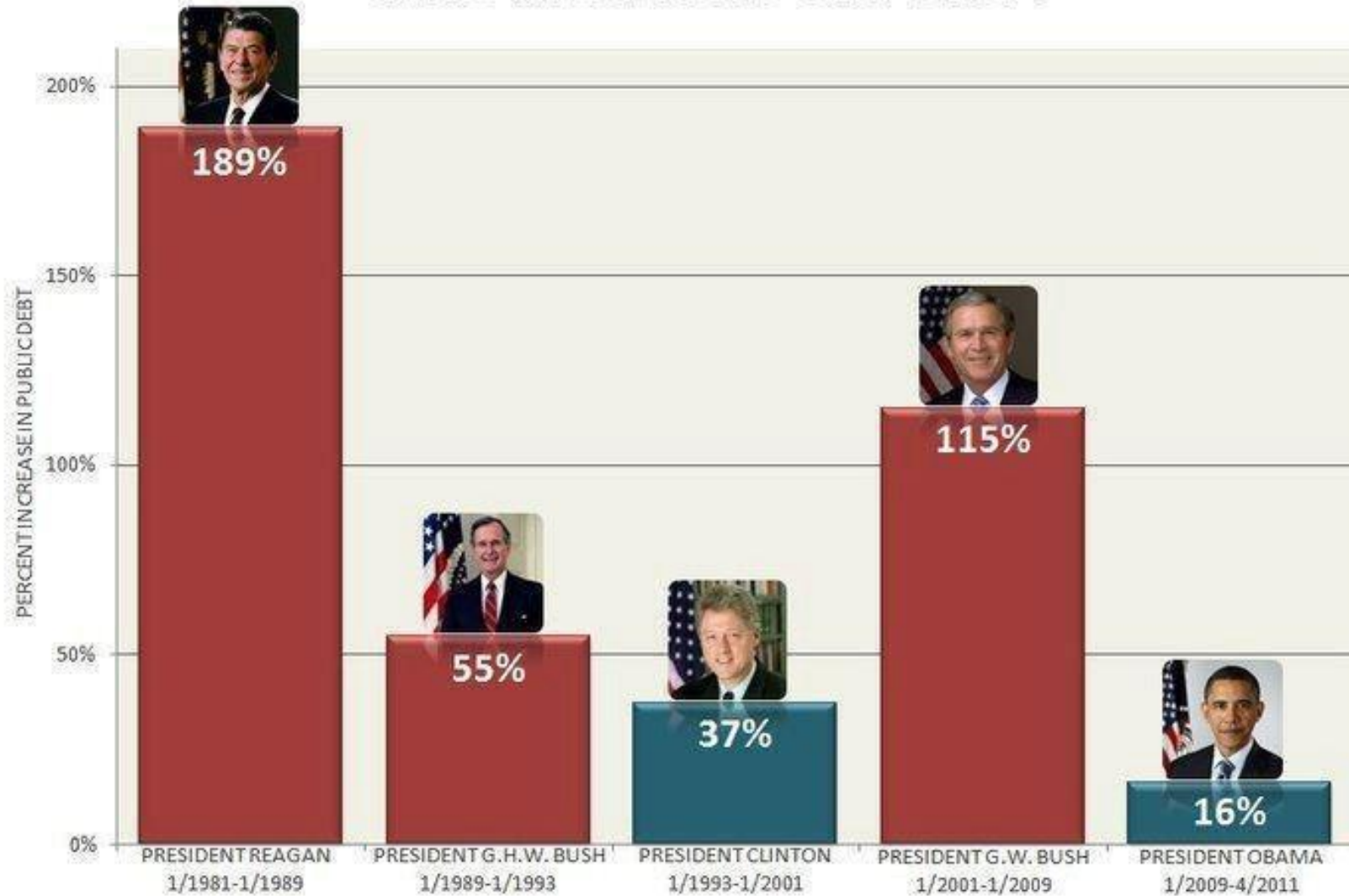
Source: Congressional Budget Office. *Trends in the Distribution of Household Income between 1979 and 2007*, October 2011.

100-Year Review of USA Inc.'s Basic Income Statement Including Revenue & Expense Drivers as Percent of GDP

	1910	1920	1930	1940	1950	1960	1970	1980	1990	2000	2008	2009	2010
Revenue (\$B)	\$0.7	\$7	\$4	\$7	\$41	\$92	\$193	\$517	\$1,032	\$2,025	\$2,524	\$2,105	\$2,152
% of GDP	2%	8%	4%	7%	15%	18%	19%	19%	18%	21%	18%	15%	15%
Individual Income Taxes	—	\$1	\$1	\$1	\$16	\$41	\$90	\$244	\$467	\$1,004	\$1,146	\$915	\$899
% of GDP	—	1%	1%	1%	6%	8%	9%	9%	8%	10%	8%	6%	6%
Social Insurance Taxes	—	—	—	\$2	\$4	\$15	\$45	\$158	\$380	\$653	\$900	\$891	\$865
% of GDP	—	—	—	2%	2%	3%	4%	6%	7%	7%	6%	6%	6%
Corporate Income Taxes	—	—	\$1	\$1	\$10	\$21	\$33	\$65	\$94	\$207	\$304	\$138	\$191
% of GDP	—	—	1%	1%	4%	4%	3%	2%	2%	2%	2%	1%	1%
Other*	\$0.7	\$6	\$3	\$3	\$10	\$16	\$24	\$51	\$92	\$161	\$174	\$161	\$208
% of GDP	2%	6%	3%	3%	4%	3%	2%	2%	2%	2%	1%	1%	1%
Expense (\$B)	\$0.7	\$6	\$3	\$9	\$43	\$92	\$196	\$591	\$1,253	\$1,789	\$2,983	\$3,518	\$3,456
% of GDP	2%	7%	4%	9%	16%	18%	19%	22%	22%	18%	21%	25%	24%
Defense	\$0.3	\$2	\$1	\$2	\$14	\$48	\$82	\$134	\$299	\$299	\$616	\$661	\$84
% of GDP	1%	3%	1%	2%	5%	9%	8%	5%	5%	3%	4%	5%	5%
Interest on the Debt	\$0	\$1	\$1	\$1	\$5	\$7	\$14	\$53	\$184	\$223	\$223	\$481	\$196
% of GDP	0%	1%	1%	1%	2%	1%	1%	2%	3%	2%	2%	1%	1%
Social Security	—	—	—	\$0	\$1	\$12	\$30	\$119	\$249	\$409	\$617	\$683	\$707
% of GDP	—	—	—	0%	0%	2%	3%	4%	4%	4%	4%	5%	5%
Healthcare	—	—	—	\$0	\$0	\$1	\$12	\$55	\$156	\$352	\$671	\$764	\$821
% of GDP	—	—	—	0%	0%	0%	1%	2%	3%	4%	5%	5%	6%
Other**	\$0	\$3	\$2	\$6	\$23	\$25	\$57	\$231	\$365	\$511	\$825	\$1,222	\$1,039
% of GDP	—	—	—	6%	8%	5%	6%	8%	6%	5%	6%	9%	7%
Surplus / Deficit (\$B)	-\$0	\$0	\$1	-\$2	-\$2	\$0	-\$3	-\$74	-\$221	\$236	-\$459	-\$1,413	-\$1,293
% of GDP	0%	0%	1%	-2%	-1%	0%	0%	-3%	-4%	2%	-3%	-10%	-9%

Note: Data are not adjusted for inflation. *Other revenue includes customs and excise / estate taxes. **Other expenses include spending on law enforcement / education / public infrastructure / energy, etc. Source: 1910 – 1930 per Census Bureau, 1940-2010 per White House OMB.

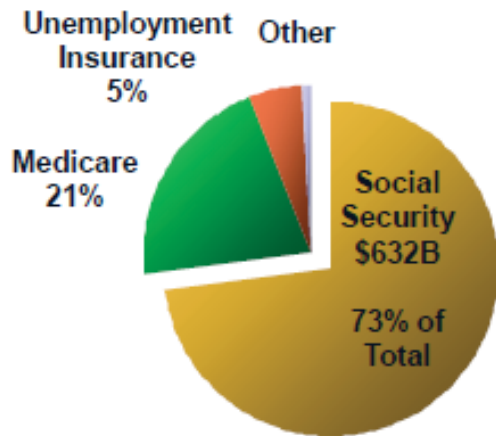
WHO INCREASED THE DEBT?



Entitlement Spending: 76% Is Directed to Social Security + Medicare + Medicaid

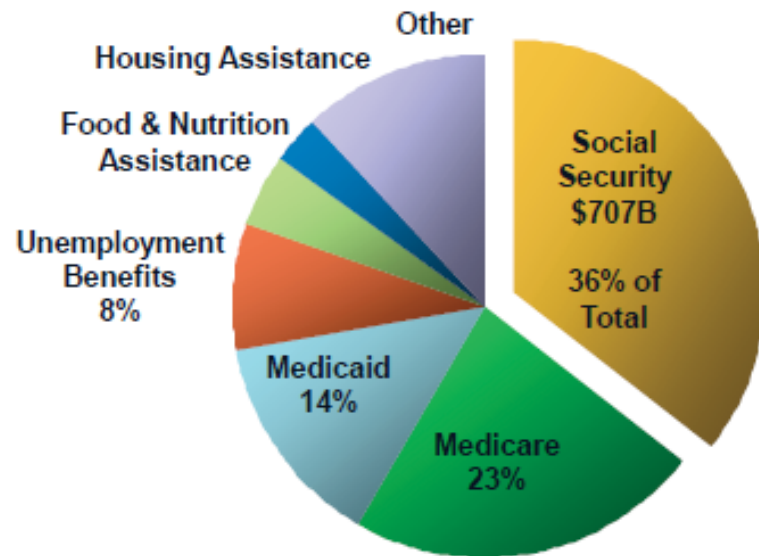
Dedicated Entitlement Revenue
Breakdown, F2010

Total = \$0.87T



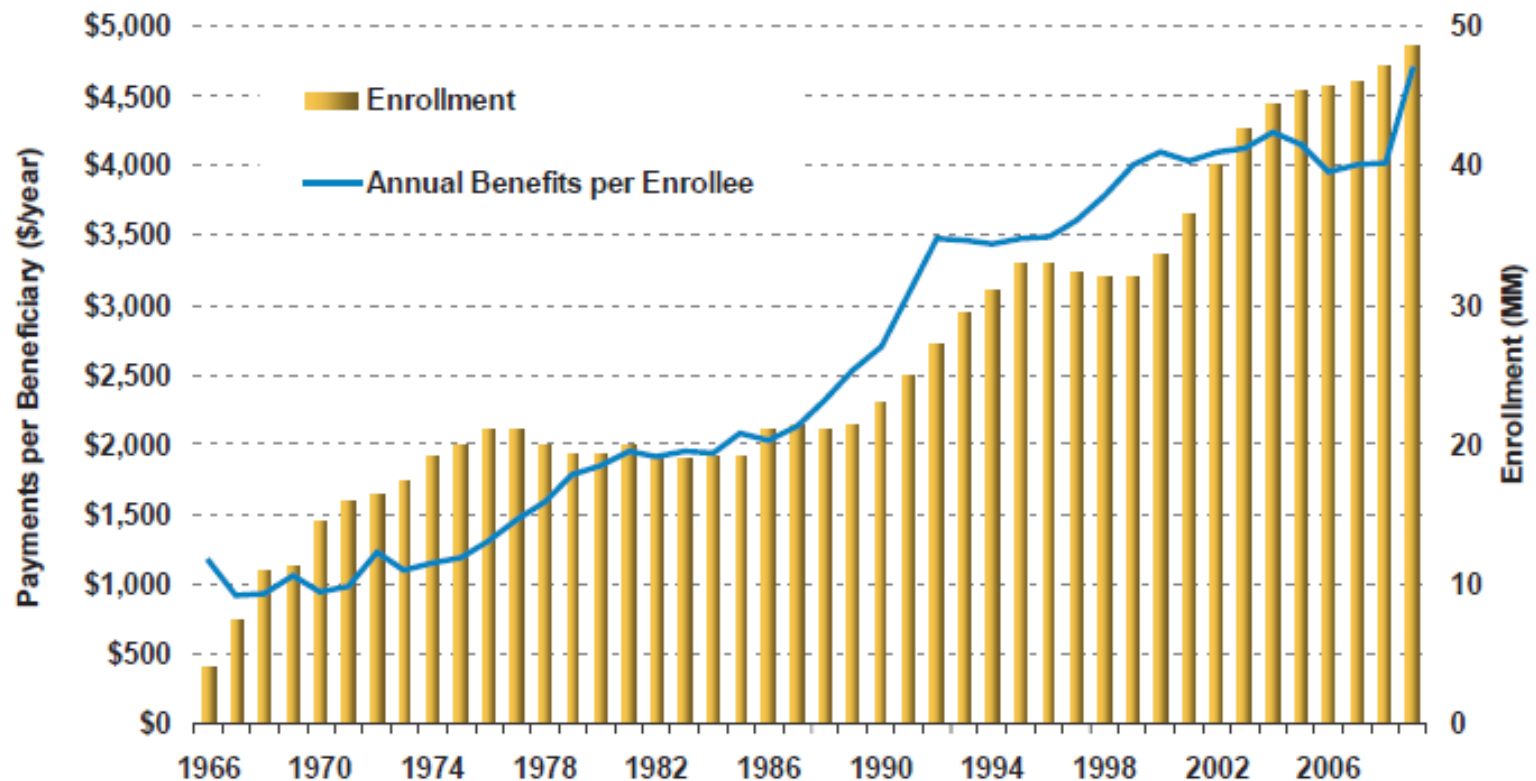
Entitlement Spending Breakdown,
F2010

Total = \$1.98T



Medicaid: Enrollment Is Up 12x to 49 Million While Annual Payments per Beneficiary Are Up 4x to \$5K From 1966 to 2009

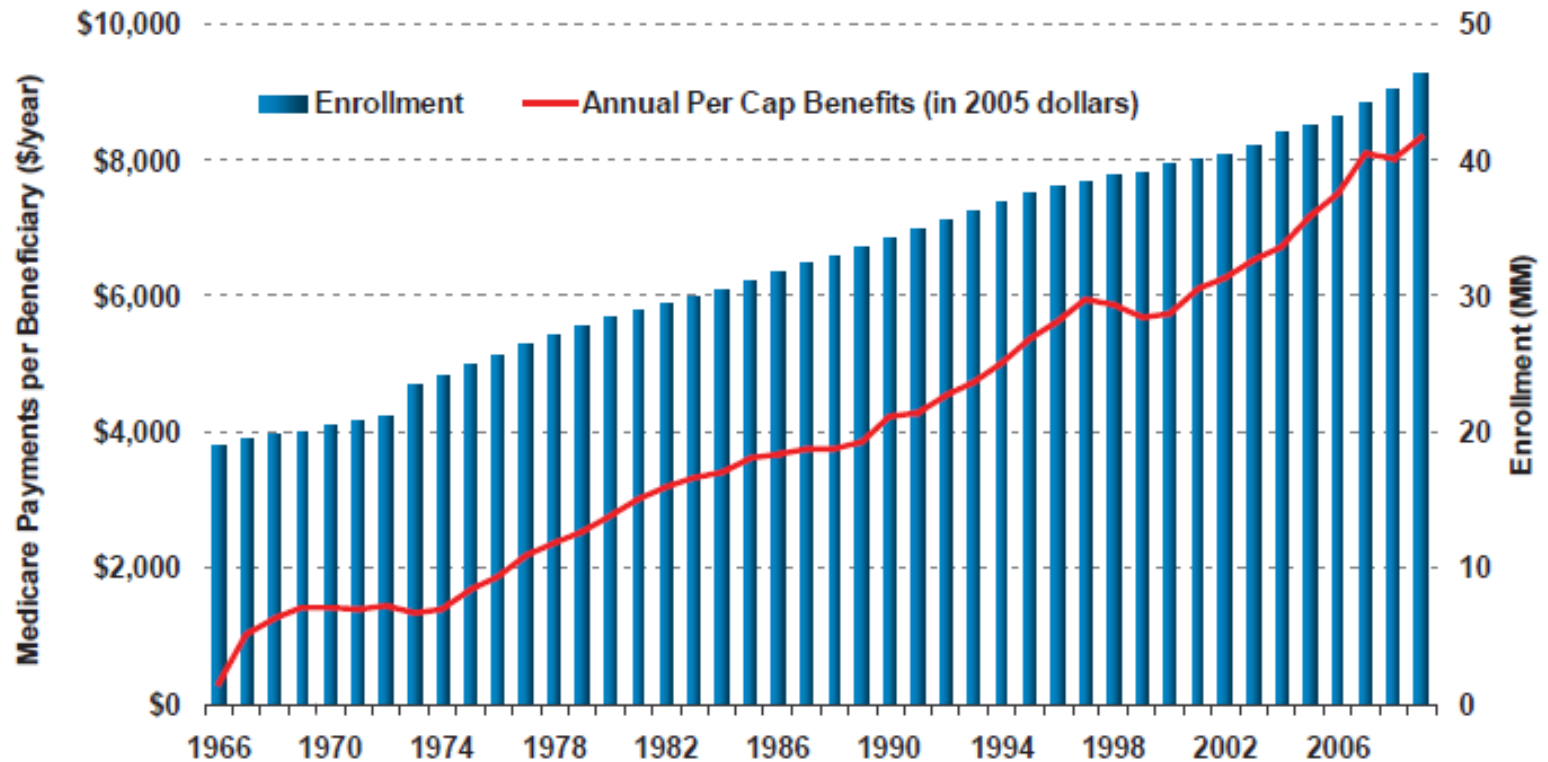
Real Annual Medicaid Payments per Beneficiary & Enrollment, 1966 - 2009



Note: Data are inflation adjusted. Source: Dept. of Health & Human Services.

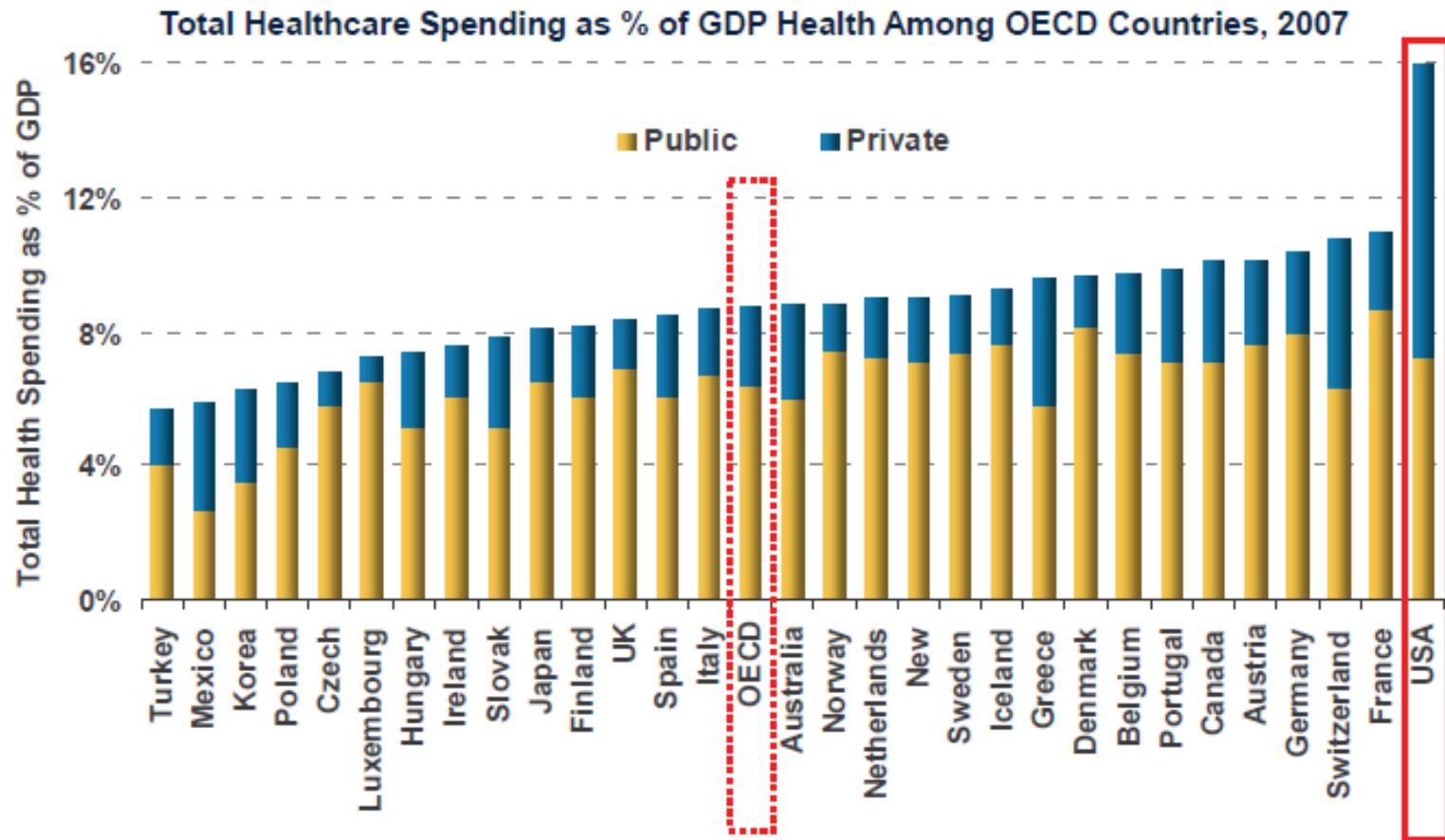
Medicare: Enrollment Up 2x to 46 Million While Annual Payments per Beneficiary Up 26x to \$8,325 From 1966 to 2009

Real Annual Medicare Payments per Beneficiary & Enrollment, 1966 – 2009



Note: Data are inflation adjusted using BEA's GDP price index. Source: Dept. of Health & Human Services.

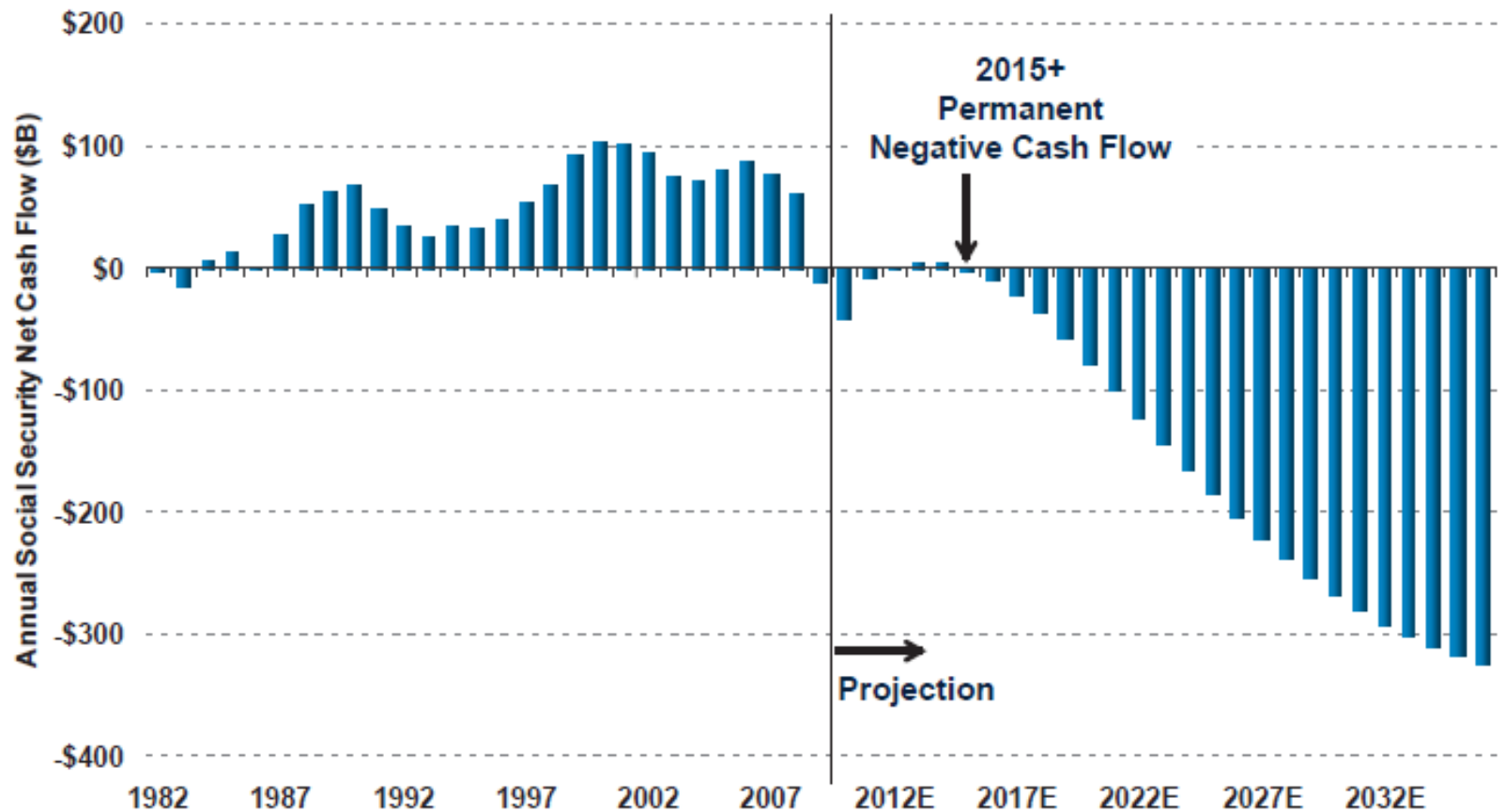
USA Spending on Healthcare as % of GDP = 2x OECD Average



Note: OECD data adjusted for Purchasing Power Parity. *Total expenditure on health measures the final consumption of health goods and services (i.e., current health expenditure) plus capital investment in healthcare infrastructure. This includes spending by both public and private sources (including households) on medical services and goods, public health and prevention programs, and administration. Excluded are health-related expenditures such as training, research, and environmental health. Source: OECD.

Social Security: Unless The Program Is Restructured, Cash Flow Will Turn Negative by 2015E Owing to Aging Population

Real Social Security Annual Operating Income, 1982 – 2036E

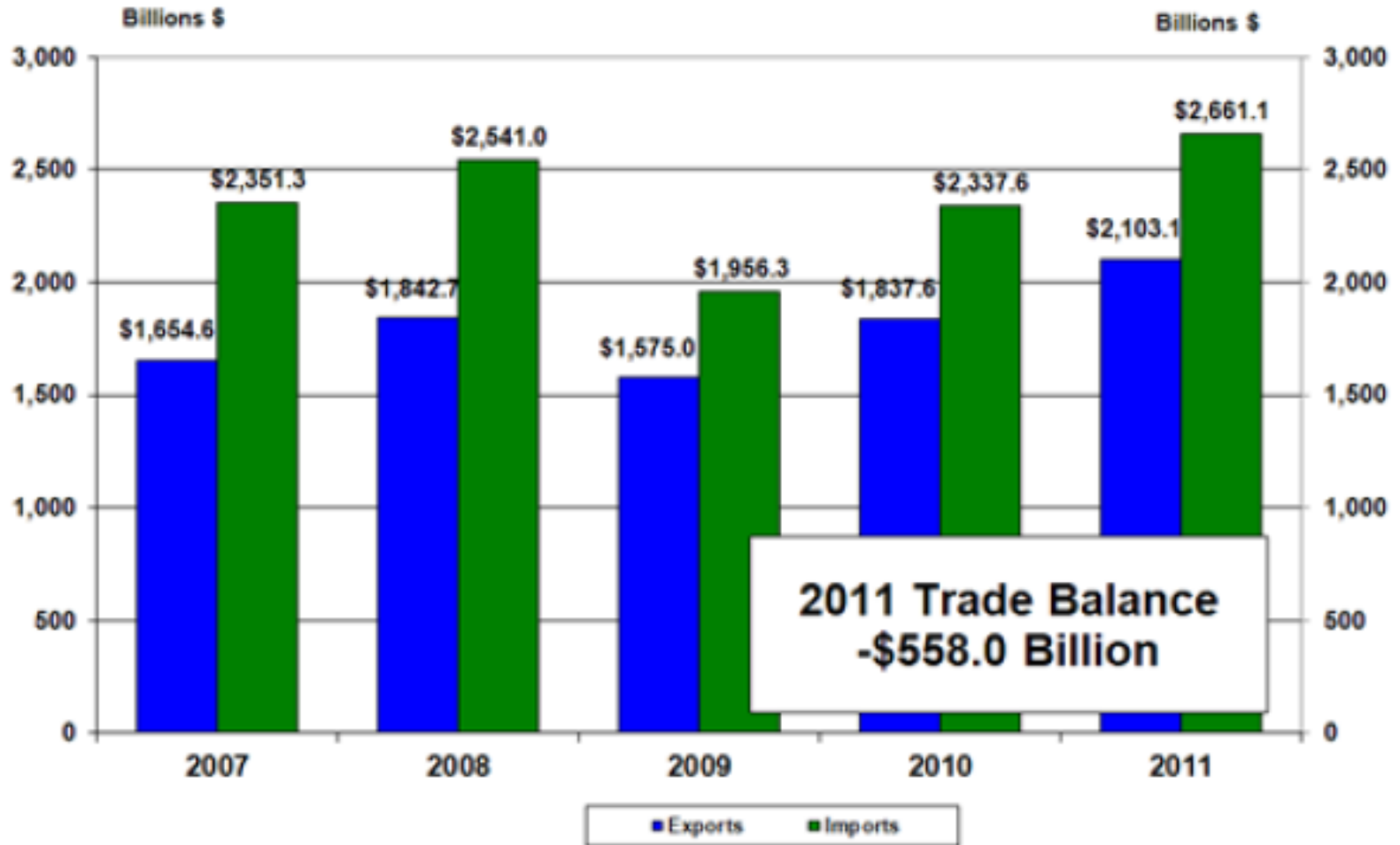


Note: Data adjusted for inflation in real 2009 dollars. Includes Disability Insurance. Projection by Social Security Administration in 8/10. Source: Social Security Administration.

Current Account – the other deficit



U.S. International Trade in Goods and Services



U.S. Current-Account Balance and Its Components

[Seasonally adjusted]

Billion \$

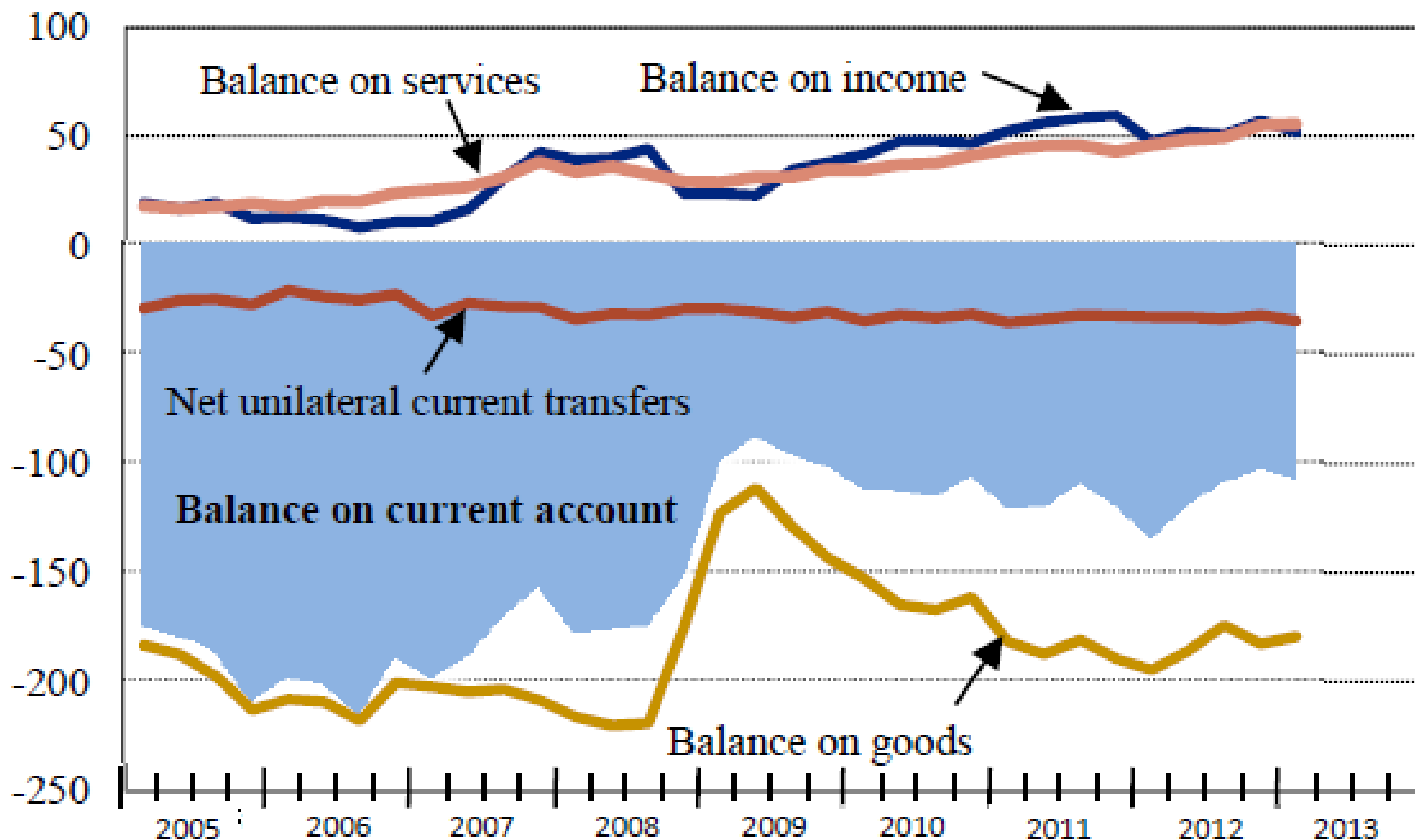


Table 1. U.S. International Transactions

[Millions of dollars, quarters seasonally adjusted]

	(Credits +, debits -) ¹	2011	2012 ^P	Change: 2011 to 2012	2012					Change: 2012:III to 2012:IV
					IV	I ^r	II ^r	III ^r	IV ^P	
Current account										
1	Exports of goods and services and income receipts.....	2,847,988	2,936,512	88,524	720,095	727,956	734,927	733,290	740,340	7,050
2	Exports of goods and services.....	2,103,367	2,194,491	91,124	533,204	543,471	551,128	550,458	549,435	-1,023
3	Goods, balance of payments basis.....	1,497,406	1,564,104	66,698	382,167	387,939	393,530	392,790	389,846	-2,944
4	Services.....	605,961	630,387	24,426	151,037	155,532	157,598	157,668	159,590	1,922
5	Transfers under U.S. military agency sales contracts.....	17,946	17,976	30	4,615	4,406	4,267	4,461	4,843	382
6	Travel.....	116,115	128,555	12,440	29,254	30,969	32,357	32,671	32,558	-113
7	Passenger fares.....	36,631	39,521	2,890	9,287	9,711	10,165	9,787	9,858	71
8	Other transportation.....	43,064	43,294	230	10,827	10,860	10,945	10,721	10,768	47
9	Royalties and license fees.....	120,836	121,810	974	30,033	30,437	30,002	30,561	30,809	248
10	Other private services.....	270,193	277,975	7,782	66,736	68,821	69,548	69,154	70,452	1,298
11	U.S. government miscellaneous services.....	1,176	1,255	79	284	327	314	313	302	-11
12	Income receipts.....	744,621	742,021	-2,600	186,891	184,485	183,799	182,832	190,905	8,073
13	Income receipts on U.S.-owned assets abroad.....	738,810	736,068	-2,742	185,441	183,007	182,317	181,338	189,407	8,069
14	Direct investment receipts.....	480,238	461,668	-18,570	119,094	116,116	111,953	112,463	121,136	8,673
15	Other private receipts.....	256,649	272,406	15,757	65,903	66,146	69,893	68,409	67,958	-451
16	U.S. government receipts.....	1,923	1,994	71	444	745	470	466	313	-153
17	Compensation of employees.....	5,811	5,952	141	1,450	1,479	1,482	1,494	1,498	4
18	Imports of goods and services and income payments.....	-3,180,861	-3,277,420	-96,559	-806,512	-829,021	-820,500	-811,542	-816,358	-4,816
19	Imports of goods and services.....	-2,663,247	-2,734,005	-70,758	-679,489	-692,069	-688,781	-675,302	-677,853	-2,551
20	Goods, balance of payments basis.....	-2,235,819	-2,299,417	-63,598	-571,421	-582,503	-579,532	-566,943	-570,439	-3,496
21	Services.....	-427,428	-434,589	-7,161	-108,068	-109,567	-109,249	-108,359	-107,414	945
22	Direct defense expenditures.....	-29,510	-26,118	3,392	-7,052	-6,838	-6,726	-6,349	-6,205	144
23	Travel.....	-78,651	-83,651	-5,000	-19,871	-21,244	-21,402	-20,782	-20,223	559
24	Passenger fares.....	-31,109	-34,443	-3,334	-7,923	-8,931	-8,817	-8,432	-8,263	169
25	Other transportation.....	-54,711	-55,170	-459	-13,769	-13,715	-13,807	-13,841	-13,807	34
26	Royalties and license fees.....	-36,620	-40,037	-3,417	-9,652	-9,866	-10,090	-10,438	-9,643	795
27	Other private services.....	-191,973	-190,706	1,267	-48,576	-47,858	-47,303	-47,409	-48,136	-727
28	U.S. government miscellaneous services.....	-4,854	-4,464	390	-1,225	-1,115	-1,104	-1,107	-1,137	-30
29	Income payments.....	-517,614	-543,414	-25,800	-127,022	-136,951	-131,719	-136,239	-138,505	-2,266
30	Income payments on foreign-owned assets in the United States.....	-503,796	-529,826	-26,030	-123,590	-133,561	-128,314	-132,822	-135,129	-2,307
31	Direct investment payments.....	-158,559	-173,098	-14,539	-36,552	-45,261	-39,005	-44,662	-44,170	492
32	Other private payments.....	-212,506	-226,210	-13,704	-53,655	-55,396	-56,568	-55,586	-58,660	-3,074
33	U.S. government payments.....	-132,731	-130,518	2,213	-33,383	-32,904	-32,741	-32,574	-32,299	275
34	Compensation of employees.....	-13,817	-13,588	229	-3,433	-3,390	-3,404	-3,417	-3,376	41
35	Unilateral current transfers, net.....	-133,053	-134,076	-1,023	-32,240	-32,703	-32,780	-34,194	-34,398	-204
36	U.S. government grants.....	-47,350	-46,145	1,205	-11,551	-11,910	-11,471	-11,821	-10,943	878
37	U.S. government pensions and other transfers.....	-8,947	-10,354	-1,407	-2,269	-2,541	-2,574	-2,622	-2,617	5
38	Private remittances and other transfers.....	-76,756	-77,576	-820	-18,419	-18,253	-18,735	-19,751	-20,837	-1,086

Table 1. U.S. International Transactions (Continued)

[Millions of dollars, quarters seasonally adjusted]

	(Credits +, debits -) ¹	2011	2012 ^p	Change: 2011 to 2012	2012					Change: 2012:III to 2012:IV
					IV	I ^r	II ^r	III ^r	IV ^p	
Capital account										
39	Capital account transactions, net.....	-1,212	6,436	7,648	-55	-1	-291	-470	7,198	7,668
Financial account										
40	U.S.-owned assets abroad, excluding financial derivatives (increase/financial outflow (-)).....	-483,653	17,918	501,571	-26,231	107,001	248,566	-217,157	-120,493	96,664
41	U.S. official reserve assets.....	-15,877	-4,460	11,417	-1,912	-1,233	-3,289	-833	895	1,728
42	Gold.....	0	0	0	0	0	0	0	0	0
43	Special drawing rights.....	1,752	-37	-1,789	-23	-11	-10	-10	-6	4
44	Reserve position in the International Monetary Fund.....	-18,079	-4,032	14,047	-1,768	-1,078	-3,179	-744	969	1,713
45	Foreign currencies.....	450	-391	-841	-121	-144	-100	-79	-68	11
46	U.S. government assets, other than official reserve assets.....	-103,666	85,110	188,776	-100,624	51,076	16,650	15,204	2,180	-13,024
47	U.S. credits and other long-term assets.....	-7,307	-8,347	-1,040	-2,267	-2,631	-2,538	-1,037	-2,140	-1,103
48	Repayments on U.S. credits and other long-term assets.....	3,333	2,470	-863	653	352	680	844	595	-249
49	U.S. foreign currency holdings and U.S. short-term assets.....	-99,692	90,987	190,679	-99,010	53,356	18,508	15,397	3,725	-11,672
50	U.S. private assets.....	-364,110	-62,732	301,378	76,305	57,159	235,206	-231,528	-123,568	107,960
51	Direct investment.....	-419,332	-351,446	67,886	-111,208	-115,641	-62,967	-90,927	-81,910	9,017
52	Foreign securities.....	-146,797	-52,518	94,279	35,980	3,604	6,519	2,142	-64,783	-66,925
53	U.S. claims on unaffiliated foreigners reported by U.S. nonbanking concerns.....	-11,608	-30,635	-19,027	65,122	-49,183	24,608	1,582	-7,642	-9,224
54	U.S. claims reported by U.S. banks and securities brokers.....	213,627	371,867	158,240	86,411	218,379	267,046	-144,325	30,767	175,092
55	Foreign-owned assets in the United States, excluding financial derivatives (increase/financial inflow (+)).....	1,000,990	384,902	-616,088	57,067	60,501	-142,149	290,599	175,951	-114,648
56	Foreign official assets in the United States.....	211,826	373,642	161,816	-2,859	69,711	79,772	131,111	93,048	-38,063
57	U.S. government securities.....	158,735	347,872	189,137	-17,417	85,431	71,093	115,425	75,923	-39,502
58	U.S. Treasury securities.....	171,179	354,781	183,602	-17,573	85,068	85,239	104,914	79,560	-25,354
59	Other.....	-12,444	-6,909	5,535	156	363	-14,146	10,511	-3,637	-14,148
60	Other U.S. government liabilities.....	9,063	7,887	-1,176	1,826	2,833	2,661	1,652	741	-911
61	U.S. liabilities reported by U.S. banks and securities brokers.....	30,010	1,714	-28,296	12,215	-19,305	2,404	8,007	10,608	2,601
62	Other foreign official assets.....	14,018	16,169	2,151	517	752	3,614	6,027	5,776	-251
63	Other foreign assets in the United States.....	789,164	11,260	-777,904	59,926	-9,210	-221,921	159,488	82,903	-76,585
64	Direct investment.....	233,988	174,680	-59,308	76,120	23,139	49,476	41,808	60,257	18,449
65	U.S. Treasury securities.....	240,878	123,632	-117,246	82,519	43,834	5,992	47,820	25,986	-21,834
66	U.S. securities other than U.S. Treasury securities.....	-56,442	76,681	133,123	-35,276	3,654	-43,065	47,556	68,536	20,980
67	U.S. currency.....	54,996	57,141	2,145	18,817	18,057	7,116	16,156	15,812	-344
68	U.S. liabilities to unaffiliated foreigners reported by U.S. nonbanking concerns.....	6,567	-24,952	-31,519	-39,989	24,212	-27,008	-4,943	-17,213	-12,270
69	U.S. liabilities reported by U.S. banks and securities brokers.....	309,177	-395,922	-705,099	-42,265	-122,106	-214,432	11,091	-70,475	-81,566
70	Financial derivatives, net.....	39,010	-3,074	-42,084	32,613	-1,396	464	-5,127	2,985	8,112
71	Statistical discrepancy (lines 1, 18, 35, 39, 40, 55, and 70 with sign reversed).....	-89,208	68,801	158,009	55,263	-32,338	11,763	44,601	44,775	174
Memoranda:										
72	Balance on goods (lines 3 and 20).....	-738,413	-735,313	3,100	-189,254	-194,564	-186,002	-174,154	-180,593	-6,439
73	Balance on services (lines 4 and 21).....	178,533	195,799	17,266	42,969	45,965	48,349	49,309	52,176	2,867
74	Balance on goods and services (lines 2 and 19).....	-559,880	-539,514	20,366	-146,286	-148,599	-137,653	-124,845	-128,417	-3,572
75	Balance on income (lines 12 and 29).....	227,007	198,606	-28,401	59,869	47,534	52,080	46,593	52,399	5,806
76	Unilateral current transfers, net (line 35).....	-133,053	-134,076	-1,023	-32,240	-32,703	-32,780	-34,194	-34,398	-204
77	Balance on current account (lines 1, 18, and 35 or lines 74, 75, and 76).....	-465,926	-474,983	-9,057	-118,656	-133,768	-118,353	-112,446	-110,416	2,030
78	Net financial flows (lines 40, 55, and 70).....	556,347	399,746	-156,601	63,449	166,106	106,881	68,315	58,443	-9,872

Table 1. Personal Income and Its Disposition (Months)

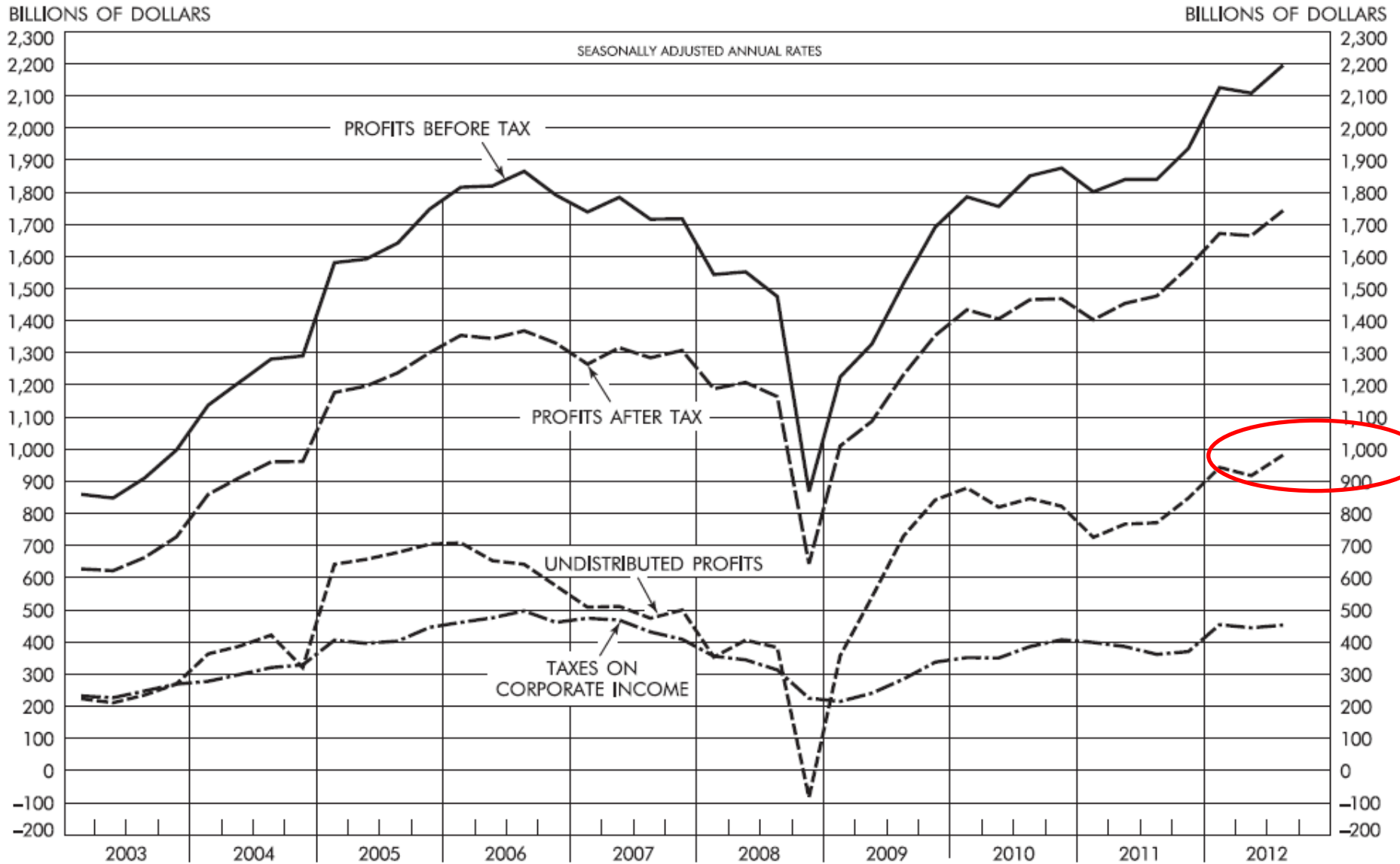
(Billions of dollars)

Line		Seasonally adjusted at annual rates								Line
		2012				2013				
		Sept.	Oct. ^r	Nov. ^r	Dec. ^r	Jan. ^r	Feb. ^r	March ^r	April ^p	
1	Personal income	13,446.0	13,498.2	13,690.4	14,104.1	13,482.4	13,644.5	13,680.7	13,675.1	1
2	Compensation of employees, received	8,603.2	8,640.7	8,775.3	8,895.3	8,721.9	8,777.1	8,796.2	8,800.1	2
3	Wage and salary disbursements	6,909.7	6,941.9	7,064.9	7,173.9	7,004.1	7,053.4	7,069.4	7,071.3	3
4	Private industries.....	5,704.5	5,738.6	5,861.5	5,969.5	5,799.0	5,847.1	5,863.4	5,865.0	4
5	Goods-producing industries.....	1,160.3	1,177.0	1,211.4	1,244.5	1,185.5	1,200.5	1,201.2	1,199.2	5
6	Manufacturing.....	743.6	757.7	782.2	806.2	760.9	770.5	770.7	768.6	6
7	Services-producing industries.....	4,544.2	4,561.6	4,650.1	4,725.0	4,613.5	4,646.6	4,662.2	4,665.9	7
8	Trade, transportation, and utilities.....	1,109.9	1,109.2	1,125.8	1,134.6	1,125.5	1,131.0	1,136.4	1,135.7	8
9	Other services-producing industries.....	3,434.3	3,452.4	3,524.3	3,590.4	3,488.0	3,515.5	3,525.8	3,530.2	9
10	Government.....	1,205.2	1,203.4	1,203.4	1,204.4	1,205.1	1,206.4	1,206.0	1,206.2	10
11	Supplements to wages and salaries	1,693.5	1,698.8	1,710.4	1,721.4	1,717.7	1,723.7	1,726.8	1,728.9	11
12	Employer contributions for employee pension and insurance funds.....	1,179.3	1,182.2	1,185.0	1,188.0	1,190.8	1,193.3	1,195.2	1,197.2	12
13	Employer contributions for government social insurance.....	514.2	516.6	525.4	533.4	527.0	530.4	531.6	531.7	13
14	Proprietors' income with inventory valuation and capital consumption adjustments	1,214.8	1,216.0	1,225.9	1,232.1	1,247.9	1,269.3	1,274.8	1,266.5	14
15	Farm.....	62.6	61.6	60.7	59.7	67.5	75.2	83.0	71.7	15
16	Nonfarm.....	1,152.2	1,154.4	1,165.3	1,172.4	1,180.4	1,194.1	1,191.8	1,194.8	16
17	Rental income of persons with capital consumption adjustment	479.9	480.1	481.9	482.5	493.0	504.9	517.5	518.0	17
18	Personal income receipts on assets	1,701.7	1,728.1	1,783.3	2,064.6	1,693.5	1,763.9	1,759.3	1,771.9	18
19	Personal interest income.....	957.1	977.2	997.2	1,017.2	1,008.3	999.5	990.6	995.1	19
20	Personal dividend income.....	744.6	750.9	786.1	1,047.4	685.2	764.4	768.8	776.2	20
21	Personal current transfer receipts	2,397.6	2,389.1	2,394.7	2,413.7	2,421.8	2,431.9	2,437.9	2,424.2	21
22	Government social benefits to persons.....	2,351.3	2,342.7	2,348.2	2,367.0	2,374.8	2,384.7	2,390.6	2,376.7	22
23	Social security ¹	773.6	763.3	768.0	781.7	785.0	789.0	795.4	785.8	23
24	Medicare ²	568.0	566.9	567.5	572.9	576.8	581.8	582.7	579.7	24
25	Medicaid.....	425.7	425.1	425.4	425.8	424.2	425.4	426.3	422.1	25
26	Unemployment insurance.....	72.4	70.7	71.7	69.8	66.9	65.1	63.8	61.9	26
27	Veterans' benefits.....	73.6	75.1	74.4	74.5	77.3	79.5	78.5	80.4	27
28	Other.....	438.1	441.7	441.1	442.3	444.5	443.8	444.0	446.8	28
29	Other current transfer receipts, from business (net).....	46.3	46.4	46.6	46.7	47.0	47.2	47.3	47.4	29
30	Less: Contributions for government social insurance, domestic	951.1	955.8	970.7	984.1	1,095.6	1,102.5	1,105.0	1,105.6	30
31	Less: Personal current taxes	1,481.3	1,496.4	1,525.8	1,565.0	1,588.5	1,607.0	1,617.8	1,628.2	31
32	Equals: Disposable personal income	11,964.7	12,001.9	12,164.6	12,539.1	11,894.0	12,037.5	12,062.9	12,046.8	32
33	Less: Personal outlays	11,566.4	11,562.7	11,597.1	11,615.2	11,647.0	11,745.2	11,761.6	11,739.9	33
34	Personal consumption expenditures.....	11,223.4	11,219.9	11,255.1	11,273.9	11,304.0	11,400.0	11,414.2	11,393.7	34
35	Goods.....	3,850.2	3,834.6	3,843.2	3,850.5	3,846.1	3,900.4	3,872.4	3,847.4	35
36	Durable goods.....	1,239.5	1,225.4	1,259.3	1,271.3	1,272.1	1,275.6	1,273.0	1,277.7	36
37	Nondurable goods.....	2,610.7	2,609.1	2,583.9	2,579.2	2,574.0	2,624.8	2,599.5	2,569.6	37
38	Services.....	7,373.3	7,385.3	7,411.9	7,423.4	7,457.9	7,499.6	7,541.8	7,546.3	38
39	Personal interest payments ³	174.1	173.4	172.6	171.9	174.1	176.4	178.6	177.5	39
40	Personal current transfer payments.....	168.8	169.5	169.4	169.4	168.9	168.8	168.8	168.7	40
41	To government.....	92.3	92.3	92.3	92.2	92.1	92.1	92.0	91.9	41
42	To the rest of the world (net).....	76.6	77.1	77.1	77.1	76.8	76.8	76.8	76.8	42
43	Equals: Personal saving	398.3	439.2	567.4	924.0	247.0	292.3	301.4	306.9	43
44	Personal saving as a percentage of disposable personal income ...	3.3	3.7	4.7	7.4	2.1	2.4	2.5	2.5	44
45	Addenda:									
45	Personal income excluding current transfer receipts, billions of chained (2005) dollars⁴	9,497.4	9,534.5	9,707.8	10,047.0	9,499.9	9,591.8	9,628.7	9,659.7	45
46	Disposable personal income:									
46	Total, billions of chained (2005) dollars ⁴	10,285.1	10,300.7	10,454.6	10,776.4	10,215.6	10,297.4	10,331.1	10,343.1	46
47	Per capita:									
47	Current dollars.....	38,010	38,104	38,597	39,764	37,698	38,133	38,193	38,120	47
48	Chained (2005) dollars.....	32,674	32,703	33,172	34,174	32,378	32,621	32,710	32,729	48
49	Population (midperiod, thousands) ⁵	314,777	314,981	315,165	315,341	315,507	315,668	315,838	316,020	49

p Preliminary



Corporate Profits



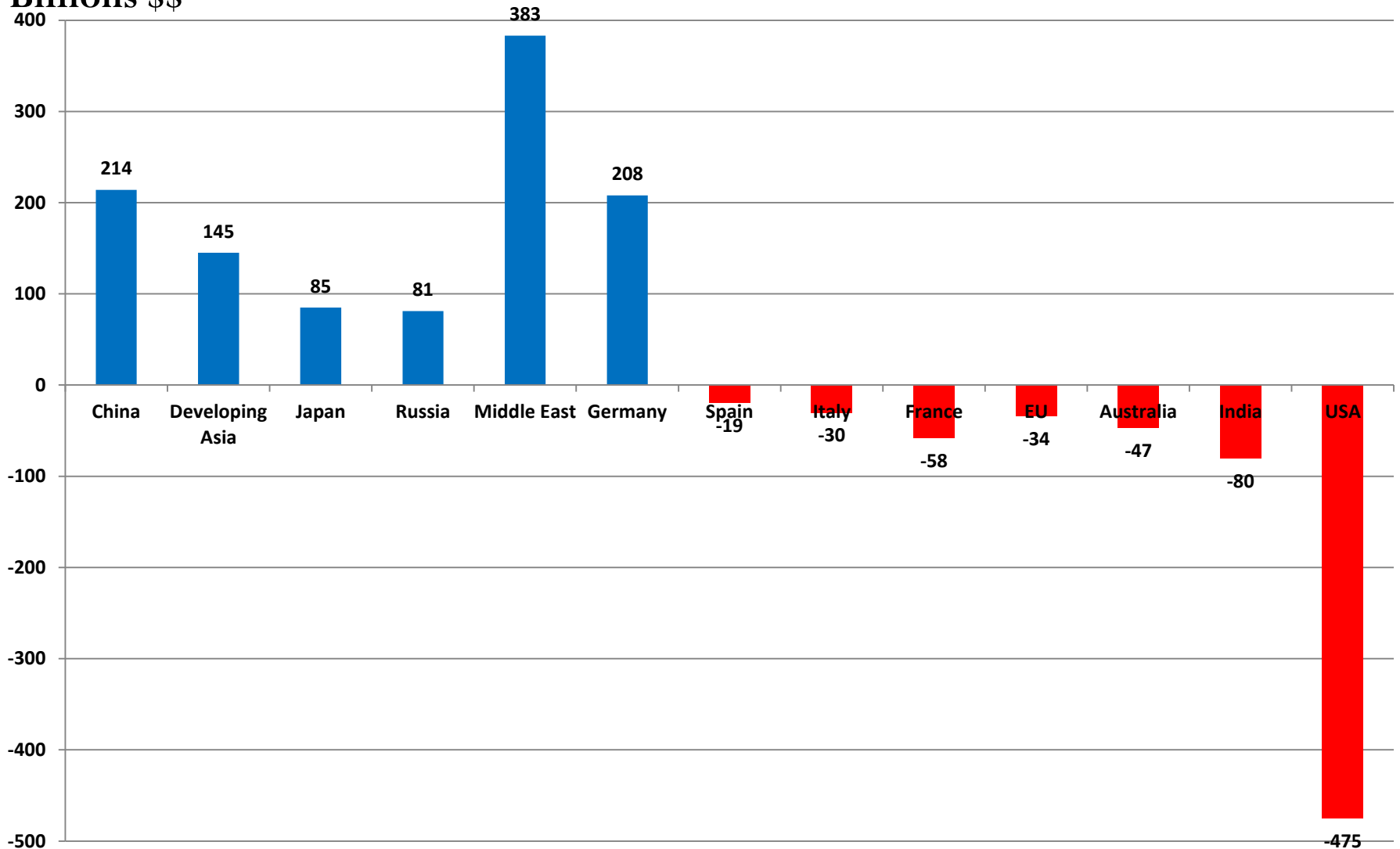
Benchmark oil and U.S. composite gas price history

CBK13 - Crude Oil Brent (ICE)



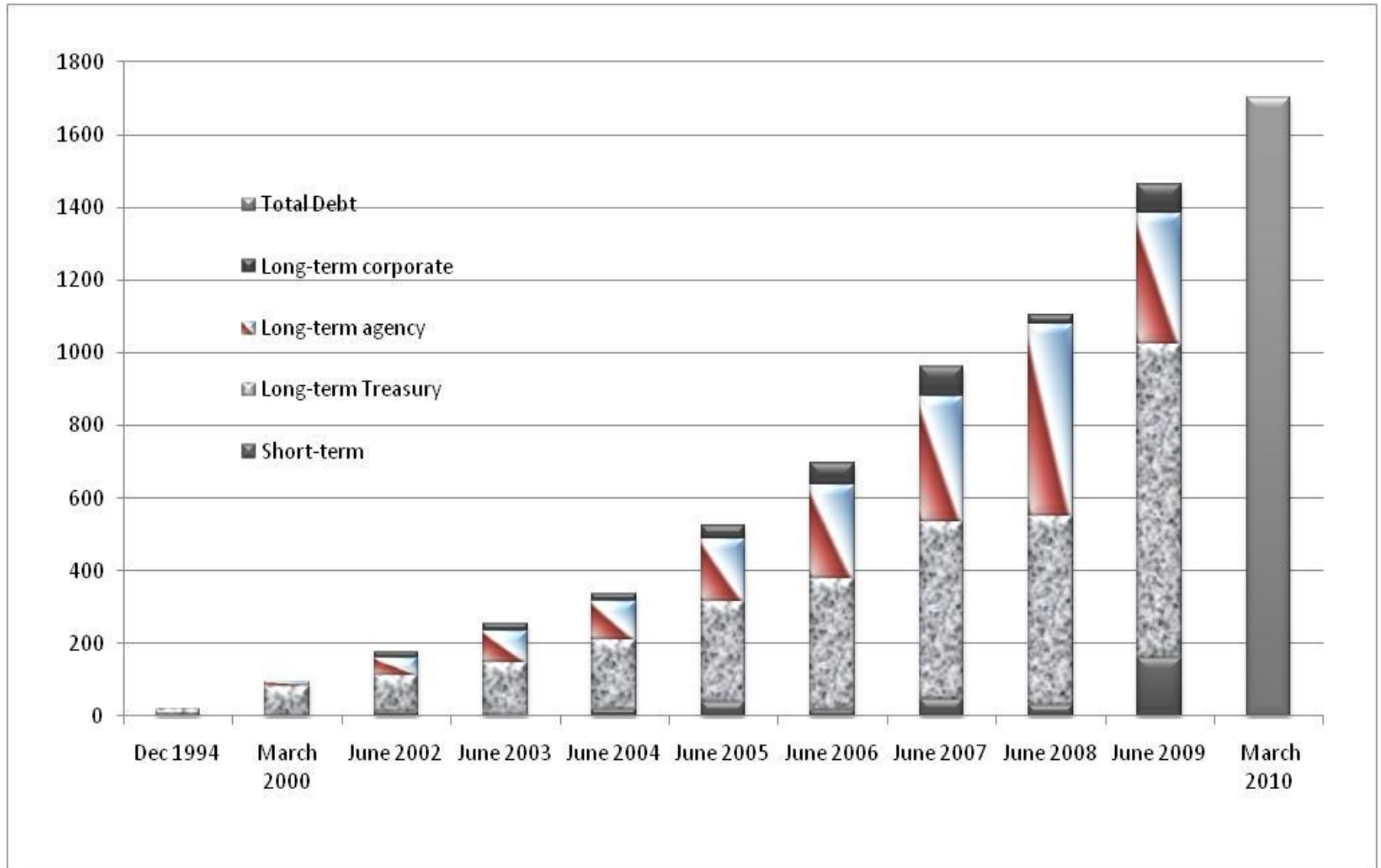
OVERALL GLOBAL CURRENT ACCOUNT BALANCES IN 2012

Billions \$\$



China's Holdings of U.S. Debt

(as a portion of total holdings)



Value of foreign holdings of U.S. long- and short-term securities, by major investing country, as of June 30, 2010, and June 30, 2011

Billions of dollars

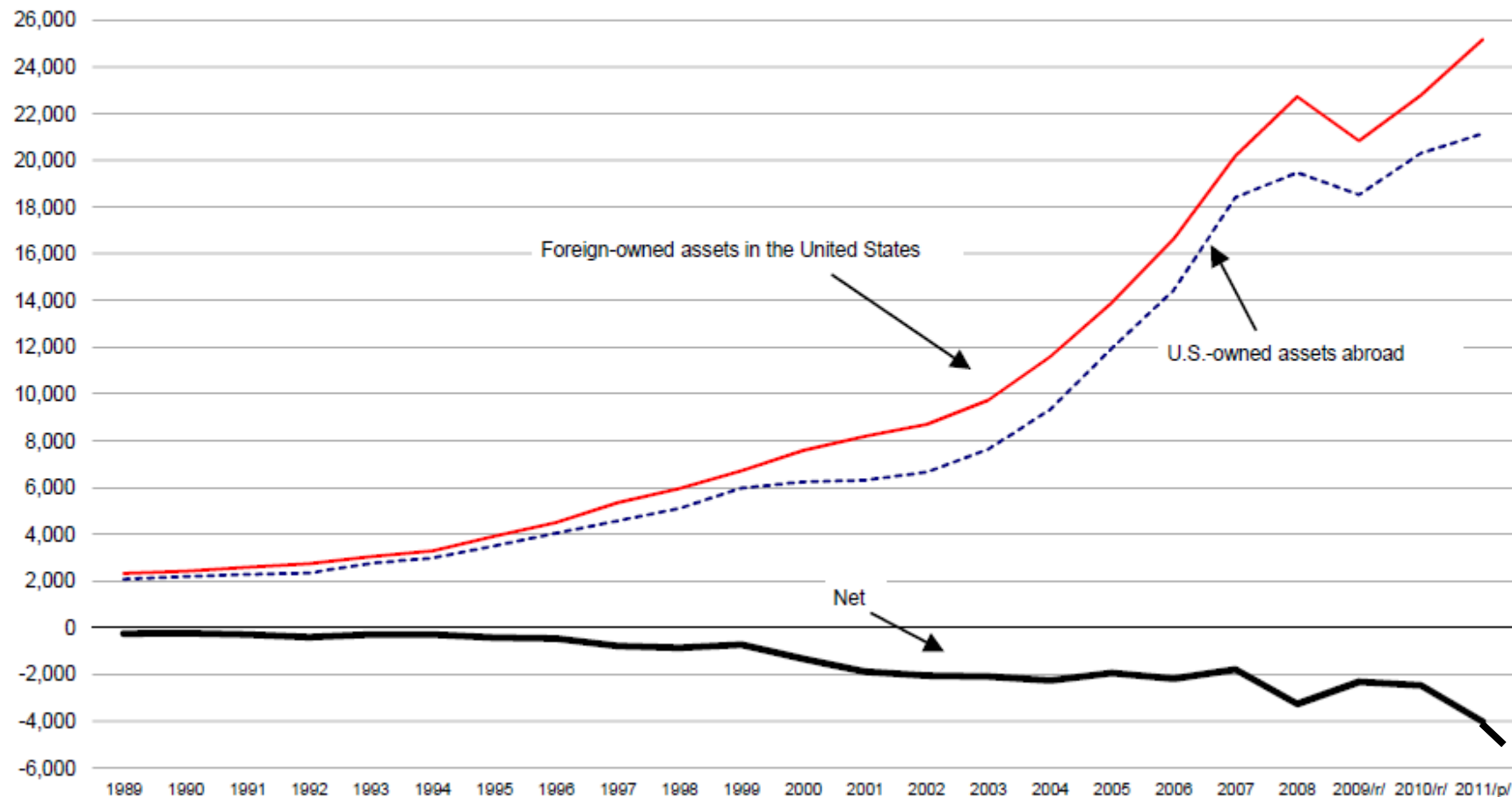
Country	June 2010			June 2011		
	Total	Equity	Debt	Total	Equity	Debt
China ¹	1,611	127	1,484	1,727	159	1,568
Japan	1,393	224	1,169	1,585	302	1,283
United Kingdom	798	324	474	982	441	540
Cayman Islands	743	290	453	889	393	496
Luxembourg	622	172	451	817	291	526
Canada	424	298	126	559	415	144
Switzerland	397	162	235	488	226	261
Belgium	408	19	389	443	25	418
Middle East oil-exporters ²	350	128	222	419	188	231
Ireland	356	77	279	405	105	299
Hong Kong	293	33	260	292	43	248
Country unknown	138	1	137	138	2	137
Rest of world	3,158	959	2,198	3,696	1,240	2,459
Total	10,691	2,814	7,877	12,440	3,830	8,610

1. Excludes Hong Kong and Macau, which are reported separately.

2. Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

Net International Investment Position of the United States at Yearend, 1989 - 2011

Billions of dollars



p Preliminary

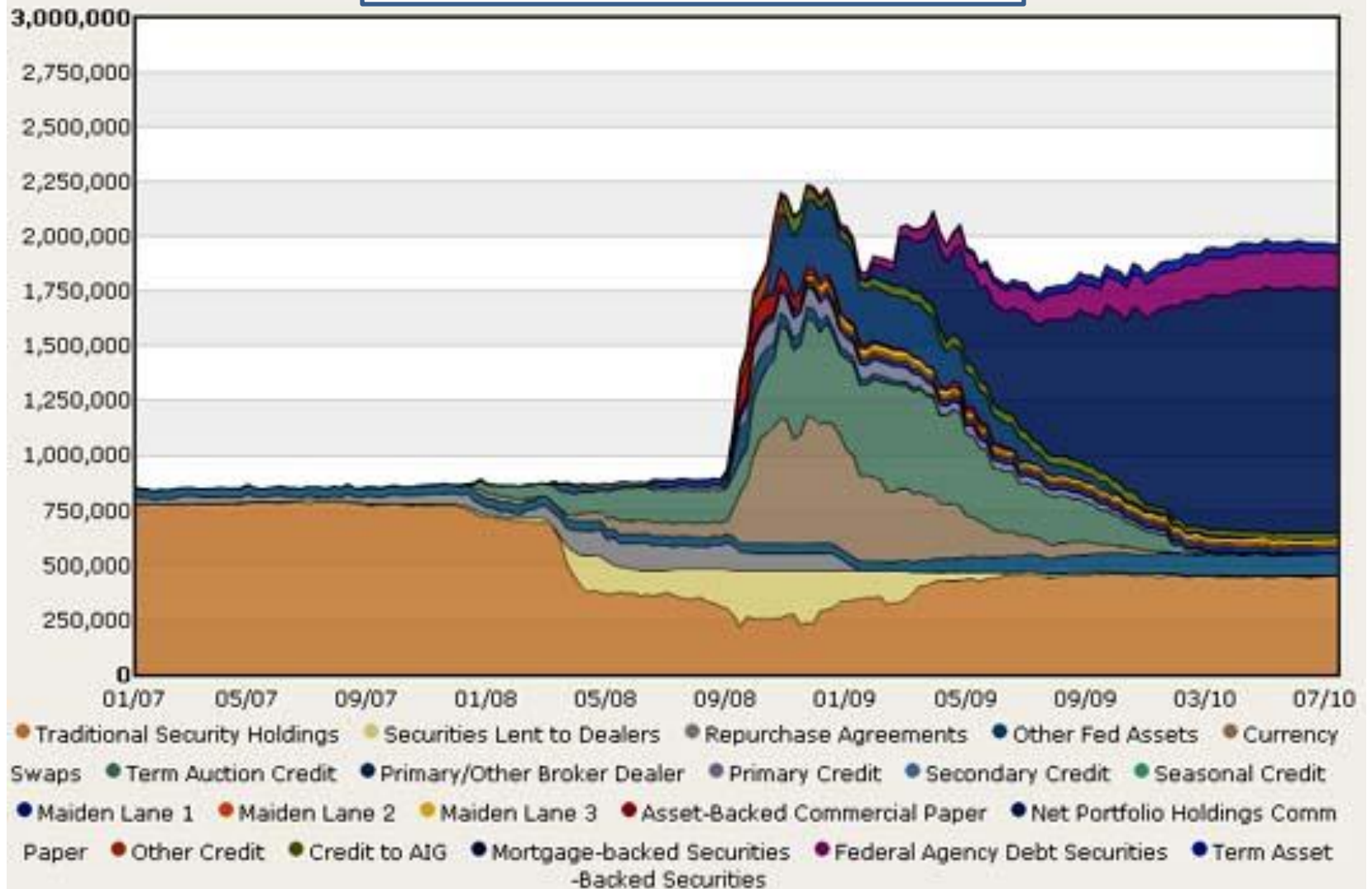
r Revised

Source: Bureau of Economic Analysis

Monetary Policy – Quantitative easing...

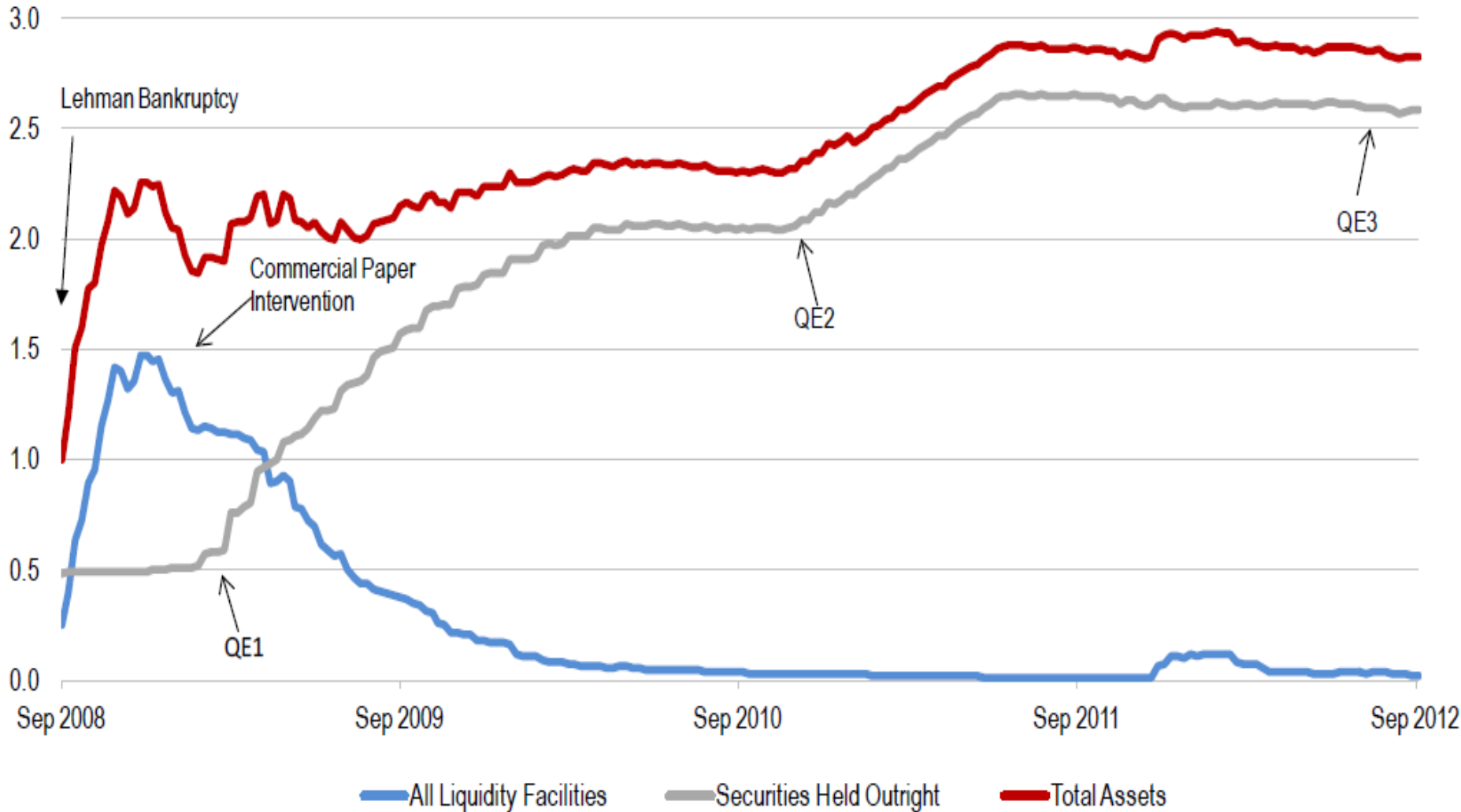


Federal Reserve Balance Sheet



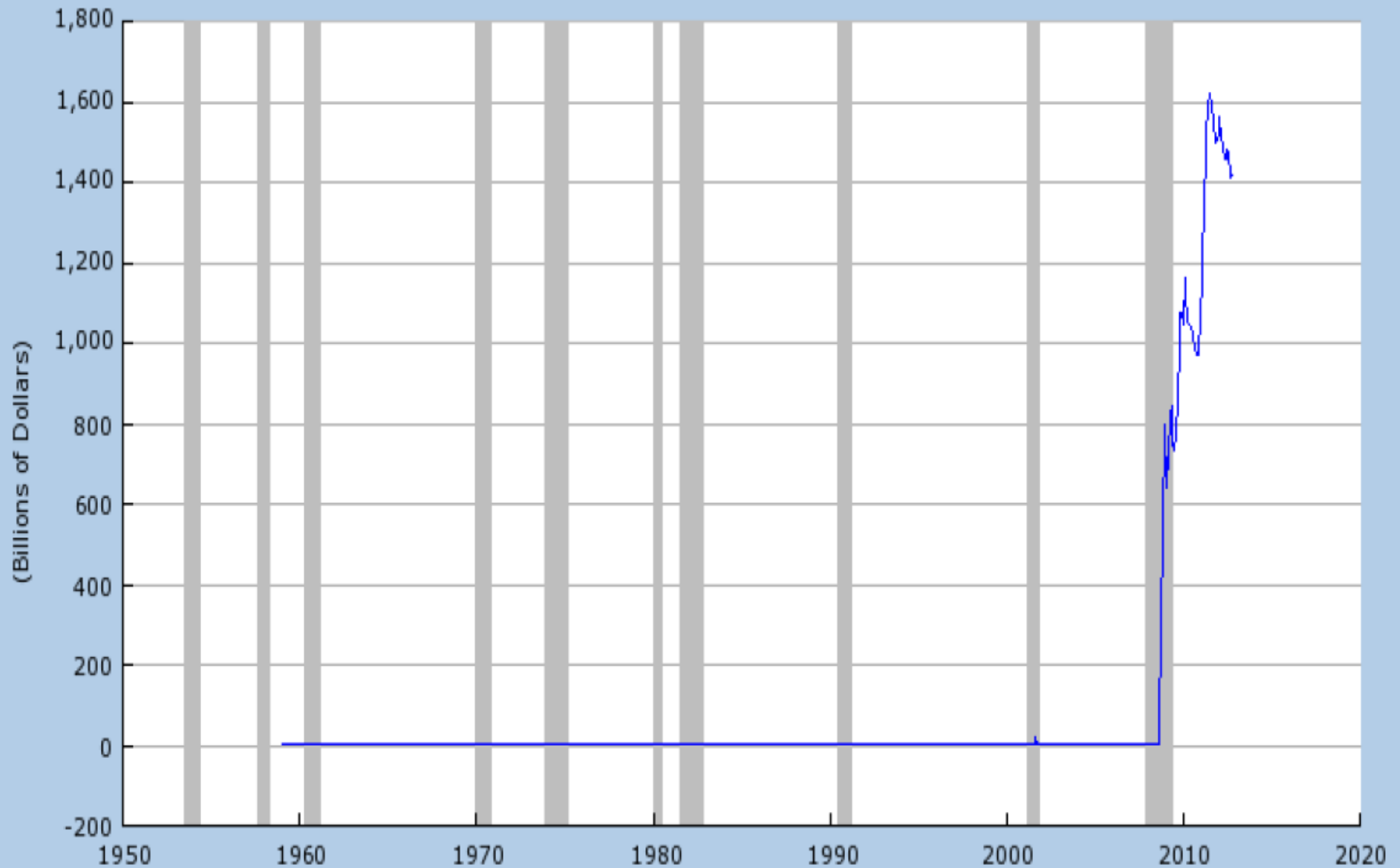
Fed Balance Sheet Composition

(in trillions of US dollars)



Source: Federal Reserve, 27 September 2012

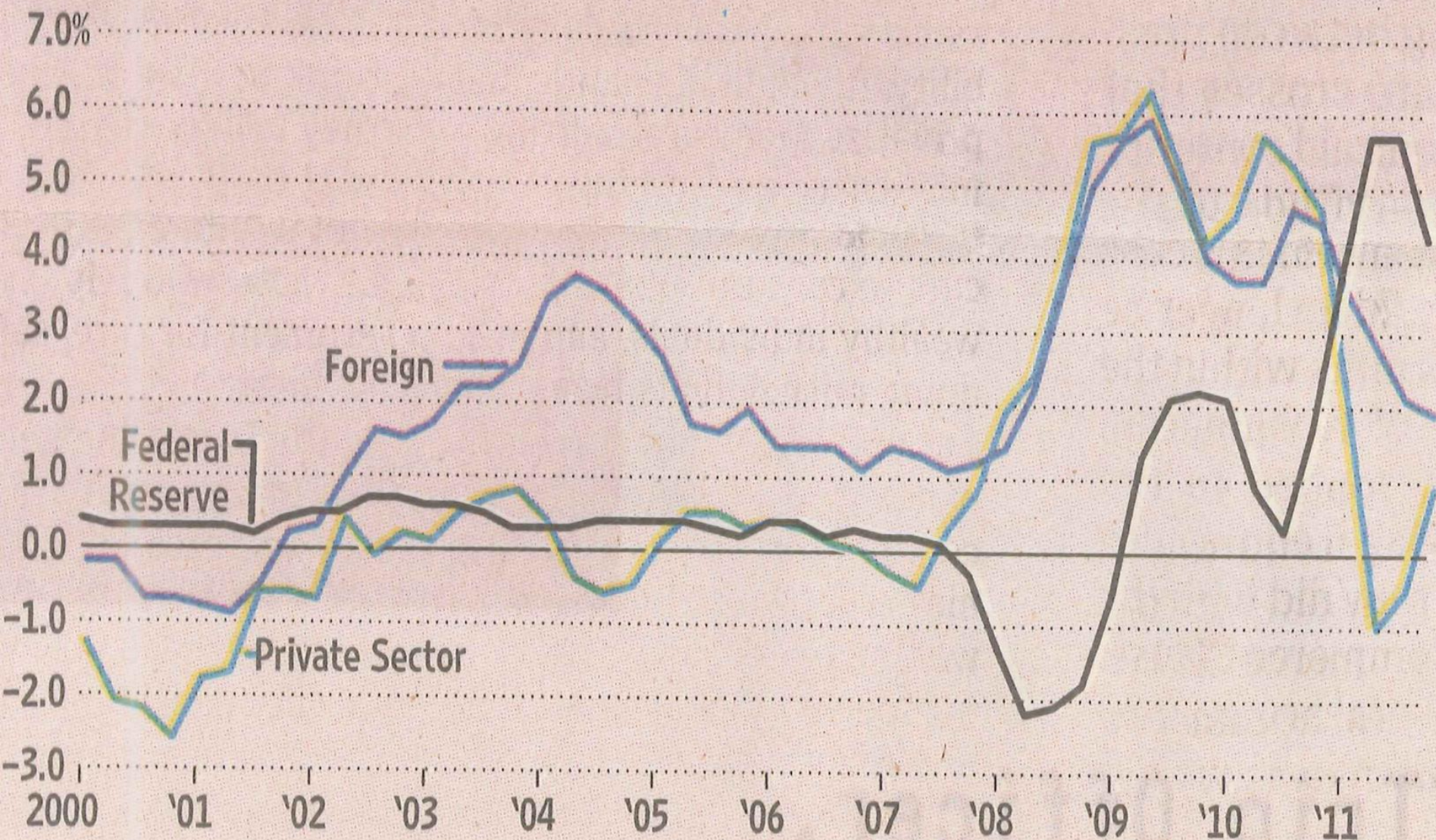
Excess Reserves of Depository Institutions (EXCRESNS)
Source: Board of Governors of the Federal Reserve System



Shaded areas indicate US recessions.
2012 research.stlouisfed.org

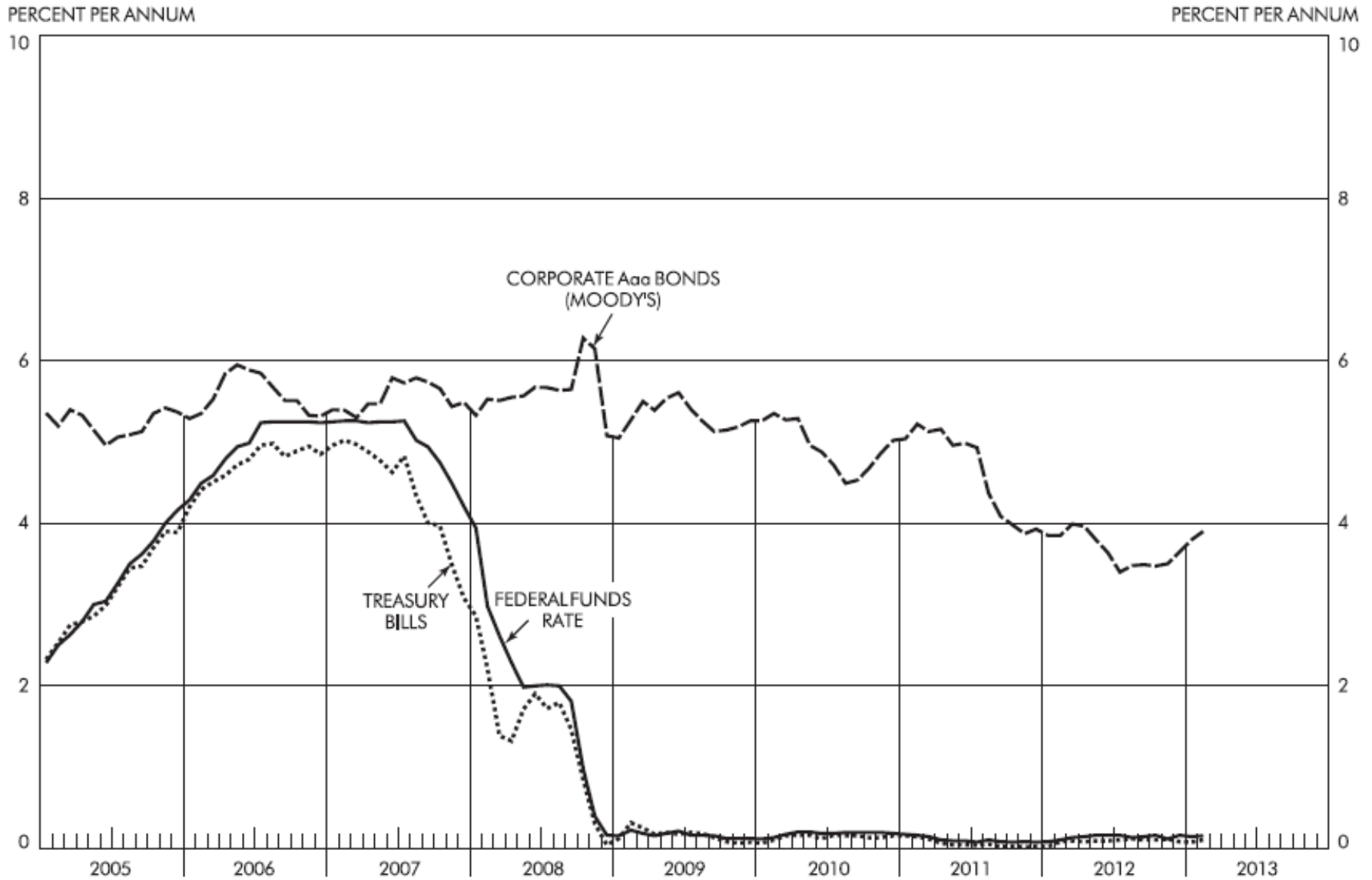
How the Fed Funds Deficit Spending

Net purchases of Treasury securities as a percentage of GDP, by quarter, 2000-2011



Source: The Federal Reserve, Flow of Funds Accounts

Short-term Interest Rates and Corporate Bonds



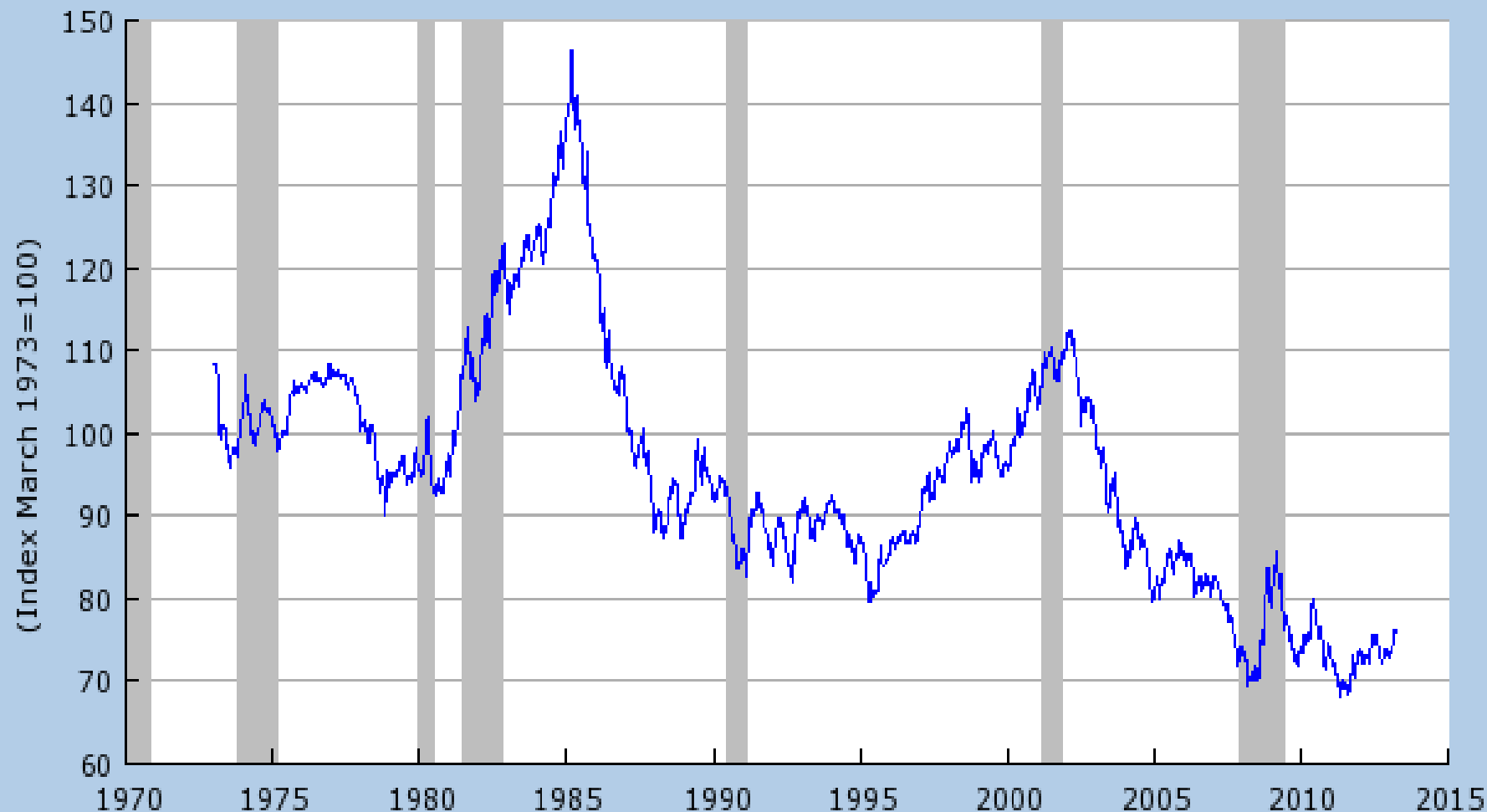
SOURCE: SEE TABLE BELOW

COUNCIL OF ECONOMIC ADVISERS

Good news – U.S. dollar has weakened, some

Trade Weighted U.S. Dollar Index: Major Currencies (TWEXM)

Source: Board of Governors of the Federal Reserve System



Shaded areas indicate US recessions.

2013 research.stlouisfed.org

Deficit and Debt Reduction



Bowles-Simpson Deficit Reduction Commission – 11/10/10

- Achieve \$3.8 trillion in deficit reduction through 2020
- 50+ specific ways to cut outdated programs
- Reduces tax rates, abolishes the AMT and cuts backdoor spending in the tax code
- Stabilizes debt by 2014; reduces debt to 60%/GDP
- Ensures lasting social security solvency

Deficit Reduction (in billions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2012-2015	2012-2020
<i>Discretionary Spending</i>	49	80	118	163	184	197	209	223	241	410	1,464
<i>Mandatory Spending</i>	19	48	70	78	88	96	103	111	119	216	733
<i>Spending in the Tax Code / Tax Reform</i>	0	20	40	80	91	104	119	136	160	140	751
<i>Other Revenue</i>	1	5	11	18	27	32	36	39	43	34	210
<i>Net Interest Savings</i>	0	5	16	33	58	88	120	155	197	55	673
Total Deficit Reduction	69	158	255	372	448	518	588	665	761	854	3,831
<i>Projected Deficit Under Plan (excluding Social Security reform)</i>	-\$865	-\$590	-\$417	-\$400	-\$429	-\$387	-\$338	-\$375	-\$382		
<i>Projected Deficit Under Plan as Percent of GDP (excluding Social Security reform)</i>	-5.5%	-3.5%	-2.4%	-2.2%	-2.2%	-1.9%	-1.6%	-1.7%	-1.6%		

Note: Projections based off of constructed plausible baseline (see last slide). Including off-budget savings from Social Security, the plan would reduce deficits to 2.0% of GDP in 2015 and 1.4% of GDP in 2020

Numbers are FC staff estimates, based on CBO and other available estimates

USA Income Taxes Higher, Consumption Taxes Lower Than OECD Peers

Government Tax Revenue as % of GDP, USA vs. OECD Average, 2007

Tax Type	USA	OECD Average	Variance (USA – OECD)
Individual Income Taxes	10.8%	9.4%	1.4%
Property Taxes	3.1	1.9	1.2
Other	4.7	5.0	-0.3
Corporate Income Taxes	3.1	3.9	-0.8
Social Security Taxes	6.6	9.1	-2.5
Value Added Taxes	--	6.5	-6.5
Total	28.3%	35.8%	-7.5%

Budget Control Act of 2011

- August 2, 2011 – Congress compromised to raise debt crisis

Stage #1

- Imposed caps on new discretionary budget authority – designed to reduce expenditures by \$756 billion (plus \$134 billion in debt service savings), cumulatively;
- debt ceiling raised immediately \$400 billion, \$500 more when Congress votes;

Stage #2

- New Congressional committee (6×6) to cut additional \$1.2 trillion (\$1 trillion plus \$197 saved debt service), including entitlements, cumulatively;
- If Congress does not vote by December 23, automatic cuts of \$1.2 trillion, across the board...

Change in the Budget Deficit Under Current Law Between Fiscal Years 2012 and 2013

		Billions of Dollars
		Total Deficit
Deficit in 2012		-1,171
Deficit in 2013		-612
Total Change		560
		Factors Contributing to the Change in the Deficit Without Effects of Economic Feedback
Changes in Specified Revenue Policies		
Expiration of certain income tax and estate and gift tax provisions scheduled to expire on December 31, 2012, and of indexing the alternative minimum tax for inflation ^a		221
Expiration of the reduction in the employee's portion of the payroll tax		95
Other expiring provisions ^a		65
Taxes included in the Affordable Care Act		18
Subtotal		399
Changes in Specified Spending Policies		
Effects of the automatic enforcement procedures specified in the Budget Control Act ^a		65
Expiration of eligibility to start receiving emergency unemployment benefits		26
Reduction in Medicare's payment rates for physicians ^a		11
Subtotal		103
Other Changes in Revenues and Spending ^b		105
Total Change in Deficit Without Effects of Economic Feedback		607
		Contribution of Economic Feedback to the Change in the Deficit
Change in Deficit Without Effects of Economic Feedback		607
Effects of Economic Feedback ^c		-47
Total Change		560
Memorandum:		
Contribution of Policies Altered in the Alternative Fiscal Scenario to the Change in the Deficit Without Effects of Economic Feedback		362

“The Fiscal Cliff”



Source: Congressional Budget Office.

Notes: Numbers may not add up to totals because of rounding.

Positive numbers indicate a decrease in the deficit.

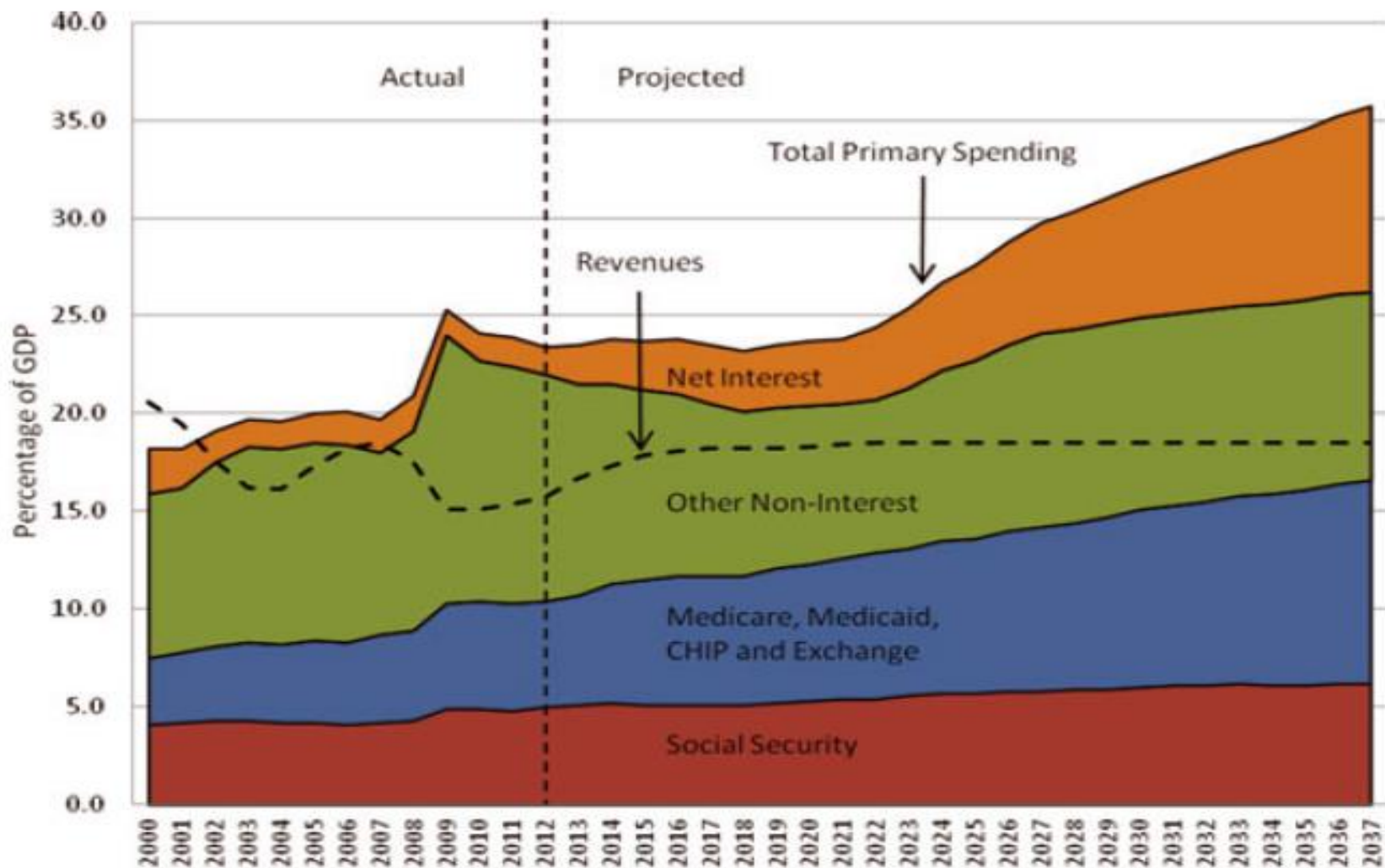
- a. The policy is altered in CBO's alternative fiscal scenario. For details about the policies under that scenario, see Congressional Budget Office, *Updated Budget Projections: Fiscal Years 2012 to 2022* (March 2012), pp. 3–4.
- b. Not linked to specific policies; mostly reflecting changes in revenues.
- c. Economic feedback occurs because the reduction in the deficit induced by tax and spending policies would lower taxable incomes, thereby reducing revenues, and would increase spending on certain programs, such as unemployment insurance.

A wide gap exists between the future cost of the services that the public has become accustomed to receiving from the federal government – especially in the form of benefits for older people – and the tax revenues that the public has been sending to the government to pay for these services.

Because the federal budget is on an unsustainable path under current policies, those policies will need to be changed in significant ways.

Congressional Budget Office, November 8, 2012

Revenues and Primary Spending, by Category, Under Congressional Budget Office's (CE Alternative Fiscal Scenario: 2013–2037



Source: The Long-Term Budget Outlook 2012, Congressional Budget Office

Federal Debt Projected in CBO's Baseline

(Billions of dollars)

	Actual, 2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Debt Held by the Public at the Beginning of the Year	10,128	11,281	12,036	12,685	13,156	13,666	14,223	14,827	15,537	16,330	17,168	18,118
Changes in Debt Held by the Public												
Deficit	1,087	642	560	378	432	482	542	648	733	782	889	895
Other means of financing	66	113	89	93	78	74	63	61	60	57	62	56
Debt Total	1,153	755	649	471	510	556	605	710	793	838	950	952
Debt Held by the Public at the End of the Year	11,281	12,036	12,685	13,156	13,666	14,223	14,827	15,537	16,330	17,168	18,118	19,070
Memorandum:												
Debt Held by the Public at the End of the Year (As a percentage of GDP)	72.6	75.1	76.2	74.6	72.7	71.3	70.8	71.0	71.5	72.0	72.9	73.6
Debt Held by the Public Excluding Financial Assets ^a												
In billions of dollars	10,391	11,031	11,565	11,924	12,334	12,793	13,311	13,935	14,643	15,400	16,262	17,130
As a percentage of GDP	66.8	68.8	69.5	67.6	65.6	64.1	63.6	63.7	64.1	64.6	65.4	66.1
Gross Federal Debt ^b	16,051	16,887	17,616	18,185	18,805	19,529	20,321	21,200	22,148	23,125	24,173	25,228
Debt Subject to Limit ^c	16,027	16,863	17,591	18,160	18,779	19,503	20,295	21,173	22,120	23,096	24,144	25,198

Source: Congressional Budget Office.

US GDP \$15,851

debt/GDP = 101%

Deficit Reduction Enacted So Far

	2013-2022
American Taxpayer Relief Act	\$650 billion
<i>Revenue from higher earners</i>	<i>\$620 billion</i>
<i>Reduction in discretionary caps</i>	<i>\$10 billion</i>
<i>Roth 401k conversion provision</i>	<i>\$10 billion</i>
<i>Reductions in health spending</i>	<i>\$25 billion</i>
<i>Unemployment benefit extension</i>	<i>-\$30 billion</i>
<i>Tax extenders</i>	<i>-\$75 billion</i>
<i>Interest savings</i>	<i>\$85 billion</i>
Budget Control Act	\$985 billion
<i>Defense Discretionary Savings</i>	<i>\$385 billion</i>
<i>Non-Defense Discretionary Savings</i>	<i>\$465 billion</i>
<i>Interest Savings</i>	<i>\$135 billion</i>
Continuing Resolutions in FY2011	\$720 billion
<i>Defense Discretionary Savings</i>	<i>\$175 billion</i>
<i>Non-Defense Discretionary Savings</i>	<i>\$440 billion</i>
<i>Interest Savings</i>	<i>\$105 billion</i>
Total Enacted Savings	\$2.35 trillion
<i>Memorandum:</i>	
<i>Total Defense Discretionary Savings</i>	<i>\$565 billion</i>
<i>Total Non-Defense Discretionary Savings</i>	<i>\$910 billion</i>
<i>Total Mandatory Savings</i>	<i>\$5 billion</i>
<i>Total Revenue</i>	<i>\$555 billion</i>
<i>Total Interest Savings</i>	<i>\$325 billion</i>

Source: CRFB calculations based on CBO and JCT data.

SEQUESTRATION – MARCH 2, 2013

CBO's Estimates of Automatic Spending Reductions for 2013

	Reduction in Budgetary Resources (Billions of dollars)	Percentage Reduction
Defense		
Discretionary	42.7	7.9
Mandatory	*	7.8
Total	<u>42.7</u>	7.9
Nondefense		
Discretionary	<u>28.7</u>	5.3
Mandatory		
Medicare spending subject to 2 percent limit ^a	9.9	2.0
Other	4.0	5.8
Total	<u>42.7</u>	4.6

Source: Congressional Budget Office.

Obama's Proposed Budget by Category, FY 2014

(In billions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Totals	
													2014-2018	2014-2023
Outlays:														
Appropriated ("discretionary") programs: ¹														
Defense	671	651	618	604	581	581	583	589	601	612	622	631	2,967	6,021
Non-defense	614	606	624	628	637	638	641	647	657	662	648	647	3,168	6,429
Subtotal, appropriated programs	1,285	1,258	1,242	1,232	1,218	1,219	1,224	1,236	1,258	1,274	1,270	1,278	6,135	12,451
Mandatory programs:														
Social Security	768	813	860	911	965	1,021	1,080	1,142	1,208	1,275	1,347	1,424	4,837	11,234
Medicare	466	504	524	537	578	587	607	665	709	758	837	867	2,832	6,668
Medicaid	251	267	304	328	351	371	391	414	438	465	493	523	1,743	4,076
Allowance for moving to the chained CPI ..	.....	.....	.....	-2	-5	-8	-11	-14	-18	-21	-24	-27	-26	-130
Other mandatory programs	548	620	621	642	676	675	688	728	753	786	821	822	3,301	7,211
Subtotal, mandatory programs	2,032	2,203	2,308	2,415	2,564	2,646	2,754	2,934	3,090	3,263	3,475	3,609	12,688	29,059
Net interest	220	223	223	254	300	373	461	543	609	663	715	763	1,611	4,905
Adjustments for disaster costs ² .....	.....	1	5	7	8	9	9	10	10	10	10	10	38	88
Total outlays	3,537	3,685	3,778	3,908	4,090	4,247	4,449	4,724	4,967	5,209	5,470	5,660	20,472	46,502
Receipts:														
Individual income taxes	1,132	1,234	1,383	1,552	1,700	1,844	1,977	2,105	2,241	2,380	2,517	2,684	8,456	20,382
Corporation income taxes	242	288	333	376	401	430	450	470	481	494	511	531	1,991	4,478
Social insurance and retirement receipts:														
Social Security payroll taxes	570	673	739	778	826	869	917	965	1,008	1,063	1,114	1,161	4,129	9,440
Medicare payroll taxes	201	208	224	238	254	268	284	299	313	330	347	362	1,268	2,919
Unemployment insurance	67	61	58	58	69	69	66	64	64	66	68	68	320	651
Other retirement	8	9	10	11	12	12	12	13	13	14	14	15	56	125
Excise taxes	79	85	105	114	115	118	125	138	142	149	156	166	577	1,327
Estate and gift taxes	14	13	13	14	15	17	18	31	33	36	38	41	78	257
Customs duties	30	34	39	42	46	49	53	55	58	61	65	68	228	537
Deposits of earnings, Federal Reserve System ..	82	83	92	79	51	12	.....	10	30	33	37	39	234	383
Other miscellaneous receipts	25	24	38	70	73	72	70	76	81	82	84	86	324	733
Total receipts	2,450	2,712	3,034	3,332	3,561	3,761	3,974	4,226	4,464	4,709	4,951	5,220	17,661	41,231
Deficit	1,087	973	744	576	528	487	475	498	503	501	519	439	2,811	5,271
Net interest	220	223	223	254	300	373	461	543	609	663	715	763	1,611	4,905
Primary deficit / surplus (-)	867	750	521	323	228	113	14	-45	-106	-162	-197	-323	1,200	366
On-budget deficit	1,149	1,006	768	584	525	478	460	474	459	451	450	345	2,814	4,993
Off-budget deficit / surplus (-)	-62	-33	-24	-7	4	9	16	24	44	50	69	94	-3	278

Economic assumptions for the budget

(Calendar years)

	2011	Projections											
	Actual	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Gross Domestic Product (GDP):													
Nominal level, billions of dollars	15,076	15,705	16,384	17,235	18,181	19,192	20,247	21,275	22,247	23,219	24,216	25,252	26,331
Percent change, nominal GDP, year/year	4.0	4.2	4.3	5.2	5.5	5.6	5.5	5.1	4.6	4.4	4.3	4.3	4.3
Real GDP, percent change, year/year	1.8	<u>2.3</u>	<u>2.3</u>	<u>3.2</u>	3.5	3.6	3.5	3.1	2.6	2.4	2.4	2.3	2.3
Real GDP, percent change, Q4/Q4	2.0	2.0	2.6	3.4	3.6	3.6	3.5	2.9	2.4	2.4	2.3	2.3	2.3
GDP chained price index, percent change, year/year	2.1	1.9	2.0	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Consumer Price Index, ² percent change, year/ year	3.1	2.1	2.1	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Interest rates, percent: ³													
91-day Treasury bills ⁴	0.1	<u>0.1</u>	<u>0.1</u>	<u>0.2</u>	<u>0.4</u>	1.2	2.3	3.2	3.6	3.7	3.7	3.7	3.7
10-year Treasury notes	2.8	1.8	2.0	2.6	3.1	3.7	4.1	4.4	4.6	4.8	5.0	5.0	5.0
Unemployment rate, civilian, percent ³	8.9	8.1	<u>7.7</u>	<u>7.2</u>	6.7	6.2	5.7	5.5	5.4	5.4	5.4	5.4	5.4

Note: A more detailed table of economic assumptions is in Chapter 2, "Economic Assumptions and Interactions with the Budget," in the *Analytical Perspectives* volume of the Budget, Table 2-1.

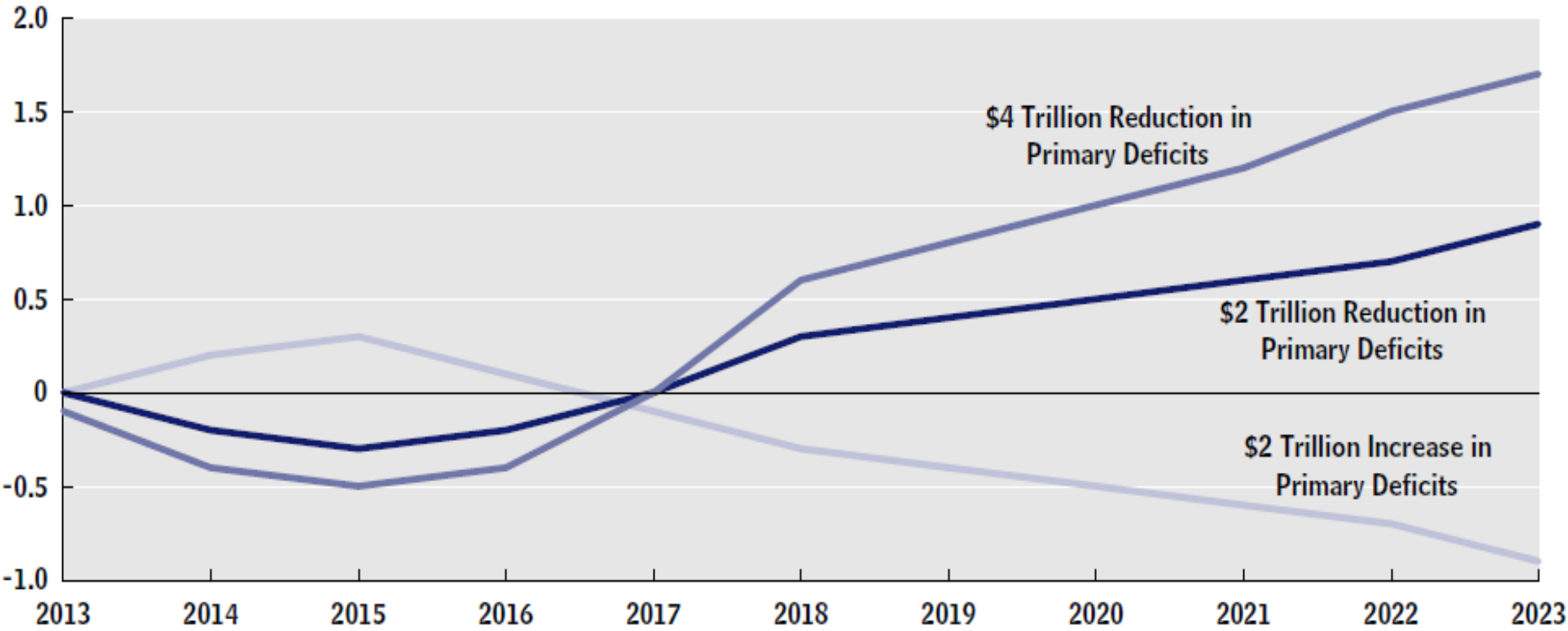
CBO's Baseline Budget Projections

May 2013

	Actual, 2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total	
													2014- 2018	2014- 2023
In Billions of Dollars														
Revenues														
Individual income taxes	1,132	1,333	1,380	1,558	1,691	1,826	1,942	2,051	2,168	2,291	2,422	2,560	8,398	19,890
Social insurance taxes	845	952	1,020	1,066	1,126	1,192	1,253	1,309	1,366	1,428	1,492	1,559	5,656	12,811
Corporate income taxes	242	291	380	455	489	511	512	498	492	493	499	506	2,348	4,836
Other	230	237	262	319	300	249	237	245	253	282	319	333	1,367	2,800
Total	2,450	2,813	3,042	3,399	3,606	3,779	3,943	4,103	4,280	4,494	4,732	4,959	17,769	40,336
On-budget	1,881	2,144	2,311	2,634	2,796	2,919	3,038	3,155	3,289	3,459	3,653	3,834	13,698	31,089
Off-budget ^a	570	670	731	765	811	860	905	948	990	1,034	1,079	1,125	4,071	9,247
Outlays														
Mandatory	2,031	2,020	2,196	2,326	2,519	2,633	2,737	2,893	3,053	3,225	3,470	3,617	12,412	28,670
Discretionary	1,285	1,213	1,168	1,187	1,206	1,229	1,250	1,286	1,316	1,347	1,386	1,415	6,041	12,790
Net interest	220	223	237	264	313	398	497	573	644	703	764	823	1,710	5,216
Total	3,537	3,455	3,602	3,777	4,038	4,261	4,485	4,752	5,012	5,275	5,620	5,855	20,163	46,677
On-budget	3,030	2,816	2,890	3,022	3,235	3,408	3,581	3,793	3,993	4,191	4,468	4,628	16,135	37,207
Off-budget ^a	508	640	712	755	803	853	904	959	1,020	1,084	1,153	1,226	4,027	9,469
Deficit (-) or Surplus	-1,087	-642	560	-378	-432	-482	-542	-648	-733	-782	-889	-895	-2,394	-6,340
On-budget	-1,149	-672	-579	-388	-440	-489	-542	-637	-704	-732	-815	-794	-2,437	-6,118
Off-budget ^a	62	30	19	10	8	7	1	-11	-29	-50	-74	-102	44	-222
Debt Held by the Public	11,281	12,036	12,685	13,156	13,666	14,223	14,827	15,537	16,330	17,168	18,118	19,070	n.a.	n.a.
Memorandum:														
Gross Domestic Product	15,549	16,034	16,646	17,632	18,792	19,959	20,943	21,890	22,854	23,842	24,858	25,910	93,972	213,326

Effects of Illustrative Paths on Real GNP, Calendar Years 2013 to 2023, Relative to Projections Under Current Law

(Percentage difference from baseline)



Senate Budget Committee (Patty Murray) Resolution

\$ billions	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014-2018	2014-2023
Total Discretionary*													
Defense													
BA	640	552	559	566	574	581	589	598	606	615	626	2,833	5,867
OT	650	591	567	567	565	566	578	585	593	607	611	2,855	5,829
Nondefense													
BA	656	568	552	534	541	551	560	570	580	590	600	2,746	5,645
OT	600	649	659	628	620	620	623	627	635	643	653	3,176	6,356
Subtotal													
BA	1,296	1,120	1,111	1,101	1,115	1,132	1,149	1,167	1,186	1,205	1,226	5,579	11,511
OT	1,250	1,241	1,226	1,194	1,185	1,186	1,200	1,212	1,228	1,250	1,263	6,031	12,185
Mandatory Outlays	2,124	2,231	2,347	2,535	2,651	2,762	2,940	3,101	3,274	3,490	3,632	12,526	28,964
Net Interest Outlays	224	244	273	324	410	509	579	643	695	745	791	1,759	5,213
Total Outlays	3,599	3,715	3,846	4,053	4,246	4,457	4,719	4,957	5,198	5,486	5,687	20,317	46,362
Revenues	2,708	3,023	3,413	3,646	3,835	4,019	4,197	4,395	4,631	4,884	5,121	17,936	41,164
Change in Revenues**	0	20	40	55	70	82	96	116	135	150	160	267	923
Unified Deficit/Surplus	-891	-693	-433	-407	-411	-438	-522	-562	-566	-602	-566	-2,381	-5,198
% of GDP	-5.6%	-4.2%	-2.5%	-2.2%	-2.1%	-2.1%	-2.4%	-2.5%	-2.4%	-2.4%	-2.2%	-2.5%	-2.4%
Debt Held by the Public	12,275	13,060	13,588	14,081	14,575	15,081	15,670	16,298	16,929	17,600	18,230	--	--
% of GDP	76.6%	78.5%	77.1%	74.9%	73.0%	72.0%	71.6%	71.3%	71.0%	70.8%	70.4%		
Public Debt***	17,114	18,008	18,627	19,222	19,871	20,559	21,313	22,095	22,863	23,635	24,365	--	--
% of GDP	106.7%	108.2%	105.6%	102.3%	99.6%	98.2%	97.4%	96.7%	95.9%	95.1%	94.0%		
GDP	16,034	16,646	17,632	18,792	19,959	20,943	21,890	22,854	23,842	24,858	25,910	93,972	213,326

*Includes spending associated with adjustments provided for the purpose of overseas contingency operations, natural disasters, and program integrity initiatives. It also assumes that the sequestration process provided for under the Budget Control Act is replaced with a greater amount of savings to come from a balanced mix of changes made in revenues and spending. As part of that replacement legislation, it is the policy of the Chairman's Mark that the statutory spending limits should be revised. However, until such time as legislation is passed that replaces the sequester with new savings and revises the statutory limits on spending, the aggregates and limits for the Senate and the allocation to the Committee on Appropriations shall remain consistent with the statutory limits established under 251(c) of the Balanced Budget and Emergency Deficit Control Act of 1985 and the enforcement procedures established under section 251A of that Act or section 901(e) of the American Taxpayer Relief Act of 2012.

**Relative to CBO's baseline, not adjusted for current policies. Relative to current policy, the plan raises revenue by \$270 billion over 2014 through 2018 and by \$975 billion over 2014 through 2023.

***Public debt is the same as gross federal debt.

The Ryan Plan

March 2013

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House Republican FY2014 Budget

(NOMINAL DOLLARS IN BILLIONS)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014-2023
House Budget											
Outlays	3,531	3,498	3,660	3,820	3,991	4,198	4,401	4,587	4,827	4,954	41,466
Revenue	3,003	3,373	3,591	3,765	3,937	4,101	4,279	4,496	4,734	4,961	40,241
Deficit(+)/Surplus(-)	528	125	69	54	54	97	122	91	93	-7	1,225
Debt Held by Public	12,850	13,070	13,226	13,362	13,485	13,648	13,837	13,993	14,154	14,211	
As a Share of GDP											<u>10-Year Average</u>
Outlays	21.2%	19.8%	19.5%	19.1%	19.1%	19.2%	19.3%	19.2%	19.4%	19.1%	19.5%
Revenue	18.0%	19.1%	19.1%	18.9%	18.8%	18.7%	18.7%	18.9%	19.0%	19.1%	18.8%
Deficit	3.2%	0.7%	0.4%	0.3%	0.3%	0.4%	0.5%	0.4%	0.4%	0.0%	0.6%
Debt Held by Public	77.2%	74.1%	70.4%	66.9%	64.4%	62.4%	60.5%	58.7%	56.9%	54.8%	

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House Republican FY2014 Budget by Major Category

(NOMINAL DOLLARS IN BILLIONS)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014-2023
Social Security	854	902	953	1,008	1,067	1,130	1,199	1,270	1,344	1,423	11,149
Medicare (Net)	509	527	574	590	613	671	714	761	833	864	6,656
Medicaid & Other Health	321	295	303	315	325	329	347	354	372	387	3,349
President's Health Care Law	0	0	0	0	0	0	0	0	0	0	0
Other Mandatory	443	384	415	404	399	402	406	411	433	404	4,100
Discretionary (Base)	1,114	1,079	1,065	1,084	1,095	1,120	1,146	1,171	1,197	1,209	11,280
Global War on Terrorism	47	41	40	39	37	38	37	37	38	38	392
Net Interest	242	270	310	380	455	508	552	582	609	630	4,540
Total Outlays	3,531	3,498	3,660	3,820	3,991	4,198	4,401	4,587	4,827	4,954	41,466

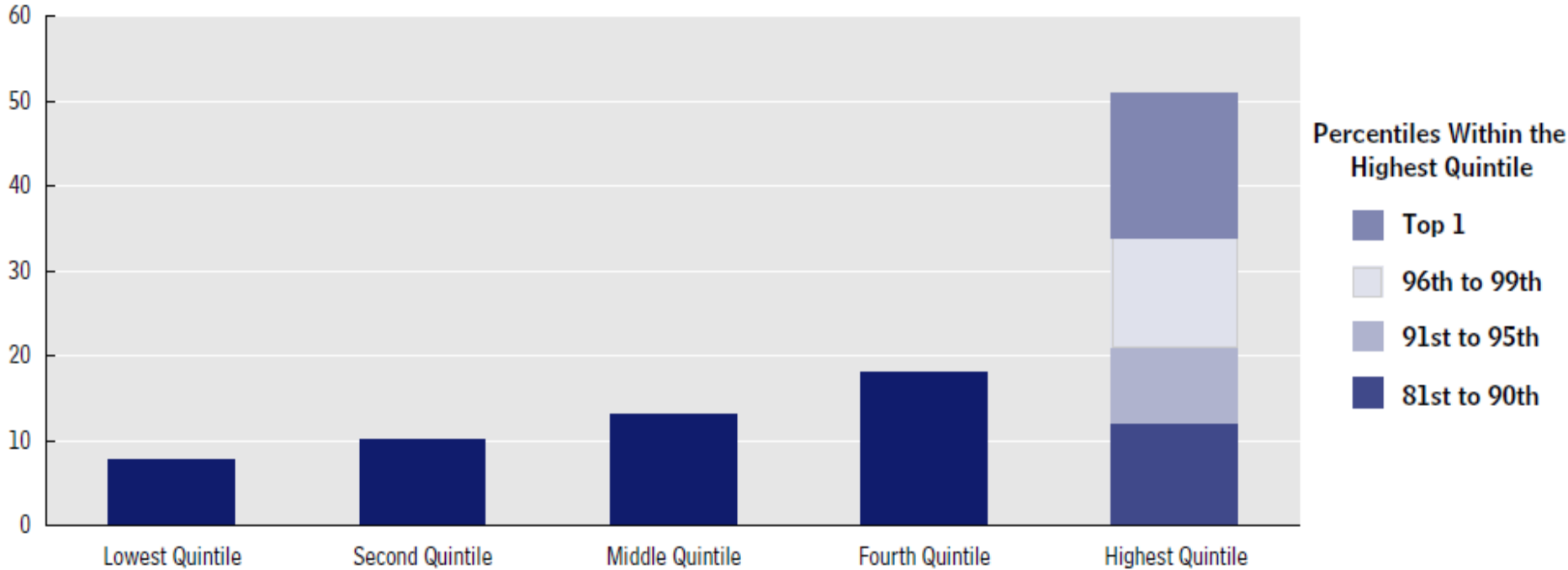
INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2014-2018 PROJECTED REVENUE EFFECT

(In millions of dollars)

Provision	2014	2014-18
Exclusion of employer contributions for medical insurance premiums and medical care	212,820	1,206,260
Deductibility of mortgage interest on owner-occupied homes	101,470	640,180
Defined contribution employer plans	79,720	477,870
Exclusion of net imputed rental income	75,520	436,680
Capital gains (except agriculture, timber, iron ore, and coal)	46,690	331,020
Defined benefit employer plans	53,060	308,390
Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	51,560	292,140
Accelerated depreciation of machinery and equipment (normal tax method)	17,850	273,730
Capital gains exclusion on home sales	45,870	263,200
Deductibility of charitable contributions, other than education and health	44,060	259,910
Deferral of income from controlled foreign corporations (normal tax method)	41,770	220,370
Exclusion of interest on public purpose State and local bonds	34,420	202,690
Social Security benefits for retired workers	32,910	177,960
Step-up basis of capital gains at death	27,100	149,770
Self-Employed plans	23,260	141,340
Deductibility of State and local property tax on owner-occupied homes	25,160	137,030
Exclusion of interest on life insurance savings	21,010	119,870
Individual Retirement Accounts	19,260	104,580
Exception from passive loss rules for \$25,000 of rental loss	14,420	83,680
Deduction for US production activities	13,630	74,920
Exclusion of benefits and allowances to armed forces personnel	15,150	73,940
Exclusion of workers' compensation benefits	11,440	58,440
Deductibility of medical expenses	10,270	56,000
Social Security benefits for disabled workers	9,970	52,680
Credit for low-income housing investments	8,310	42,730
Exclusion of veterans death benefits and disability compensation	6,880	41,000
Child credit	8,650	39,960
Self-employed medical insurance premiums	6,740	38,650
Exclusion of employee meals and lodging (other than military)	6,592	35,694
Exclusion of income earned abroad by U.S. citizens	6,140	33,730
Expensing of research and experimentation expenditures (normal tax method)	5,040	33,210
Earned income tax credit	5,640	30,450
Deductibility of charitable contributions (education)	5,080	29,820
Deductibility of charitable contributions (health)	4,980	29,370
Carryover basis of capital gains on gifts	3,540	24,470
Exclusion of interest on hospital construction bonds	4,040	23,740
Inventory property sales source rules exception	3,940	23,640
Social Security benefits for spouses, dependents and survivors	4,130	21,770
Lifetime Learning tax credit	4,450	21,630
Graduated corporation income tax rate (normal tax method)	4,210	21,050
HOPE tax credit	4,310	20,940
Exclusion of scholarship and fellowship income (normal tax method)	3,470	18,740
Additional deduction for the elderly	3,260	17,020
Exclusion of interest on bonds for private nonprofit educational facilities	2,870	16,910
Exclusion of reimbursed employee parking expenses	3,010	16,500
Accelerated depreciation on rental housing (normal tax method)	2,130	15,460
Exclusion of interest spread of financial institutions	2,330	14,470
Qualified Tuition Programs	2,270	13,410
Parental personal exemption for students age 19 or over	2,810	11,610
Premiums on group term life insurance	1,940	10,160
Exemption of credit union income	1,660	9,460
Medical Savings Accounts / Health Savings Accounts	1,680	9,450
Employer provided child care exclusion	1,620	9,280
Exclusion of GI bill benefits	1,610	9,190
Credit for increasing research activities	2,130	9,130
Tax credit for orphan drug research	1,190	8,680

Shares of Selected Major Tax Expenditures, by Income Group, 2013

(Percent)



Source: Congressional Budget Office.

Notes: Quintiles, or fifths, are created by ranking households by their before-tax income. Quintiles contain equal numbers of people.

The selected major tax expenditures are the exclusion of employers' contributions for health care, health insurance premiums, and long-term-care insurance premiums; the exclusion of net pension contributions and earnings; the exclusion of capital gains on assets transferred at death; the exclusion of a portion of Social Security and Railroad Retirement benefits; the deduction for mortgage interest on owner-occupied residences; the deduction of nonbusiness state and local government income, sales, real estate, and personal property taxes; the deduction for charitable contributions; reduced rates on dividends and long-term capital gains; the earned income tax credit; and the child tax credit.

Approximate Potential Savings in 2020 from Selected Options to Reduce Mandatory Spending

	Approximate Potential Deficit Reduction in 2020 (Billions of dollars)
Health Care Programs	
Repeal the expansion of health insurance coverage under the Affordable Care Act ^{a,b}	150
Convert the federal share of Medicaid's payments for long-term care services into a block grant (indexed to changes in the employment cost index)	50
Repeal the individual health insurance mandate ^{a,c}	40
Increase the basic premium for Medicare Part B to 35 percent of the program's costs	40
Raise the age of eligibility for Medicare to 67 ^{a,c,d}	30
Reduce the floor on federal matching rates for Medicaid services ^c	20
Add a "public plan" to the health insurance exchanges ^{a,c}	15
Require manufacturers to pay a minimum rebate on drugs covered under Medicare Part D for low-income beneficiaries	15
Reduce Medicare costs by changing the cost-sharing structures for Medicare and medigap insurance	10
Limit medical malpractice torts ^a	10
Consolidate and reduce federal payments for graduate medical education costs at teaching hospitals	10
Eliminate the critical access hospital, Medicare-dependent hospital, and sole community hospital programs in Medicare	10
Reduce Medicare's payment rates across the board in high-spending areas	10
Adopt a voucher plan and slow the growth of federal contributions for the Federal Employees Health Benefits program ^e	5
Introduce minimum out-of-pocket requirements under TRICARE for Life	5
Social Security	
Link initial Social Security benefits to average prices instead of average earnings	30
Raise the full retirement age in Social Security ^d	30
Raise the earliest eligibility age for Social Security ^d	30
Base Social Security cost-of-living adjustments on an alternative measure of inflation ^f	20
Apply the Social Security benefit formula to individual years of earnings	20
Reduce initial Disability Insurance benefits by 15 percent ^g	20
Lengthen by three years the computation period for Social Security benefits	10
Extend the waiting period for Disability Insurance benefits to 12 months ^g	10
Other Mandatory Programs	
Allow the automatic enforcement procedures in the Budget Control Act to take effect ^h	15
Change the interest rate structure for student loans	10
Reduce income eligibility limits and maximum benefits for the Supplemental Nutrition Assistance Program ⁱ	5

Approximate Potential Savings in 2020 from Selected Options to Reduce Discretionary Spending

	Approximate Potential Deficit Reduction in 2020 (Billions of dollars)
Defense Discretionary Programs	
Keep appropriations at the level originally set by the Budget Control Act for 2013 ^a	75
Allow the automatic enforcement procedures in the Budget Control Act to take effect ^{a,b}	54
Limit the TRICARE benefit for military retirees and their dependents ^b	14
Reduce the across-the-board adjustment for federal civilian employees' pay	4
Increase cost sharing for pharmaceuticals under TRICARE ^c	2
Cap increases in military basic pay	2
Nondefense Discretionary Programs	
Keep appropriations at the level originally set by the Budget Control Act for 2013 ^a	70
Allow the automatic enforcement procedures in the Budget Control Act to take effect ^{a,b}	34
Limit highway funding to expected highway revenues	11
Reduce the across-the-board adjustment for federal civilian employees' pay	6
Eliminate federal grants for wastewater and drinking water infrastructure	4
Reduce funding for the National Institutes of Health	4
Increase payments by tenants in federally assisted housing	4
Increase fees for aviation security	2
Eliminate the transit Starts programs	2
Reduce Department of Energy funding for energy technology development	2
Eliminate certain grant programs for elementary and secondary education	2
Eliminate grants to large and medium-sized hub airports	1
Restrict Pell grants to needier students ^c	1
Eliminate funding for national community service programs	1
Finance the Food Safety and Inspection Service through fees ^d	1

\$364 billion in cuts

Approximate Potential Savings in 2020 from Selected Options to Increase Revenues

	Approximate Potential Deficit Reduction in 2020 (Billions of dollars)
Reverse Changes in Law Assumed in the Alternative Fiscal Scenario^a	
Let tax cuts originally enacted in 2001, 2003, and 2009 expire as scheduled; let estate and gift tax provisions enacted in 2010 expire as scheduled; and do not index the AMT for inflation	550
Extend certain tax cuts originally enacted in 2001, 2003, and 2009 for taxpayers below a specific income threshold; extend estate and gift tax provisions enacted in 2010; and index the AMT for inflation ^b	110
Modify Existing Taxes^c	
Limit the tax benefit of itemized deductions to 15 percent	150
Eliminate the deduction for state and local taxes	110
Increase the payroll tax rate for Medicare Hospital Insurance by 1 percentage point	80
Increase the maximum taxable earnings for the Social Security payroll tax ^d	60
Gradually eliminate the mortgage interest deduction	50
Tax Social Security and Railroad Retirement benefits in the same way as distributions from defined-benefit pensions	50
Accelerate and modify the excise tax on high-cost health care coverage	40
Include employer-paid premiums for income replacement insurance in employees' taxable income ^d	40
Extend the period for depreciating the cost of certain investments	30
Increase excise taxes on motor fuels by 25 cents per gallon	30
Include investment income from life insurance and annuities in taxable income	30
Curtail the deduction for charitable contributions	30
Replace the tax exclusion for interest income on state and local bonds with a direct subsidy for the issuer	30
Repeal the deduction for domestic production activities	20
Expand Social Security coverage to include newly hired state and local government employees	20
Use an alternative measure of inflation to index some parameters of the tax code ^e	10
Establish New Taxes^f	
Impose a 5 percent value-added tax on a broad base	320
Impose a price on emissions of greenhouse gases	140

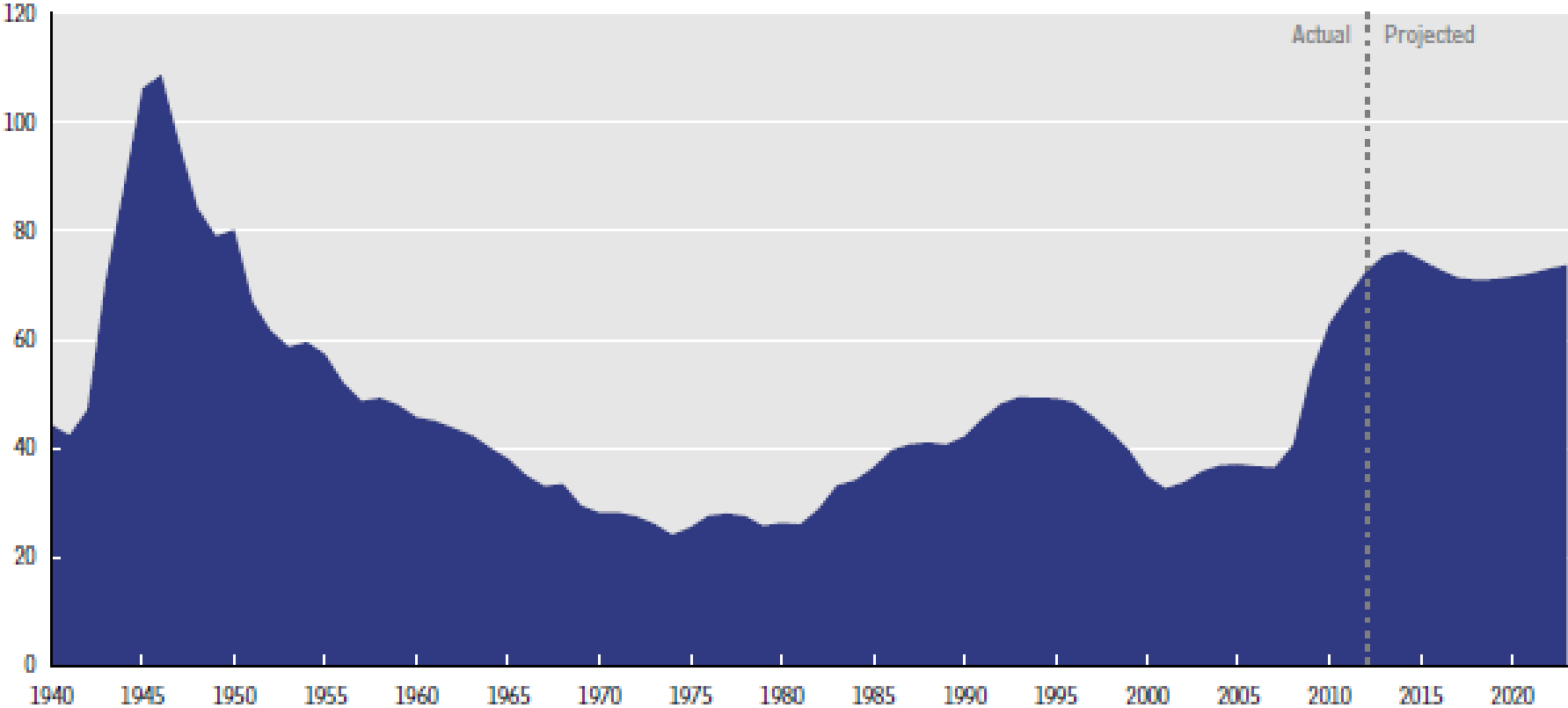
Sources: Congressional Budget Office; Joint Committee on Taxation.

November 8, 2012

\$600 in revenue increased

Federal Debt Held by the Public

(Percentage of gross domestic product)

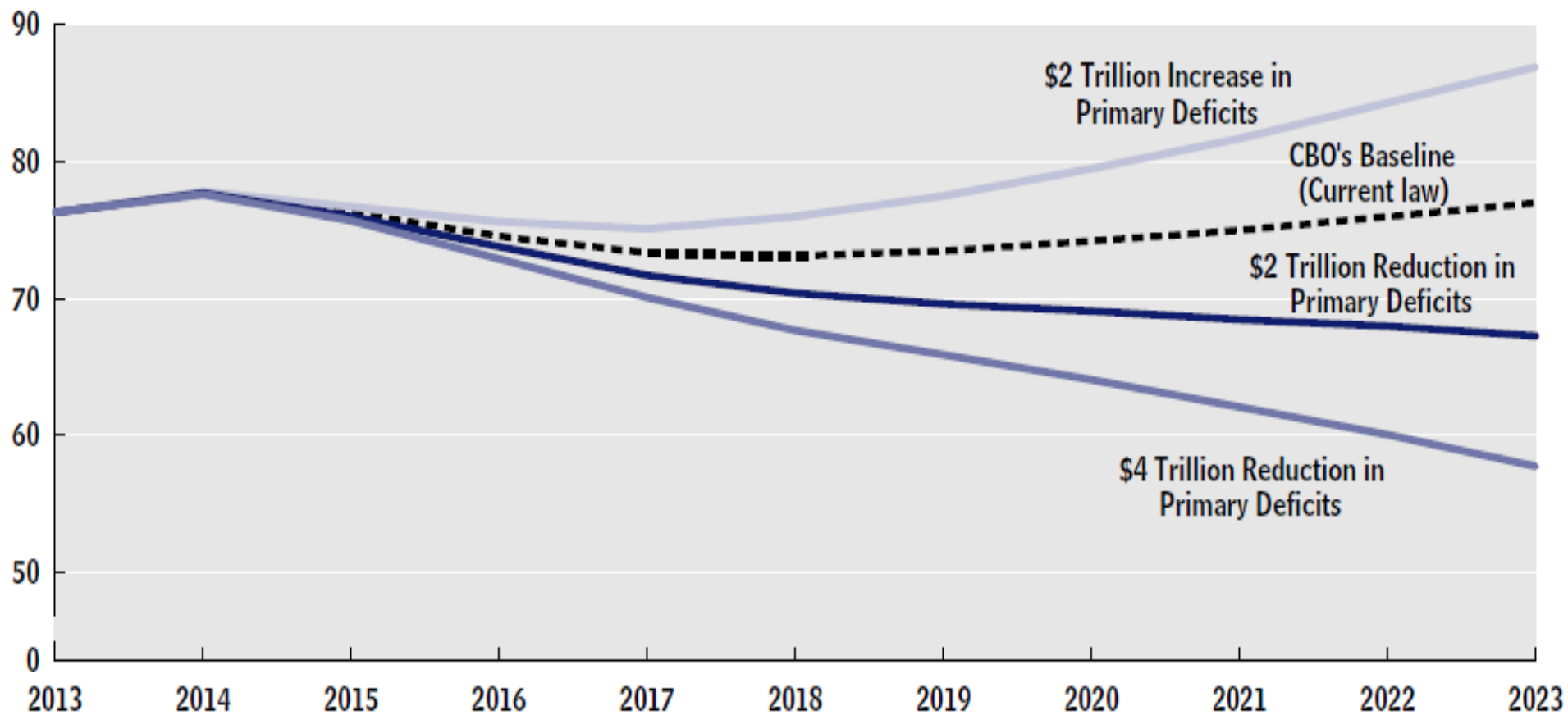


Source: Congressional Budget Office.

Source: Congressional Budget Office, *Updated Budget Projections: Fiscal Years 2013-2023*, May 2013.

Debt Held by the Public Under Current Law and the Illustrative Paths, Including Economic Effects, Fiscal Years 2013 to 2023

(Percentage of GDP)



Source: Congressional Budget Office.

President Dick's back-of-envelope proposed spending reforms:

The CBO's 10-year (2011-2021) projection of the federal budget shows a cumulative deficit of \$7.74 trillion (with stabilized physician payments adding \$30 billion/yr. and extension of Bush tax cuts subtracting \$395 billion/yr.) ... to reach a deficit of 1% by 2021, with spending at 21% of GDP and revenues at 20%, I propose the following:*

Spending cuts:

- | | |
|---|---------------|
| - Defense spending down – Overseas Contingency OPs | \$104 billion |
| - Select Committee's failure – mandatory cuts of \$1.2 trillion | 120 billion |
| - Social Security – reduce COLA(0.5%), raise retirement age | 12 billion |
| - Bowles-Simpson health care cuts | 48 billion |
| - Interest on debt | 13 billion |

Revenue reforms:

- | | |
|---|--------------|
| - Raise taxes on gasoline – \$.50/gal over 4 years | \$29 billion |
| - Impose carbon tax (\$2/ton CO ₂ - \$12/ton (6 years) | 57 billion |
| - Eliminate Bush tax cuts on rich –2013 | 116 billion |
| - VAT tax – 2% (except food staples and children's clothes) | 92 billion |
| - Interest on debt | 10 billion |

20 X 21 by 2021

\$601 billion/\$774 bil.

* These proposals are part of work on competitiveness prepared by Matt Weinzierl and Richard Vietor

Consequences of Malfeasance, 2013-2014

America has numerous strengths – R&D, education, technology, venture capital, entrepreneurship, efficient labor markets, labor mobility, natural resources, agricultural leadership and corporate leadership.....BUT...

- huge fiscal deficits (that need to be reduced);
 - war and social entitlements expenditures curtailed;
 - taxes raised (or exemptions eliminated)...
- debt rising → debt service rising → eventually interest rates up
- higher interest rates can curtail investment
- lingering high unemployment → undercuts consumption
→ exacerbates deficit
- \$\$ will fall... but that will help exports
- *all this will engender slow growth (1.6%-2.6%) and a prolonged recovery...*

... and then **ONLY** if Americans work at it and their Congress compromises!