FISCAL CHALLENGE 2019
TEAM 021
To maintain U.S. Debt to GDP at 78% in 2048
THE ECONOMICS OF THE BUDGET
Drivers of Debt

Composition of Federal Budget

Discretionary spending is projected to fall to well below its historical averages

Source: Congressional Budget Office (CBO), Peterson Institute, New Estimates of the Federal Budget Outlook: Alan J. Auerbach, William G. Gale, and Aaron Krupkin
“Spending on the major federal healthcare programs will rise from 5.2 percent of GDP in 2018 to 6.7 percent of GDP in 2028 — and then continue climbing to 9.2 percent of GDP in 2048 — an increase of about 75 percent between 2018 and 2048.”

“Healthcare experts have estimated that 30 percent of our total healthcare spending goes to unnecessary, ineffective, inefficient, overpriced, and wasteful services. And healthcare spending is projected to keep rising — faster than inflation, wages, or the overall economy.”

Long Term Structural Deficit

Mismatch between spending and revenue

Chronic structural deficit exceeds the growth rate of the economy

Increase chance of sustained crowding out effect

Tax increases and/or spending cuts

Source: CBO; The Atlantic: Structural Versus Cyclical Deficits; Concord Coalition: It’s Important to Distinguish Between Short-Term Cyclical Deficits and Long-Term Structural Deficits
The Deficit

- The US enacted a countercyclical policy after WW2 meaning in prosperous times after the war the debt would decline.
- The Obama stimulus in 2010 was the last fiscal year automatic stabilizers reduced the deficit.
- The deficit totaled $779 billion in the fiscal year that ended Sept. 30, 2017 up 17% from $666 billion in fiscal 2016.

Source: CBO
Corporate tax cut lowered the rate from 35% to 21%, resulting in significantly decreased revenues.

The tax cuts and the 2018 budget agreement cumulatively account for 46 percent of the projected 2019 deficit.

The Department of the Treasury noted a decline of over 20 percent in corporate tax revenues.

CBO estimates that more than 200 tax cuts in the income tax system totaled almost $1.7 trillion in forgone individual income tax, payroll tax, and corporate income tax revenues.

Source: Peterson institute; CBO; Pacific Standard
Demand for US Debt

➢ Demand for US debt has been historically and currently is strong

➢ US dollar is a stable reserve currency

➢ However, net interest payments will increase dramatically in the future due to a combination of debt compounding, refinancing, and the possibility of rising interest rates

Source: Moody’s; Institute for International Finance; Barrons: Don’t Panic Over the Budget Deficit; WSJ
PRINCIPLES OF THE PROPOSAL
Principles

- Promote GDP Growth
- Tax Negative Externalities
- Stabilization of the Gini Coefficient
- Increase Efficiency
PROPOSAL
Components of the Proposal

Taxes
- Carbon Tax
- Tobacco Tax
- Marijuana Tax

Entitlement Programs
- Payroll Cap
- PPI
- EEA & FRA

Defense Reform
- Operation & Management
- Military Personnel

Education
- University Scholarships
- Perkins V
TAXES
Climate Change has cost U.S. taxpayers more than $350 billion in the past decade and is expected to cost the U.S. $35 billion per year by 2050.

**Proposal**
- Progressive tax begins at $49 a ton (per CO2 equivalent) with a steady increase of 2% yearly until 2048
- 5% of revenue from the tax will go to fund operational costs
- Border adjustments for the carbon content of both imports and exports

**Results**
- Tax negative externalities of Climate Change
- CLC averaged a family of 4 would receive $2,000 from the Carbon dividends as incentives for alternative energy
- Promote economic growth of GDP by supplying families with Carbon dividends

**Environmental Economics**
- Tax negative externalities of Climate Change
- CLC averaged a family of 4 would receive $2,000 from the Carbon dividends as incentives for alternative energy
- Promote economic growth of GDP by supplying families with Carbon dividends

**Effect of Carbon Tax on Debt:GDP**

Source: Environmental Health Perspectives; Climate Leadership Council
➢ Raise the tax on pipe tobacco equal to the tax for roll-your-own tobacco from $2.83 to $24.78 per pound

➢ Set a minimum tax rate on cigars equal to the tax rate currently on cigarettes

➢ Raise the federal excise tax on all tobacco products by 50 percent beginning in 2019

Result

➢ The federal tax on cigarettes would increase to $1.51 per pack, up from the current $1.01 per pack

➢ Save approximately $300 billion per year for smoking-related illnesses

Source: Center of Disease Control; IRS; CBO, World Health Organization
Marijuana Legalization and Taxation

Legalization

- Marijuana is used to treat cancer, AIDS, chronic pains among other illnesses
- Cannabis could create one million jobs by 2025
- FDA consumer safety as marijuana product testing will become standardized

States that Legalized Medicinal Marijuana

Voter Marijuana Legalization Rate

Source: NBER; Forbes; Tax Foundation; National Bureau for Economic Research; Tax Foundation: Marijuana Tax Legalization Federal Revenue; Drug Policy Alliance
Net Effect of Taxes

Percentage of GDP

Year: 2019, 2023, 2027, 2031, 2035, 2039, 2043, 2047

- Debt: GDP
- Carbon Tax Reform
- Tobacco Tax Reform
- Marijuana Tax
ENTITLEMENT REFORMS
Eliminate the Social Security Payroll Cap

Proposal

➢ Impose a 12.4% Social Security Payroll Tax on earnings over $250,000

➢ Gap between $128,400 and $250,000 will decrease with average wage growth

Result

➢ Creates a more progressive Social Security Payroll Tax system

➢ Extends Social Security funding while allowing for behavior changes

Source: CBO; Peterson Institute
Proposal

➢ Change growth of initial benefits from a three bend system to a four bend system
➢ Build in a 30% shield to protect the most vulnerable against economic downturns

Result

➢ Prevents an increase in the Gini coefficient
➢ Slows down the growth of future benefits reducing outlays
➢ Substantial benefits past 2048 help to ensure solvency of Social Security
### Raise EEA and FRA

#### Proposal
- Increase EEA & FRA 3 months every year starting for people reaching EEA in 2022
- Raise new EEA & FRA to 64 and 69

#### Result
- Increase the sustainability of Social Security over the long term
- Helps prevent an increase in the poverty rate by .8%

---

#### Social Security Covered Worker to Beneficiary Chart

*Source: Social Security Administration*
Net Effect of Entitlement Reforms
The DoD Operations and Management (O&M) account is used to pay the salaries and benefits of most civilian employees and to purchase goods and services.

O&M account spending made up 40% of the DoD’s request for base budget funding in 2019, making O&M the largest appropriation in the DoD budget.

Proposal

- Allow the O&M appropriation in the base budget to grow with inflation for the entire 30 year period.
- This option reduces the debt:GDP ratio by 7% over the 30 year period.
- Reduce government inefficiencies by reducing unnecessary costs.

Result

- Reduce DoD’s O&M Appropriation
- Allow the O&M appropriation in the base budget to grow with inflation for the entire 30 year period.
- This option reduces the debt:GDP ratio by 7% over the 30 year period.
- Reduce government inefficiencies by reducing unnecessary costs.

Source: CBO
Restructuring Military Personnel

Proposal

➢ We propose to replace military personnel with civilian employees by a 1:1.5 ratio.
➢ The transfer of 80,000 full-time positions could save $5.7 billion in annualized costs per year with 1.5 civilians transitioning to a military personnel job.
➢ Staffing commercial jobs with civilians rather than military personnel would cost, on average, about 30 percent less per worker, increasing public sector efficiencies with reducing costs.
➢ Reduce government inefficiencies by reducing unnecessary costs.

Cost in 2014 ($142.3 billion)

Cost in 2000 ($97.7 billion)

Growth From 2000 to 2014 ($44.6 billion)

46 percent increase since 2000

Percentage of Total Growth

Basic Allowance for Housing (24%)
Basic Pay (18%)
TRICARE for Life Accrual (16%)
Concurrent Receipt (Mandatory) (14%)
Retirement Pay Accrual Charge (10%)
Other (17%)

Source: Brookings; CBO
Net Effect of Defense Reforms

Percentage of GDP

- Debt : GDP
- DoD O&M
- Replace Military Personnel
EDUCATION REFORM
Education Level on Income Tax Collections

Background
➢ Education levels and income tax collections have a positive correlation
➢ The higher educational attainment level, the higher income, the higher income tax revenue

New IRS Data for 2014 Shows That The Income Tax Burden Remains Very Progressive

Median Income based on Education

Source: Statista; RAND Organization; NCES; Tax Foundation; Farm Progress: Impact of Education and Unemployment
➢ Provide scholarships to graduating low-income high school students with academic potential
➢ University tuition has increased 260% from 1980 to 2014

Source: The National Clearinghouse Research Center; US Department of Commerce; Census Bureau; Wall Street Journal: Diminishing Returns of a College Degree
Proposal

➢ Increase funding for Perkins V which was passed July 26, 2018

➢ Develop academic knowledge, technical and employability skills of secondary and postsecondary education students

➢ Train students in order to keep the United States competitive

Result

➢ Connects secondary and postsecondary education and for participating technical education students

➢ Increasing employment opportunities for people who are underemployed

Source: CTE: Career Tech; Perkins
<table>
<thead>
<tr>
<th>Effect of Proposals</th>
<th>Component</th>
<th>Net Effect on Debt:GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Taxes</strong></td>
<td>Carbon</td>
<td>-40%</td>
</tr>
<tr>
<td></td>
<td>Tobacco</td>
<td>-6%</td>
</tr>
<tr>
<td></td>
<td>Marijuana</td>
<td>-8%</td>
</tr>
<tr>
<td></td>
<td><strong>Entitlements</strong></td>
<td><strong>Payroll Cap</strong></td>
</tr>
<tr>
<td></td>
<td>PPI</td>
<td>-4%</td>
</tr>
<tr>
<td></td>
<td>EEA &amp; FRA</td>
<td>-8%</td>
</tr>
<tr>
<td></td>
<td><strong>Defense Reform</strong></td>
<td><strong>Operation &amp; Management</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Military Personnel</strong></td>
<td><strong>Perkins V</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Education</strong></td>
<td><strong>University Scholarships</strong></td>
</tr>
</tbody>
</table>
Thank you for your time.