The US Fiscal Outlook

Debt Held by the Public (% of GDP)

195% in 2050 (CBO’s September 2020 projection)
180% in 2050 (CBO’s January 2020 projection)

WWII


© 2020 Peter G. Peterson Foundation

PGPF.ORG
Why We Should Care

Looming Cuts and Shortfalls
Program trust funds are set to run out, fostering required cuts to benefits

Interest Obligations
Spending on interest is one of the least efficient uses of taxpayer money

Threat to “Exorbitant Privilege”
Failure to pay off debts could weaken America’s global financial standing
Our Proposed Solution

A. Making Existing Programs More Efficient
   1. Mandatory Spending
   2. Discretionary Spending

B. Innovating into an Efficient Future
   3. Tax Code Changes
   4. Local Living
   5. Environmental Preservation
   6. Expanded Workforce
A.
Making Existing Programs More Efficient
Mandatory Spending

A. Making Existing Programs More Efficient
   Mandatory Spending

B. Innovating into an Efficient Future
Social Security Reform

Policy Proposal & Effects

Implement the Social Security Reform Act of 2016

▷ Raise retirement age from 67 to 69 by 2030
▷ Eliminate COLA for high earners and shifts to Chained CPI for low earners
▷ Increase “PIA factor” benefits for low earners and reduces them for high earners

Policy Effects

▷ Reduces the debt-to-GDP ratio by 27.7 percentage points
▷ Only the top 10% of high earners would see significant cuts
▷ Trust Fund runs surplus in 2045 and beyond

Source: CRFB, Manhattan Institute, Social Security Administration, H.R. 6489 (114)
Medicare Reform

Policy Proposal & Effects

Policy Proposal
▷ Implement Medicare premium support system
▷ Set federal contribution equal to the second-lowest bid by region
▷ Grandfather for current beneficiaries
▷ Require equivalent of current benefits

Policy Effects
▷ Reduces the debt-to-GDP by 20.4 percentage points
▷ Market competition reduces premiums paid by 7 percent

New Level: 147.1%  Change: ↓ 20.4 pp

Source: CBO, Manhattan Institute, AARP
Debt-to-GDP After Mandatory Spending Reforms

Social Security Reform
- 27.7 percentage points
  - Political Feasibility: ★★★★★
  - Republican Support: ★★★★★
  - Democratic Support: ★★★★★

Medicare Reform
- 20.4 percentage points
  - Political Feasibility: ★★★★★
  - Republican Support: ★★★★★
  - Democratic Support: ★★★★★
Discretionary Spending
Discretionary Caps

Policy Proposal & Effects

Impose Spending Caps on Most Discretionary Spending Categories

▷ Enforced through sequestration process
▷ Do not apply for Overseas Contingency Operations, disaster relief, disability reviews, and health care fraud

Policy Effects

▷ Reduces the debt-to-GDP ratio by 13.4 percentage points
▷ Leaves ample resources to address war on terror, natural disasters, and other important causes

Source: American Enterprise Institute, Federation of American Scientists
Defense Reform

Policy Proposal & Effects

Policy Proposal
▷ Increase reserve components
▷ Replace up to 80,000 active-duty jobs with civilian labor forces
▷ Limit the growth of Operation and Maintenance Budget

Policy Effects
▷ Reduces the debt-to-GDP ratio by 3.1 percentage points

Source: Brookings, CBO
Debt-to-GDP After Discretionary Spending Reforms

**Discretionary Caps**
- **Political Feasibility:**
  - Republican Support: ★★★★★
  - Democratic Support: ★★★★★
- **13.4 percentage points**

**Defense Reform**
- **Political Feasibility:**
  - Republican Support: ★★★★★
  - Democratic Support: ★★★★★
- **3.1 percentage points**
Tax Code Changes
Convert MID to Tax Credit

Policy Proposal & Effects

Policy Proposal
▷ Further lower cap on Mortgage Interest Deduction (MID) then convert to 15 percent nonrefundable credit

Policy Effects
▷ Reduces the debt-to-GDP ratio by 4.9 percentage points
▷ More efficiently achieves goal of boosting homeownership

Sources: CBO, Tax Foundation, JCT
Stock Market Reform

Policy Proposal & Effects

Policy Proposal
▷ Tax capital gains and dividends as income up to 28%
▷ Institute tax on capital gains when inherited

Policy Effects
▷ Reduces the debt-to-GDP ratio by 3.0 percentage points

Sources: CRFB, BEA, Washington Post
Debt-to-GDP After Tax Code Changes

Convert MID to Credit

- 4.9 percentage points
- Political Feasibility:
  - Republican Support: 
  - Democratic Support: 

Stock Market Reform

- 3.0 percentage points
- Political Feasibility:
  - Republican Support: 
  - Democratic Support: 

Political Feasibility:
- Republican Support: 
- Democratic Support: 

<table>
<thead>
<tr>
<th>Year</th>
<th>Debt/GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>100</td>
</tr>
<tr>
<td>2030</td>
<td>110</td>
</tr>
<tr>
<td>2040</td>
<td>120</td>
</tr>
<tr>
<td>2050</td>
<td>130</td>
</tr>
</tbody>
</table>
B. Innovating into an Efficient Future
Local Living
Zoning Reform

Policy Proposal & Effects

Policy Proposal
▷ Yes in My Backyard Act - H.R. 4351 (116)
▷ Build More Housing Near Transit Act - H.R. 4307 (116)

Policy Effects
▷ Reduces the debt-to-GDP ratio by 16.5 percentage points
▷ Allows more movement into areas with the best climates, urban amenities, and job opportunities

Source: Niskanen Center, Up for Growth, The Economic Implications of Housing Supply
Eliminate the FTA

Policy Proposal & Effects

Policy Proposal
▷ Phase out the Federal Transit Administration (FTA)

Policy Effects
▷ Reduces the debt-to-GDP ratio by 2.4 percentage points

Source: CBO, Tax Policy Center
Implement a Road User Charge System

Policy Proposal & Effects

Policy Proposal
▷ Mileage-based road-pricing system to fund transportation infrastructure

Policy Effects
▷ Adds $31.2 billion a year in efficient revenues
▷ Boosts GDP by $13.2 billion a year
▷ Reduces traffic, roadwear, and carbon emissions

Source: Brookings Institute, Reason Foundation, National League of Cities, Forbes, Information Technology & Innovation Foundation
Debt-to-GDP After Local Living Reforms

**Zoning Reform**
- **16.5 percentage points**
- Political Feasibility: ★★★★★
- Republican Support: ★★★★★
- Democratic Support: ★★★★★

**Transportation Reforms**
- **10.4 percentage points**
- Political Feasibility: ★★★★★
- Republican Support: ★★★★★
- Democratic Support: ★★★★★
Environmental Protection

A. Making Existing Programs More Efficient
   - Mandatory Spending
   - Discretionary Spending

B. Innovating into an Efficient Future
   - Tax Code Changes
   - Environmental Preservation
   - Local Living
Carbon Tax

Policy Proposal & Effects

Policy Proposal
- Impose a carbon tax of $25 per metric ton of emissions
- The tax will increase at a rate of 5% per year

Policy Effects
- Reduces the debt-to-GDP ratio by 20.2 percentage points
- Incentivizes more innovative and environmentally conscious production

Source: CBO
Job Training

Policy Proposal & Effects

Policy Proposal

- Utilize quarter of revenues from carbon tax to fund the Office of Energy Efficiency and Renewable Energy’s job training programs

Policy Effects

- Increases the debt-to-GDP ratio by 5.0 percentage points
- Provides opportunity for workers in non-renewable energy sector to transition to renewable sector

Sources: CBO, CRFB
Debt-to-GDP After Environmental Protection

Carbon Tax
- Political Feasibility: 4 stars
- Republican Support: 4 stars
- Democratic Support: 3 stars
- Percentage points: 20.2

Job Training
- Political Feasibility: 4 stars
- Republican Support: 3 stars
- Democratic Support: 3 stars
- Percentage points: 5.0
Expanded Workforce
Immigration Reform

Policy Proposal & Effects

Policy Proposal
▷ Based on Gang of Eight Bill of 2013
▷ Increase limits on various categories of temporary and permanent immigration

Policy Effects
▷ Reduces the debt-to-GDP ratio by 9.1 percentage points

Sources: CBO, CRFB
Debt-to-GDP After Expanded Workforce

Immigration Reform

9.1 percentage points

Political Feasibility: ★★★★★
Republican Support: ★★★★★
Democratic Support: ★★★★☆
195.2 percent
Original CBO Debt-to-GDP Projection

71.5 percent
New Debt-to-GDP Projection After Our Policies

Political Feasibility: 2.48
Republican Support: 2.32
Democratic Support: 2.64
Thanks!

Any questions?