

# Federal Budget 101

# An Introduction to the Federal Budget and Our Fiscal Challenges

2010: Albuquerque, NM; Augusta, ME; Casper, WY; Chicago, IL; Columbia, Detroit, MI; Grand Forks, ND; Jackson, MS; Louisville ena, CA; Philadelphia, KY: KY: Columbia KY OR Columbia Louisville Missoula, MT; KY: Portsmouth, NH: Richmond, Albuquerque, NM: ME; Casper, Columbia, TX; Des Moines, IA; Detroi II; Grand Forks, ND; MS; Louisville, asadena, CA; Philadelphia, PA; Portland, OR; Missoula, MT; Overland Park, KS; KY Portsmouth, NH; Richmond, VA; Silicon Valley, CA; and elsewhere across the country...

**June 26, 2010:** Albuquerque, NM; Augusta, ME; Casper, WY; Chicago, IL; Columbia, SC; Dallas, TX; Des Moines, IA; Detroit, MI; Grand Forks, ND; Jackson, MS; Louisville, KY; Missoula, MT; Overland Park, KS; Pasadena, CA; Philadelphia, PA; Portland, OR; Portsmouth, NH; Richmond, VA; Silicon Valley, CA; and elsewhere across the country...





MacArthur Foundation

# Our Budget, Our Economy

# National Advisory Committee

John Rother, AARP

Joseph Antos, American Enterprise Institute

Norman Ornstein, American Enterprise Institute

Henry Aaron, Brookings Institution

Thomas Mann, Brookings Institution

John Castellani, Business Roundtable

Neera Tanden, Center for American Progress

Robert Greenstein, Center on Budget and Policy Priorities

Deborah Weinstein, Coalition on Human Needs

Maya MacGuineas, Committee for a Responsible Federal Budget

Jonathan Gruskin, Concerned Youth of America

Robert Bixby, Concord Coalition

Lawrence Mishel, Economic Policy Institute

Mark Zandi, Economy.com

Donna Butts, Generations United

Stuart Butler, Heritage Foundation

Diana Furchtgott-Roth, Hudson Institute George Muñoz, Muñoz Group Janice Gregory, National Academy of Social Insurance Barbara Kennelly, National Committee to Preserve Social Security and Medicare Sarah Hicks, National Congress of American Indians Linda Rosenberg, National Council of Community Behavioral Health Association Leticia Miranda, National Council of La Raza Duane Parde, National Tax Payers Union Marc Morial, National Urban League Mark Paul, New America Foundation George C. Wu, OCA National Scott Hodge, Tax Foundation Rudolph Penner, Urban Institute Margaret Simms, Urban Institute R. Bruce Josten, US Chamber of Commerce

# **AMERICASPEAKS**

America*Speaks* is a non-partisan, non-profit organization with the mission of providing Americans with a greater voice in the most important decisions that affect their lives. America*Speaks* has engaged more than 150,000 citizens across the country on such topics as shaping municipal budget priorities in Washington, D.C., creating regional plans for the greater Chicago and Cleveland regions, and developing rebuilding plans for the World Trade Center site in New York City and New Orleans following Hurricane Katrina.

For more information about AmericaSpeaks, visit us online at www.usabudgetdiscussion.org.

America*Speaks*: Our Budget, Our Economy was made possible by The Peter G. Peterson Foundation, The W.K. Kellogg Foundation, and the John D. and Catherine T. MacArthur Foundation. Additional funding and in-kind support was also provided by the Casper Area Economic Development Alliance, Casper Community Foundation, Casper Events Center, City of Casper, Casper Rotary Foundation, the College of the Atlantic, David Hales, Gorham Savings Bank, Maine Community Foundation, Margot and Roger Milliken, Robert Monks Jr., Richard Rockefeller, Howard M. Rossman, Donald Sussman, the Silicon Valley Community Foundation, the Tate Foundation, University of Maine at Augusta, Wyoming Medical Center, Wyoming Business Alliance/Wyoming Heritage Foundation, Carol Wishcamper, and Dr. Gail Zimmerman.

Copyright © 2010 by AmericaSpeaks



## About this Guide

This guide is intended to provide an introduction to the fiscal challenges facing the country. It is designed to accompany an Options Workbook that presents a series of options for reducing the federal budget deficit.

In order to ensure that the information in this guide is as unbiased as possible, America*Speaks* has worked with a diverse National Advisory Committee (see inside cover) to solicit comments and feedback. We have made every effort to ensure that the presentation of information is as fair as possible and accurately reflects the challenges facing the nation.

AmericaSpeaks takes pride in its reputation as an honest and neutral advocate for public participation. We play a unique role in the policymaking process by serving as a non-partisan convener of forums that give the public an opportunity to make decisions about important issues without fear of manipulation or bias.

AmericaSpeaks does not take positions on policy issues. AmericaSpeaks strives to ensure that only a balanced and neutral presentation of facts is used to inform discussions on policy issues. We stand by these basic principles that protect the integrity of our process and the trust that participants and decisionmakers place in our work.

## A Note to Economists and Budget Experts

For this guide, America*Speaks* essentially used budget projections (or the "baseline") of the Congressional Budget Office (CBO) while making the following adjustments:

On the spending side, we incorporated President Obama's request for defense spending for the next five years and extended it for later years. On the tax side, we extended all of the 2001 and 2003 tax cuts as well as other expiring provisions of tax law (known as "the extenders") – all of which are considered "current policy." We assumed the temporary tax cuts of the 2009 American Recovery and Reinvestment Act are really temporary and, thus, will expire as mandated by law. We extended the 2009 levels of the Alternative Minimum Tax (AMT) and adjusted them for inflation in later years.

After 2020, the last year for which CBO has year-toyear figures, we assume that spending and revenues grow at the same rate, except that we anticipate that private health care costs will rise at the same rate as government costs rather than slowing as CBO projects. This results in slightly lower revenue.

All figures in this guide come from CBO's projections, as adjusted per the description above, unless otherwise noted.

# Our Federal Budget

The federal budget is more than the sum of federal spending and taxes, more than the wide array of programs that the federal government runs and the services it provides. **The federal budget is an expression of our priorities as a people and our values as a nation.** 

While the President and Congress craft the budget each year, the American people have a vital role to play as well. We elect our leaders, so it is for us to ensure that their actions reflect the values we hold dear.

In essence, the budget should reflect our "social contract" with government – government authority derives from the consent of the governed, and government action should reflect the priorities of the governed. The budget, then, should reflect national priorities about the services that we want government to provide and the taxes we are willing to pay to finance those services.

## The Challenge

When it comes to the federal budget, we – the American people and our elected leaders in Washington – face a challenge that is very big and very important. **C** The federal budget is an expression of our priorities as a people and our values as a nation.

We face the challenge of preventing our annual budget deficits and our total national debt from growing to unprecedented and unsustainable levels in the coming decades, while creating a vibrant, competitive economy and ensuring that we fulfill our commitments to our most vulnerable citizens.

But, here's the good news.

By planning ahead and making good choices about our future, we can start finding agreement about steps to reduce our deficits in the years ahead. Once our economy is stronger, we can follow through on our plans to ensure a sustainable fiscal future for our nation. The longer we delay, the larger the policy changes that we will have to make to reduce our deficits and regain control of our future.

## **Recession and Economic Recovery**

The focus of our discussion is not today's debt. Rather, we will look to address how fast the national debt is projected to increase over the years and decades to come. This year, the debt held by the public is about 60 percent of the size of our national economy or Gross Domestic Product (GDP). In ten years, it is projected to be 90 percent of the size of our national economy if we continue our current policies.

www.USAbudgetdiscussion.org

Recovering from our economic recession is vitally important to the health of our country. The Our Budget, Our Economy National Town Meeting will not consider short-term policy options that could weaken our economy or threaten our recovery. Rather, we will focus on the long-term options -- spending cuts, tax increases, or some combination of the two -- that would take effect when the economy has recovered in the years to come.

Agreeing on those actions will reassure those who lend us the money to continue financing our deficits, reduce the risks that we will face an economic crisis, keep us competitive in the global marketplace, and lay the foundation for a bright and prosperous future.

## The Risks

Our growing debt creates serious economic risks.

We need to put our fiscal house back in order to ensure that, at some point in the future, our lenders do not grow worried about our ability to pay our debts and choose to invest elsewhere or demand higher rates of return in exchange for lending to us. That could lead to higher interest rates and inflation, a weaker dollar, and, in the end, an economic crisis.

Over the long term, rising debt could eat away at the nation's economic strength. Lower national savings could mean less private investment and lower living standards for our children and grandchildren than they would otherwise be.

Deficit	The amount that spending exceeds taxes in a given year, which is the additional amount that the government must borrow.
Debt	The total amount of deficits (offset by the total amount of surpluses) that the government has accumulated since the founding of the country.
Discretionary Spending	Programs that the President and Congress must agree to fund each year for them to continue (or, in the case of new programs, start). Examples include national defense, foreign assistance, and thousands of domestic programs in education, research, law enforcement, environmental protection, and many other areas.
Federal Budget	The spending programs of the federal government and the taxes, fees and other collections that finance them on a yearly basis.
Gross Domestic Product (GDP)	The sum total of all of the goods and services produced by our nation in a year, GDP is often used as a measure of our economy.
Interest on The Debt	What the federal government pays to the lenders – both domestic and international – who finance our deficits.
Mandatory Spending	Programs through which eligible Americans receive benefits (such as cash or health care) based on a formula set in the law. These programs, like Social Security, Medicare, Medicaid, and other programs, are also know as "entitlements" and in general continue automatically each year unless the President and Congress take action to change them.

## A Glossary of Terms

# What is in the Budget?

The federal budget – the sum total of spending and taxes for a given year – reflects the decisions of Presidents and Congresses both past and present.

The President and Congress decide each year whether, and by how much, to fund annual or "discretionary" spending programs, which include all defense programs as well as such domestic areas as education, housing, transportation, agriculture, national parks, and food safety.

For other programs, like Social Security, Medicare, and Medicaid – through which millions of Americans receive benefits based on their eligibility – spending continues from year to year under laws that do not expire. Most provisions of the tax code also remain in effect unless and until Congress changes them.

The government funds thousands of programs both large and small – from national defense and foreign assistance to education and research. But a handful of programs dominate the federal budget.

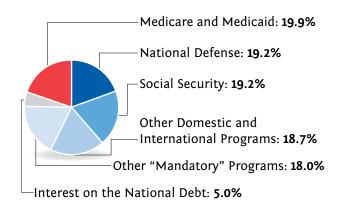


## **Federal Spending**

In 2010, the budget will total about 25 percent of the nation's economic output and the federal government will allocate its spending this way<sup>i</sup>:

- 19.9 percent to Medicare and Medicaid,
- 19.2 percent to Social Security,
- 18.0 percent to other "mandatory" programs,
- 19.2 percent to defense,
- 18.7 percent to other domestic and international programs, and
- 5 percent to interest on the debt (which is smaller right now because interest rates are at historically low levels.)

### Federal Spending in 2010

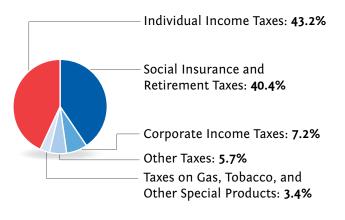


### **Federal Revenues**

Revenues from federal taxes are about 15 percent of the nation's economic output in 2010 and they will be collected in the following way  $^{ii}$ :

- 43.2 percent will come from individual income taxes,
- 7.2 percent from corporate income taxes,
- 40.4 percent from social insurance and retirement taxes (essentially, Social Security and Medicare payroll taxes),
- 3.4 percent from taxes on special products like gas or tobacco, and
- 5.7 percent from other taxes.

#### Federal Taxes in 2010



# How much is a **TRILLION DOLLARS?**

The federal budget and national debt are each very large numbers with many zeros behind them.

In 2009, the federal budget was \$3.5 trillion, the deficit was \$1.4 trillion, and debt held by the public was \$7.6 trillion.

*Economists often talk* about the size of our federal budget, our deficit, and our debt in relation to the size of our economy or Gross Domestic Product (GDP).

By 2025, if we continue on our current course, the federal budget is projected to be \$7.2 trillion, the deficit will be \$2.46 trillion, and our debt will be \$30.3 trillion.

How do we even begin to think about what these numbers mean? We all know what \$10 or \$100 means; \$1,000 and \$100,000 are even numbers that are meaningful in terms of what they can buy us or how long it would take us to earn those amounts. But what does \$1 million (\$1,000,000), \$1 billion (\$1,000,000), or \$1 trillion (\$1,000,000,000) mean?

Economists often talk about the size of our federal budget, our deficit, and our debt in relation to the size of our economy or Gross Domestic Product (GDP). That's because we have a very large economy that can support large levels of federal spending, and because it is easier for a country to finance deficits if it has a large national income.

It's also because the relationship among them matters and can be measured consistently over time. As noted in the pages that follow, the budget deficit, which averaged 1.7 percent of GDP from 1945 to 2008, is projected under current federal policies to average about 6 percent of GDP over the next decade, rise to 9 percent in 2025, and reach 22 percent in 2050. Debt held by the public, which will measure about 60 percent of GDP this year, is projected to reach 114 percent by 2025 and 316 percent in 2050.

# What is the Challenge?

Since the 1950s, federal revenues as a share of the economy have tended to total from 17 to 20 percent. Those levels often proved insufficient to fully cover federal spending, resulting in frequent deficits. Now, with spending projected to grow rapidly in the coming decades, the gap between spending and traditional levels of revenues will grow even wider, and our budget deficit will grow as a result. So, too, will our national debt – the total of all of our annual deficits – as well as interest on the debt.

Rising deficits and debt in the coming decades will be driven largely by rising health care costs

and an aging population, which will greatly increase the costs of Medicare, Medicaid, and Social Security. Compounding the problem are the large tax cuts that policymakers enacted over the last decade.

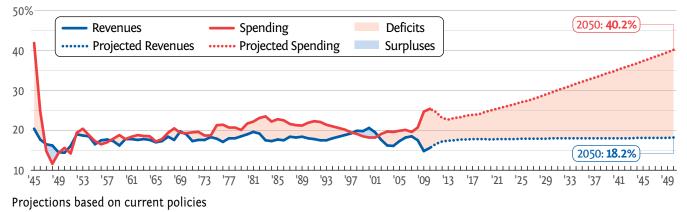
To be sure, the federal government has often generated budget deficits. In fact, the government has balanced the budget only 12 times since the end of World War II, most recently in the years from

**C** Rising deficits and debt in the coming decades will be driven largely by rising health care costs and an aging population.

1998 to 2001 when the federal government ran a surplus and paid down some of the debt.<sup>iii</sup>

But the deficits we will face in the coming decades are large and persistent — and the further out we look, the larger they will be. To finance these deficits, the federal government will have to borrow unprecedented amounts of money, creating significant future risks for the economy.

# Federal Revenues and Spending as a Percent of the Economy (Gross Domestic Product) 1945 to 2050



#### 350 2050: 316% Projections 300 250 200 1945: 106% 150 100 50 '81 '85 '89 '93 '97 '01 '05 '13 '17 '21 '25 '29 '45 '45 '65 '69 '73 '09 '33 '37 '41 '49

### The National Debt as a Percent of the Economy (Gross Domestic Product), 1945 to 2050

\*Debt held by the public Projections based on current policies

# Projecting Long-Term Growth of Deficits and Debt

Most economists believe that the best way to measure the burden of deficits is to measure them as a percentage of the economy.

So, as a share of the economy, let's compare deficits since World War II  $^{\rm iv}$  with those expected in the decades to come.

- From 1945 to 2008, the federal government generated deficits that averaged 1.7 percent of the nation's economic output, known as its Gross Domestic Product (GDP).
- For 2009 and 2010, the deficit is about 10 percent of GDP due to the deep recession and its aftermath (which greatly reduced federal tax receipts) and the extraordinary measures that Congress enacted to revive the economy and stabilize the financial system. Once the economy recovers, deficits will be approximately 6 percent of GDP under current policies.



A large portion of the large deficits of the last two years are temporary because they were driven by temporary factors – including low levels of revenue from taxes that accompanied the recession.

The real problem is what has been projected for the future.

Due, again, to soaring health care costs, the aging of the population, and the large tax cuts of the last decade, the deficit is projected to reach once-unimagined levels.

• The deficit is projected to average about 6 percent of GDP over the next decade, totaling about 7 percent in 2020.

**C** The large deficits of the last two years are temporary because they were driven by temporary factors. The real problem is what has been projected for the future.

- It is projected to rise to 9 percent of GDP in 2025.
- It is projected to rise further, to 22 percent, in 2050.

The federal government generated deficits of that size only once before – during World War II – but as soon as the war ended, defense spending fell sharply and our deficits came down quickly. In fact, the budget was balanced by 1947.<sup>v</sup> **G** Health care costs across our society have been rising far faster than the economy for many years and they are expected to continue doing so.

Today's situation is far different. We have no easy way to reduce our surging deficits.

Rising deficits mean rising debt:

- This year, the debt held by the public will measure about 60 percent of the economy, its highest level in half-a-century.
- By 2025, if we continue our current policies, the debt is projected to reach 114 percent.
- By 2050, if we continue our current policies, it is projected to reach 316 percent.



### Health Care and an Aging Population

Health care costs will grow much faster than the economy in the coming decades, leading to increased federal spending on Medicare. Social Security and Medicaid will grow somewhat faster than the economy. The largest long-term trend driving this growth is rapidly rising overall health care costs, while an aging population plays a smaller, but important, long-term role.



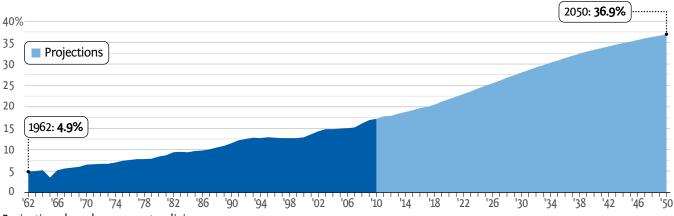
**Rising Cost of Health Care** 

Health care costs across our society have been rising far faster than the economy for many years and they are expected to continue doing so, which will greatly drive up federal spending on Medicare and Medicaid.

If past trends continue, national health care expenditures, which equal about 17 percent of the economy now, would rise to over 20 percent in less than 10 years. That would mean one out of every five dollars spent in the country would be spent on health care. While the per capita costs for Medicare and Medicaid have risen more slowly than overall health costs, these programs, which together measure about 5.1 percent of the economy today, could rise to nearly 7.5 percent by 2025 and nearly 13 percent by 2050. Over the long term, rising health costs are the most important factor that drives the growth of our deficits.

President Obama and Congress recently enacted a major health reform law that is designed to extend health coverage to an estimated 34 million Americans by 2019, reform the insurance market, and begin to slow the rate of growth in costs throughout the health care system, both public and private. By reducing the growth rate of both public and private health care costs, the law aims to reduce the deficit more and more over future decades.

Initially, health care spending (by government and in the nation as a whole) will rise faster than it otherwise would have. After several years, the legislation is designed to slow the growth of both government and total spending on health care – though there is considerable uncertainty about whether, and how fast, it will slow growth.



### Health Care Spending as a Percent of the Economy (Gross Domestic Product) 1962 to 2050

Projections based on current policies



• Aging Population

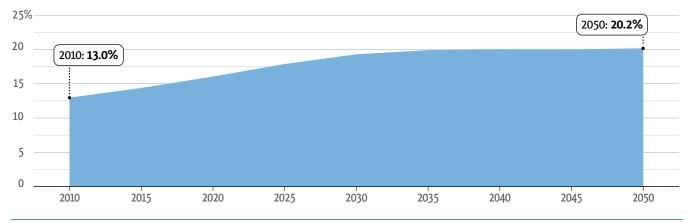
# The share of the population that is eligible for Medicare, Medicaid, and Social Security is rising.

Over time, a larger and larger portion of our population is becoming eligible for Medicare and Social Security, and an increasing number of senior citizens will receive long-term care through Medicaid.<sup>vi</sup> Seniors will grow from 13 to 20 percent of the population between now and 2035.<sup>vii</sup> The **Seniors will grow from** 13 to 20 percent of the population between now and 2035.

"baby boom" generation is just beginning to retire, making them eligible for Social Security and Medicare. And life expectancy is rising for many Americans, although it is growing much faster for higher-income Americans than it is for lower-income Americans.<sup>viii</sup> The longer people live, the longer they can draw benefits from Social Security, Medicare, and Medicaid.

An aging population means that a declining share of the population is paying taxes to support Medicare, Medicaid, and Social Security, while a rising share of the population is receiving benefits and services for longer periods of time.

Countering this trend, young immigrants – both legal and undocumented – improve the age profile of our country as they and their children become workers and taxpayers. The Social Security Administration states that every increase of 100,000 immigrants improves the long-term balance of the Social Security Trust Fund by .07 percent of the total payroll taxes that the trust fund is receiving.



#### Percent of Americans 65 or Older, 2010-2050

# What are the Risks of Inaction?

Our rising deficits and debt create serious long-term risks. Continued deficit spending while the economy is weak can help to foster a stronger economic recovery. But the longer our elected leaders wait before finding agreement about how to address the deficit problem once our economy has recovered, the greater the changes that will be needed and the less time we will have to make them.

At some point, lenders and credit agencies may grow worried about our ability to pay our debts and, as a result, those lenders may demand higher rates of return in exchange for continuing to lend to us. That could lead to higher interest rates and inflation, a collapsing dollar, even more debt as our interest costs mount, and, in the end, an economic calamity.

Rising debt over the long term could eat away at the nation's economic strength. Lower national savings could mean less private-sector investment, and, in the end, lower living standards for our children and grandchildren than they would otherwise be.



More specifically, the risks include:

• Our rising debt will force us to spend larger and larger amounts of federal dollars just to pay interest on our past borrowing.

High levels of debt can crowd out other national priorities as our country is forced to pay the interest we owe instead of spending our national budget on other priorities. If this

happens, Congress will be forced to invest less in national priorities because more of our budget must go to paying off interest on our debt. This could affect everyone from seniors and low-income families who depend on our safety net, to those who care about food safety, fostering job growth, and supporting the needs of rural communities.

**G** High levels of debt can crowd out other national priorities as our country is force to pay the interest we owe instead of spending on other priorities.

• The interest rates we have to pay on our debt may rise because lenders decide that we are too great a risk.

If our debt grows at the rate that is projected over the long term, our lenders may grow worried about our nation's willingness or ability to make the owed interest payments. In response, they may choose to demand higher interest rates, which could lead to inflation, a collapsing dollar and even more debt as our interest costs mount. With higher interest rates, families will find it harder to afford a mortgage on a new home, buy a car, or make other purchases. And large and small companies will find it more difficult to hire workers because they can't borrow to fund new investments.

• Deficits sop up private saving that could otherwise be invested to produce higher incomes in the future.

When the government borrows large amounts of money, it leaves less private capital to invest in factories and equipment, education and training, and other investments that will strengthen our economy. As a result, our children and grandchildren may have to endure a weaker economy and lower living standards than they would otherwise enjoy.

# No Magic Bullet

By the year 2025, if we continue on our current path, our annual federal deficit will be \$2.46 trillion, or 9 percent of GDP. Any effort to significantly reduce the growth of our deficit or debt over the long term will require large increases in taxes, large cuts to important federal programs, or some combination of the two.

Unfortunately, the choices for reducing the deficit over the long-term will not be easy. Cutting programs would be painful to those who receive services from the government. And raising revenues would mean that some are paying higher taxes.

We will not be able to reduce our deficits to a sustainable level simply by cutting, or even eliminating, many unpopular items that the public seems to think are much bigger than they are. There are no silver bullets or short cuts that we can take to avoid the tough choices ahead.

For example, each of the following policies could have merit and may even contribute to reducing the deficit. But none of them make enough of a dent in our deficit by themselves to be considered a long-term solution on their own.

#### • Waste, Fraud, and Abuse

We should insist that our government operate as efficiently as possible, but we can't generate nearly enough savings by only improving government's efficiency and eliminating waste, fraud and abuse. Nor, realistically, can policymakers and average Americans of different perspectives agree on what constitutes "waste." One person's wasteful highway project is another person's vital effort to rebuild the nation's infrastructure. One person's wasteful weapons system is another person's vital tool to protect the nation.

#### Congressional Costs

The entire budget for the legislative branch, which includes lawmaker and staff salaries and the operations of such agencies as the Government Accountability Office, represents just one tenth of one percent of the federal budget and, at the same percentage, would total \$9 billion in 2025. In the face of federal deficits exceeding \$2 trillion, eliminating the entire legislative branch would hardly make a dent.

#### • Foreign Aid

U.S. economic and military aid to other nations represents only 1.1 percent of federal spending today and will represent 1.4 percent in 2025. Even if all aid were cut, it would still not make a significant difference in reducing our deficit.

#### • Congressional Earmarks

Congressional earmarks – defined as broadly as possible – represent only five tenths of a percent of all federal spending today, according to the private group Citizens Against Government Waste, and, if earmarks represent the same percentage in 2025, they would total about \$32 billion in that year. Eliminating earmarks, alone, would not reduce our deficit nearly enough.

#### • Immigration

The law already bars illegal immigrants from receiving virtually all federal benefits from key programs such as Medicare and Social Security. Recent changes in law have made it far more difficult for undocumented workers to obtain false Social Security numbers. On the other hand, allowing large increases in legal immigration would generate additional tax revenue, but not enough to sufficiently reduce the deficit on its own.

#### • Corporate Tax Write-Offs

Corporations receive deductions, credits, and other write-offs for such activities as oil and gas drilling, other energy exploration, and research and development. In sum, corporate deductions, credits, and other write-offs will total a projected \$175 billion in 2025. That means that even eliminating every such corporate tax benefit would not produce enough savings to solve the deficit problem.

#### • Corporate Bailouts

The bailouts certainly contributed significantly to today's deficit but, because they were one-time events, they will have virtually no impact on the deficit by 2025.

#### • Economic Growth

A growing economy, generating more tax revenues and reducing spending on unemployment compensation and other benefits, will help reduce the deficit. But not even a return to the strong, sustained economic growth of the 1990s would eliminate the deficit.

#### • Afghanistan and Iraq

Like the bailouts, the two wars contributed significantly to today's deficit, but they will not have a significant impact on the deficit by 2025. In fact, the projected deficit for 2025 already assumes that, by 2015, the United States has already significantly wound down its operations in those countries.

To be sure, any or all of the items listed above can contribute to a deficit reduction effort. Indeed, some of them can contribute significantly. Having said that, no single one of these items is a magic bullet. None of them, alone or even all together, will solve the problem at hand.

What's driving our future deficits and debt is not congressional perks or earmarks. Nor is it corporate bailouts and two wars. What's driving our deficits and debt are rising health care costs, our aging population, and other significant policy decisions, such as major tax cuts, over the past several decades that have led to consistently higher spending than revenues.

Doing nothing or only making minor reforms are not viable options to addressing our nation's fiscal challenges.

# Weighing Options and Making Decisions

Any effort to reduce the growth of our deficit and debt will require major cuts to important federal programs, large increases in taxes, or some combination of the two. During the national discussion on our federal budget, participants will review a wide array of options in order to get a better sense of the values and priorities that they believe leaders in Washington should pursue as they address these difficult choices.

The options that will be discussed in the national discussion will be presented in an accompanying document. They will be divided into options about spending on federal programs and options involving raising revenues through taxes, and will be organized into the following categories.

- Spending on Federal Programs
  - Health Care
  - Social Security
  - All Other Non-Defense Programs
  - Defense
- Revenues through Federal Taxes
  - Raise Existing Taxes
  - Reduce Deductions and Credits
  - Reform the Tax Code
  - Establish New Taxes

For more information, visit www.USAbudgetdiscussion.org.

## End Notes

All figures in this guide come from the Congressional Budget Office, as adjusted per the description on page 1, unless otherwise noted.

- i Historical Tables, Office of Management and Budget.
- ii Historical Tables, Office of Management and Budget.
- iii Historical Tables, Office of Management and Budget.
- iv Historical Tables, Office of Management and Budget.
- v Historical Tables, Office of Management and Budget.
- vi While most people think of Medicaid as a health insurance program for the poor, a significant portion of its spending goes for long-term care for the elderly and disabled. As those groups increase as a share of the population, Medicaid spending will increase with them.
- vii Census Bureau.
- viii http://www.nytimes.com/2008/03/23/us/23health.html

# **Thanks to Outreach Partners**

AmericaSpeaks is grateful for the assistance we have received from countless organizations and leaders in communities across the country and nationally. Below is a partial list of individuals and organizations (available at the time this document was printed) who have helped to ensure that a large, diverse group of Americans participates in the national discussion. For a more complete list, visit www.usabudgetdiscussion.org.

#### 1000 Friends of Oregon, Eric Stanchon, Portland, OR

AARP South Carolina, Patrick Cobb, Columbia, SC

AARP, National

ACCESS, Detroit, MI

African American Chamber of Commerce of New Mexico, Ron Hinson, Albuquerque, NM

Albuquerque Independent Business Alliance, Leroy Pacheco, Albuquerque, NM

All Stars Project of Chicago, David Cherry, Chicago, IL

Altru Health System, Grand Forks, ND

America's Promise, National

American Friends Service, Alexis Moore, Philadelphia, PA

American Leadership Forum, Robin Teater, Portland, OR

Americana Community Center, Louisville, KY

Americans for Prosperity-Clackamas County, Bill McKee, Richard Burke and Sara Seale, Portland, OR

Androscoggin County Chamber of Commerce, Augusta, ME

Arab American Family Services, Itedal Shalabi, Chicago, IL

Asian American United, Ellen Sokowana, Philadelphia, PA

Asian-American Association of New Mexico, Hwa Soon Thorson, Albuquerque, NM

Asociacion Puertorriquenos en Marcha, Jennifer Rodriquez, Philadelphia, PA

Association of Government Accountants, National

Bank of America, Melissa Drescher, Columbia, SC

BB&T, Mike Brennan, Columbia, SC

Benedict College, Love Collins\*, Columbia, SC

Berachah Baptist Church, Rev. Robert Shine, Philadelphia, PA

BlueCross BlueShield of South Carolina, Ed Sellers, Columbia, SC

Bremer Bank, Grand Forks, ND

Business and Professional Women, National

Business Roundtable, National

Campus Progress, National

Carsey Institute at the University of New Hampshire, Portsmouth, NH

Cascade Policy Institute, Steve Buckstein, Portland, OR

Casper Area Economic Development Alliance, Casper, WY

Casper College, Casper, WY

Casper Community Foundation, Casper, WY

Casper Events Center, Casper, WY

Casper Rotary Foundation, Casper, WY

Center for Civic Policy, Matt Brix, Albuquerque, NM

Center for Natural Resources and Environmental Policy, University of Montana, Missoula, MT

Center for Tax and Budget Accountability, Kathy Miller, Chicago, IL

Central Carolina Community Foundation, JoAnn Turnquist and Susie VanHuss\*, Columbia, SC

Central Dallas Ministries, Gerald Britt and Jessica Davila, Dallas, TX

Chicago Community Trust, Ngoan Lee, Chicago, IL

Chicago Urban League, Angila Faison, Chicago, IL

Chicagoland Chamber of Commerce, Jerry Roper, Chicago, IL

Child and Family Policy Center, Des Moines, IA

Chinese-American Service League, Bernarda Wong, Chicago, IL

City of Casper, Casper, WY

City of Columbia Mayor, Robert Coble, Columbia, SC

City of Jackson, Jackson, MS

Clearinghouse for Women's Issues, National

Coffee Party, National

Colonial Life, Donna Northam\*, Columbia, SC

Columbia Chamber of Commerce, Ike McLeese, Columbia, SC

Columbia College, Caroline Whitson and English Montgomery, Columbia, SC

Columbia Housing Authority, Gilbert Walker, Columbia, SC

Community Council of Greater Dallas, Martha Blaine, Dallas, TX

Concerned Youth of America, Yoni Gruskin, Philadelphia, PA

Concord Coalition, National

Cultural Council, Andy Witt, Columbia, SC

Dallas Black Chamber of Commerce, Dallas, TX

Davis, Hibbitts & Midghall Research, Adam Davis, Portland, OR

Delta Sigma Theta Sorority, Inc., Southwest Dallas County Alumnae Chapter, Nicole Taylor, Dallas, TX

DFW International, Anne Marie Weiss-Armush, Dallas, TX

Dr. Gail Zimmerman, Casper, WY

Drake University, Des Moines, IA

Economy League of Greater Philadelphia, Steve Wray, Philadelphia, PA

E-Consult, Steve Mullin, Philadelphia, PA

Ecumenical Ministries of Oregon, David Leslie, Portland, OR

Education Voters of Pennsylvania, Susan Gobreski, Philadelphia, PA

EdVenture, Catherine Horne, Columbia, SC

El Valor, Vincent Allocco, Chicago, IL

Ellis Lawhorne & Simms PA, Dave Sojourner\*, Columbia, SC

Faith in Place, Cynthia Bowman, Chicago, IL

Fels Institute of Government at UPenn, David Thornburgh, Philadelphia, PA

Friends Committee on National Legislation, National

Gheens Academy, Louisville, KY

Grand Forks Mayor's Office, Grand Forks, ND

Greater Albuquerque Chamber of Commerce, Rebecca Leppala, Albuquerque, NM

Greater Louisville Incorporated, Louisville, KY

Greater Philadelphia Urban Affairs Coalition, Mary Whalen & Lucy Kerman, Philadelphia, PA

Hip Hop Caucus, National

Hispanic Chamber of Commerce, Varsovia Fernandez, Philadelphia, PA

Hispanic Connections, Inc, Gustavo Peñaranda, Columbia, SC

Hispanic Latino Business Council of Louisville, Louisville, KY

Illinois AARP, Courtney Hedderman, Chicago, IL

Illinois League of Women Voters, Esta Kallen, Chicago, IL

Illinois Library Association, Robert Doyle, Chicago, IL

Institute for the Study of Civic Values, Ed Schwartz, Philadelphia, PA

International Association of Public Participation, National

Jewish Community Center, Steve Terner, Columbia, SC

Johnson County Central Resource Library, Overland Park, KS

Johnson, Toals & Battiste PA, Luther Battiste III, Columbia, SC

Joint Venture: Silicon Valley Network, Silicon Valley, CA

Kansas Small Business Development Center, Overland Park, KS

KC Consensus, Overland Park, KS

KeenanSuggs Insurance, Tommy Suggs, Columbia, SC

Kennebec Valley Chamber of Commerce, Augusta, ME

Kentucky Youth Advocates, Louisville, KY

LaSalle University, Ed Turzanski, Philadelphia, PA

Latino Policy Forum, Sylvia Puente, Chicago, IL

Leadership Metro Richmond, Richmond, VA

Leadership Philadelphia, Liz Dow, Philadelphia, PA

League of United Latin American Citizens District 3, Jesse Garcia, Dallas, TX League of United Latin American Citizens, Ricardo Carlos Cabellero, Albuquerque, NM

League of Women Voters of Chicago, Chicago, IL

League of Women Voters, Jan Bray, Albuquerque, NM

League of Women Voters, Kelly Green, Philadelphia, PA

League of Women Voters, National

League of Women Voters, Sandy Greyson and Katherine Holman, Dallas, TX

Lexington Chamber of Commerce, Scott Adams, Columbia, SC

Linda Nettekoven, Portland, OR

LISC Chicago, Sandra Womack, Chicago, IL

Little Village Environmental Justice Organization, Kimberly Wasserman, Chicago, IL

Louisville Young Republicans, Louisville, KY

Loyal Opposition, Kevin Kelly, Philadelphia, PA

LULAC-SMU, Elizabeth Zamora, Dallas, TX

Maine Center for Economic Policy, Augusta, ME

Making Connections Louisville, Louisville, KY

Maranatha Church of Portland, Dr. T. Allen Bethel, Portland, OR

Margaret Chase Smith Policy Center, University of Maine, Augusta, ME

Mayor's Commission On Asian American Affairs, Nina Ahmad, Philadelphia, PA

Member of American Federation of Musicians, Local 99, Bruce Fife, Portland, OR

Metro United Way, Louisville, KY

Metropolitan Mayors Caucus, Dave Bennett, Chicago, IL

Metropolitan Planning Council, Mary Sue Barrett, Chicago, IL

MIHAC, Dr. Moss Blachman, Columbia, SC

Mike Kelly Law Group LLC, Mike Kelly\*, Columbia, SC

Mikva Challenge Foundation, Miriam Martinez, Chicago, IL

Millennium Magazine, Calvin Reese, Columbia, SC

Mississippi Economic Policy Center, Jackson, MS

Montgomery County Republican Committee, Lauren Casper, Philadelphia, PA

MOSES, Detroit, MI

Muskie School of Public Policy, University of Southern Maine, Augusta, ME

National Association of Counties, National

National Coalition for Dialogue and Deliberation, National

National Council of La Raza, National

National Issues Forums, National

National Urban League, National

Native American Youth and Family Center (NAYA), Nicole Maher, Portland, OR

New Mexico Federation of Labor, Chris Chavez, Albuquerque, NM

New Mexico Tea Party, Rick Morlen, Albuquerque, NM

New United Majority, Philadelphia, PA

Nonprofit Associations of Oregon/ TACS, Carrie Hoops, Portland, OR

Norris Square Civic Association, Patricia deCarlo, Philadelphia, PA

Norris Square Presbyterian Church, Rev. Adan Mairena, Philadelphia, PA

Novinger QTR LLC / MHA, Cathy Novinger, Columbia, SC

Oak Cliff Chamber of Commerce, Bob Stimson, Dallas, TX

Office for Civic Engagement at the University of Montana, Missoula, MT

Office of Neighborhood Involvement, City of Portland, Jeri Williams, Portland, OR

Oregon 9/12 Project, Bob Swift, Portland, OR

Oregon TEA Party, Jeff Ludt and Randi Kainz, Portland, OR

oregon volunteers!, Kathleen Joy, Portland, OR

Palmetto Health, Vince Ford, Columbia, SC

Pennsylvania Horticultural Society, Joan Reilly, Philadelphia, PA

Pennsylvania Horticultural Society, Joan Reilly, Philadelphia, PA

Philadelphia Chinatown Development Corporation, Andy Toy, Philadelphia, PA

Philadelphia Education Fund, Brian Armstead and Carol Fixman, Philadelphia, PA

Points of Light Institute, National

Policy Consensus Initiative/PSU, Wendy Willis, Portland, OR

Portland Business Alliance, Mirabai Vogt, Portland, OR Portland Community College, David Martinez, Portland, OR Portsmouth Listens, Portsmouth, NH Rebuild Oregon, Jeff Anderson, Portland, OR Resource Associates, Anne Sinclair, Columbia, SC Resurrection Project, Raul Raymundo, Chicago, IL **Rev. Robert Shine** Richland County Public Library, Melanie Huggins, Columbia, SC Richland School District 1, Dr. Percy A. Mack, Columbia, SC Rio Grande Foundation, Paul Gessing, Albuquerque, NM SC Arts Foundation, Pat VanHuss, Columbia, SC Sisters of Charity, Tom Keith and Brook Bailey, Columbia, SC Small Business Monthly, Overland Park, KS South East Dallas Hispanic Chamber of Commerce, Jeronimo Valdez, Dallas, TX State Public Policy Group (SPPG), Des Moines, IA Suburban School Districts, Dr. Robert Kirton, Columbia, SC Tate Foundation, Casper, WY Taxpayers for Common Sense, National The Bus Project, Noah Manger, Portland, OR The City of Richmond, Richmond, VA The Commonwealth Institute for Fiscal Analysis, Richmond, VA The Community Foundation of Grand Forks, East Grand Forks and Region, Grand Forks, ND The Cooperative Ministry, David Kunz, Columbia, SC The Foundation for the Mid South, Jackson, MS The Skillman Foundation, Detroit, MI The State Media Company, Henry Haitz III\*, Columbia, SC Trinity United Church of Christ, Rev. Otis Moss III, Chicago, IL TrueMajority, National United Community Services of Johnson County, Overland Park, KS United States Student Association, National United Way of the Midlands, Mac Bennett\*, Columbia, SC

United Way, National

University of Louisville College of Business, Louisville, KY

University of Maine at Augusta, Augusta, ME

University of Pennsylvania, Penn Project for Civic Engagement, Harris Sokoloff and Linda Breitstein, Philadelphia, PA

University of South Carolina, Eddie Yazdani, Columbia, SC

University of Wisconsin, Madison, WI

Urban League Greater Dallas, Beverly Mitchell-Brooks, Dallas, TX

Urban League of Greater Dallas, Beverly Mitchell-Brooks, Dallas, TX

Urban League, James (JT) McLawhorne, Columbia, SC

USAction, National

Voices for Illinois Children, Kathy Ryg, Chicago, IL

Wayne State University, Detroit, MI

We The People (Vancouver, WA), Tom Hann, Portland, OR

We The People of SW Washington, Karen Osborne and Terry Busch, Portland, OR

Welcoming Center for New Pennsylvanians, Anne O'Callaghan, Philadelphia, PA

West Dallas Community Centers, Cheryl Mayo, Dallas, TX

West Oak Lane, Kim Turner, Philadelphia, PA

Western Justice Center Foundation, Pasadena, CA

Wheaton College, Javier Comboni, Chicago, IL

WHYY, Chris Satullo, Philadelphia, PA

WIS-TV, Donita Todd, Columbia, SC

Women, Work, and Community, Augusta, ME

Women's Action for New Directions, National

Wyoming Business Alliance/Wyoming Heritage Foundation, Casper, WY

Wyoming Medical Center, Casper, WY

Young Involved Philadelphia, Claire Robertson-Kraft, Philadelphia, PA

Young Involved Philadelphians, Claire Robertson-Kraft, Philadelphia, PA



1050 17th Street, Ste 350 Washington, DC 20036 www.usabudgetdiscussion.org www.americaspeaks.org