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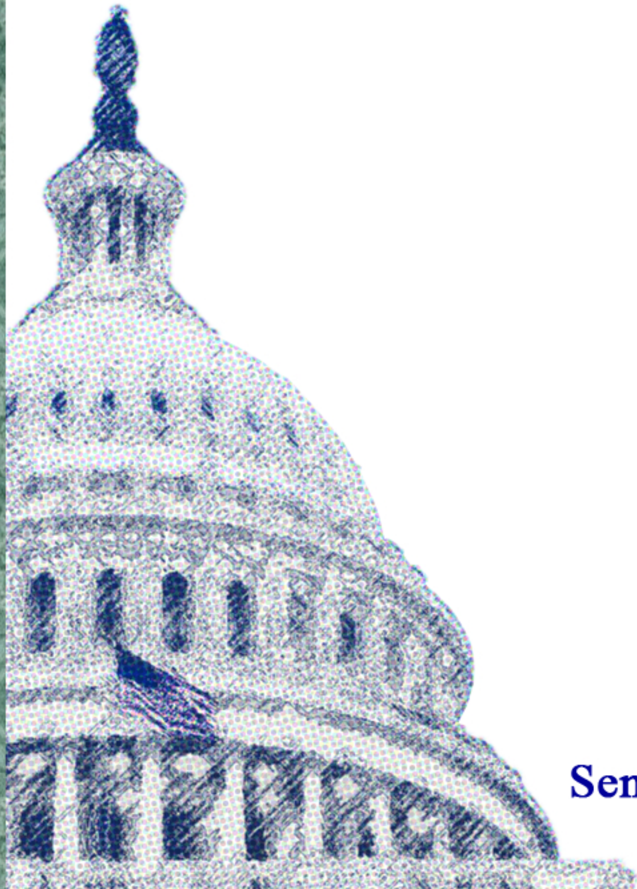
Senate Budget Committee
October Recess Packet



September 29, 2010
Prepared by the
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September 29, 2010

Dear Republican Colleague:

As we wrap up our legislative business ahead of the October recess and election season, I would like to recap where things stand regarding the nation's fiscal health under the Democratic majority.

As a result of unrestrained spending over the past several years, the current public debt is now more than $13.4 trillion, with massive deficits of more than $1 trillion annually projected for the next ten years under the President's policies. While the Administration claims it "inherited the debt," the reality is that U.S. debt has increased by more than $2.8 trillion since January 2009, a per-household increase of nearly $24,000.

Under the Democrats' agenda, things will only get worse. According to both Congressional Budget Office (CBO) and Office of Management and Budget (OMB) estimates, the Administration's policies will more than double the pre-Obama debt in five years and more than triple it by 2018.

The majority's reckless spending and the resulting debt comes on top of the looming crisis we face in Social Security, Medicare, Medicaid and other entitlement programs that are sinking into insolvency under their current structure. These entitlements represent an $81 trillion unfunded liability for our nation, and the majority refuses to take any action to address it, despite the fact that the recession has had a significantly adverse impact on Social Security and Medicare and both face serious cash shortfalls as the Baby Boomers are poised to retire.

In short, spending and borrowing have continued unabated under the majority, and our fiscal situation is worsening by the month. The Democratic Congress is leaving town without passing a budget, without finishing their appropriations work, and without addressing entitlements or the fact that tax hikes will soon go into effect. What have they done? Explode spending, create a $2.6 trillion new health care entitlement program that we cannot afford, and expand regulatory activity that will restrict economic growth. With the economy in a prolonged slump and unemployment at nearly 10%, these are not the actions that will put us back on the right track.

I hope you find the information in this packet helpful. Please contact my staff at 202-224-6011 with any questions or if you need any additional information.

Sincerely,

Judd Gregg

Fiscal Health of the Nation

Debt: $13.4 Trillion – When President Obama took office the total Public Debt stood at $10.6 trillion --, today, less than two years later, it has grown by over $2.8 trillion. Nearly half of our debt is held by foreign creditors, such as China and Japan, who will demand ever higher interest rates to finance our debt if we do not demonstrate a willingness to improve our fiscal picture.

Deficit: The deficit for this fiscal year, FY 10, is projected to be $1.3 trillion (9.1% of GDP), or barely $100 billion below last year's record deficit of $1.4 trillion (9.9% of GDP). It will be the second highest deficit relative to the size of our economy since World War II, surpassed only by the deficit in FY 09. President Obama's budget proposes another 10 years of deficits approaching $1 trillion per year.

Entitlement Crisis: We don't have enough money to continue to pay for Medicare, Medicaid and Social Security as they are currently structured. Together they represent the bulk of our nation's $81 trillion unfunded liabilities. These outstanding liabilities represent a burden of about $705,000 per American household.

Rising Cost of Health Care: Health care spending consumes 17.3 percent of GDP, the largest of any industrialized nation. Health spending is projected to approach 20 percent of GDP by 2019. During the health care debate, the Administration argued its' plan would improve the nation's budgetary outlook by bending the health care cost curve. However, in an official estimate of the final legislation (released on 4/22/10), the Administration's own employee – Richard S. Foster, the Chief Actuary at CMS – projected that the new health law would increase national health expenditures by 0.9 percent (or $311 billion) from 2010-2019 while growing the health share of GDP. In addition to that initial assessment, economists at CMS recently published the first government report on health spending after the passage of the new law – it too showed that reform bends the cost curve in the wrong direction (up, not down).

Unemployment: 9.6 percent – Unemployment remains at levels not seen since the early 1980's. When President Obama took office unemployment was 7.7 percent.

Democrats' New Health Entitlement

Costs: $1.4 trillion over the FY10-19 time period. This $1.4 trillion includes:

- Discretionary spending: $115 billion
- Medicaid/CHIP: $434 billion
- CLASS Act spending: $13 billion
- Exchange subsidies: $358 billion
- Risk adjustment payments: $106 billion
- Other Medicare/Medicaid spending: $183 billion
- Small employer tax credits: $40 billion
- Exchange premium credits: $107 billion

10 Year, Fully Implemented Cost: $2.6 trillion. The Democrats' health reform law delays most of the spending until 2014, but begins tax increases and program cuts earlier, thus relying on 10 years of offsets to pay for 6 years of spending. The true cost of this new health entitlement when it is fully implemented (FY2014-2023) is $2.6 trillion.

<u>Gimmicked Deficit Impact:</u> CBO scored the Democrats' health reform as reducing the deficit by $143 billion over the FY2010-2019 period. However, the legislation included gimmicks and double-counting in order to hide its' true costs. Without the following gimmicks, the bill would be **$619 billion** in the red over the first ten years alone.

- $19 billion in deficit reduction from reforms of student loans that should not be counted as savings related to the health reform law.
- $29 billion in net increases in Social Security payroll taxes that should not be counted because they cannot be available for both paying for the related future increases in Social Security benefits and for offsetting the increases in other spending under health reform.
- $70 billion net premium income from the CLASS Act that should not be counted because it is an insurance program and its premium collections should go to pay future benefits.
- $529 billion in Medicare cuts over the next 10 years can't be used twice – to both extend the life of Medicare and to pay for other spending. Yet the supporters of the new health law paradoxically claim they are extending Medicare's solvency past 2016 and reducing the deficit at the same time.
- $115 billion in new discretionary spending should be included as part of the cost of implementing the new reform law.

<u>10-*Year* Deficit Reduction Is Less Than One *Month* of Debt Increase under Obama:</u> Democrats claim health reform reduces the deficit by $143 billion over 10 years. The deficit for October 2009 alone was $176 billion. In other words, in just the first month of the fiscal year, the debt has already grown by more than even the rosiest projections of deficit reduction from the new health care law.

<u>Entitlement Crisis Worsened:</u> The Democrats' health reform law cut Medicare by $529 billion in order to establish brand new entitlement programs, even though the Medicare program itself already had a $38 trillion unfunded liability and was grossly insolvent over the long term. Instead of using those Medicare savings to extend the program's solvency, the new health law creates 2 new entitlement programs: subsidies to purchase insurance and the CLASS Act. What's worse, the CLASS Act is not solvent over the long term. The Administration's chief health actuary said CLASS would result in a "net Federal cost in the longer term."

<u>Unemployment/Jobs:</u> In its annual August update to the budget, CBO concluded that the new health reform law, on net, will "reduce the amount of labor used in the economy by…roughly half a percent, primarily by reducing the amount of labor that workers choose to supply." At a time when economic growth remains weak the new health care law will further discourage work – and according to CBO, will cause about 750,000 individuals to leave the labor force.

Debt and Deficits: The Obama Factor

- **Current Debt:** The total Public Debt stands at over $13.4 trillion, with FY2009's $1.4 trillion deficit having contributed significantly to our nation's credit card bill.

- **More Debt:** The FY2010 deficit is expected to total $1.3 trillion.

- **The Obama's Administration's Credit Card Bill after its First 615 days in Office:**
  - Debt increase since inauguration = $2.841 trillion
  - Debt increase per day in office = $4.619 billion
  - Debt increase per U.S. household since inauguration = $ 23,709

- **The Ten-Year Deficit Outlook:** The Obama administration's policies will continue to contribute to the debt by running massive deficits for the next ten years, averaging nearly $1 trillion annually from 2011 to 2020. The projected deficit of 9.1 percent of GDP for 2011 will come at a time when the administration is predicting a return to pre-recession economic growth.

- **The Ten-Year Debt Outlook:** After five years, the Obama administration's policies will more than double the amount of debt held by the public at the end of FY2008 ($5.8 trillion), and will more than triple it by 2018, according to both OMB and CBO estimates.
  - A single Obama term will add about as much new debt held by the public as all other presidents in U.S. history combined.
  - By 2020, according to CBO's estimate of the President's budget, debt held by the public as a percentage of GDP will be 90 percent.

- **Interest Costs:** According to CBO, by 2017, interest payments under the President's budget reach the highest share of GDP ever (3.4 percent of GDP by 2017; the previous record was 3.3 percent in 1991).
  - Interest grows from $187 billion in 2009 to $916 billion in 2020 or a full 4.1 percent of GDP, consuming 21 cents out of every dollar of revenue (compared to roughly 9 cents per dollar today).
  - CBO estimates that under the Obama budget through 2020, net interest costs of $187 billion in 2009 grow at an average annual rate of 16 percent, significantly faster than the projected growth rate of the economy, and over twice the average annual rate of growth in revenues over the same period (7 percent).

- **Increasing Foreign Ownership:** According to the most recent data, foreign holdings of U.S. Treasuries stands at $4 trillion, or 45.4 percent of debt held by the public.
  - Of this total amount held outside the U.S, foreign government holdings of U.S. debt stand at $2.7 trillion, or 30.4 percent of debt held by the public.
  - China, the U.S.'s largest foreign creditor, has holdings of $847 billion (9.5 percent of U.S. debt held by the public); the second largest foreign U.S. creditor is Japan, with holdings of $821 billion (9.2 percent of U.S. debt held by the public).
  - Federal interest payments on foreign-owned debt have increased by over 50 percent since 2000, rising from $85 billion to $136 billion in 2009.

- **Long Term Budget Outlook:** The U.S. long-term fiscal pathway is unsustainable. Assuming many of the current fiscal policies remain in place, CBO projects that debt held by the public will reach 185 percent of GDP in 2035 – well above any level seen in U.S. history.

September 29, 2010

The Recession's Impact on Social Security and Medicare Finances

The recent recession continues to adversely affect the Social Security and Medicare programs.

1. **Reductions in Social Security revenue continue while program participation jumps due to economic conditions**

CBO's August 2010 projections for Social Security (SS) trust fund surpluses (the difference between SS income – which includes tax revenue and interest – and SS outlays) are $170 billion (or 12%) lower than CBO's projections in March 2009 for the 2010-19 period. The change results from lower projected tax revenue and higher projected outlays. Payroll tax receipts are lower because of continuing high unemployment. Projected SS outlays are higher partly because of the increase in the number of persons filing for and receiving Social Security Disability Insurance (SSDI) benefits. Increases in the disability portion of the program often occur during recessions, as persons who previously worked despite having qualifying medical conditions lose their jobs due to the depressed economy and file for benefits they otherwise might not have applied for. Lower tax revenue and higher spending reduces the size of the surplus (which must be invested in Treasury securities); when the trust fund holds fewer Treasury securities, interest income into the fund falls.

SOCIAL SECURITY TRUST FUND FINANCES			
($ billions)	2010-2019		
	Mar-09	Aug-10	Change
Social Security Income (includes interest)	10,068	10,062	-7
Social Security Outlays	8,680	8,843	163
Trust Fund Surplus	1,389	1,219	-170
Cash Surplus(+)/Deficit(-) (w/o interest)	17	-129	-141

Source: CBO

For the fiscal year just ended (2010), SS outlays will exceed payroll tax revenue for the first time since the 1983 Social Security reforms. CBO projects that outlays will continue to exceed payroll tax revenues throughout the projection period (except for a couple of years of bare cash surpluses), making SS a drag on federal finances as the program redeems the Treasury securities it holds (thereby forcing Treasury to go borrow additional money) in order pay benefits. Advocates' claims that the Social Security program does not add to the federal government's annual operating deficit are no longer accurate.

PROJECTED SOCIAL SECURITY CASH FLOW (EXCLUDES INTEREST)										
($ billions)	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
2009 projections	3	9	16	26	27	20	6	-11	-29	-50
2010 projections	-40	-28	-15	-3	7	10	3	-8	-18	-37

Source: CBO. Note: Positive number denotes cash outlays are less than revenues; negative number denotes cash outlays exceed revenues.

2. Medicare is going bankrupt—and health reform didn't help

While Social Security is now tapping trust fund assets for the first time, Medicare's situation is far worse. Medicare's Hospital Insurance (HI) trust fund had to start redeeming bonds in 2009. In March 2009, CBO estimated the HI trust fund would run out of assets in 2017, at which time it would no longer be able to meet all of its obligations. In August 2010, the Medicare trustees projected that, as a result of enactment of the new health care law, the HI trust fund would not run out of assets until 2029.

While on paper the new health care law appears to have improved trust fund balances, it is important to note that, in reality, the law will do little to improve the long-term budget outlook for the federal government as a whole – because the Medicare savings from that law can't be used to *both* offset new entitlement spending created in that law AND extend the life of the Medicare HI trust fund. On numerous occasions during consideration of the health bill, CBO highlighted the fact that hundreds of billions of dollars in the Medicare trust fund were essentially being double-counted, once to pay for new entitlements and again to improve the health of the trust fund.

Since the President and Democrats in Congress insist that the new health care law was fully paid for and did not add a dime to the deficit, this analysis counts the Medicare savings in that law only once – as "paying" for new entitlements. To avoid double-counting and to present an accurate picture of Medicare's financial status, this analysis removes the Medicare effects of the new health care law from HI trust fund projections.

The table below compares CBO's March 2009 ten-year projections for the HI trust fund annual cash deficit and cumulative balance with CBO's August 2010 ten-year projections for those figures after removing the Medicare savings included in the health reform law.

CBO PROJECTIONS FOR MEDICARE HI TRUST FUND

($ billions)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
March 2009										
Annual Deficit	-19	-29	-26	-37	-48	-53	-70	-76	-84	-92
Fund Balance	286	257	231	195	147	94	24	-52	-137	-228
August 2010										
Annual Deficit	-26	-39	-37	-22	-40	-33	-36	-40	-46	-62
Fund Balance	284	245	209	187	147	115	79	39	-7	-68

Source: CBO's March 2009 Medicare baseline and CBO'S August 2010 Medicare baseline adjusted by SBC Republican staff for the Medicare double-count in the health reform law.

The increase in the annual deficits and smaller projected trust fund balances in the near term are due to lower Medicare payroll tax revenues resulting from higher unemployment in a weak economy. Absent the effects of the payroll tax increases and Medicare program cuts that were used to pay for new entitlements in the health care law, the table shows that the HI trust fund is still on track to run out of assets in seven to eight years. Although from a trust fund accounting perspective, the health law "extended" the life of the Medicare HI trust fund to 2029, the federal

government will need to either borrow more money or raise taxes in order to make good on benefits promised between 2018 and the later projected date of exhaustion.

3. Medicare Funding warning was still tripped post-health reform

The Medicare Modernization Act (MMA) of 2003 requires the Medicare Trustees to measure the amount of "excess general fund revenue" spent on Medicare benefits. Under this measure, if more than 45 percent of Medicare expenditures are projected to come from general revenues (as opposed to dedicated revenues such as payroll taxes and beneficiary premiums) within a seven-year projection period, the trustees must issue a determination of "excess general revenue Medicare funding" in their annual report. Two consecutive "excess general revenue Medicare funding" determinations trigger a "Medicare funding warning," which, under the MMA, requires the President to submit (within 15 days of submitting his next budget) a legislative proposal to reduce the amount of total Medicare spending coming from general revenues to below 45 percent. In their August 2010 report, the trustees, for the fifth consecutive year, made an excess general revenue Medicare funding determination, which triggered the fourth Medicare funding warning.

4. NO Social Security COLA

The current method of calculating the annual cost-of-living allowance (COLA) for Social Security benefits became effective in 1983. The method compares the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) from the 3rd quarter of the current year to the 3rd quarter of the previous year for which a COLA was provided. In 2008, this comparison (July-Sept. 2008 to July-Sept. 2007) yielded the 5.8% COLA that beneficiaries began receiving in January 2009, the largest since 1982. The large COLA was attributable to the spike in the price of oil that occurred just several months before the COLA was calculated.

Since then, the price of oil has declined sharply. In the third quarter of 2009, CPI-W actually declined 2.1% from the third quarter of 2008; however, the Social Security Act does not permit downward adjustments to benefits when the COLA index is negative, so benefits remained the same in 2010 as were paid in 2009.

The SS COLA of 5.8% that took effect in January 2009 overstated the actual price increases experienced in the U.S. in 2008.

Beneficiaries also will not receive a COLA in January of 2011 because the level of prices (measured by CPI-W) still has not rebounded to the level of the third quarter of 2008. (While the data for September has not yet been officially released, data from July and August 2010 show that, absent a highly unlikely significant spike in inflation in September, CPI-W will remain below the level of the 3rd quarter for 2008.)

Although Social Security beneficiaries did not receive a COLA in 2010, they received a $250 "economic recovery payment" in the Spring of 2009 on top of the 5.8% COLA that began in

January of 2009. The stimulus payments were the equivalent of another 1.8% increase in annual benefits for the average beneficiary. The President's FY 2011 budget proposed another round of these $250 payments; however no legislation has moved forward to implement the President's proposal.

5. NO Increase in the Social Security Contribution Base

While the COLA methodology prevents Social Security payments from declining as inflation is catching up to the 2009 increase, the law also limits Social Security revenue increases during this same period. The cap on income subject to the payroll tax remains unchanged during times of a 0% COLA for SS benefits. For 2010, the maximum amount of income subject to the SS payroll tax base is $106,800. This amount will remain the same until there is an increase in the Social Security COLA.

6. NO Increase in the Medicare Part B premium for most enrollees

Normally, the premiums that seniors pay for Medicare (Part B) are deducted from their monthly SS checks. Normally, SS benefits increase each year with the COLA, and Medicare premiums also increase somewhat. But, as with this year when there is no SS COLA, current law prevents an increase in Medicare Part B premiums (that is otherwise scheduled to occur) from reducing a senior's monthly SS benefit. This hold-harmless provision applies to about 75% of seniors enrolled in Part B. However, it also means that the remaining 25% of seniors will pay ALL of the amount necessary to keep the required 3:1 ratio of general fund contributions to beneficiary payments. Who are the beneficiaries not held harmless?

- new Medicare enrollees;
- a small number of beneficiaries who pay Medicare premiums on their own, typically because their Social Security check is smaller each month than the Part B premium;
- seniors who are also eligible for Medicaid (Medicaid pays the premiums); and
- wealthier seniors who pay a larger portion of premium costs as part of the Part B means-testing program enacted in the Medicare Modernization Act.

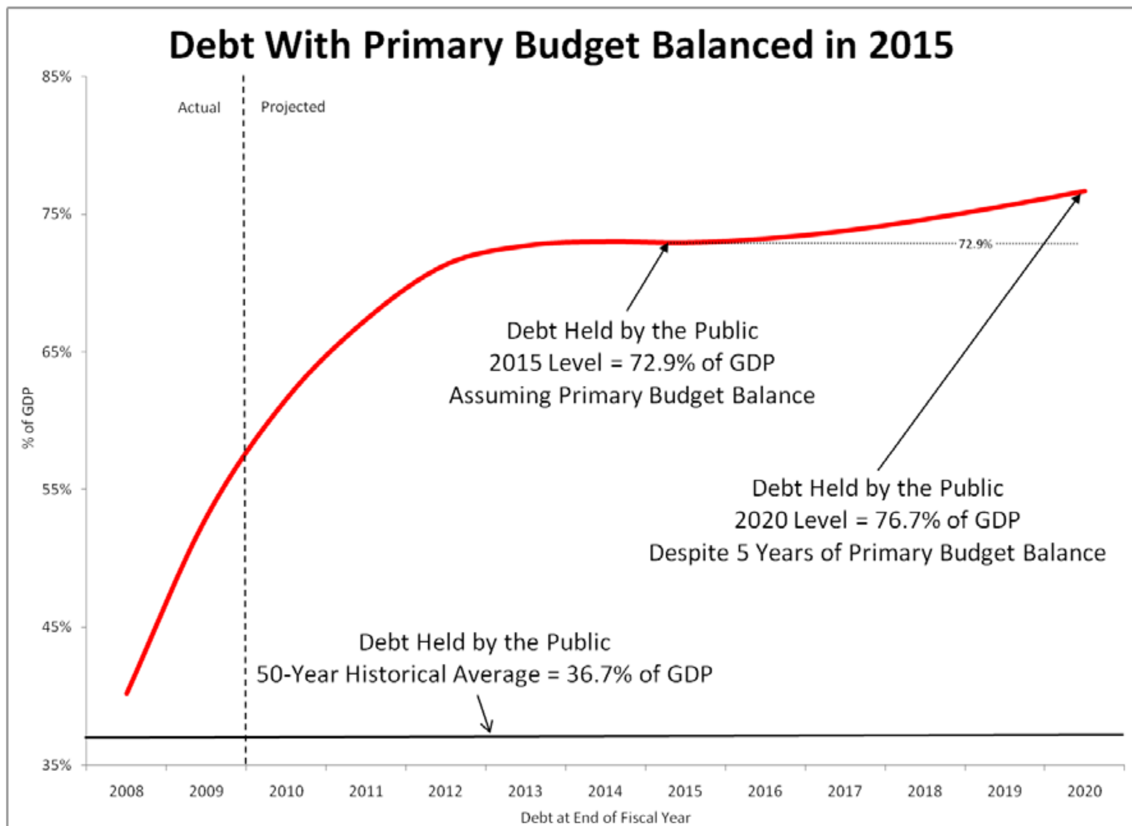
Eliminating the Primary Deficit Won't Stabilize the Debt

September 29, 2010

To prevent the Nation's debt from spiraling out of control, analysts across the spectrum recommend that the Congress and President take action to stabilize the debt as a share of the economy. Some (including the President) say that, in order to achieve this goal, we need to eliminate the "primary" deficit; that is, balance the budget, excluding interest payments on the debt.

The President created the National Commission on Fiscal Responsibility and Reform to develop a set of recommendations that would eliminate the primary deficit by 2015, which he argues would "stabilize the debt-to-GDP ratio at an acceptable level."[i] (Administration officials have also stated the goal of the Commission is to reduce the total deficit to 3 percent of Gross Domestic Product (GDP) by 2015.)

The chart below shows debt held by the public as a share of the economy, with the assumption that the primary budget is balanced (excluding interest payments) in 2015 and remains in primary balance thereafter.



The scenario above starts with the latest baseline budget outlook from the Congressional Budget Office (CBO), adjusted for certain assumptions that reflect the likelihood that Congress will not allow all laws in CBO's current-law baseline to remain unchanged.[ii] Because that adjusted "current policy" scenario would produce annual deficits higher

than the "primary balance" goal set out by the President, the scenario assumes that Congress will enact other laws that guarantee that the primary budget would come in to balance beginning in 2015 and remain at that level for the following five years. But even under this scenario, the debt would not remain fixed at the level of 72.9% of GDP that it would reach in 2015. Instead, the debt would continue to rise by about four percentage points, reaching 76.7% of the economy by 2020.

Why does the debt continue to increase even if the primary budget is balanced?

In order for debt held by the public to remain constant as a share of GDP, the growth rate of the stock of debt outstanding must be equal to the rate of economic growth. But even under the assumption that the primary budget remains in balance starting in 2015, debt will still grow faster than the economy in the second half of this decade for two reasons: interest payments on the debt will increase rapidly, and the federal government must borrow money to operate government loan programs.

Under the proposals in the President's budget, the total deficit would average about 5% of GDP each year from 2015-2020, and his budget would get nowhere near achieving primary balance in 2015 and thereafter. But even if Congress were to enact laws that achieved the goal the President gave to his Fiscal Commission (primary budget balance in 2015 and after), that would only slow the rate of growth in the stock of debt outstanding (compared to the growth rate of the debt under the President's budget). To bring the growth rate of debt down to the rate of economic growth, the primary budget must be in surplus. In other words, the total deficit must be significantly smaller than a deficit that is equivalent to the level of annual net interest payments.

Interest Payments Grow Rapidly

Interest payments on the debt are expected to increase rapidly because the Treasury Department must refinance maturing debt at interest rates that are projected to be higher than recent rates. Treasury is constantly issuing new debt to replace maturing Treasury securities and to finance new deficit spending. Since the financial crisis began in 2008, federal government borrowing has been cheaper than ever in our history due to low interest rates as investors fled to the safety of US Treasury securities. Both debt rollovers and new debt incurred over the past two years were financed at these low rates.

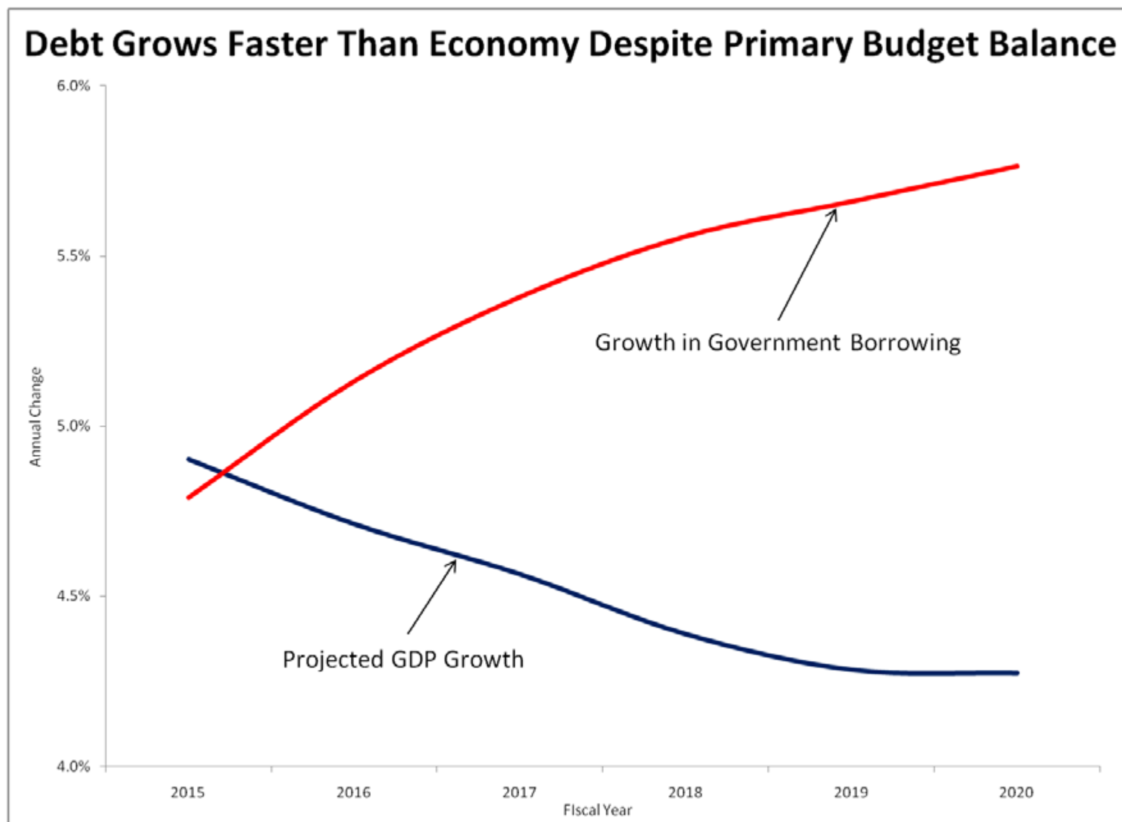
CBO expects that interest rates in the second half of the decade will increase to levels more in keeping with historical averages. Interest rates on the 10-year note, for example, are expected to increase from 3.4 percent in 2010 to 5.9 percent from 2016 - 2020. While the Treasury issues debt securities in maturities from 30 days to 30 years, the average maturity is currently right around five years. (The average maturity has lengthened in the last 2 years as the Treasury has taken steps to lock in low interest rates never before seen.) As a result, interest costs on the debt will soon increase very rapidly, especially as new debt is issued at the higher rates to refinance debt issued during the financial crisis and to finance total federal deficits that will continue to occur, even if the primary budget is in balance.

More Government Borrowing Necessary to Operate Loan Progams

Besides the effects of the expected increase in interest rates (and its effect on rolled-over debt) and the new borrowing that will occur to finance future total budget deficits, future debt levels will be continue to be affected by the operation of many federal loan programs that lend directly to the public.[iii] In order for the government to get the cash to lend out, the government must borrow, and debt held by the public will increase.

As the exception to what is otherwise a cash budget, loan programs under the Federal Credit Reform Act of 1990 (FCRA) record on an accrual basis the net present value of expected losses (both direct loans and loan guarantees). The cash flows associated with each loan program are tracked in separate (means of financing) accounts. The extent to which payments out exceed payments in drives the amount of Treasury borrowing needed to operate government loan programs.

CBO's baseline projections anticipate that net borrowing needed to make loan disbursals under federal credit programs will total about $100 billion per year over the period 2016-2020. This amount increases the size of the debt above and beyond the amount needed to finance the unified budget deficit. Even under a scenario where the primary deficit is eliminated in 2015 and thereafter, the annual increase in the debt for years after 2015 would be about $100 billion per year above the amount the government would need to borrow to finance its net interest outlays.

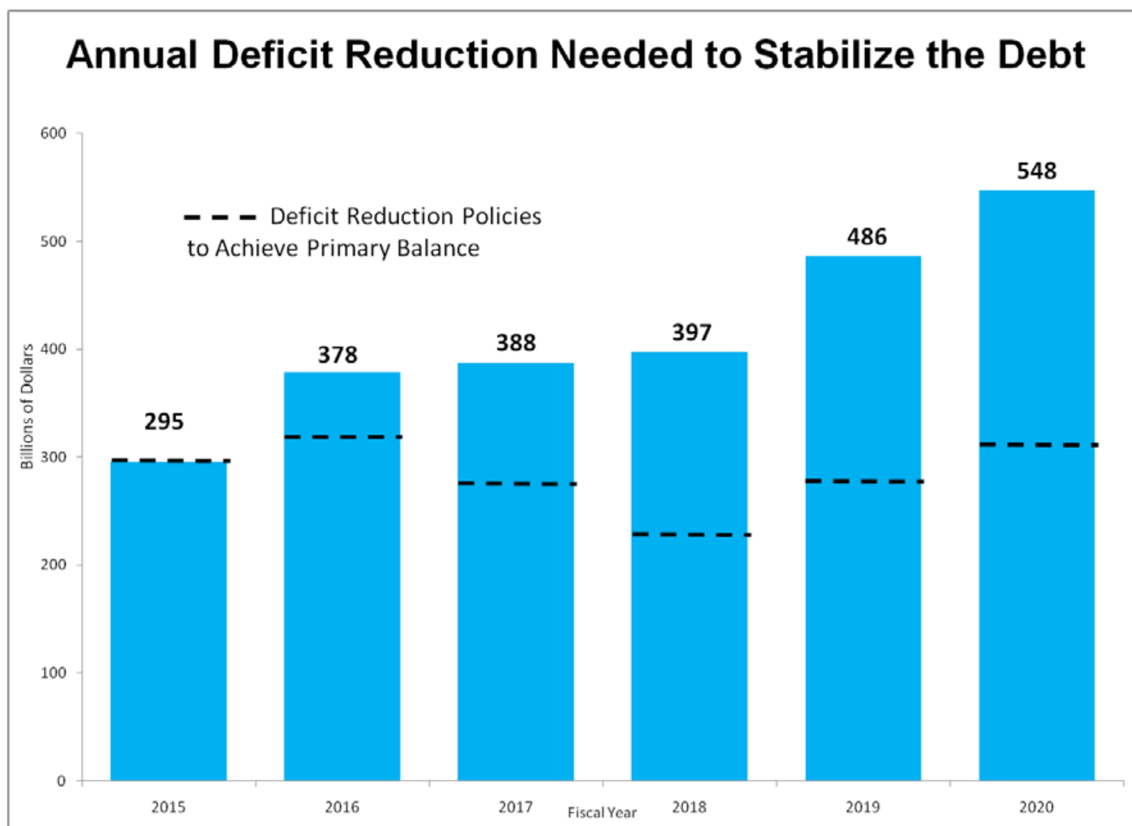


The rate of increase in the debt relative to the expected growth in the economy is shown in the graph above. Even though the primary budget deficit is expected to be zero in 2015 and thereafter if the President's goal is achieved, the growth in debt would still exceed the expected growth rate of the economy. Because debt-to-GDP is a ratio, when the numerator (debt) grows faster than the denominator (GDP), debt as a share of the economy will continue to grow – it will not remain at the level of 72.9% of GDP that it reaches in 2015.

Accordingly, eliminating the primary deficit (again, which means balancing the budget without counting interest payments) will be insufficient for maintaining the debt-to-GDP ratio constant at 72.9%. If the goal of fiscal policy is at a minimum to stabilize the debt, the deficit must be reduced to the point where the annual percentage increase in the debt held by the public is no more than the annual percentage increase in nominal GDP.

How much deficit reduction is needed to stabilize the debt?

Congress would need to take action to reduce the current policy deficit by $295 billion in 2015 to eliminate the primary budget deficit in that year. To stabilize the debt in



subsequent years at the 72.9 percent of GDP achieved in 2015, Congress would have to reduce the deficit by $378 billion in 2016, increasing to $548 billion in 2020 (relative to the current policy outlook).[iv]

The dotted lines on the bars show the amount of deficit reduction necessary to achieve primary balance; the full height of the bars show the amount of deficit reduction necessary to stabilize the debt at 72.9% of GDP. As the chart shows, substantial additional deficit reduction above achieving primary balance would be needed to stabilize the debt.

Implications of the analysis

If the goal of fiscal policy is to stabilize the debt as a share of the economy, then deficit reduction must go beyond eliminating the primary deficit. Policymakers must do more than the President called for when he established the Fiscal Commission.

The degree to which additional deficit reduction will be needed after 2015 will depend on the policy choices made to zero out the primary deficit in 2015. If policies adopted to balance the budget (excluding interest payments on the debt) in 2015 result in savings that grow rapidly after 2015, there will be less need for further policy choices.

But deficit reduction that has the effect of damping economic growth will increase the amount of savings (beyond the levels suggested above) needed after 2015 to stabilize the debt. Since maintaining a stable debt-to-GDP ratio depends on the rate of growth of GDP as well as the rate of growth in debt, actions that would cause GDP to slow relative to baseline expectations would increase the amount of additional deficit reduction needed to stabilize the debt. Spending reductions should be emphasized over tax increases that could cause GDP growth to slow.

Given the magnitude of the deficit reduction policies needed, it is likely that multiple rounds of deficit reduction will be needed to stabilize and reduce the debt.

Appendix: Select Data on Deficits and Debt

(By fiscal year, in billions of dollars)

	2010	2015	2020
Current Policy Budget Outlook			
Total Budget Deficit	1,342	838	1,270
% of GDP	9.1%	4.5%	5.5%
Primary Budget Deficit	1,140	295	312
% of GDP	7.8%	1.6%	1.3%
Debt as a % of GDP	61.6%	74.5%	85.4%
Scenario 1: Primary Budget Balance in 2015 and Thereafter			
Total Budget Deficit	1,342	535	861
% of GDP	9.1%	2.9%	3.7%
Primary Budget Deficit	1,140	0	0
% of GDP	7.8%	0.0%	0.0%
Debt as a % of GDP	61.6%	72.9%	76.7%
Scenario 2: Hold Debt Stable as a Share of GDP at 2015 Level			
Total Budget Deficit	1,342	535	585
% of GDP	9.1%	2.9%	2.5%
Primary Budget Deficit/Surplus (-)	1,140	0	-236
% of GDP	7.8%	0.0%	-1.0%
Debt as a % of GDP	61.6%	72.9%	72.9%

[i] Executive Order establishing the Commission dated February 18, 2010, which can be accessed at: http://www.whitehouse.gov/the-press-office/executive-order-national-commission-fiscal-responsibility-and-reform. Peter Orszag, former Director of the Office of Management and Budget (OMB), further clarifies on the OMB blog that meeting the target means that the United States would "not [be] increasing our debt relative to the size of the economy." The full post can be accessed at: http://www.whitehouse.gov/omb/blog/10/02/18/Welcoming-the-National-Commission-on-Fiscal-Responsibility-and-Reform.

[ii] Those assumptions are: (1) the provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 and the Jobs and Growth Tax Relief Reconciliation Act of 2003 do not expire, other than the estate and gift tax, which would continue at 2009 law per the President's request; (2) the Alternative Minimum Tax (AMT) exemption level is continued at its 2009 level, AMT brackets are indexed for inflation, and the 2009 treatment of personal credits against the AMT is

extended; (3) discretionary appropriations are at the level of the President's request, adjusted for inflation after 2015; and (4) physician payment rates in Medicare do not change from current levels.

[ii] These include the Direct Student Loan Program, Advanced Technology Vehicle Manufacturing Loans, Small Business Administration Disaster Loans, Overseas Private Investment Corporation Direct Loans, Broadband Treasury Loans, Rural Electrification Loans, and Rural Housing Insurance Fund Single-Family Housing Loans.

[iii] These include the Direct Student Loan Program, Advanced Technology Vehicle Manufacturing Loans, Small Business Administration Disaster Loans, Overseas Private Investment Corporation Direct Loans, Broadband Treasury Loans, Rural Electrification Loans, and Rural Housing Insurance Fund Single-Family Housing Loans.

[iv] The figures refer to the amount of policy changes (revenues or outlays) that would need to be enacted by the Congress. Interest savings would be in addition to the policy savings, which has been taken into account in the computations. It should be noted that these figures assume that deficit reduction policies first take effect in 2015. To the extent that any deficit reduction occurs before 2015 and reduces the debt below the level expected by the end of 2014, then Congress would not need to reduce the deficit by as much as the amounts in the graph. (It is likely, however, that such changes would be small since they would only represent the continued debt service savings on the policy changes that take effect before 2015.)