



# **Comeback America: The Nation's Fiscal Challenge and A Way Forward**

Overview Briefing  
May 2011

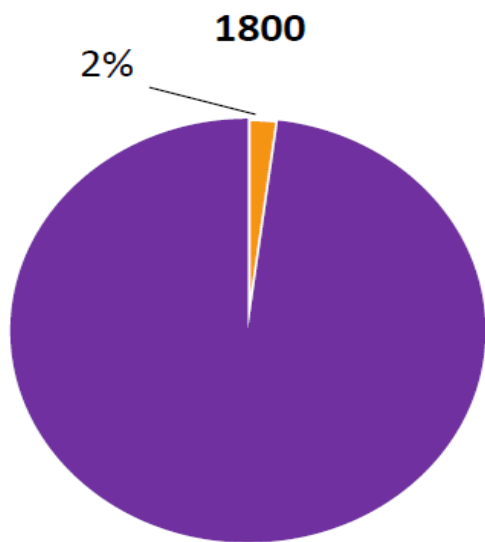
**Hon. David M. Walker**  
**Founder and CEO**  
**The Comeback America Initiative**  
**and**  
**Former Comptroller General of the United States**

# Growth of Government

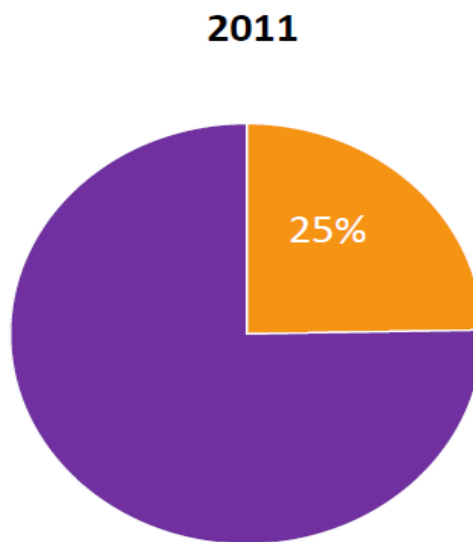


## Total Federal Spending (As Percentage of U.S. Economy)

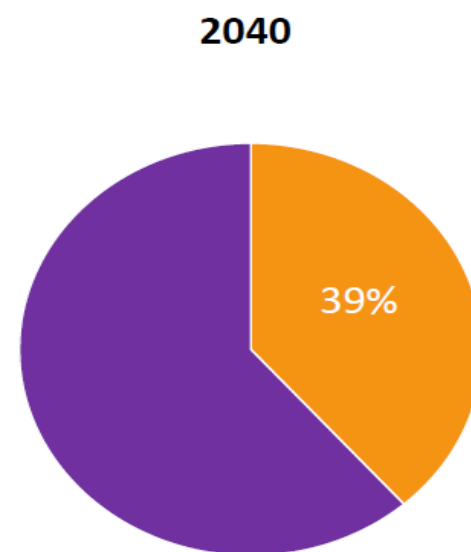
■ Total Spending



Size of the Total  
 Economy: \$8.9 Billion  
 (Constant 2010 Dollars)



Projected Size of the Total  
 Economy: \$14.9 Trillion  
 (Constant 2010 Dollars)

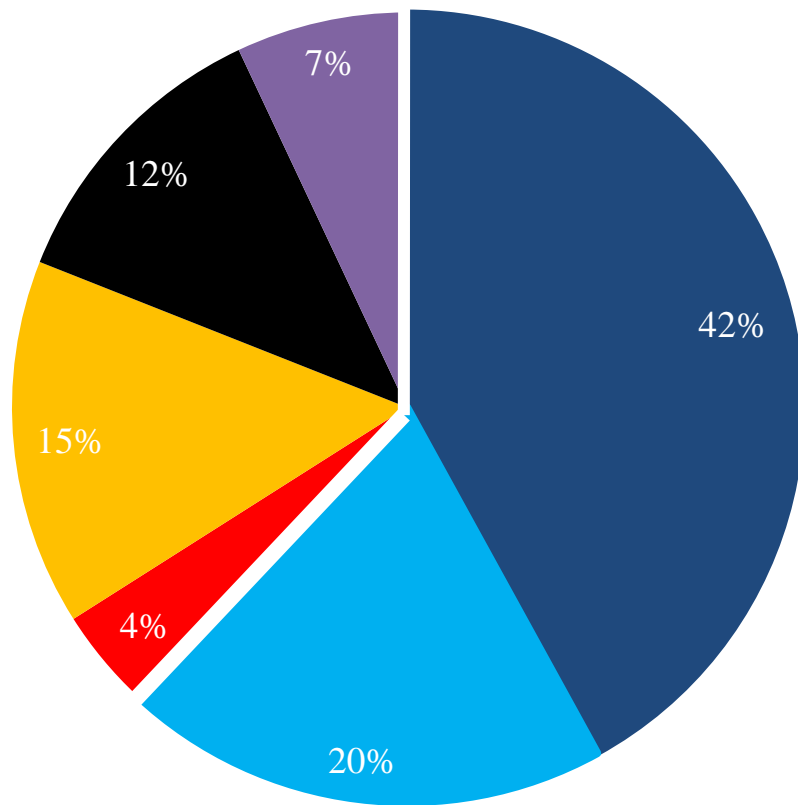


Projected Size of the Total  
 Economy: \$29.2 Trillion  
 (Constant 2010 Dollars)

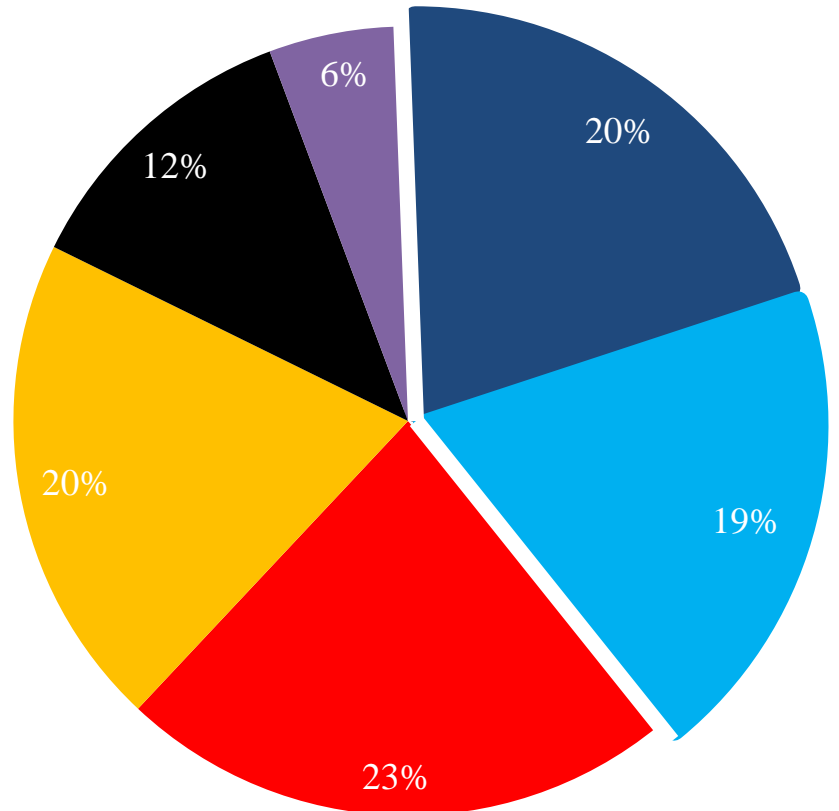
SOURCES: Data from the Congressional Budget Office; *Long-Term Budget Outlook: June 2010*, alternative fiscal scenario. Data from *Historical Statistics of the United States*, Millennial Edition On Line, Cambridge 2006. Compiled by PGPF.  
 NOTE: The alternative fiscal scenario includes several changes to current law that are widely anticipated to occur (i.e. adjustments to Medicare payment rates).  
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# Composition of Federal Spending (% of Total Outlays)

- Defense
- Other Discretionary
- Social Security
- Other Mandatory
- Medicare and Medicaid
- Net Interest



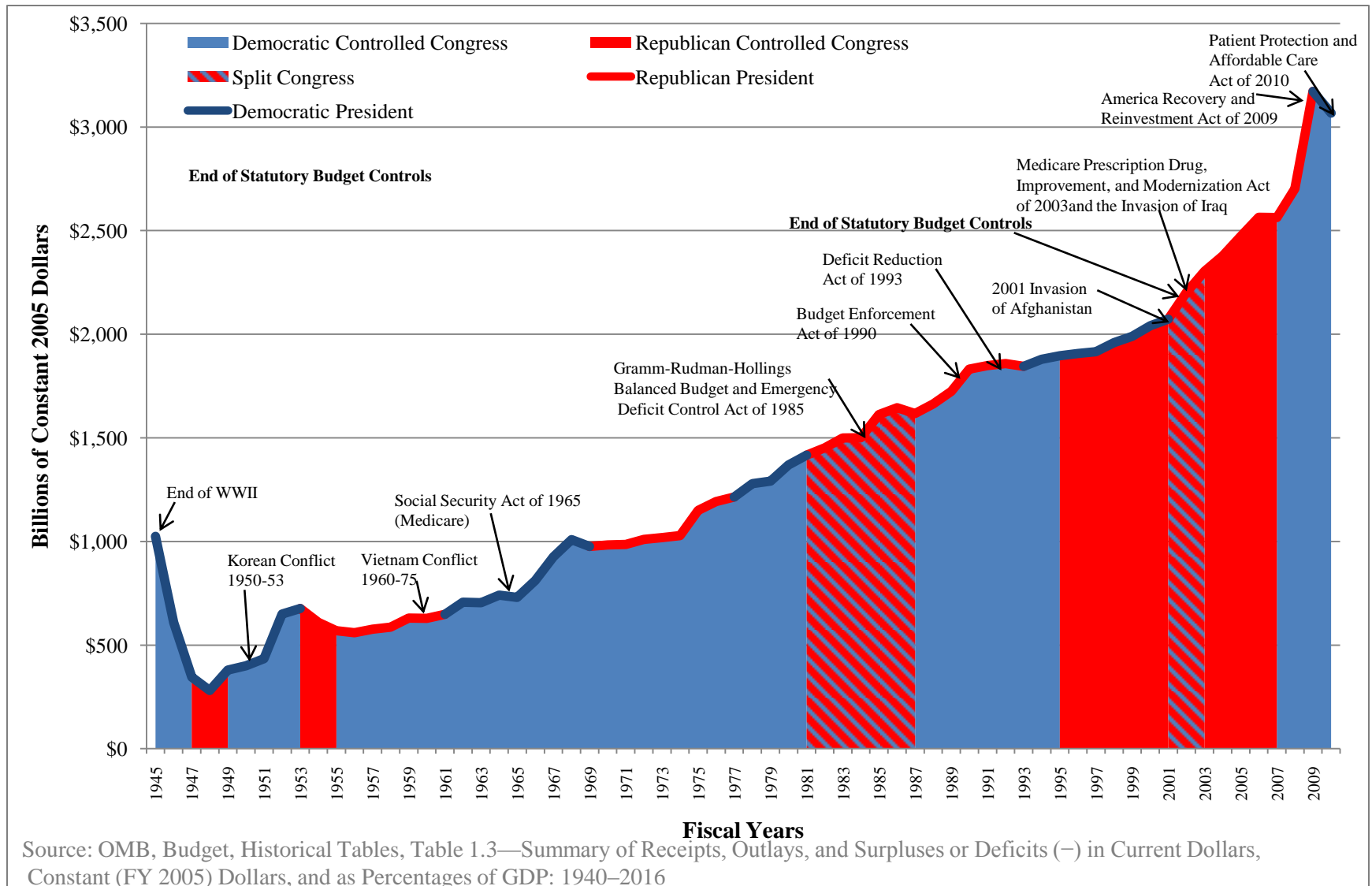
**1970**



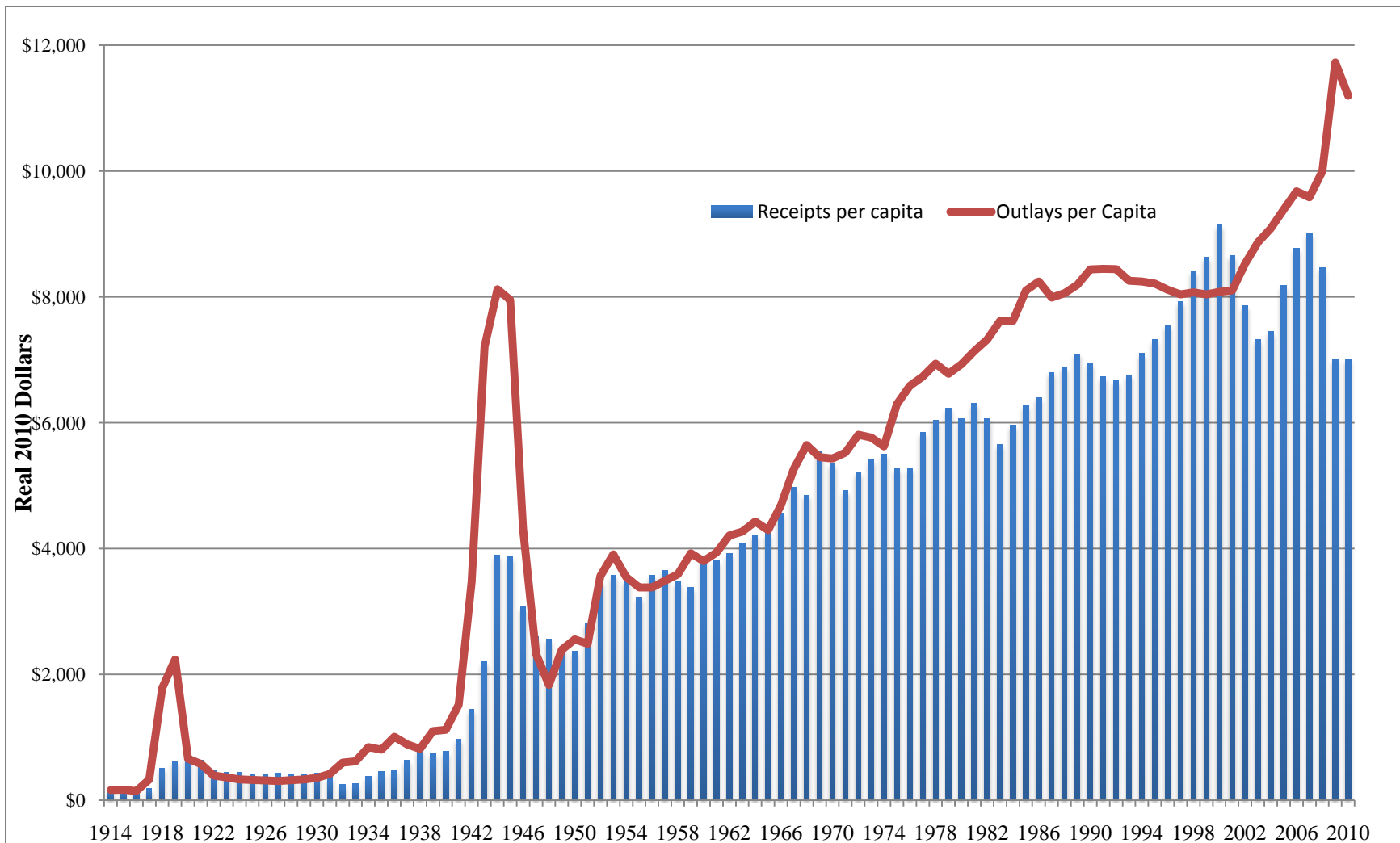
**2010**

Source: CBO, Budget and Economic Outlook: Fiscal Years 2011 Through 2021, Historical Tables

# Federal Spending & the Political Party in Power

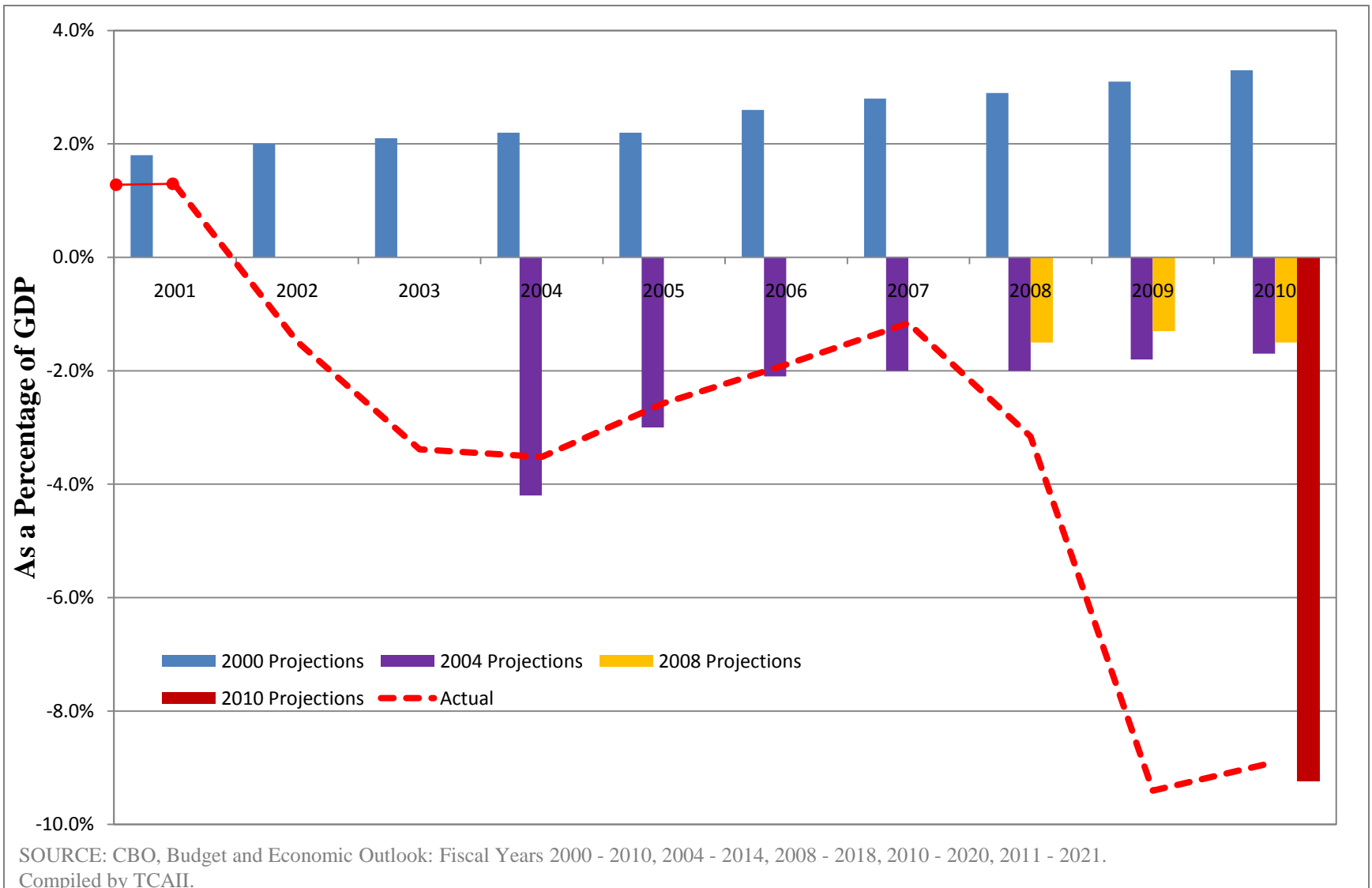


# Historical Receipts & Outlays



SOURCES: OMB Historical Tables, Table 1.3 - Summary Receipts, Outlays, and Surpluses or Deficits (-) in Current Dollars; Bureau of Labor Statistics, and U.S. Census Bureau. Compiled by TCAII.

# Historical CBO Deficit Projections Vs. Actual



# Projected Surplus?

## A Funny Thing Happened on the Way to the Surplus Changes to the 2001 Surplus Projections, 2010

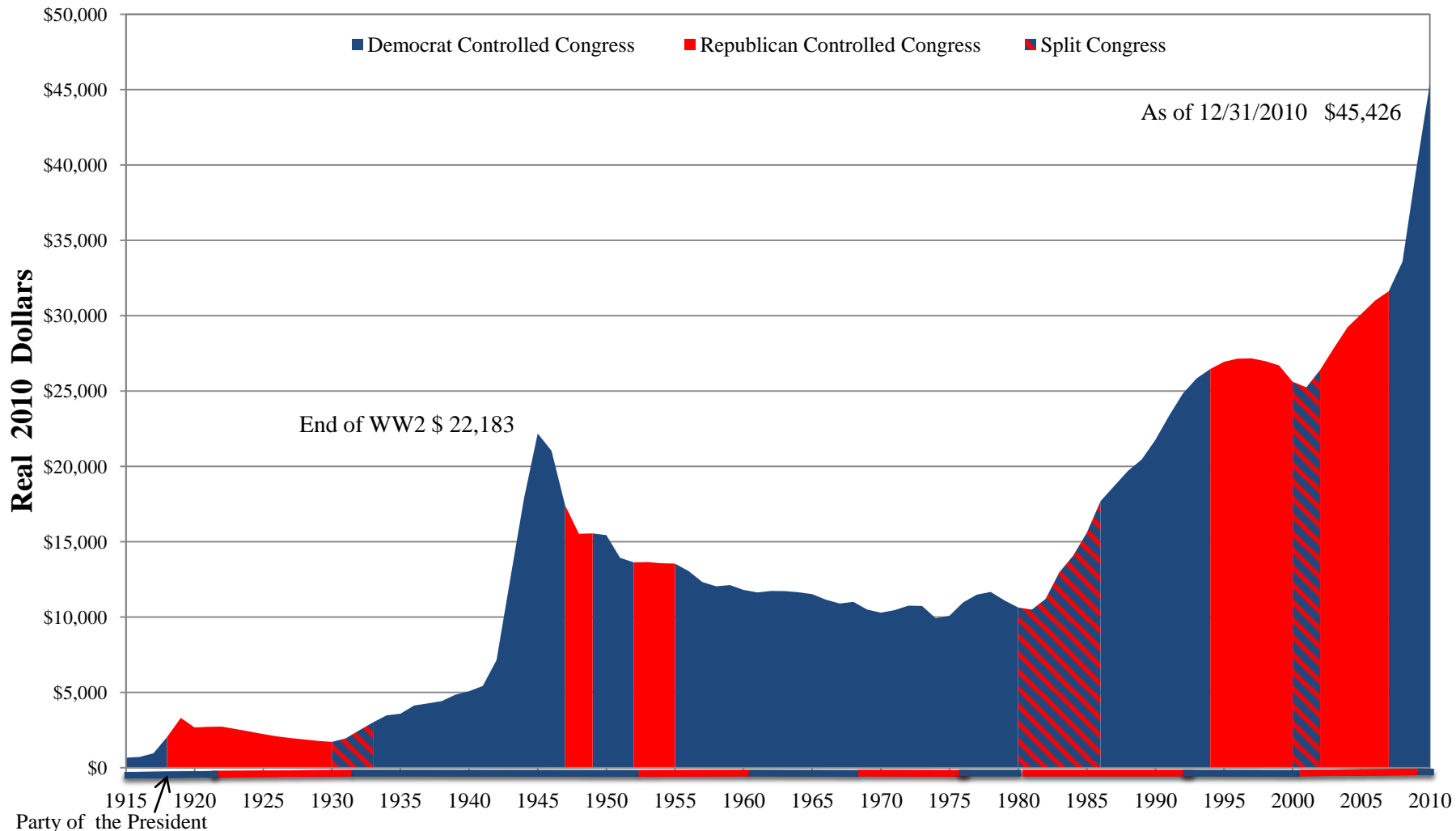
<b>Total Surplus as Projected in 2001 (in billions of dollars)</b>	<b>796</b>
Legislated Tax Cuts	-414
Economic and Technical Revenue Losses	-696
<i>Subtotal-Total Revenues Changes</i>	<i>-1,110</i>
Discretionary Outlays	546
Mandatory Outlays	269
Interest	287
Subtotal-Legislated Changes in Outlays	1,102
Economic and Technical Changes in Outlays	-121
<i>Subtotal-Total Outlay Changes</i>	<i>980</i>
<b>Total Impact on Surplus</b>	<b>-2,368</b>
Actual 2010 Deficit	-1,294

Memorandum: Total Legislative Changes -\$1,515  
Total Economic and Technical Changes -\$574

Source: Congressional Budget Office, January 2011.  
[www.concordcoalition.org](http://www.concordcoalition.org)



# Federal Debt Per Capita & The Political Party In Power



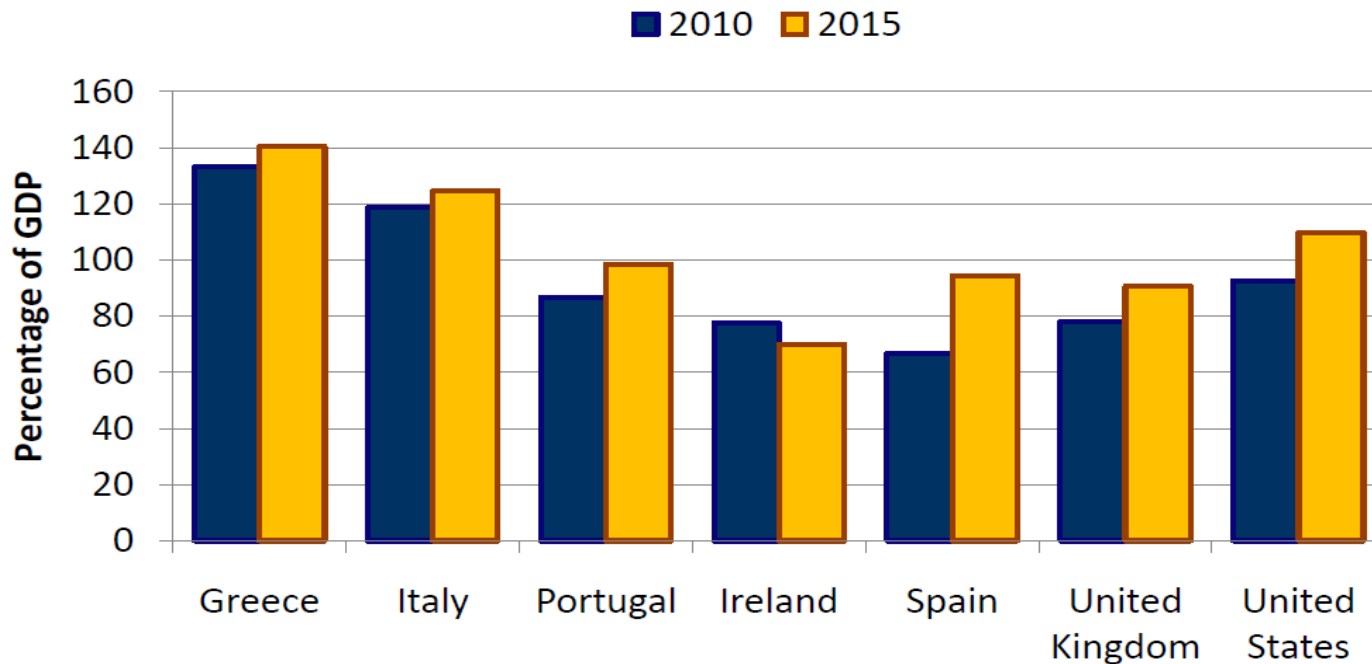
SOURCES: U.S. Census Bureau, U.S. Department of Treasury, U.S. Bureau of Labor Statistics, U.S. House, and U.S. Senate. Compiled by TCAII  
 NOTE: All amounts are adjusted for inflation and in 2010 Dollars. Federal Debt is the total public debt outstanding and intragovernmental holdings.



# Comparative Debt Burdens



Total government debt in the U.S is higher than some of the most financially troubled countries in Europe



SOURCE: Data from the International Monetary Fund, *IMF Fiscal Monitor Series: Navigating the Fiscal Challenges Ahead*, May 14, 2010. Compiled by PGPF.

NOTE: Both 2010 and 2015 figures are estimates. Total Government debt (also referred to as general government gross debt) measures all liabilities that require payment or payments of interest and/or principal by the debtor to the creditor at a date in the future. This includes central, state and local government debt.

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# Growing Foreign Dependency

U.S. dependency on foreign lenders to finance the public debt has risen sharply

**1970**

Total Debt: \$283 billion

Foreign Holdings:

5%



**1990**

Total Debt: \$2,412 billion

Foreign Holdings:

19%



**2010**

Total Debt: \$9,019 billion

Foreign Holdings:

47%



SOURCES: from the Office of Management and Budget, *The Budget of the United States Government, Fiscal Year 2012, Analytical Perspectives*, February 2011. Compiled by PGPF.

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# Fiscal Fitness Index: Overall Results

Rank	Country	Rank	Country
1	Australia	18	Mexico
2	New Zealand	19	Israel
3	Estonia	20	Slovenia
4	Sweden	21	Austria
5	China	22	Finland
6	Luxembourg	23	France
7	Chile	24	Spain
8	Denmark	25	Germany
9	United Kingdom	26	Belgium
10	Brazil	27	Italy
11	Canada	<b>28</b>	<b>United States</b>
12	India	29	Hungary
13	Poland	30	Ireland
14	Netherlands	31	Japan*
15	Norway	32	Iceland**
16	Slovakia	33	Portugal
17	Korea	34	Greece

Source: Sovereign Fiscal Responsibility Index.

Note: \*Japan's debt was downgraded by Moody's 1/29/11.

\*\* Iceland's Sustainable Fiscal Path reflects reforms enacted after an IMF bailout and there is a legal case pending in regard to foreign losses incurred due to the failure of Landsbanki.



# Fiscal Fitness Index: Overall Results with U.S. Under NFRRC Plan

Rank	Country	Rank	Country
1	Australia	18	Slovakia
2	New Zealand	19	Korea
3	Estonia	20	Mexico
4	Sweden	21	Austria
5	China	22	Slovenia
6	Luxembourg	23	Finland
7	Chile	24	France
<b>8</b>	<b>US under NFRRC plan</b>	25	Spain
9	Denmark	26	Germany
10	Brazil	27	Belgium
11	United Kingdom	28	Italy
12	India	29	Hungary
13	Canada	30	Ireland
14	Netherlands	31	Japan*
15	Poland	32	Iceland**
16	Norway	33	Portugal
17	Israel	34	Greece

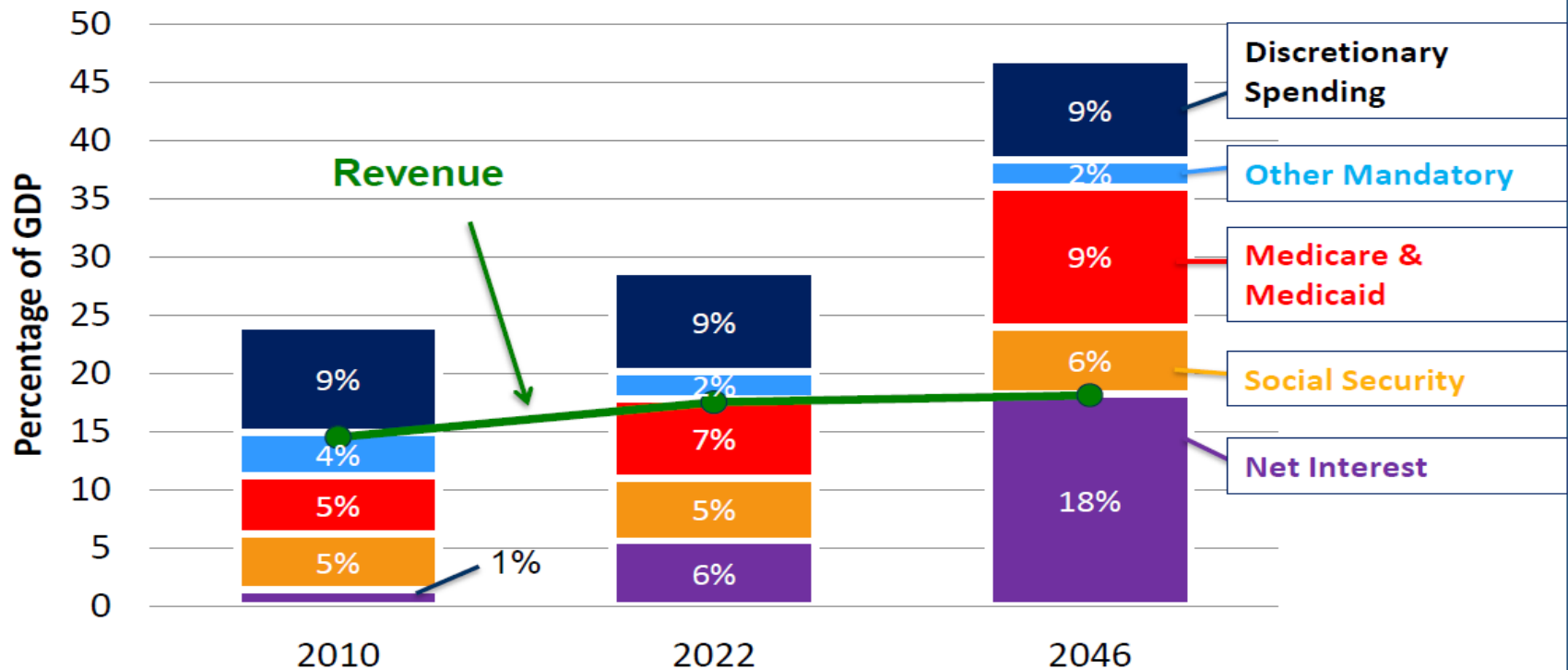
Source: Sovereign Fiscal Responsibility Index.

Note: \*Japan's debt was downgraded by Moody's 1/29/11.

\*\* Iceland's Sustainable Fiscal Path reflects reforms enacted after an IMF bailout and there is a legal case pending in regard to foreign losses incurred due to the failure of Landsbanki.

# Our Fiscal Future

Without reforms, by 2022, future revenues will only cover Social Security, Medicare, Medicaid, and interest on the debt. By 2046, revenues won't even cover interest costs.

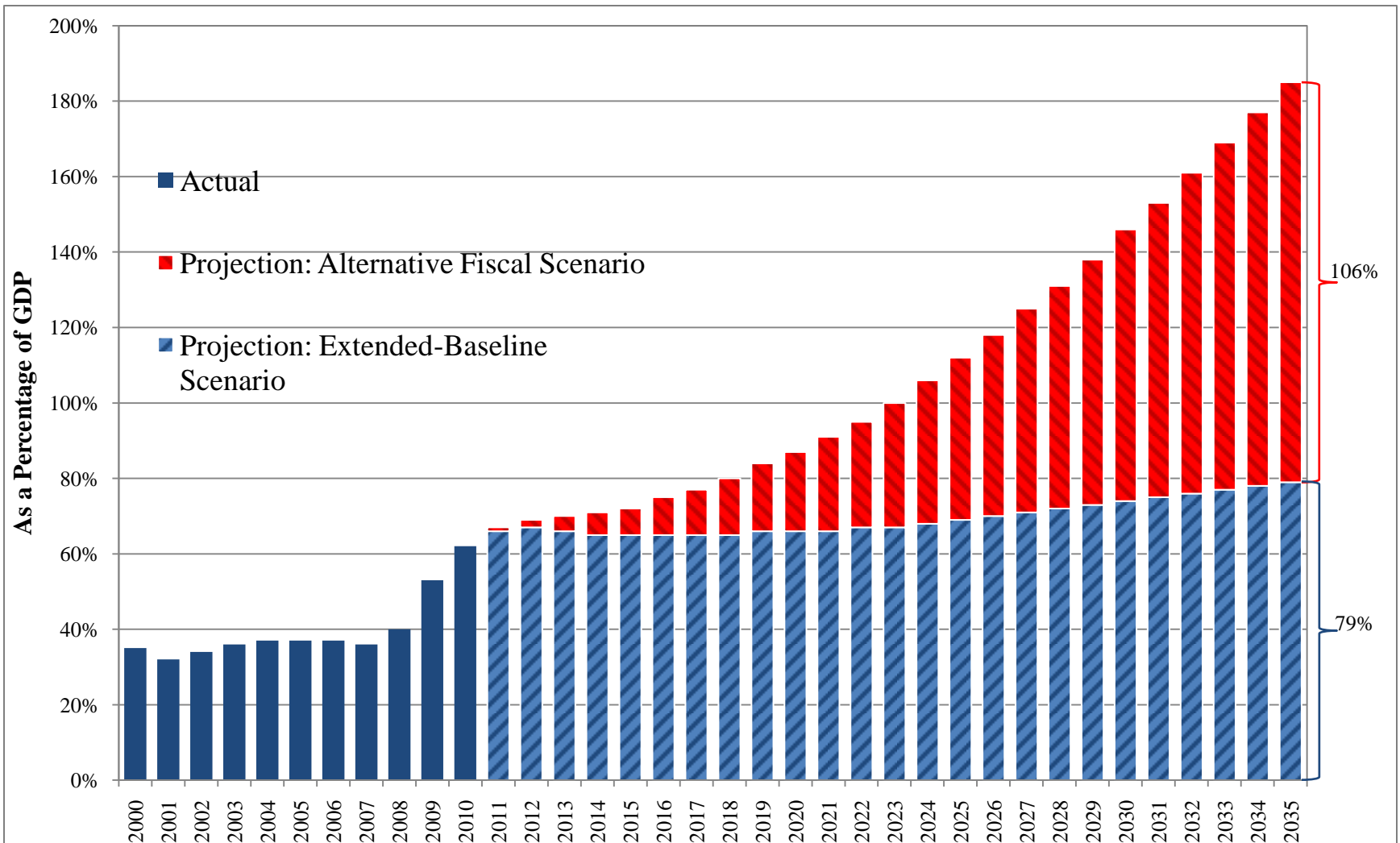


SOURCE: Data from the Government Accountability Office *The Federal Government's Long-Term Fiscal Outlook: January 2010 Update*, alternative simulation using Congressional Budget Office assumptions. Compiled by PGPF.

NOTE: Baseline interest rate is assumed to be 5.0 percent.

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# CBO's Public Debt Projections

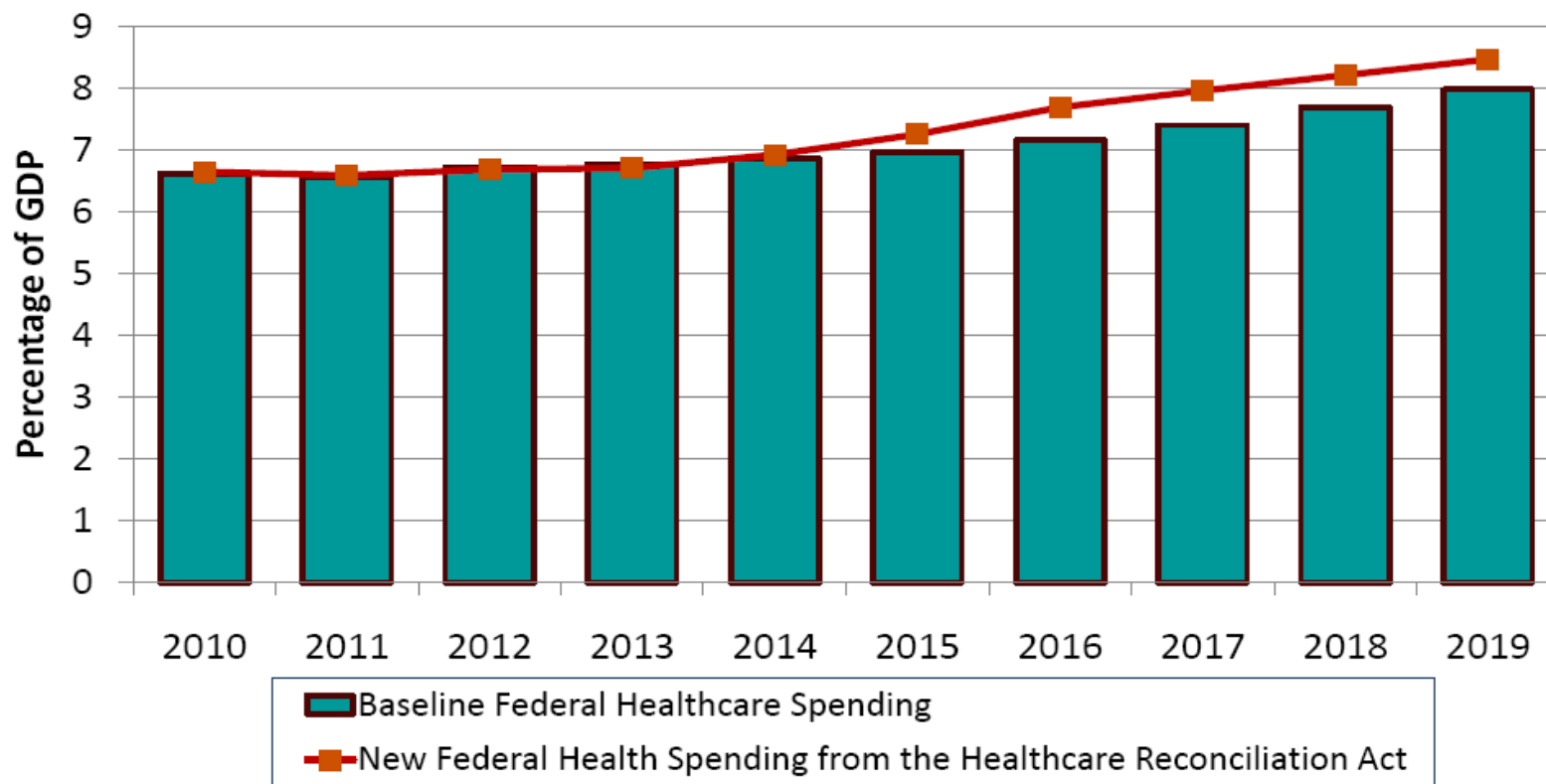


SOURCE: CBO, Supplemental Data for the Congressional Budget Office's Long-Term Budget Outlook (June 2010), Figure 1-2.  
Compiled by TCAII.

# Impact of Health Reform

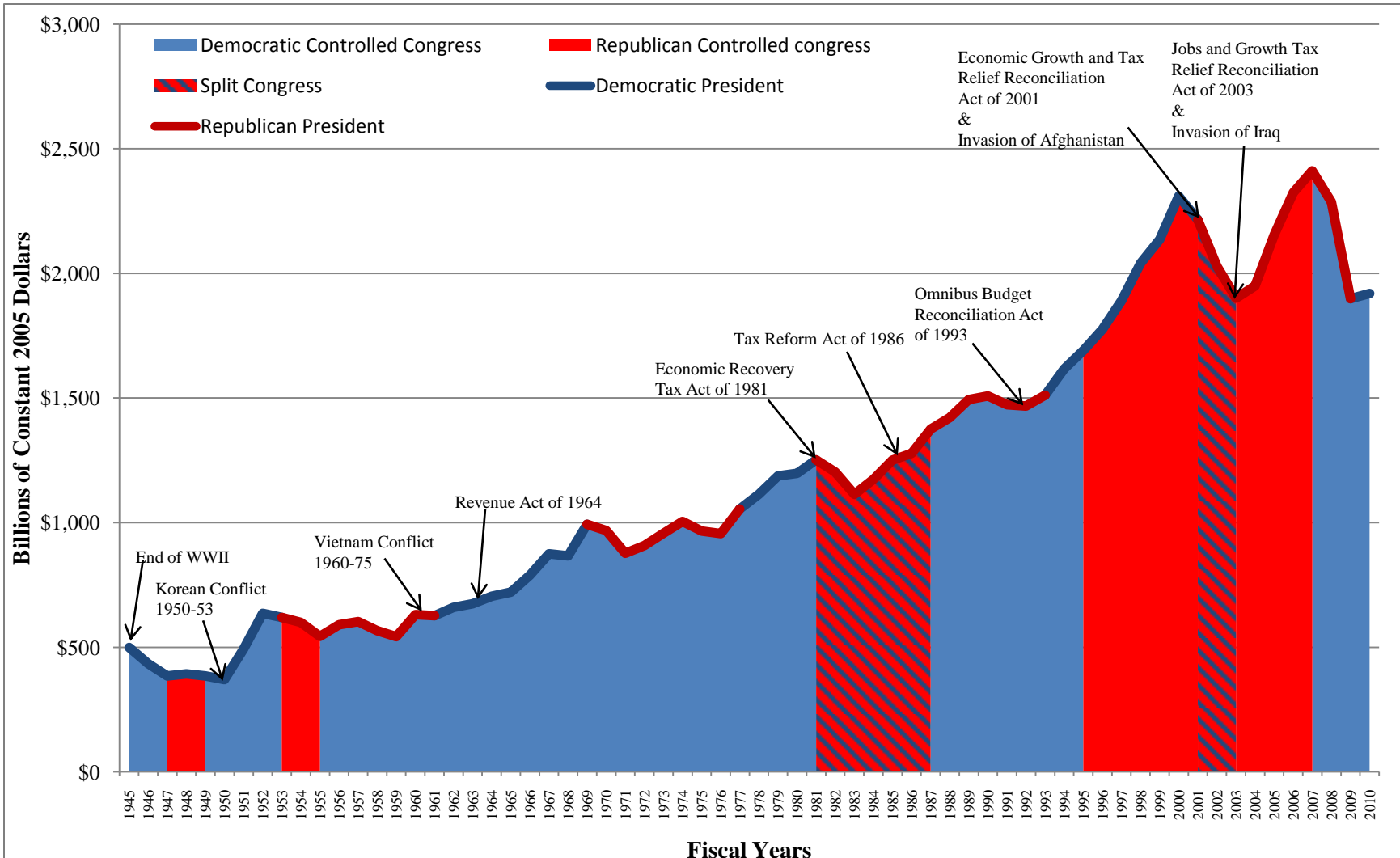


By 2019, healthcare reform legislation will increase projected health spending by less than 1 percent of GDP, primarily due to the creation of insurance exchanges and expanded Medicaid coverage



SOURCE: Data from the Congressional Budget Office, *Cost Estimate: H.R. 4872, Reconciliation Act of 2010*, March 20, 2010 and Centers for Medicare and Medicaid Services. Compiled by PGPF.  
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# Federal Revenues & the Political Party in Power

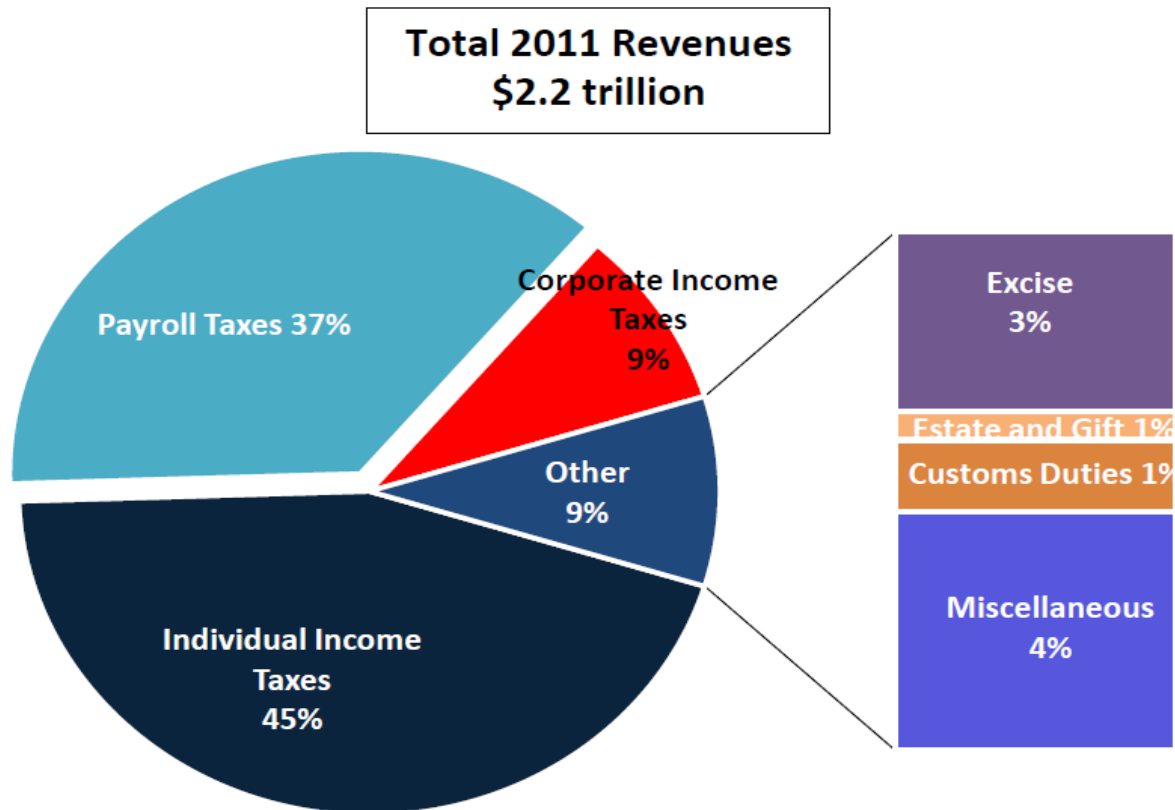


Source: OMB, Budget, Historical Tables, Table 1.3—Summary of Receipts, Outlays, and Surpluses or Deficits (–) in Current Dollars, Constant (FY 2005) Dollars, and as Percentages of GDP: 1940–2016



# Federal Revenue Composition

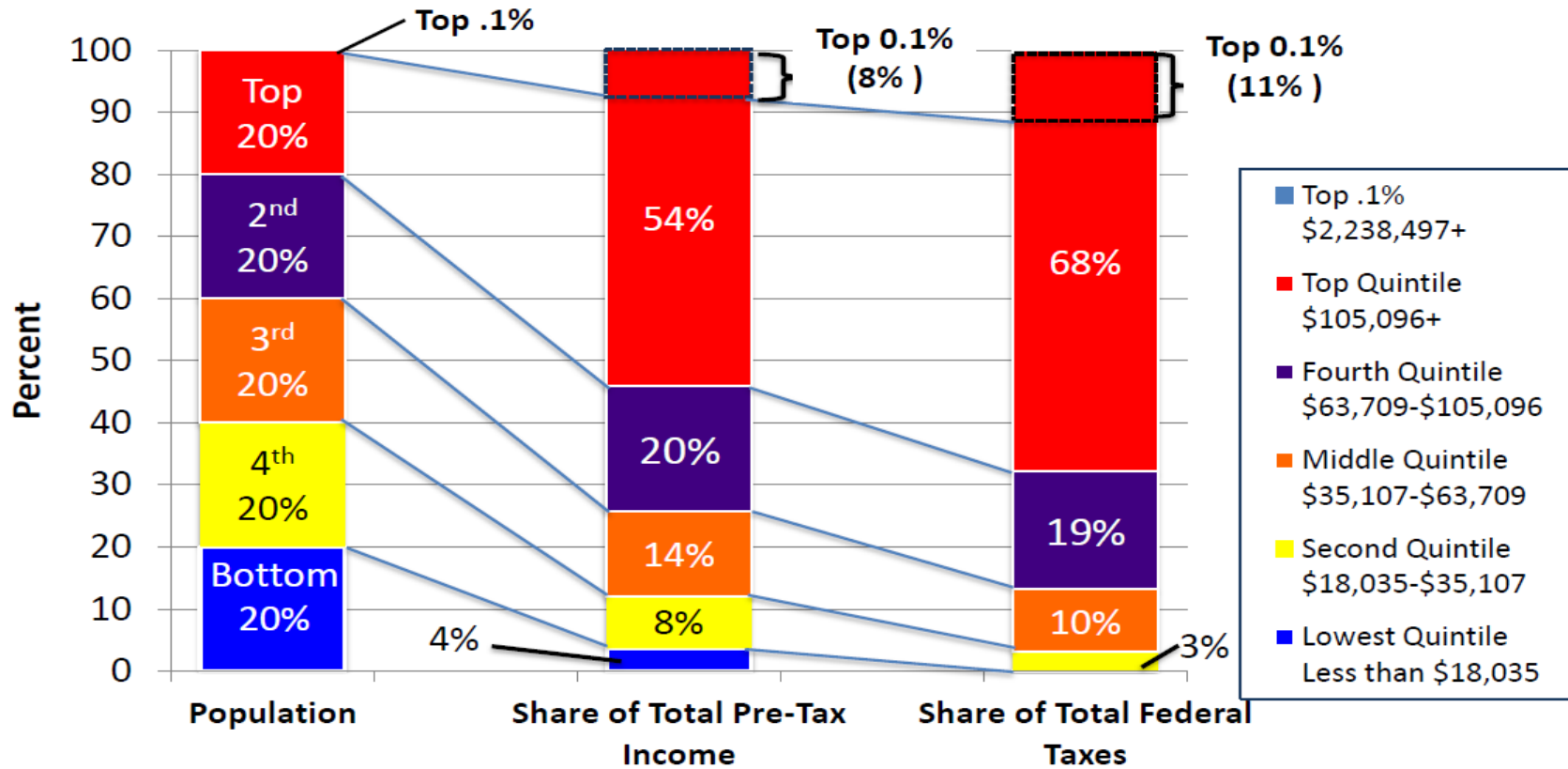
Individual income and payroll taxes comprise most of federal receipts



SOURCE: Data from the Congressional Budget Office, *Budget and Economic Outlook*, January 2011. Compiled by PGPF.  
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# Progressive Tax System

High-income households earn a disproportionate share of pre-tax income and pay a disproportionate share of total federal taxes

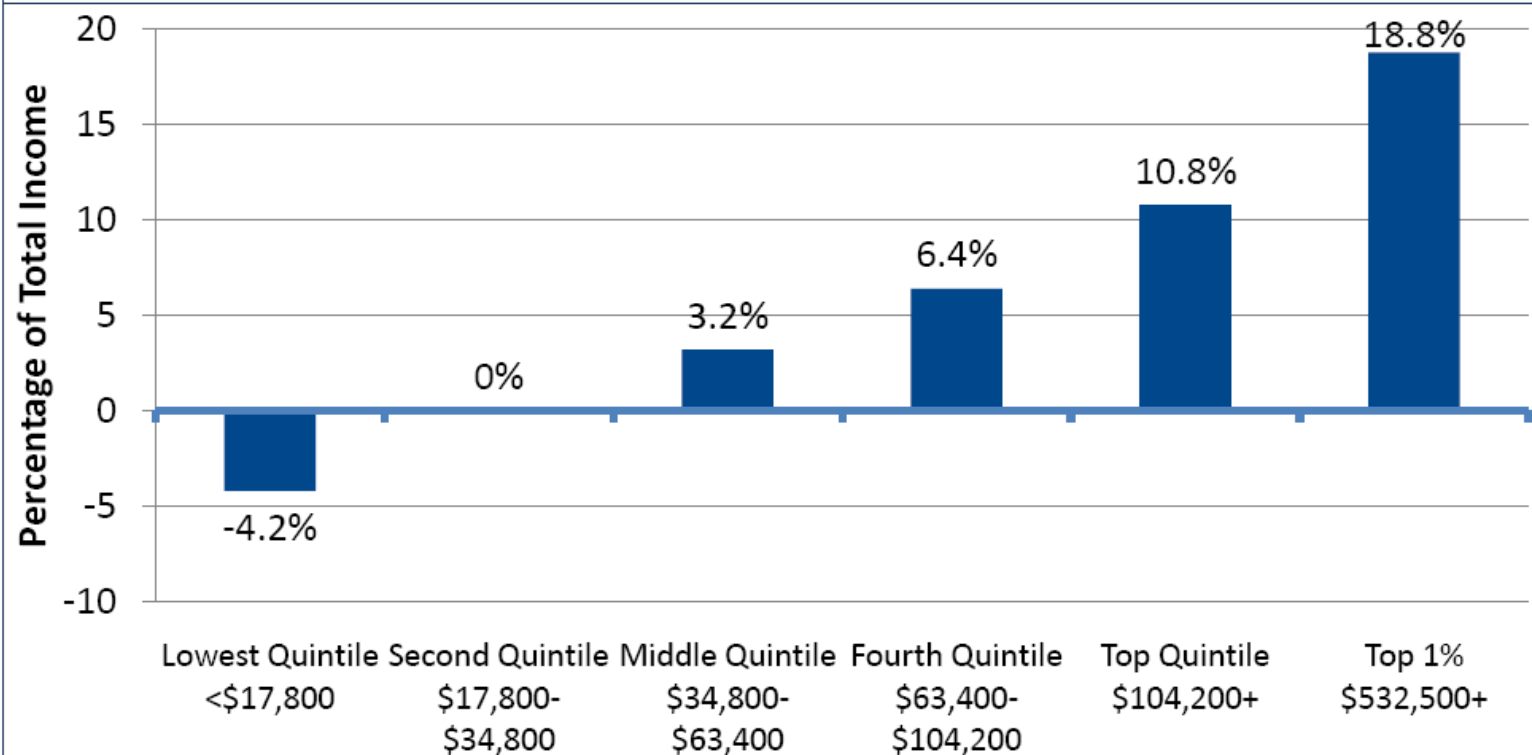


SOURCE: Tax Policy Center, *Share of Federal Taxes Under Current Law, By Cash Income Percentile, 2010*; August 2009. Compiled by PGPF.  
NOTE: Data for Cash Income in 2010  
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# Effective Tax Rates



Effective median individual income tax rates are negative or zero for households with incomes below \$34,800

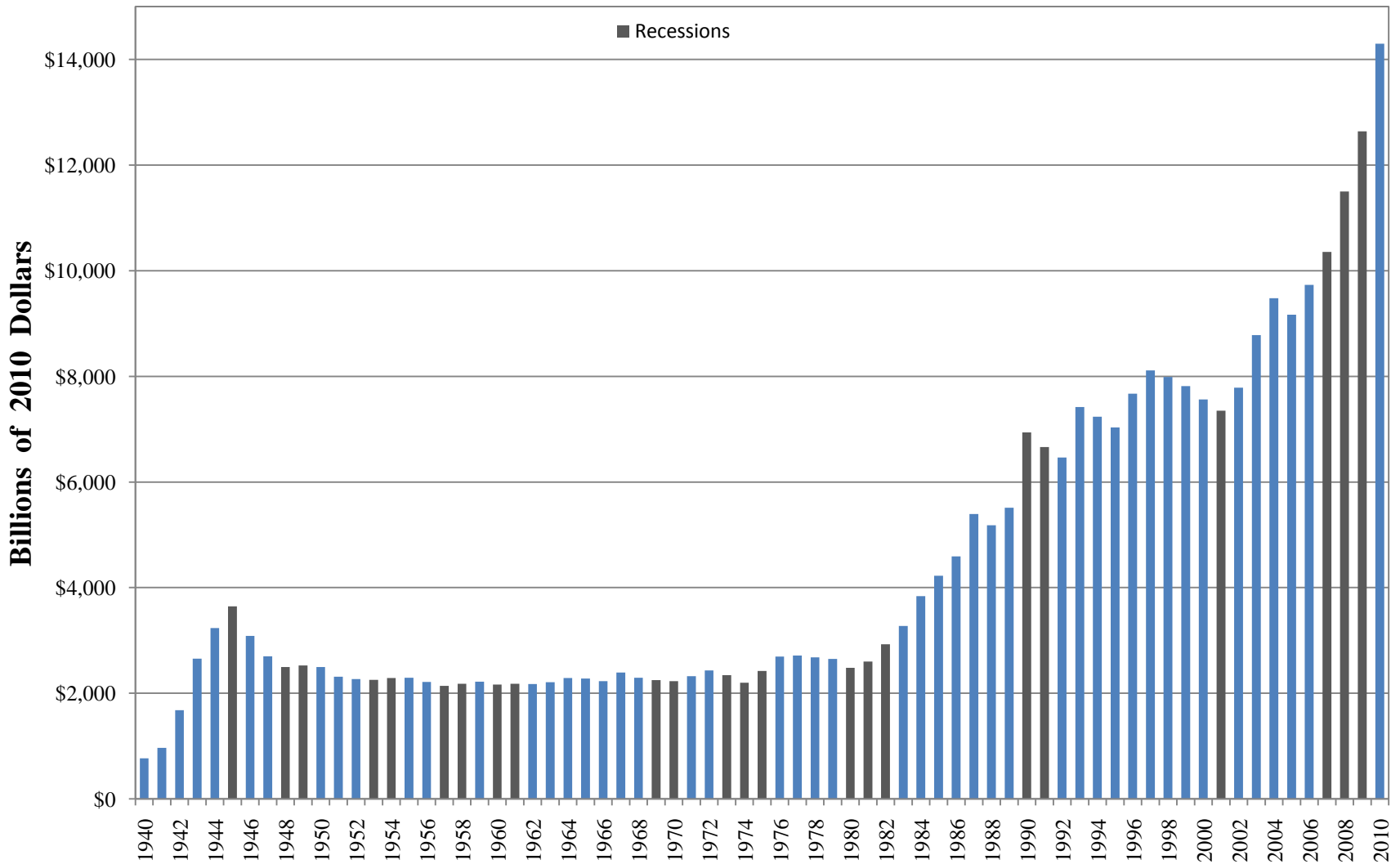


SOURCE: Data from the Tax Policy Center. Compiled by PGPF.

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# Statutory Debt Ceiling



SOURCE: OMB, The Budget, Historical Tables, Table 7.3 - Statutory Limits on Federal Debt; Bureau of Labor Statistics, Inflation Calculator; NBER, US Business Cycle Expansions and Contractions.

# The Debt Ceiling Debate

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We must raise the debt ceiling. The Real Questions are:

- How much it should be raised?, and
- What conditions should be attached to any increase in the debt ceiling limit?



# The Debt Ceiling Debate - Continued

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Given the deteriorating financial condition of the federal government and rising concern regarding spending, deficits and debt, the following conditions are illustrative of the types of conditions that should be considered:

- Short-term Spending:
  - Agreeing to cut discretionary spending, excluding war costs, to fiscal 2008 levels adjusted for population growth over 2-3 years.
  
- Structural Deficits:
  - Enacting tough but realistic statutory budget controls that could include:
    - meaningful PAYGO rules on the spending and tax side;
    - tough but realistic discretionary spending caps, and;
    - specific debt/GDP targets that begin in 2013-2014 with automatic enforcement mechanisms (e.g., spending cuts and temporary tax surcharges or preference reduction).
  - Authorize and fund a major citizen education and engagement effort that will occur during late 2011 and 2012 to prepare the way for tough choices beginning in 2013.



# A Three Pronged Test for Policy Creation

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- The policy should make economic sense, be socially equitable and culturally acceptable
- The math behind the policy must work
- The policy must be politically feasible



# New Players on the Fiscal Responsibility Field

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Comeback America Initiative (CAI)  
Bridgeport, CT  
[www.TCAII.org](http://www.TCAII.org)

No Labels  
Washington, DC  
[www.nolabels.org](http://www.nolabels.org)