

Fiscal Days of Reckoning

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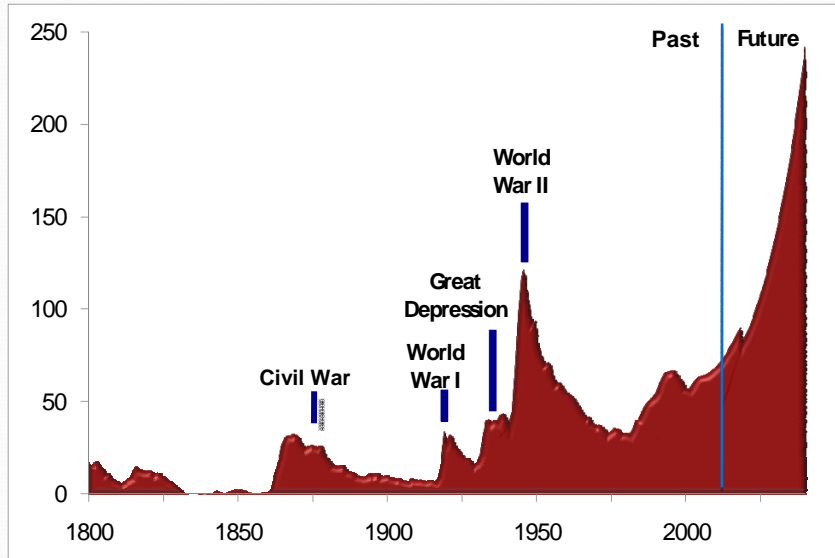
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Outline

- The current fiscal mess
- The health and retirement squeeze
- Removal of all "give" or "slack"
- Budget for a declining nation (even if deficits=0)
- A cautionary note of optimism on projections
- Some possible solutions

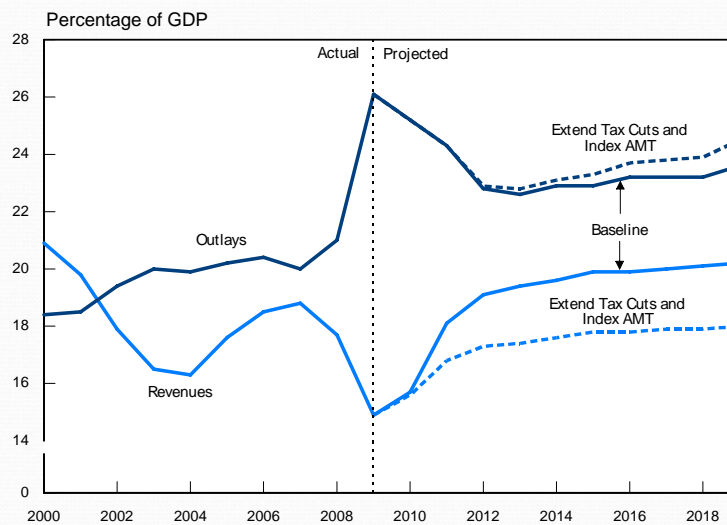
The U.S. Federal Debt (Percentage of GDP)



SOURCE: PGPF compilation. Projections based upon official government sources.

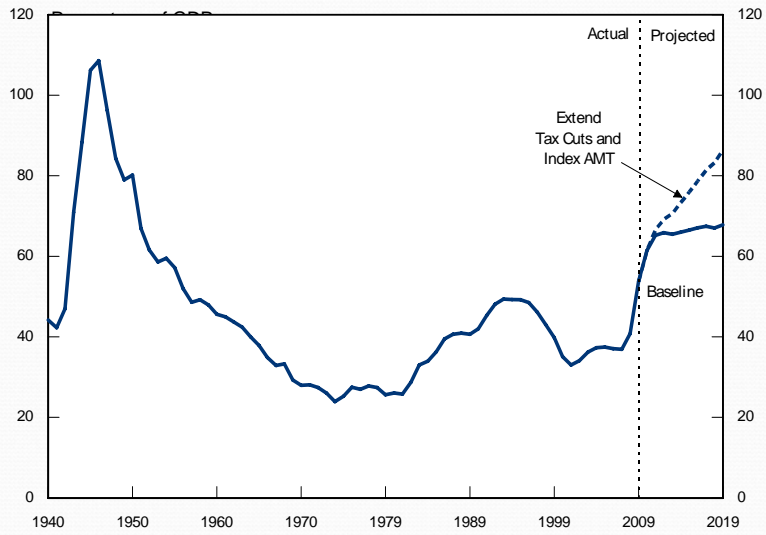
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CBO/Elmendorf Slide on Revenues and Outlays Under Policy Alternative to Extend Tax Cuts and Index Alternative Minimum Tax



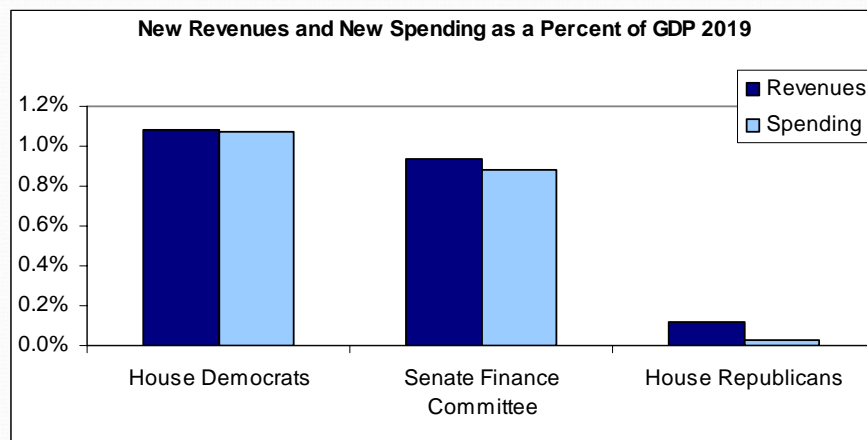
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Federal Debt Held by the Public

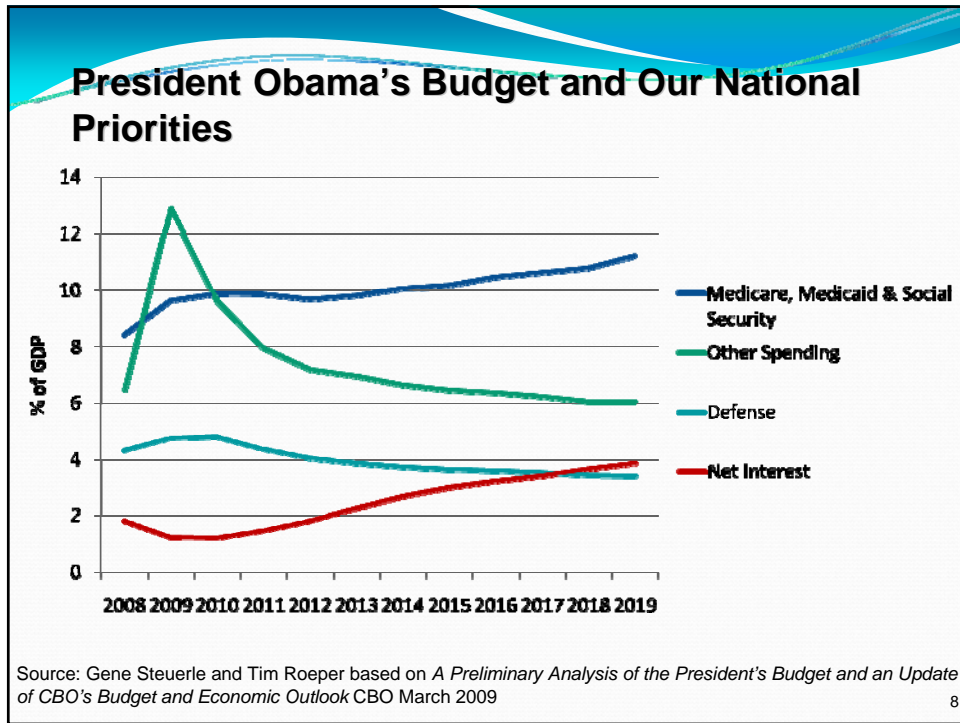
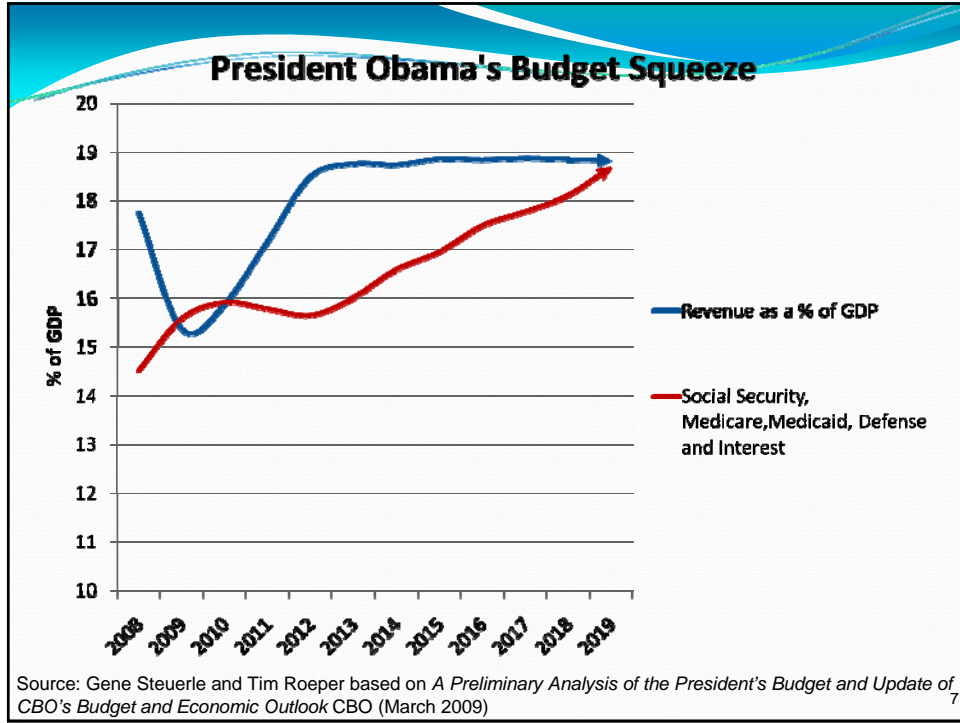


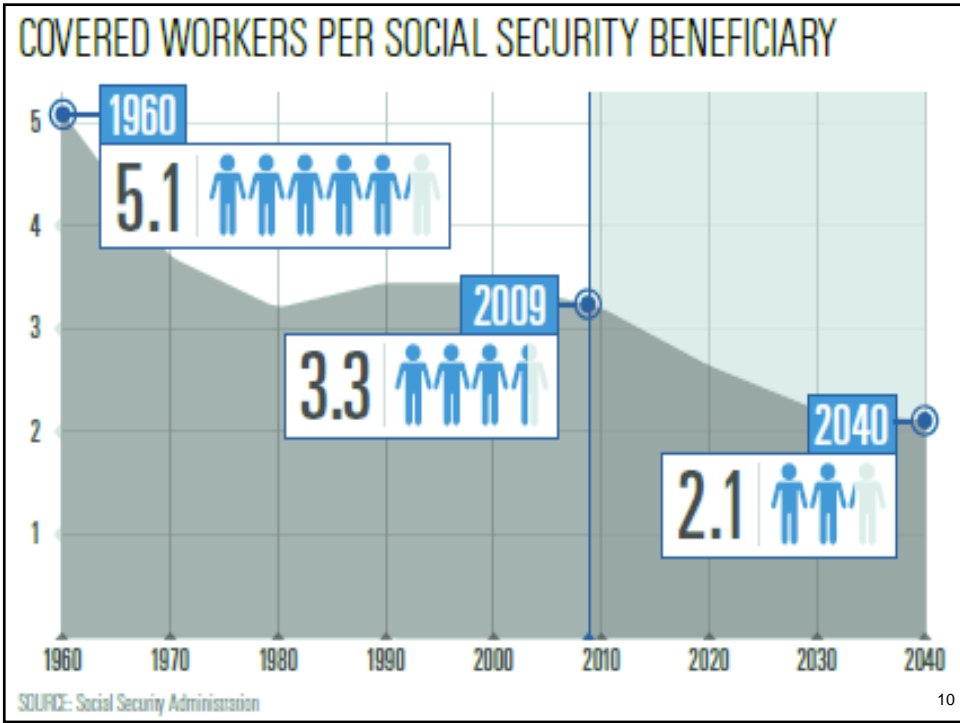
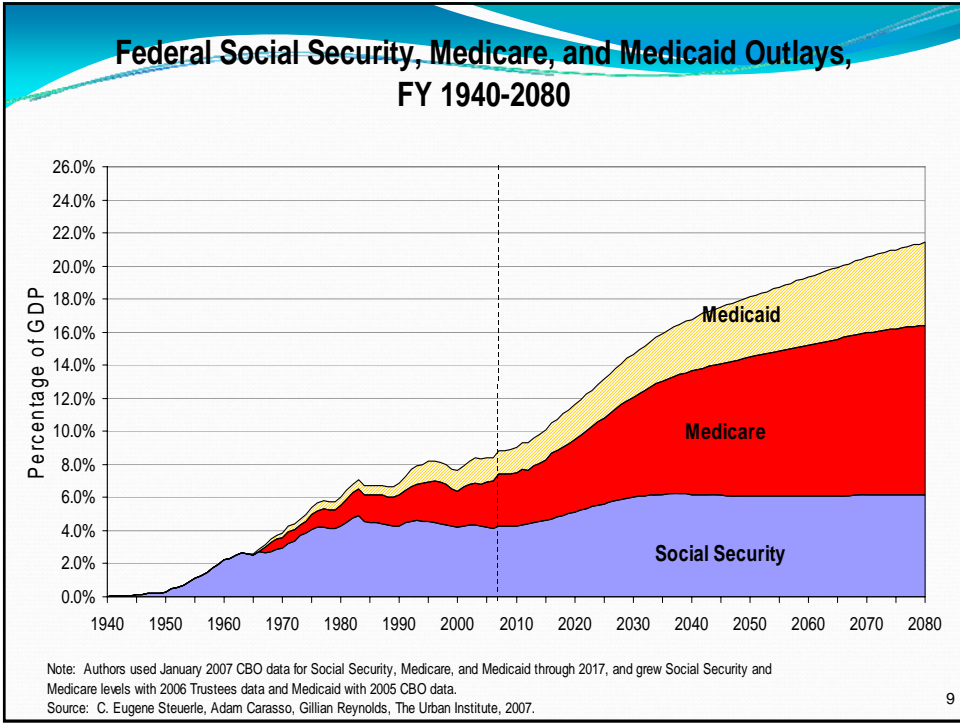
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Effect of Health Reform on the Budget

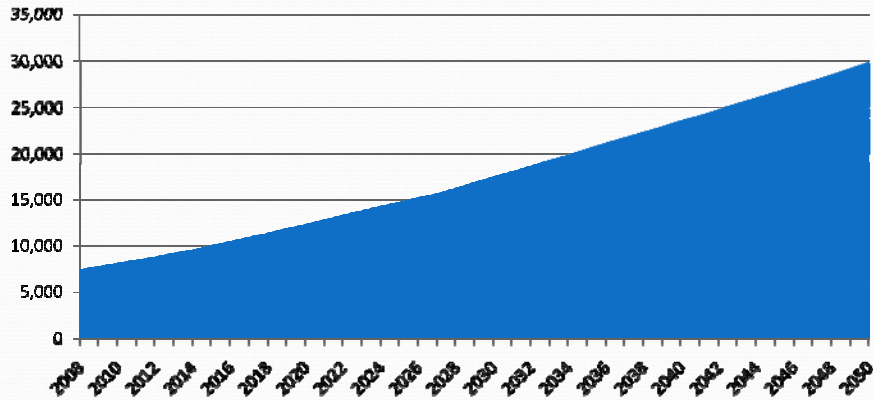


Source: C. Eugene Steuerle and Stephanie Rennane. Calculations based on data from the CBO Budget and Economic Outlook (August 2009) and the US Budget Watch Updated Charts Comparing the Health Reform Bills: Displaying the Fiscal Implications of Reform Plan, November 5, 2009.



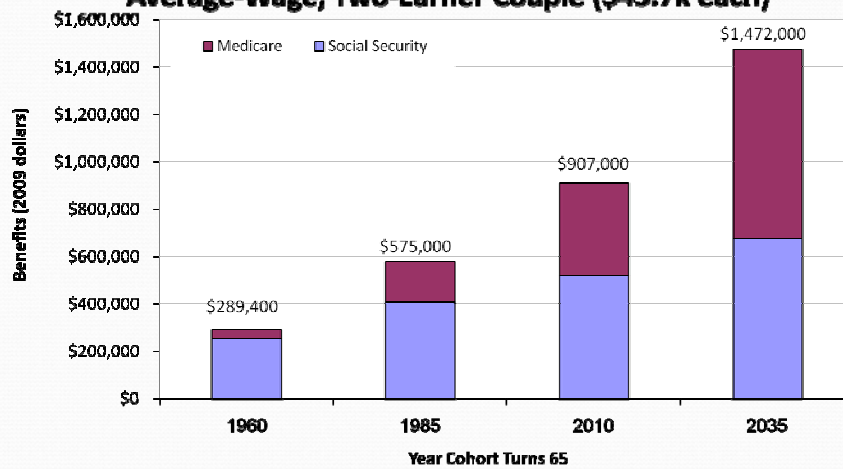


Projected Real Health Care Costs Per Person 2008-2050 (2008 Dollars)

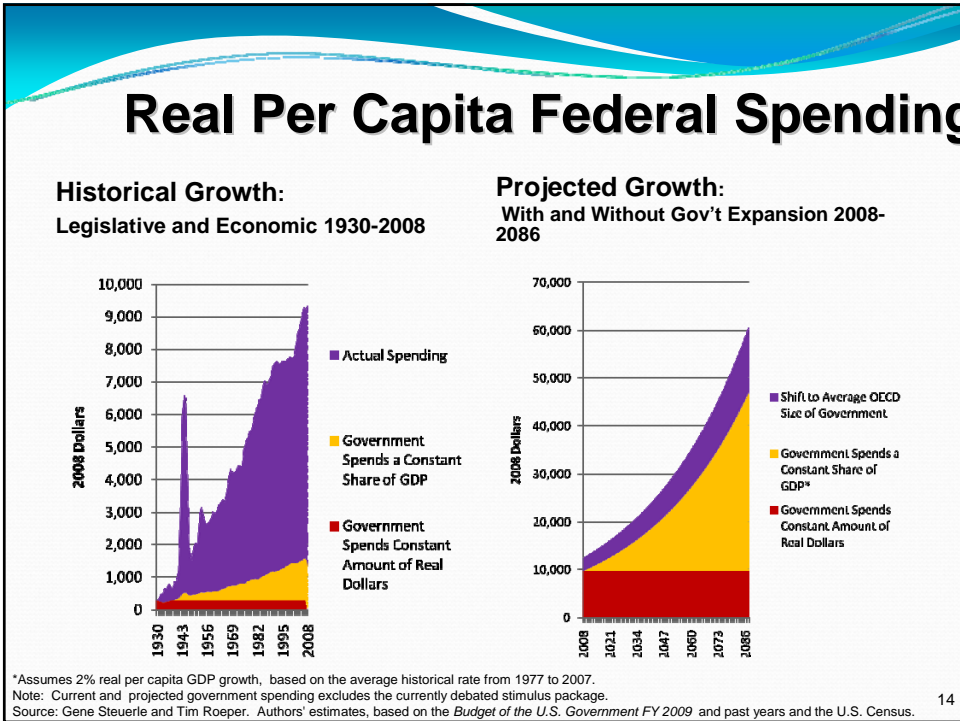
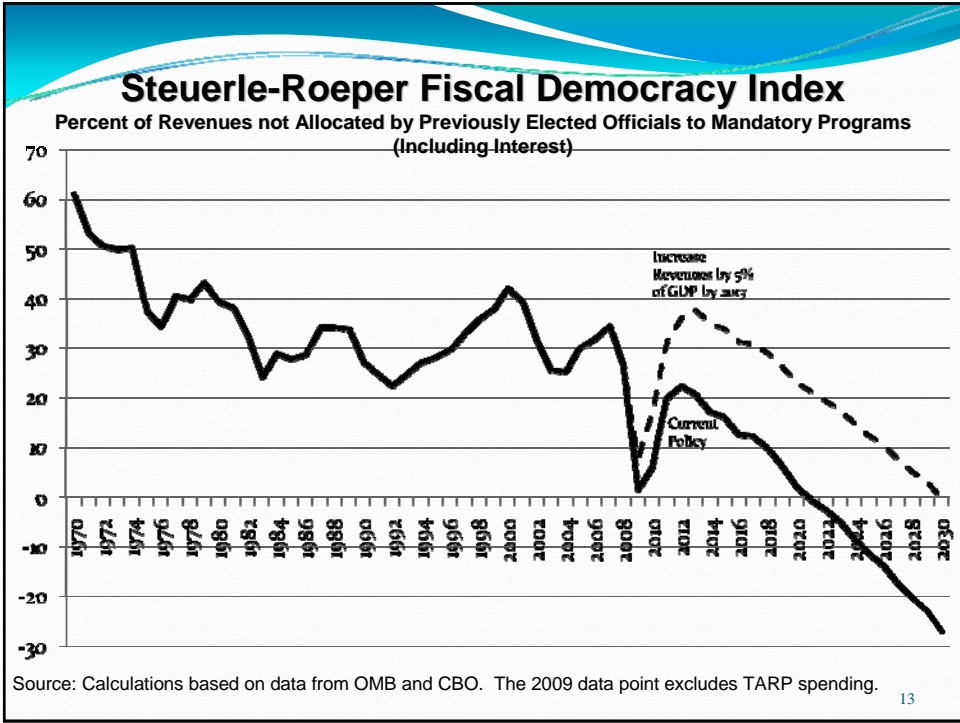


Source: PGPF calculations based on data from the Congressional Budget Office and the U.S. Census.

Social Security and Expected* Medicare Benefits for Average-Wage, Two-Earner Couple (\$43.7k each)



* Expected rather than realized benefits. Notes: The "average" wage profiles are those hypothetical profiles used by the Social Security Administration in its analyses. Lifetime amounts are rounded and discounted to present value at age 65 using a 2 percent real interest rate and adjusted for mortality. Projections based on intermediate assumptions of the 2008 OASDI and HI/SMI Trustees Reports. Includes Medicare Part D. Source: Adam Crasno and C. Eugene Steuerle, 2008.



A Budget for a Declining Nation?

- **Less saving (long-run)**
- **Less work**
- **Reduced investment**
- **Increased dependence upon foreign lenders**
- **Reduced investment in our children**

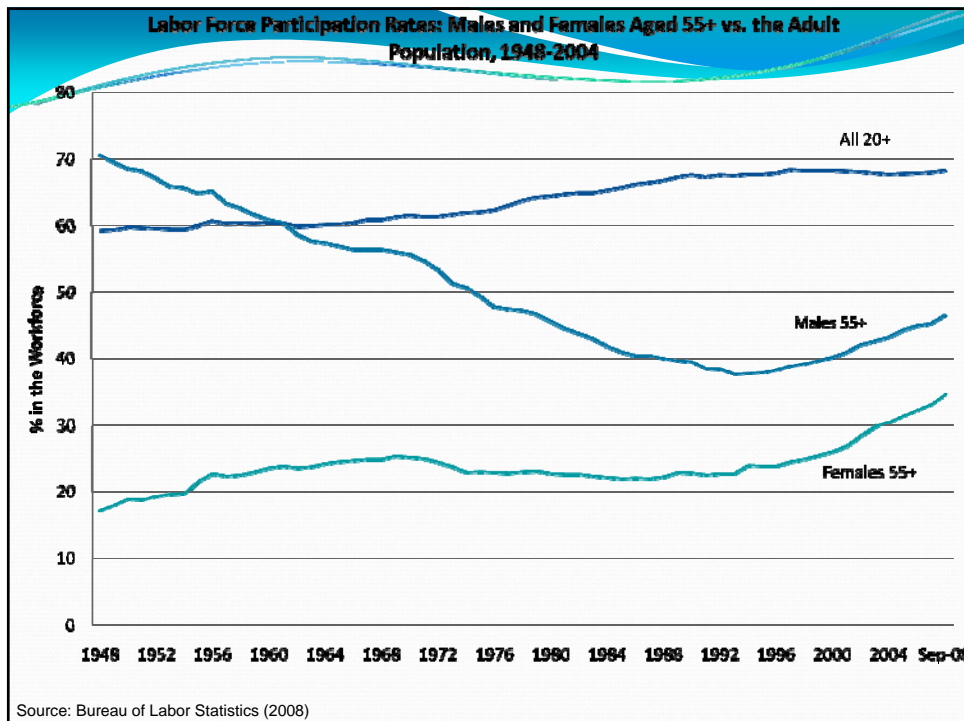
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Poor Allocation of Retirement & Health Dollars – Regardless of Cost

- **Social Security**
 - Increasingly to younger & healthier
 - Threatens elderly well-being later in retirement
- **Health**
 - Acute over preventative care
 - Specialization over primary care
 - Chronic care over cures
- **Both**
 - Gains in health & longevity shifted into higher costs for younger generations

Why Projections Might be Wrong

- Health:
 - Constant rates of excess health cost growth
 - Mean constantly DECLINING rates of growth in non-health consumption
- Retirement
 - Projections generally ignore demand for labor
 - Re-interpreting postwar labor history
- Is government policy “exogenous” to irresistible pressures?





Some Solutions

- Additional work
 - less drop in employment
- Bundling and voucher-izing health
 - movement away from fee for service
- Placing budgets on each government program
 - to provide incentives for improvement
- Reallocating budgets to needs, such as
 - greater anti-poverty protection
 - removal of discrimination against single heads of household
 - relatively more for prevention and primary care