

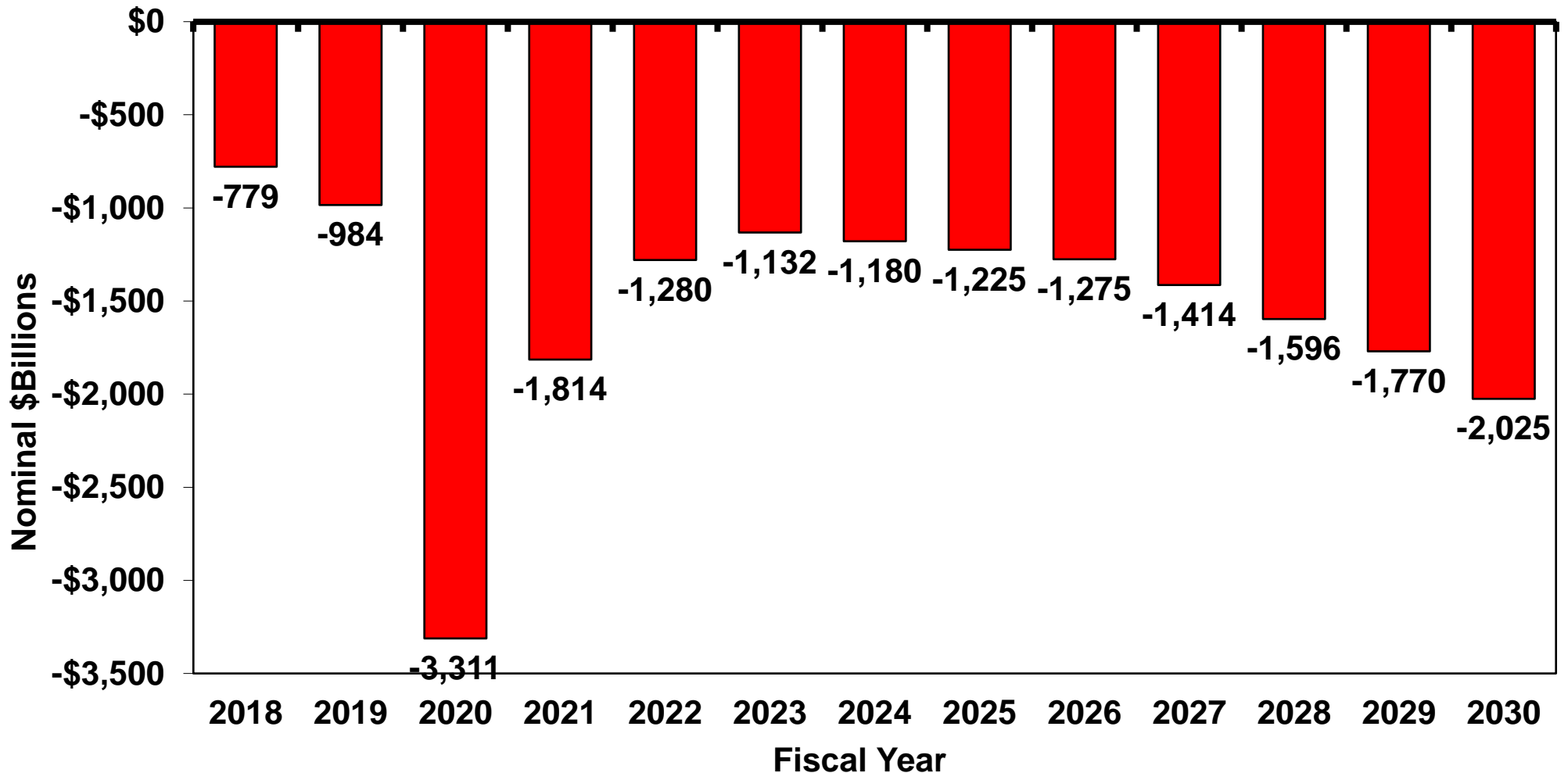
Fiscal Policy in the U.S. in 2020 and Beyond



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October 6, 2020

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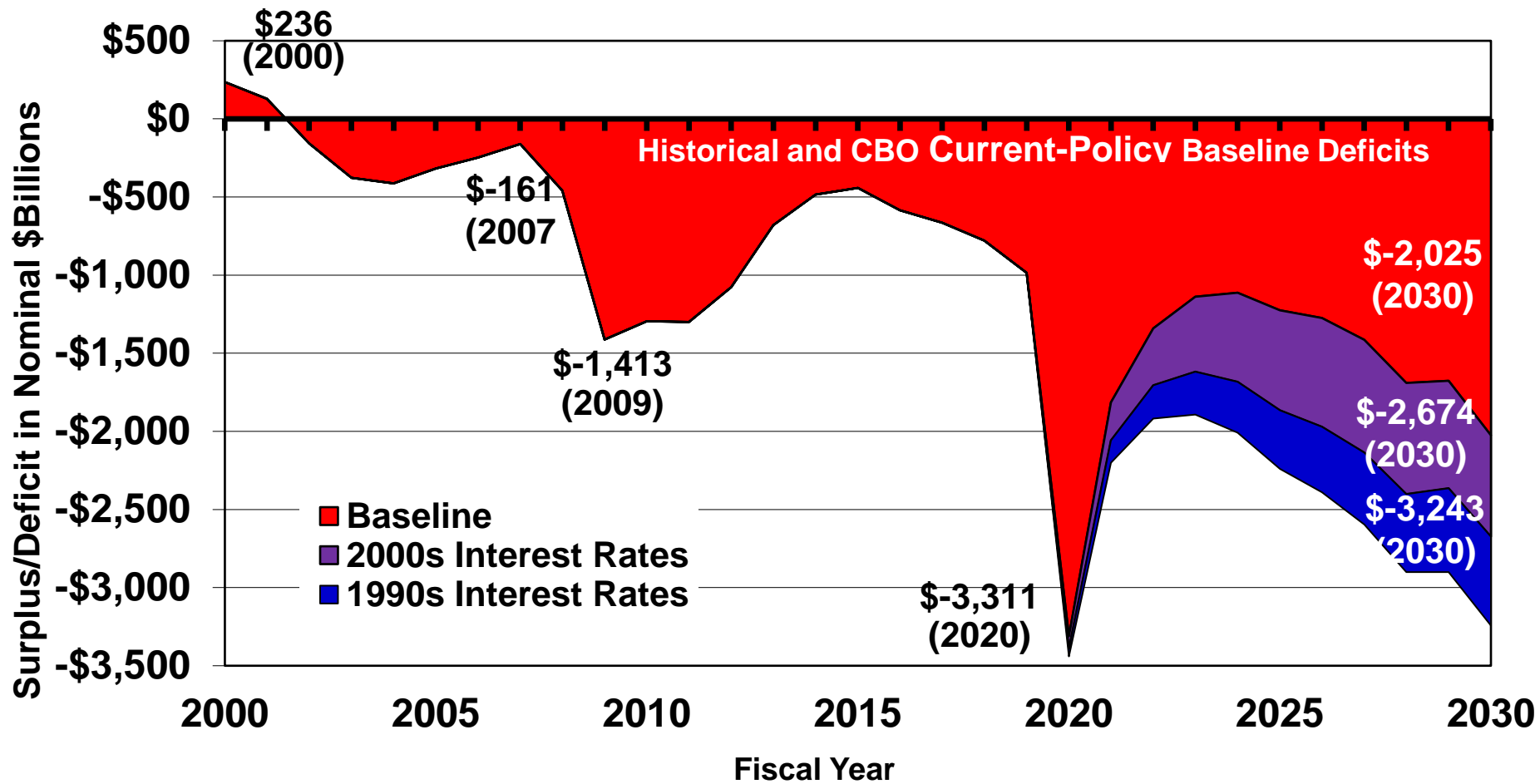
CBO Projects \$2 Trillion Budget Deficits Within a Decade, Assuming Current Policies are Extended



Source: OMB Historical Table 1.1, and September 2020 CBO Baseline, updated for current-policy tax cut extensions, and removal of timing shifts.

Author: Brian Riedl, Manhattan Institute -- [@Brian_Riedl](#)

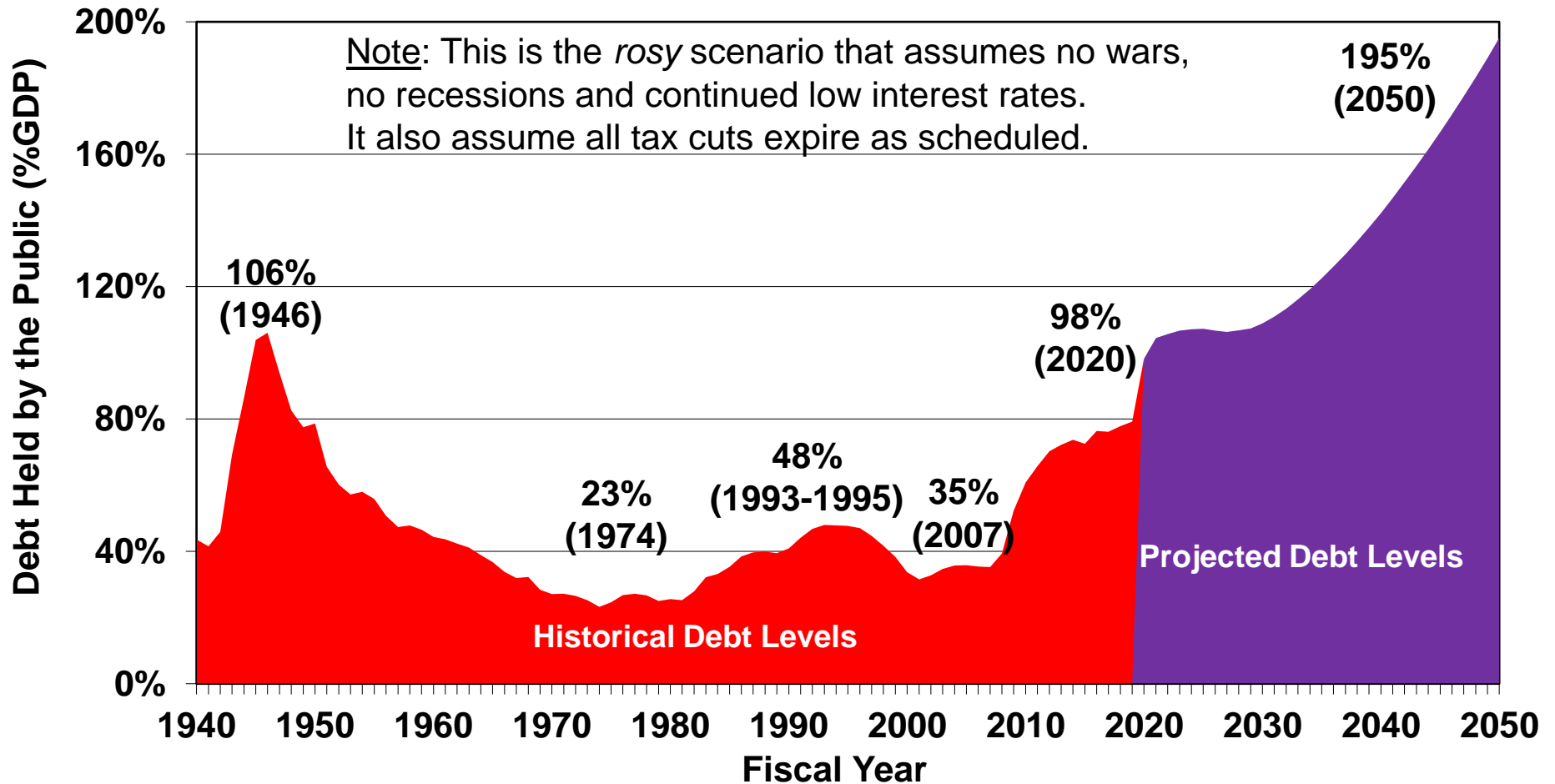
If Interest Rates Return to 1990s or 2000s Levels, Net Interest Costs – and the Deficit – Will Soar



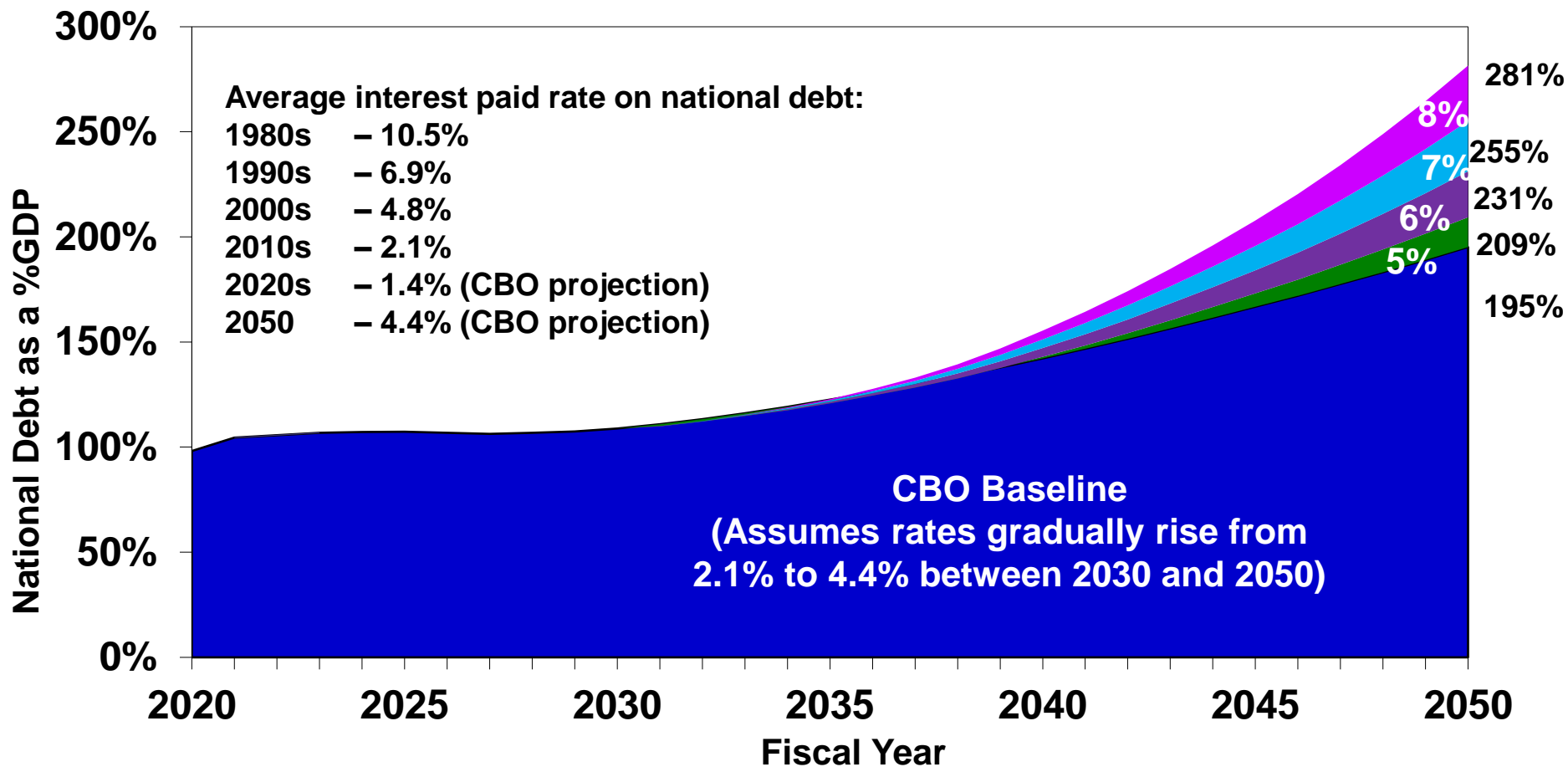
Source: Calculated using September 2020 CBO (current-policy) Baseline data, OMB sensitivity tables, and CEA historical interest rate data. Amounts in nominal \$billions.

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CBO Long-Term Baseline Shows Unsustainable Debt



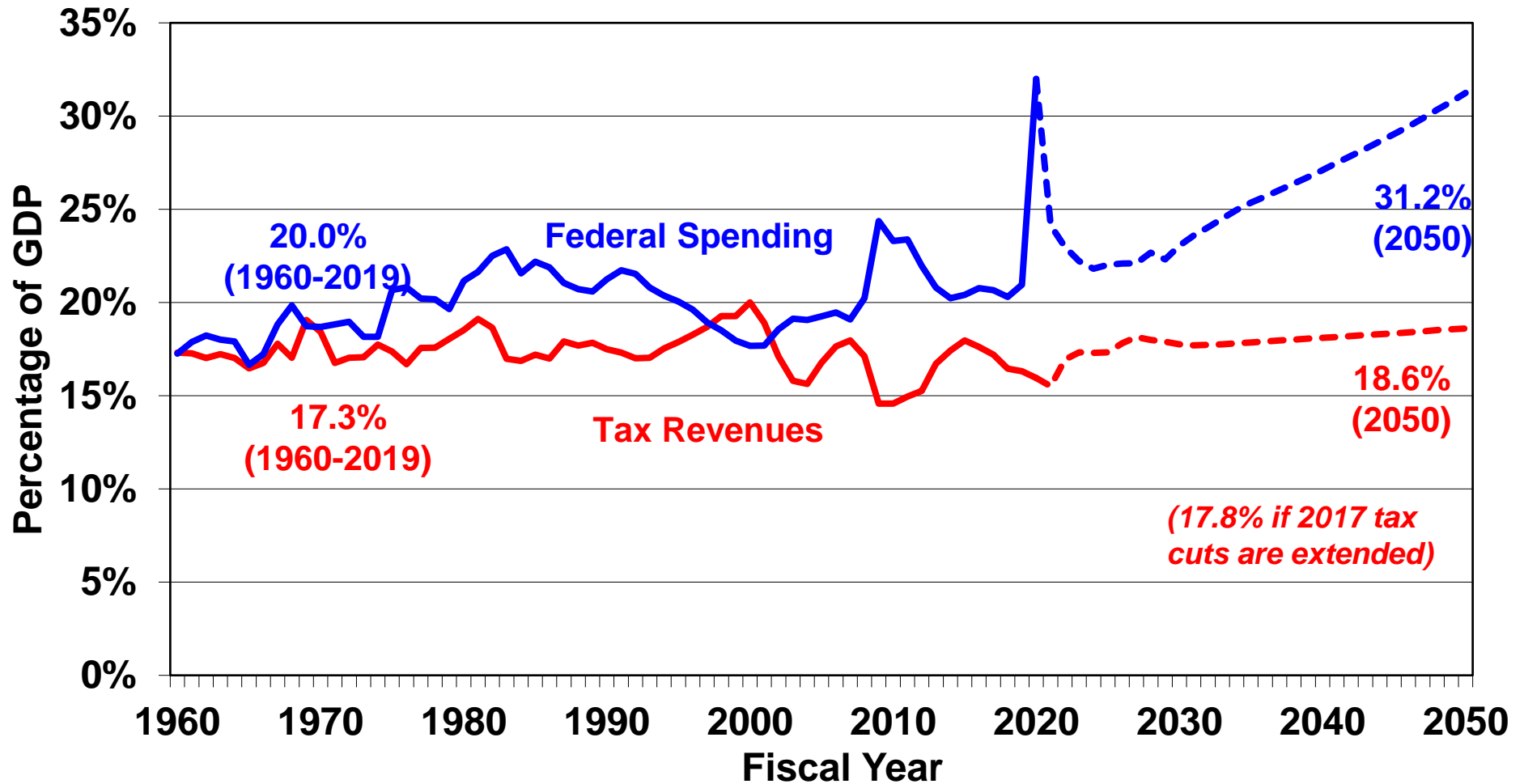
Rising Interest Rates Could Push the National Debt Past 250% of GDP Within 30 Years



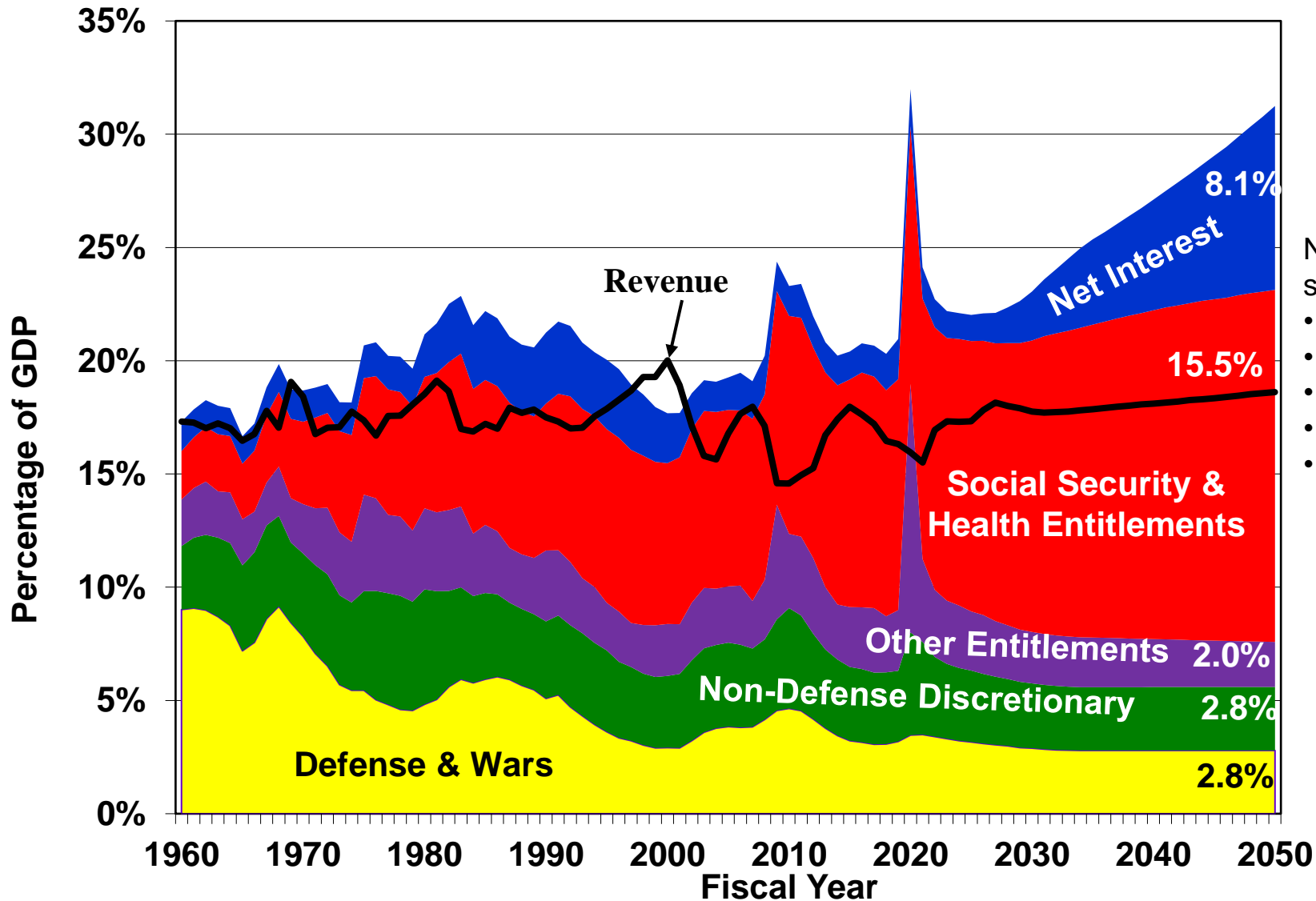
Source: Calculations using the 2020 CBO Long-Term Baseline.
 Alternative scenarios assume higher interest rates phase-in between 2031 & 2050.
 Most economists agree that a steeply rising debt will raise interest rates.

What is Driving the Debt? Soaring Federal Spending

Rising Spending – Not Falling Revenues – Drives the Long-Term Deficit



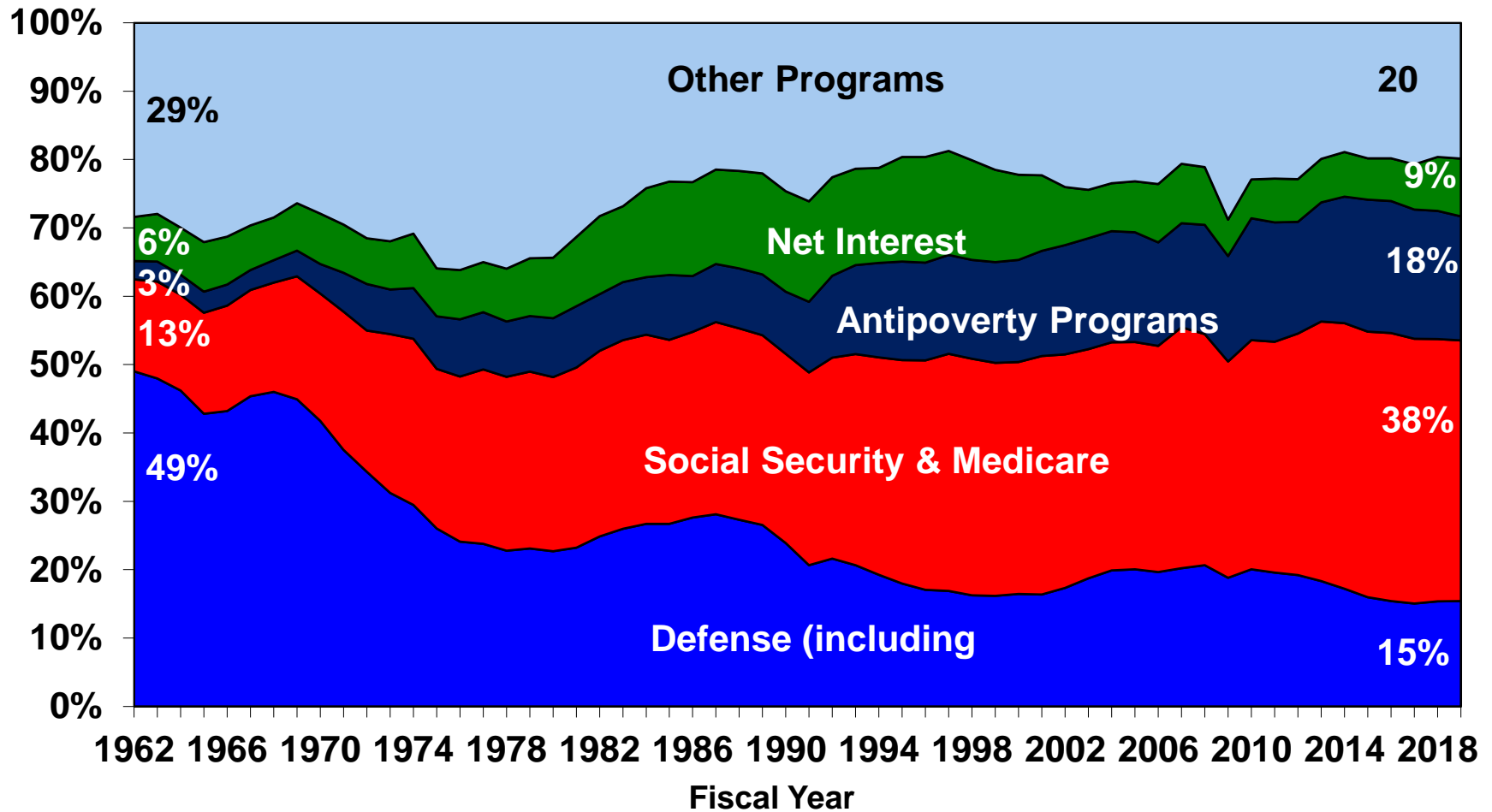
Federal Budget, 1960-2050 (Projected)



Note: This is the rosy scenario that assumes:

- no more wars
- no more recessions
- 2017 tax cuts expire
- health costs slow
- the interest rate paid on the national debt remains far below average even as the debt rises to 195% of GDP

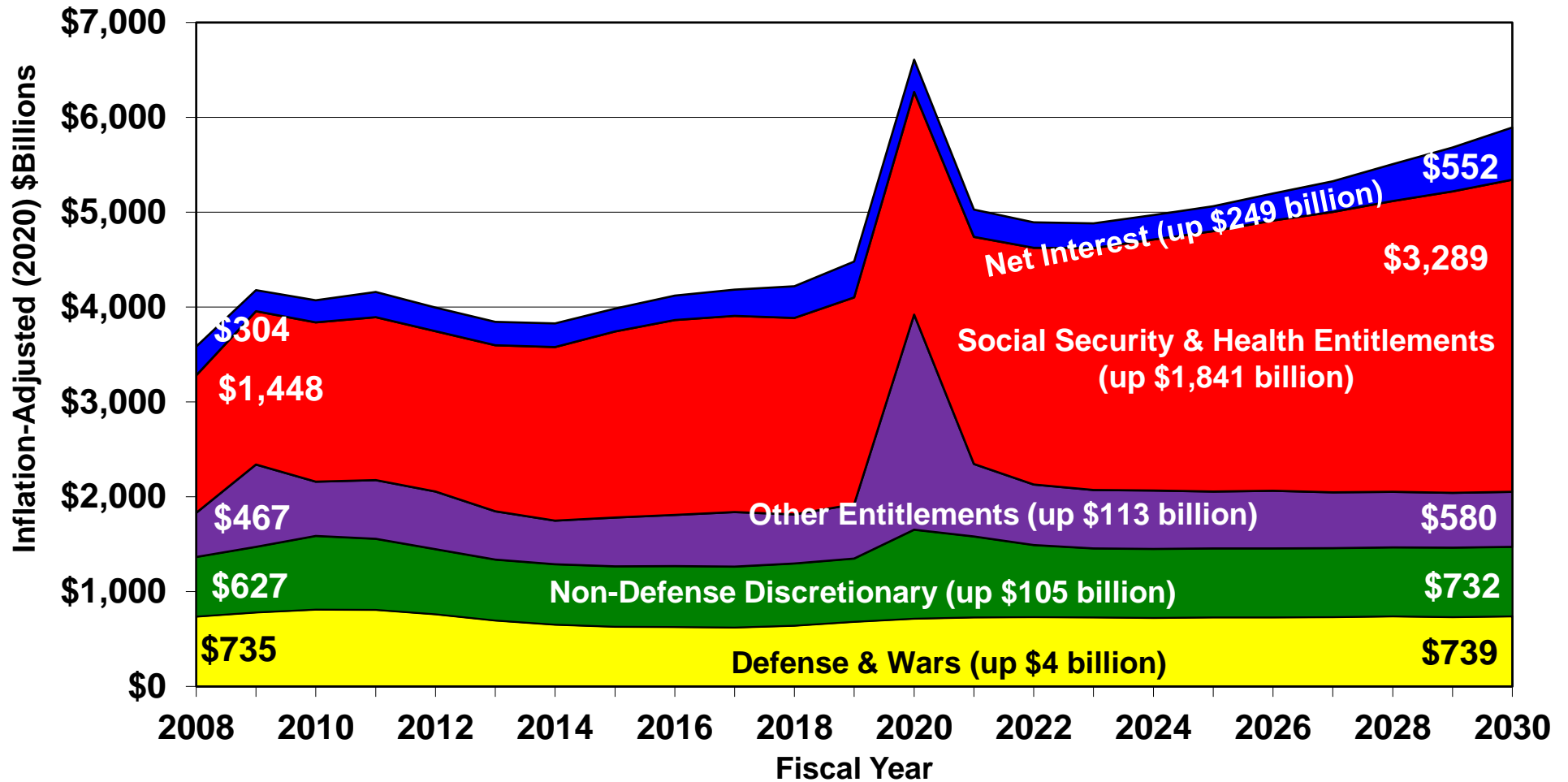
Composition of Federal Spending, 1962-2019



Source: OMB Historical
Tables 3.2, 8.5, and 10.1

Author: Brian Riedl, Manhattan Institute -- @Brian_Riedl⁹

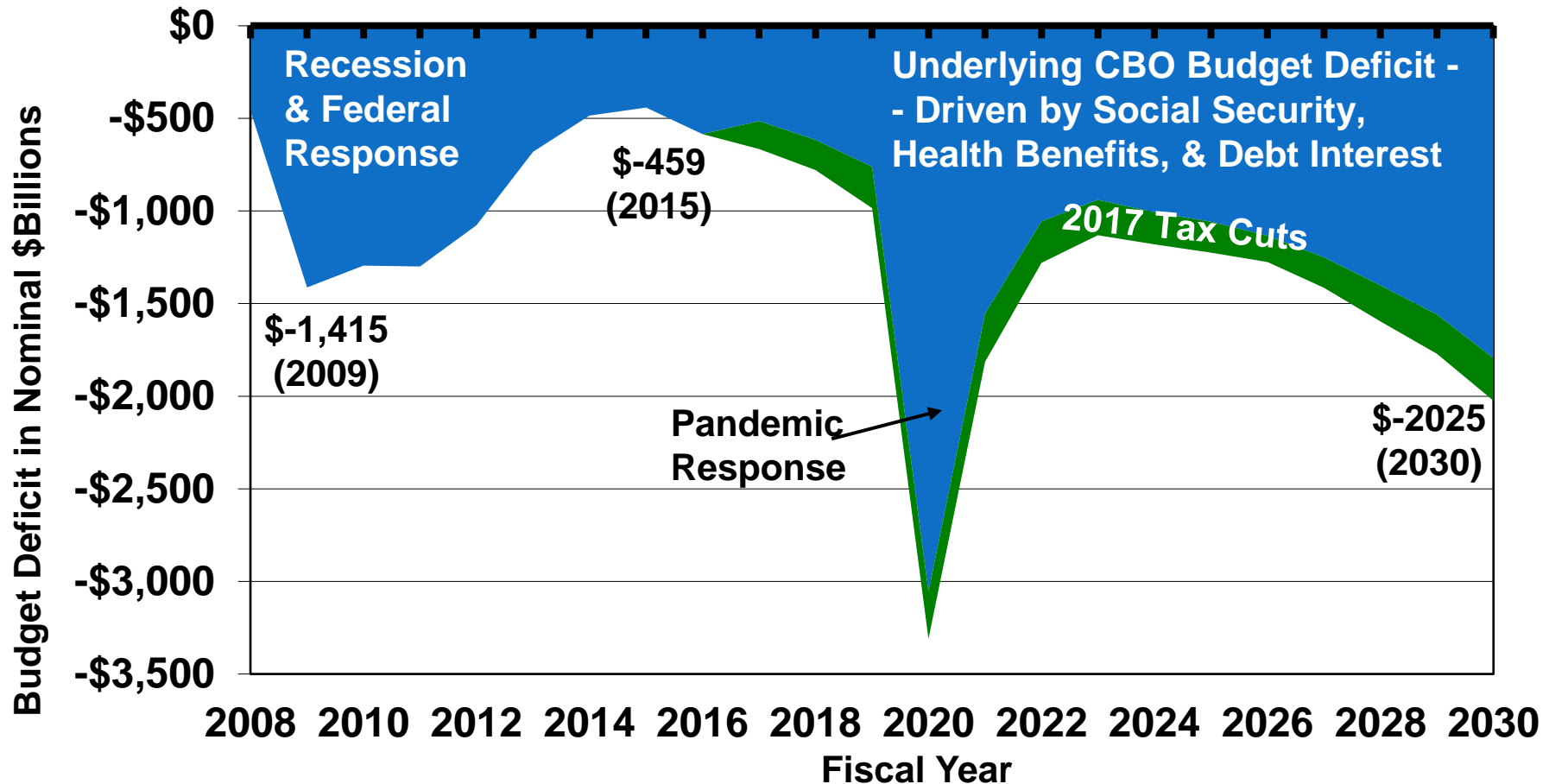
Social Security, Health Entitlements, & Interest Costs Drive 90% of the 2008-2030 Spending Hikes



Source: September 2020 CBO (Baseline and historical data), adjusted for inflation

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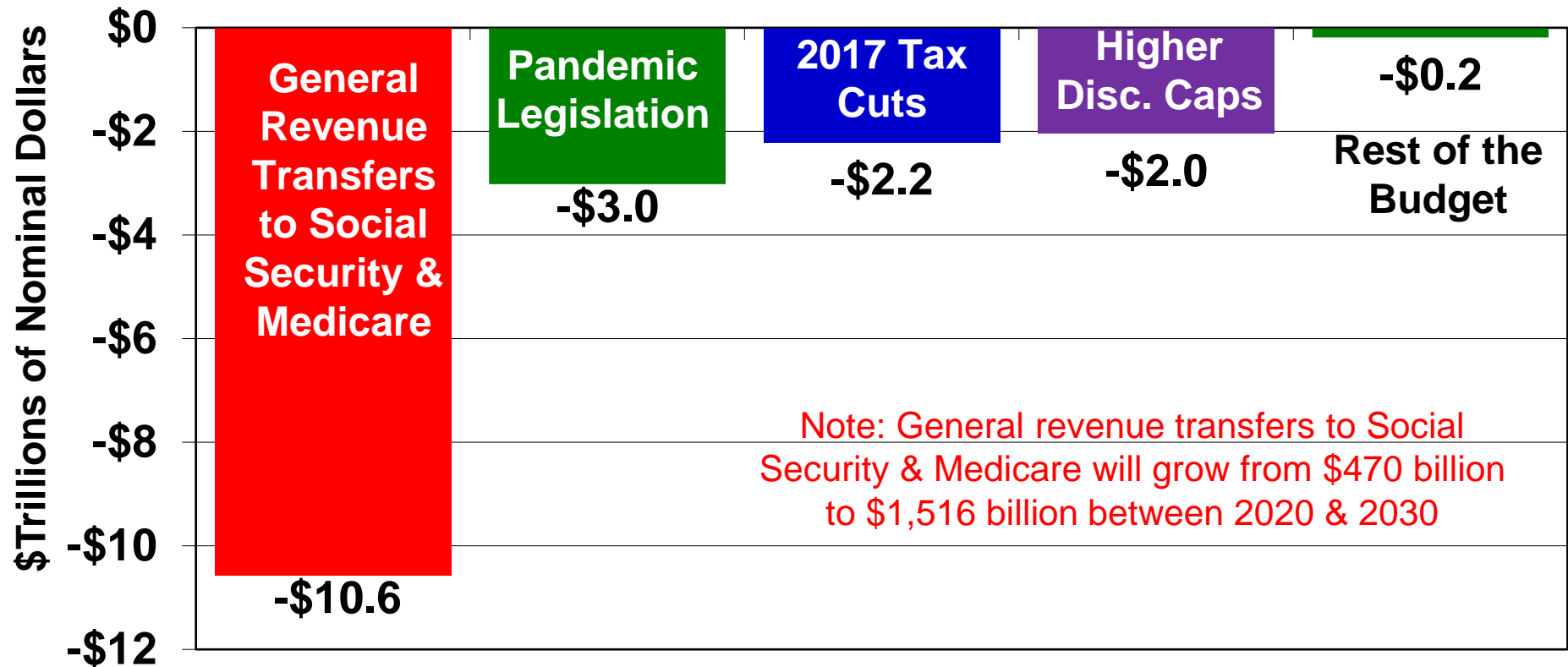
The 2017 Tax Cuts are a Relatively Minor Contributor to Soaring Deficits



Source: Calculated using CBO September 2020 (current-policy) Baseline data.
 Assumes that new tax cuts are renewed.
 Resulting interest costs are incorporated into each category.

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Major Components of the \$18.0 Trillion Deficit Projected Over 2020-2030 Period



Impact on 2020-2030 CBO Budget Deficit

Source: Calculated using Sept. 2020 (current-policy) Baseline and Long-Term Baseline.

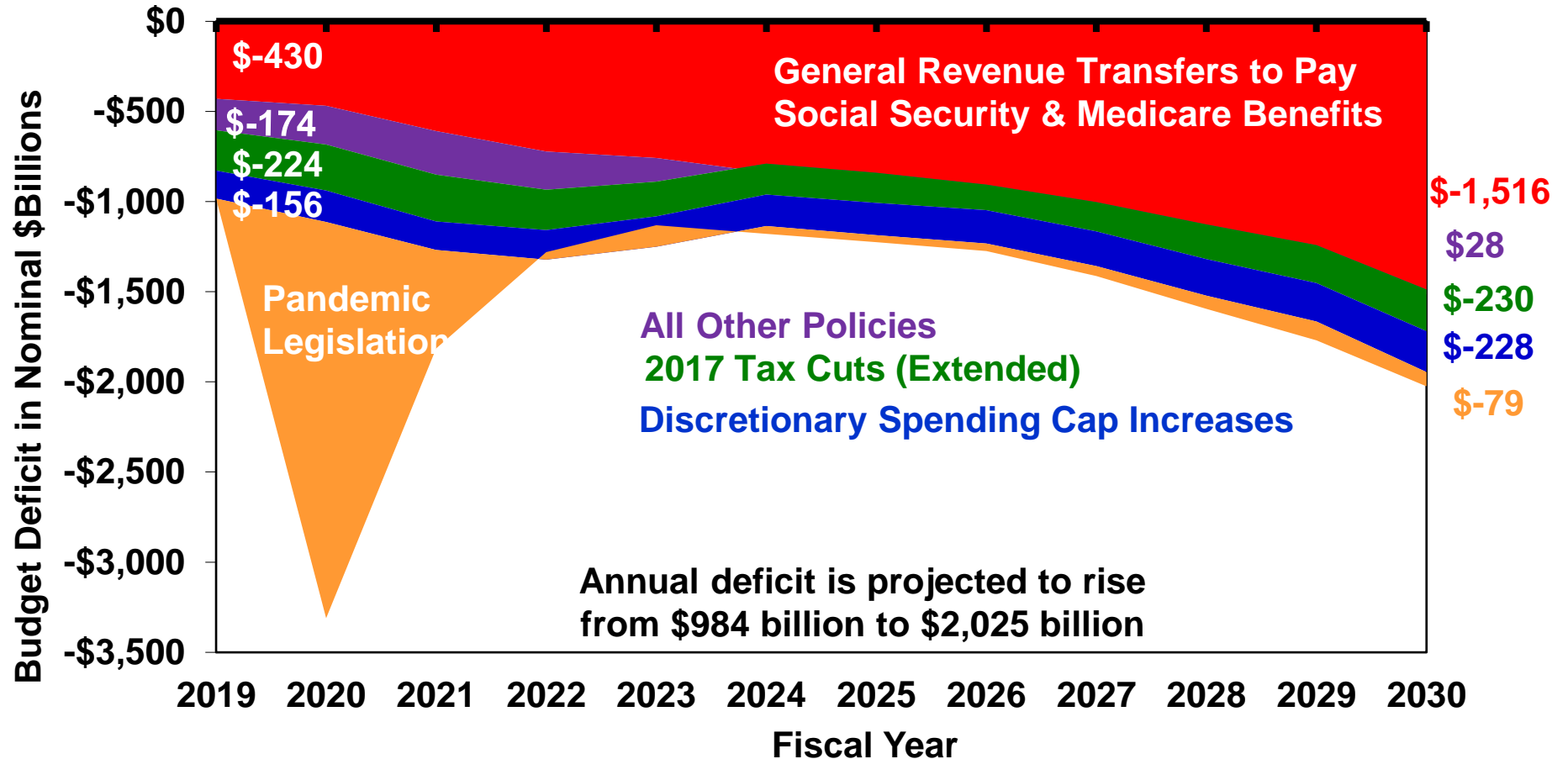
Assumes that new tax cuts are renewed.

Resulting interest costs are incorporated into each category.

General revenues include interest payments on trust funds, as they represent a net cost to the rest of the budget.

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Rising Social Security & Medicare Shortfalls Drive Nearly the Entire Rising Deficit Between 2019-2030



Source: Calculated using Jan 2019 CBO (current-policy) Baseline and CBO 2019 Long-Term Baseline.
 Assumes that new tax cuts are renewed.
 Resulting interest costs are incorporated into each category.
 General revenues include interest payments on trust funds, as they represent a net cost to the rest of the budget.

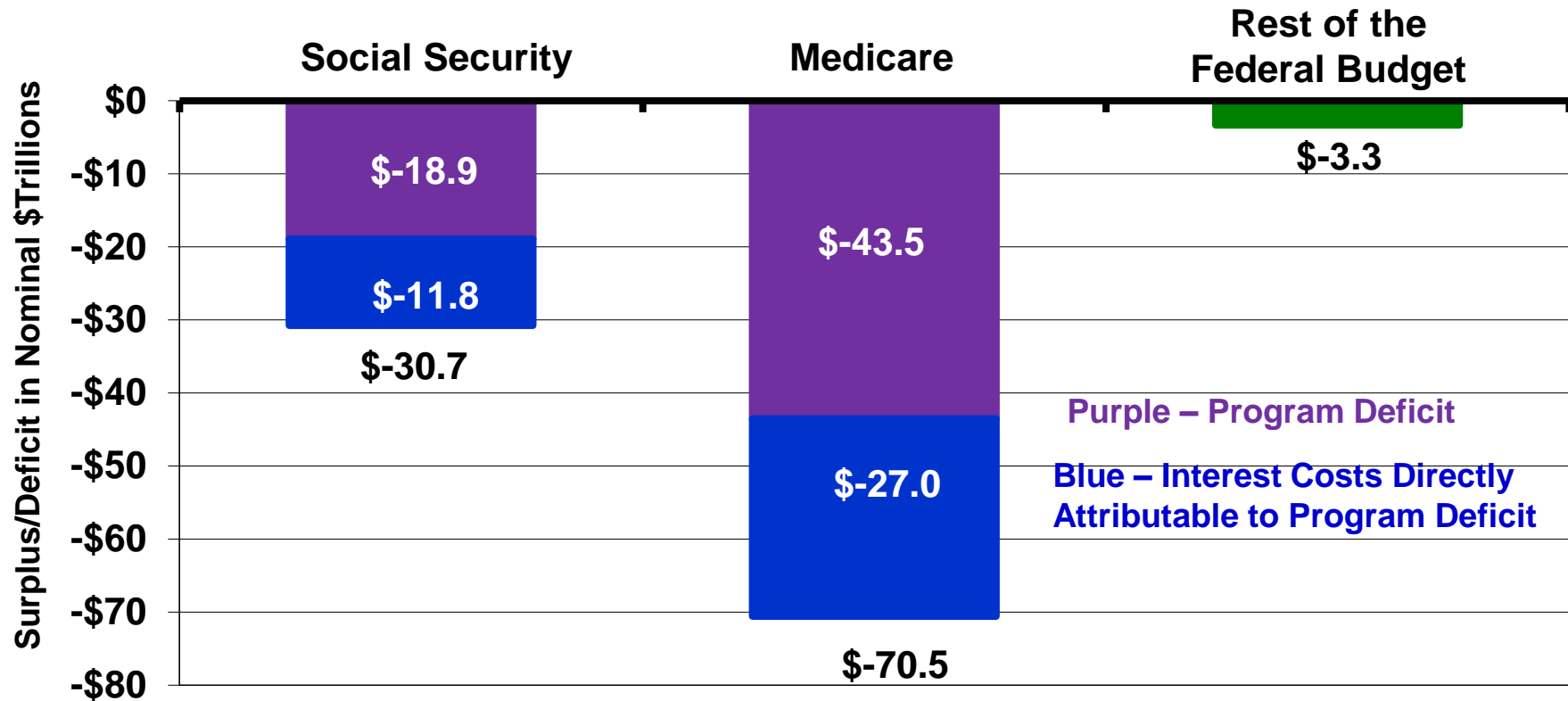
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The 30-Year Debt Estimates are Driven by Social Security and Medicare Shortfalls

What is Causing \$104 Trillion 2020-2050 Budget Deficit?

Social Security & Medicare: \$101 Trillion Deficit

The Rest of the Budget: \$3 Trillion Deficit



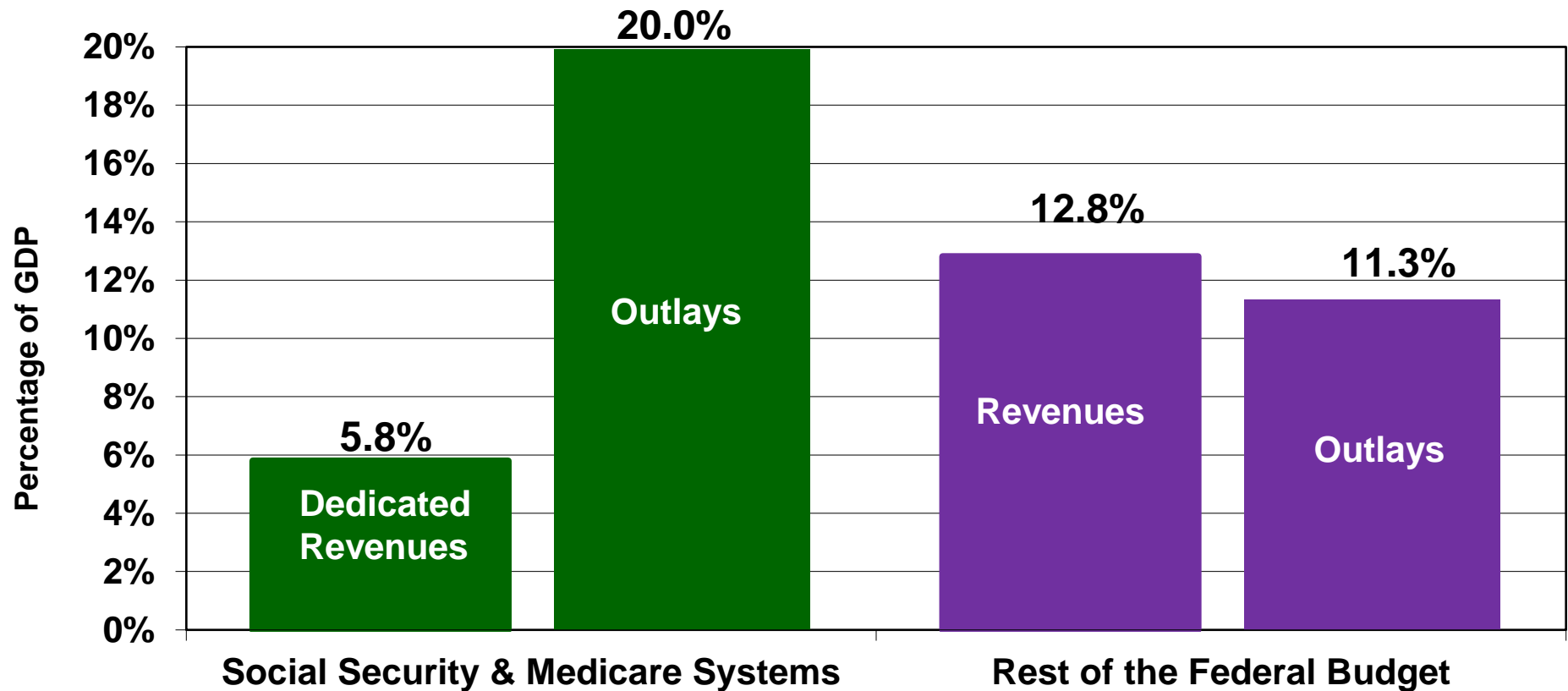
Source of \$104.7 Trillion Budget Deficit Projected over 2020-2050 Period (\$Nominal)

Source: Calculations from CBO 2020 Long-Term Budget Outlook. To inflation adjust, trim amounts by one-third.

Note: Social Security & Medicare deficits are the benefits that must be paid from general revenues because payroll taxes, premiums, and other non-interest trust fund revenues are insufficient. CBO assumes full benefits will continue even after trust fund insolvency.

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Projected 2050 Budget Deficits are Entirely Driven by Social Security & Medicare Shortfalls



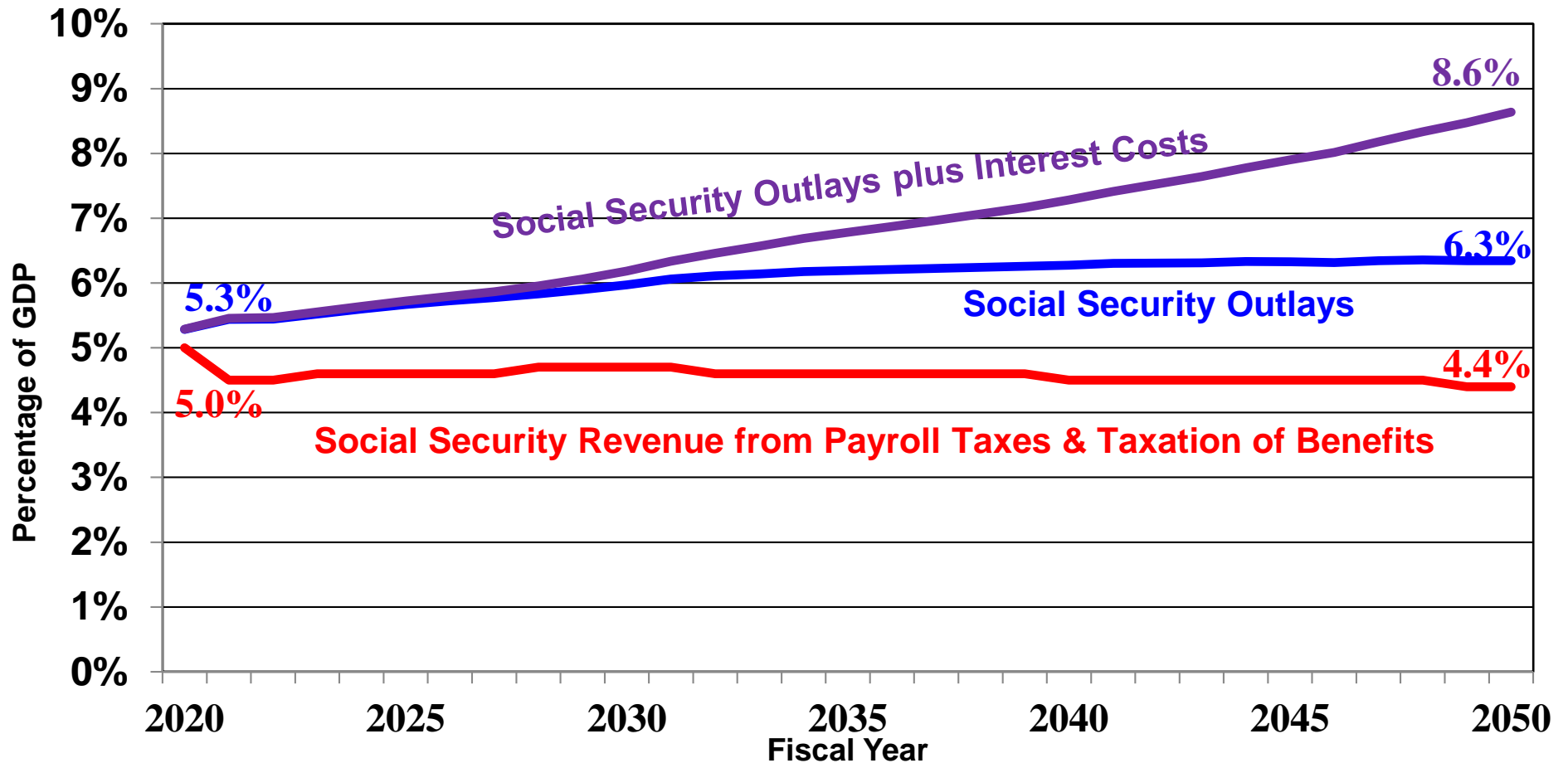
Note: 2050 is the final year of the latest CBO 30-year budget projection.

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Source: CBO 2020 Long-Term Budget Outlook.

Each outlay category includes portion of national debt interest attributed to its 2020-2050 deficits.

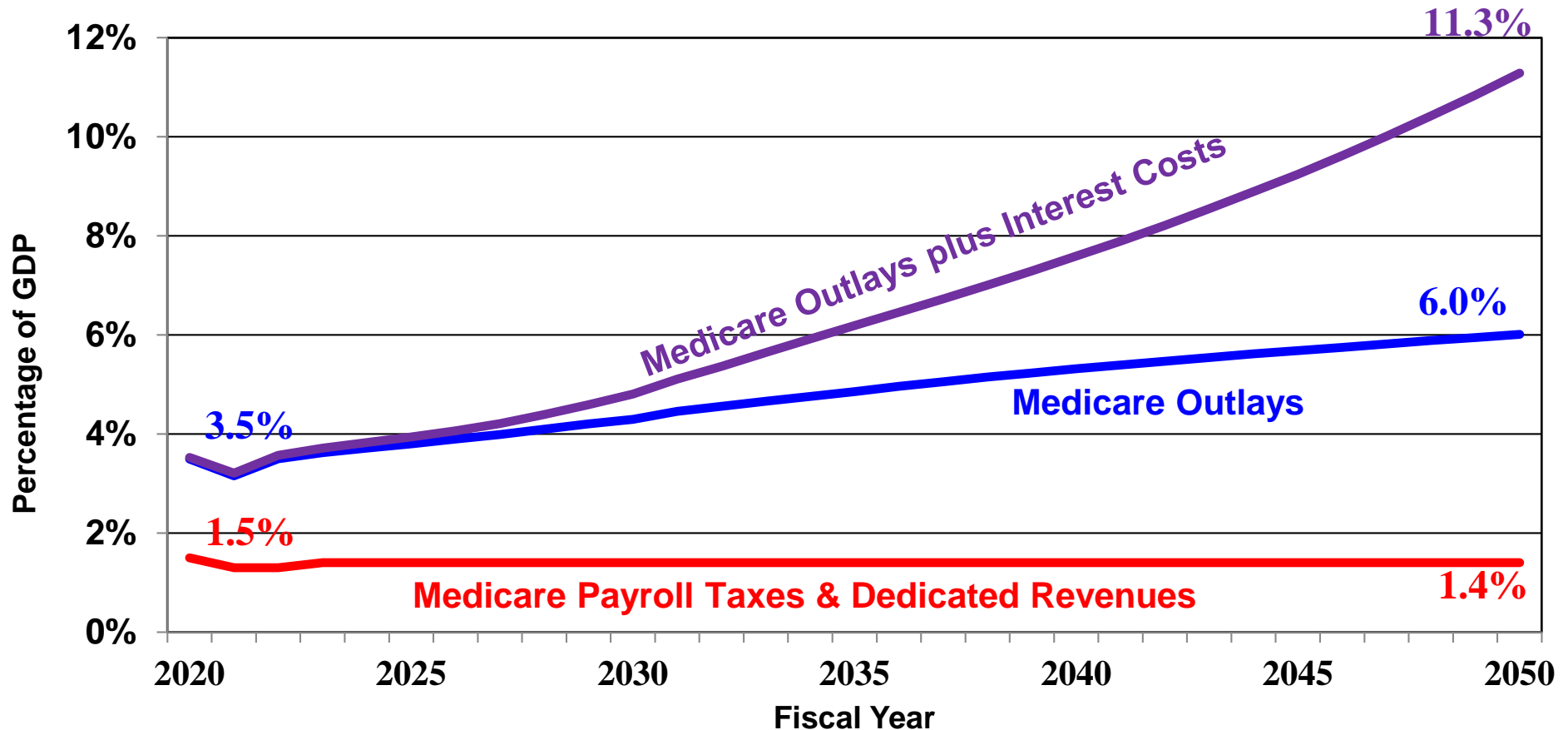
Social Security's Cash Shortfalls are Driven by Retiring Baby Boomer Costs and Resulting Interest Costs



Source: Calculated using CBO 2020 Long-Term Baseline. Revenues do not include trust fund interest transfers. Interest costs are those directly attributable to Social Security's annual deficits over this period.

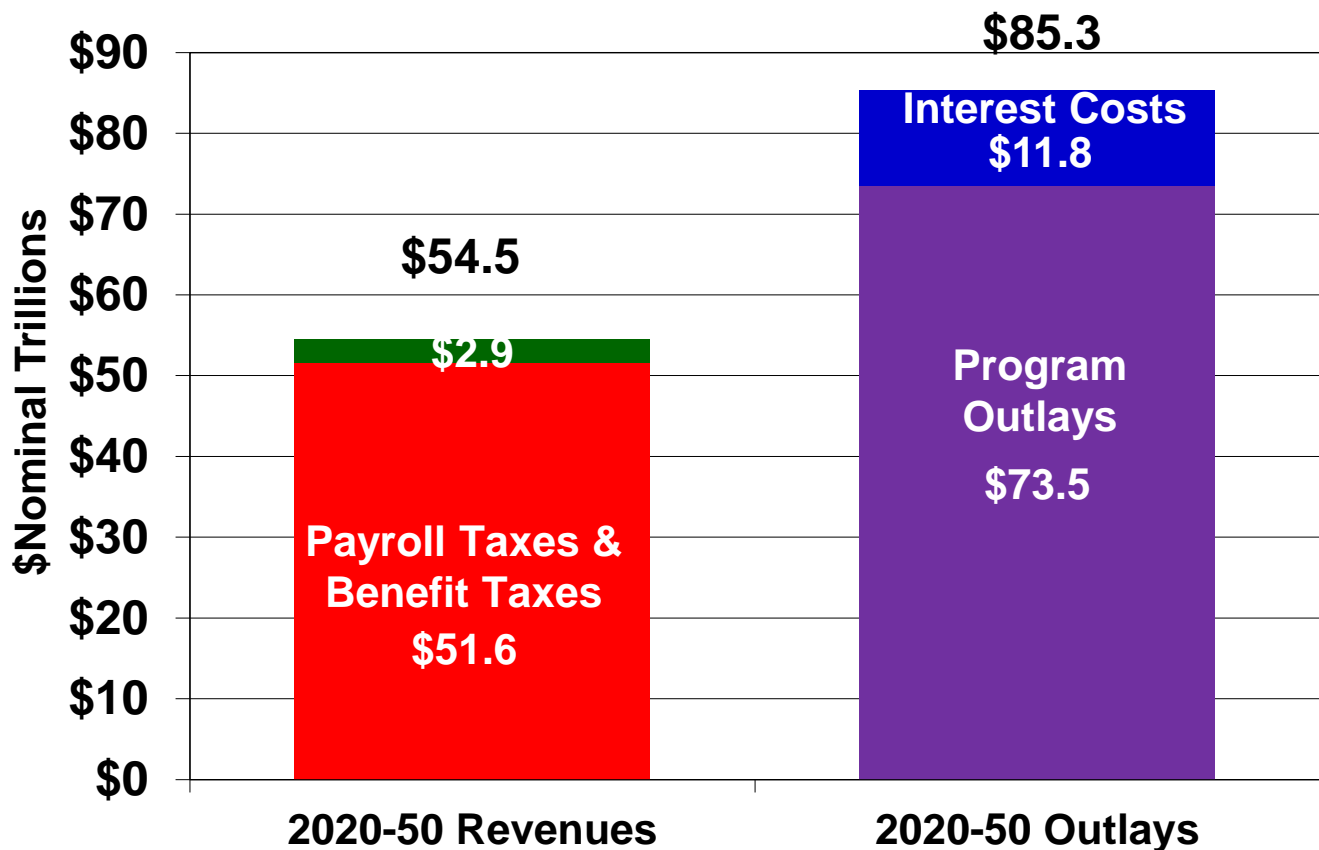
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Medicare's Cash Shortfalls are Driven by Soaring Benefit Costs and Resulting Interest Costs



Source: Calculated using CBO 2020 Long-Term Baseline. Outlays are net of premiums paid. Interest costs are those directly attributable to Medicare's annual deficits over this period.

Social Security Faces a \$31 Trillion Shortfall over 30 Years - \$28 Trillion if Including the Trust Fund



Green = Transfers from redeeming the Social Security Trust Fund.

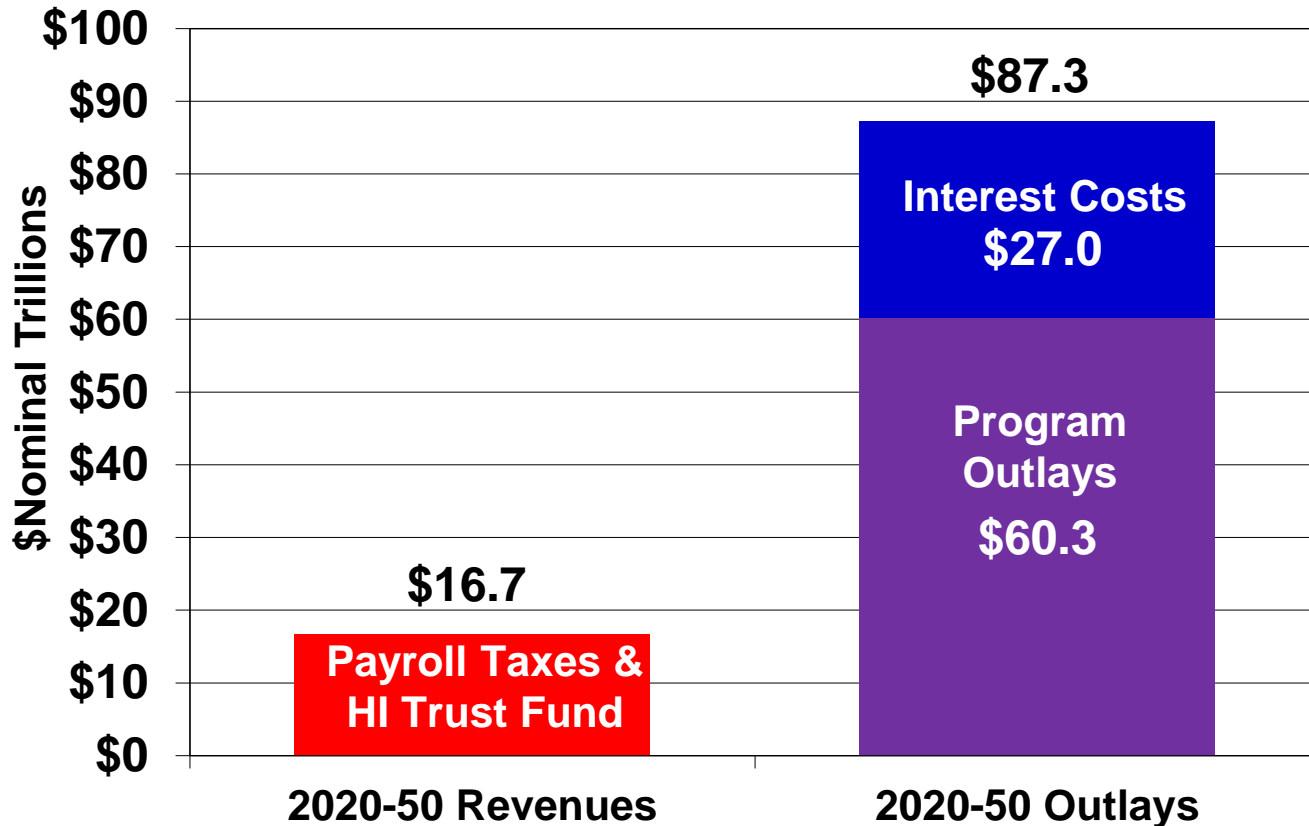
The Trust Fund contains no economic resources and must be redeemed by new taxes and borrowing.

In other words, it does not future save taxpayers a dime or reduce the true shortfall.

Source: Calculated using the CBO 2020 Long-Term Budget Outlook. Interest costs reflect those directly attributable to 2020-2050 Social Security shortfalls.

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Medicare Faces a \$71 Trillion Cash Shortfall Over the Next 30 years



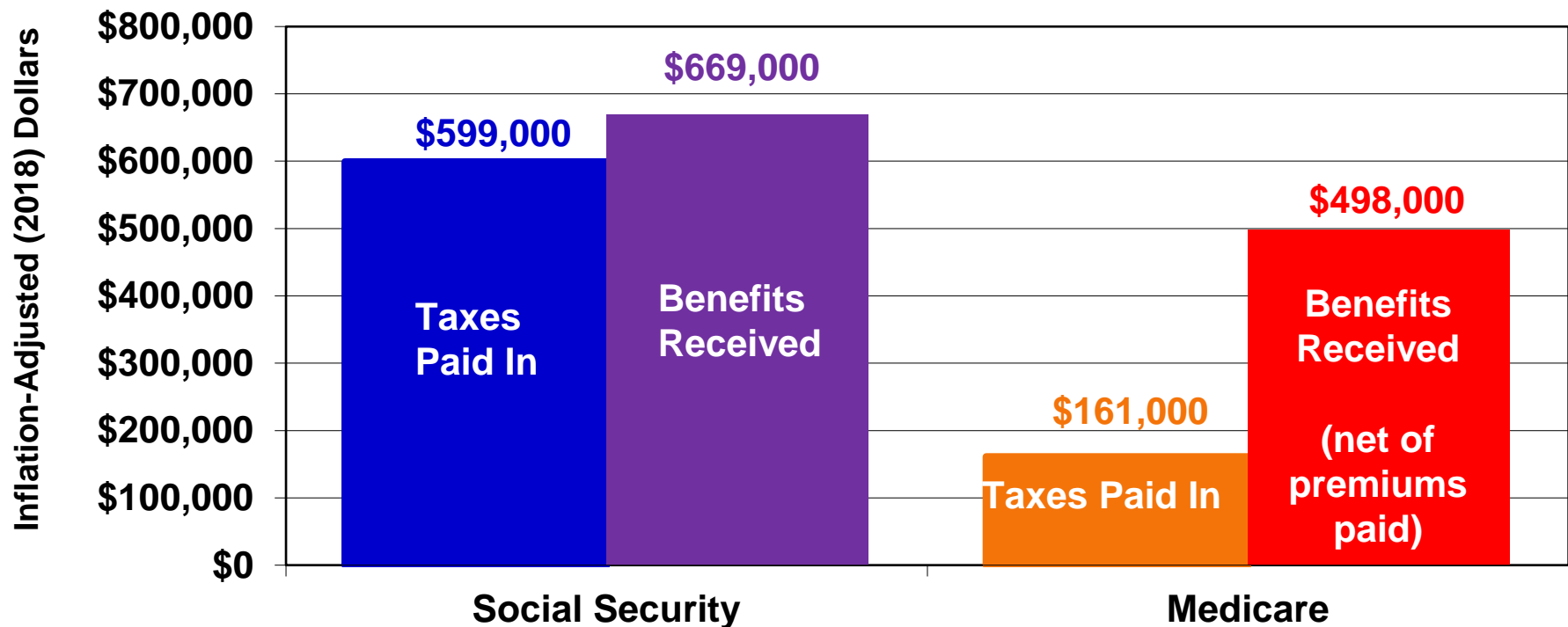
Medicare's \$71 shortfall equals 67% of the total federal budget deficit projected by CBO over the 2020-2050 period.

Annual projected shortfall:
2020: 2.0% of GDP
2050: 4.6% of GDP (9.9% including interest cost).

Source: Calculated using the CBO 2020 Long-Term Budget Outlook. Benefits are net of senior premiums. Interest costs reflect those directly attributable to 2020-2050 Medicare shortfalls.

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The Typical Retiring Couple Will Receive \$3 in Medicare Benefits for Every \$1 Paid into the System – and Also Come Out Ahead in Social Security



Represents typical, average-income married couple turning 65 in 2020
Calculations represent expected present values.

No “Easy” Pay-Fors for Social Security & Medicare: Programs Face Shortfalls of 6% of GDP by 2040s

Tax Proposals (static scoring)	10-Yr Savings (\$Billions)	Long-Term Savings (%GDP)
Raise Payroll Tax by 10 Percentage Points, no wage limit	\$8,982	3.60%
Impose a 20% Value-Added Tax (VAT) – like a national sales tax	\$7,680	3.35%
Raise Income Tax Rates Across-the-Board by 10 Percentage Points	\$9,054	3.30%
Double 35% and 37% Tax Brackets to 70% and 74% (plus 15% state/payroll)	\$4,504	1.70%
Impose Bernie Sanders’ 8% Wealth Tax (<i>data from Penn-Wharton</i>)	\$2,809	1.07%
Eliminate FICA Cap – 15.3% Payroll Tax on All Wages (<i>data from SSA</i>)	\$2,180	0.84%
Raise Corporate Tax Rate by 20 Percentage Points	\$1,926	0.87%
Repeal All Itemized Tax Deductions	\$1,312	0.99%
Carbon Tax of \$25/Metric Ton – no rebate for households hit	\$1,099	0.43%
Impose a 0.1% Tax on Financial Transactions	\$777	0.37%
Repeal Entire 2017 Tax Law (<i>data from CBO/JCT</i>)	\$455	(Mostly scheduled)
Tax Dividends & CapGains as Income over \$1M & End Step-Up (<i>data from TPC</i>)	\$448	0.19%
Impose Bernie Sanders’ 77% Estate Tax (<i>data from Sanders</i>)	\$336	0.13%
Impose a 0.15% "Bank Tax" on Large Financial Institutions	\$103	0.03%
30% Minimum "Buffett Tax" for Millionaires	\$66	0.03%
Tax Carried Interest as Ordinary Income	\$14	0.01%
Spending Proposals		
Cut Defense Budget to European Target of 2% of GDP (<i>data from CBO baseline</i>)	\$2,899	0.80% ²²

Source: Dec. 2018 CBO “Budget Options” book unless otherwise noted.

These static estimates do not account for revenues lost to the economic impact. Combining policies may also create interaction effects or duplicate the same policies, so these cannot be summed.

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Biden and Trump Plans and the Challenge of Deficit Reduction

Joe Biden has Proposed \$11 Trillion in New Spending Over the Decade

Spending Proposal (\$Billions)	2021-2030	Source
Health & ACA Expansions (net of spending offsets)	\$1,450	CRFB
Reduce Medicare Eligibility Age to 60	\$300	Author Estimate
Climate and Infrastructure Initiative	\$2,000	Biden Campaign Website
Expand Social Security and SSI	\$1,000	Progressive Policy Institute
K-12 and Preschool Expansions	\$750	CRFB
College and Post-Secondary Education	\$750	Biden Campaign
Buy American Initiative (net*)	\$400	Biden Campaign Website
Housing Assistance	\$640	Biden Campaign Website
Family Leave Assistance	\$550	CBO Score of Family Act
Combat Opioid Addiction	\$125	Biden Campaign
Economic Stimulus (Endorsed Heroes Act)	\$3,000	CBO Score of Heroes Act
Total Spending Over Decade	\$10,965	

*Some of this \$700 billion initiative would take place within climate/infrastructure spending.

CRFB = Committee for a Responsible Federal Budget

Figures do not include additional interest costs of new borrowing

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Joe Biden has Proposed \$3.6 Trillion in New Taxes Over the Decade

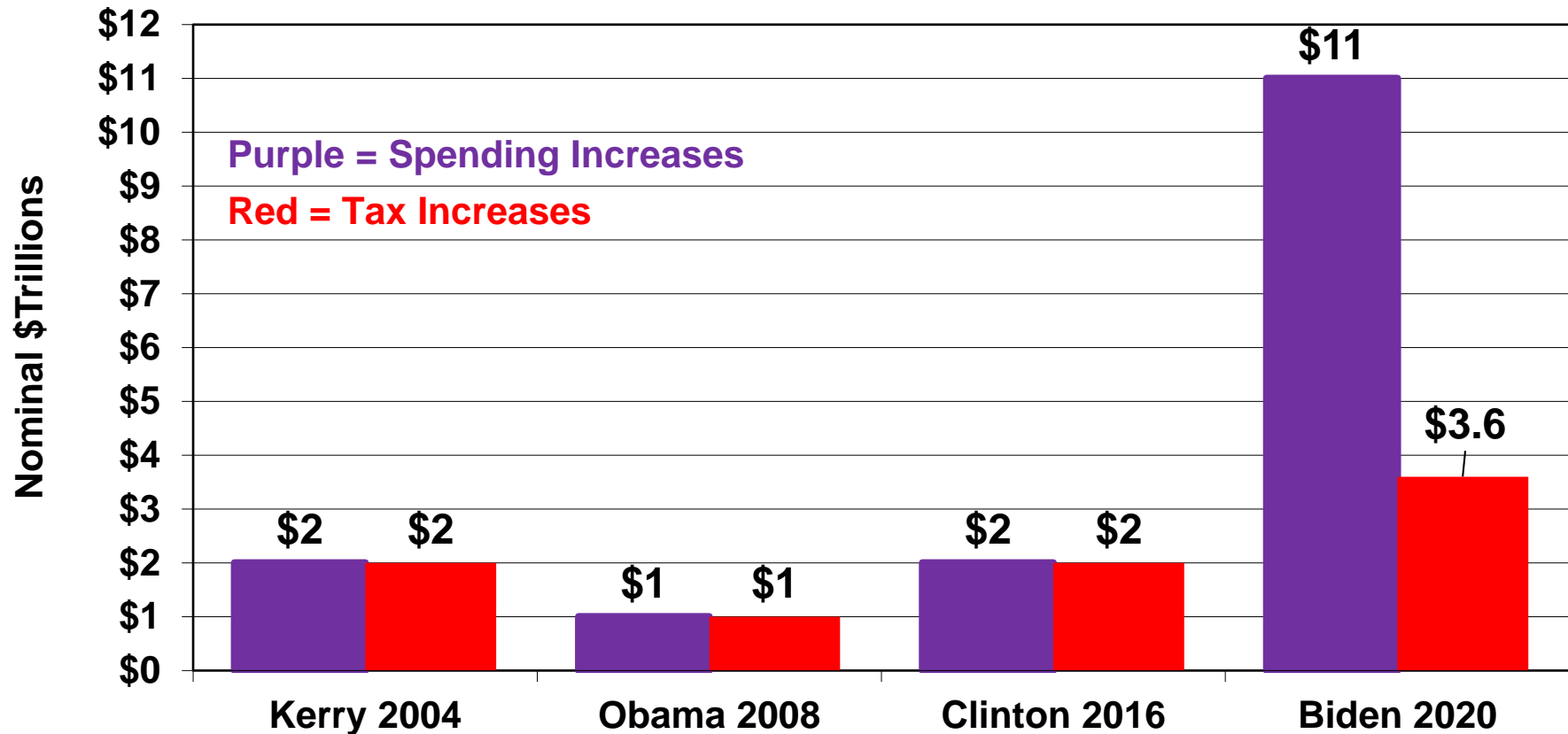
Revenue Proposal (\$Billions)	2021-2030
Raise Corporate Tax Rate from 21% to 28%	\$1,300
Apply Social Security Tax Above \$400,000 (no inflation adjustment)	\$962
Cap Gains & Dividend Rates to 39.6% over \$1 million – End Step-Up Basis	\$448
Cap Itemized Deductions at a 28% Deduction	\$376
Double Minimum Tax on U.S. Foreign Subsidiaries from 10.5% to 21%	\$309
Phase-Out Business Income Deduction Above \$400,000	\$219
15% Minimum Tax on Company's Book Income	\$166
Restore Top Income Tax Rate of 39.6%	\$143
Various Other Tax Increases	\$70
Revenue Reported by Tax Policy Center	\$3,944
Small Tax Cuts for Homebuyers, Renters, and Child Care	\$-350
Adjusted Total (1.4% of GDP)	\$3,644

Source: Tax Policy Center (TPC) and Committee For a Responsible Federal Budget (CRFB).
Static estimate does not account for any macroeconomic revenue losses.

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Biden's Spending Increase Proposals Dwarf Recent Democratic Pres. Candidates

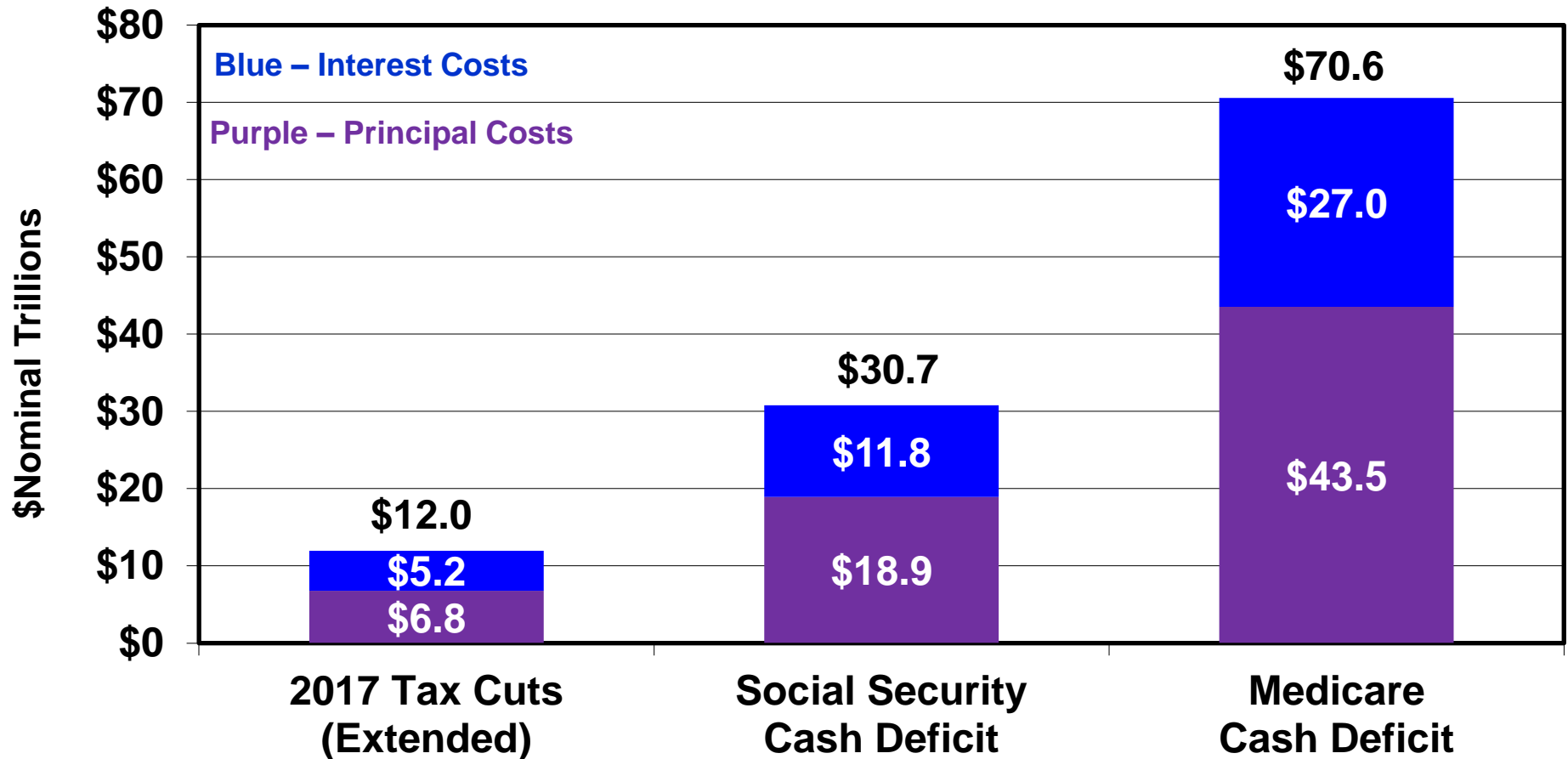
Ten-Year Budget Estimates of Candidate Plans (\$Trillions)



Source: Tax Policy Center, Committee For a Responsible Federal Budget, American Enterprise Institute, and public scores of Biden plans

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Extending Trump's Tax Cuts Would Dig Long-Term Debt Deeper



2020-2050 Projected Totals

Source: Calculated using the CBO 2020 Long-Term Budget Outlook earlier CBO tax estimates

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It Would Take Nearly All Progressive Hikes Just to Balance the Budget

CBO Forecasts \$13 Trillion Deficit over 2021-2030

Progressive Tax Proposal	2021-2030	Source
Repeal All 2017 Tax Cuts, Including Low-Income	\$455	CBO Data (dynamic)
8% Wealth Tax (Sanders)	\$2,809	Penn-Wharton (dynamic)
Lift Social Security Tax Wage Cap	\$2,180	Social Security Admin.
70% Income Tax Rate Over \$10 Million (AOC)	\$189	Tax Foundation (dynamic)
Mark-to-Market Taxation & Higher Capital Gains Rates	\$2,000	CRS, Warren campaign
77% Estate Tax (Sanders)	\$336	Sanders campaign
“Real Corporate Profits Tax” (Warren)	\$476	Tax Foundation (dynamic)
Repeal Major Corporate Tax Preferences	\$2,000	Various (dynamic)
Financial Transactions Tax of 0.1%	\$777	CBO Options
Financial Institutions Tax of 0.15%	\$103	CBO Options
Repeal Oil & Gas Tax Breaks	\$9	CBO Options
Carbon Tax (\$25/metric ton) – No Household Rebate	\$1,099	CBO Options
Interest Savings (net of add'l econ/interaction losses)	\$500	Author estimate
Total Savings Over Decade	\$12,933	

All figures in \$billions

Policies would balance 10-year budget, but 2030s deficits would re-emerge.

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