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

Brian Riedl
Senior Fellow, Manhattan Institute
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@Brian_Riedl
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

If interest rates return to 1990s or 2000s levels, net interest costs—and the deficit—will soar. The chart shows the surplus/deficit in nominal billions for fiscal years 2000 to 2030.

- **Historical and CBO Current-Policy Baseline Deficits**
  - Baseline: $236 billion (2000)
  - 1990s Interest Rates: $-1,413 billion (2009)
  - $-3,311 billion (2020)
  - $-2,025 billion (2030)
  - $-2,674 billion (2030)
  - $-3,243 billion (2030)

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

Author: Brian Riedl, Manhattan Institute -- @Brian_Riedl
CBO Long-Term Baseline Shows Unsustainable Debt

Note: This is the rosy scenario that assumes no wars, no recessions and continued low interest rates. It also assume all tax cuts expire as scheduled.

Source: CBO 2020 Long-Term Budget Outlook
Rising Interest Rates Could Push the National Debt Past 250% of GDP Within 30 Years

![Graph showing the national debt as a percentage of GDP from 2020 to 2050, with projections under the CBO Baseline.]

Average interest paid rate on national debt:
- 1980s: 10.5%
- 1990s: 6.9%
- 2000s: 4.8%
- 2010s: 2.1%
- 2020s: 1.4% (CBO projection)
- 2050: 4.4% (CBO projection)

CBO Baseline (Assumes rates gradually rise from 2.1% to 4.4% between 2030 and 2050)

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.

Author: Brian Riedl, Manhattan Institute -- @Brian_Riedl
What is Driving the Debt?
Soaring Federal Spending
Rising Spending – Not Falling Revenues – Drives the Long-Term Deficit

Percentage of GDP

Federal Spending

Tax Revenues

(17.8% if 2017 tax cuts are extended)

Source: CBO 2020 Long-Term Budget Outlook.

Author: Brian Riedl, Manhattan Institute -- @Brian_Riedl
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

Source: CBO 2020 Long-Term Budget Outlook and OMB Historical Tables.

Author: Brian Riedl, Manhattan Institute @Brian_Riedl
Composition of Federal Spending, 1962-2019

Source: OMB Historical Tables 3.2, 8.5, and 10.1

Author: Brian Riedl, Manhattan Institute -- @Brian_Riedl
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

Author: Brian Riedl, Manhattan Institute -- @Brian_Riedl
The 2017 Tax Cuts are a Relatively Minor Contributor to Soaring Deficits

Budget Deficit in Nominal $Billions

- Recession & Federal Response
- Underlying CBO Budget Deficit - Driven by Social Security, Health Benefits, & Debt Interest
- Pandemic Response
- 2017 Tax Cuts

Fiscal Year

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.

Author: Brian Riedl, Manhattan Institute -- @Brian_Riedl
Major Components of the $18.0 Trillion Deficit Projected Over 2020-2030 Period

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

Author: Brian Riedl, Manhattan Institute -- @Brian_Riedl
Rising Social Security & Medicare Shortfalls Drive Nearly the Entire Rising Deficit Between 2019-2030

Annual deficit is projected to rise from $984 billion to $2,025 billion

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.

Author: Brian Riedl, Manhattan Institute - @Brian_Riedl
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

Social Security

- $18.9
- $11.8
- $30.7

Medicare

- $43.5
- $27.0

Rest of the Federal Budget

- $3.3

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

Purple – Program Deficit
Blue – Interest Costs Directly Attributable to Program Deficit

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.

Author: Brian Riedl, Manhattan Institute -- @Brian_Riedl
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.

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.

Author: Brian Riedl, Manhattan Institute  -- @Brian_Riedl
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.

Author: Brian Riedl
Manhattan Institute
@Brian_Riedl
Social Security Faces a $31 Trillion Shortfall over 30 Years - $28 Trillion if Including the Trust Fund

$51.6

$73.5

$2.9

Payroll Taxes & Benefit Taxes

Program Outlays

$11.8

Interest Costs

$85.3

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.

Author: Brian Riedl, Manhattan Institute - @Brian_Riedl
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.

Author: Brian Riedl, Manhattan Institute - @Brian_Riedl
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

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

**Spending Proposals**

| Cut Defense Budget to European Target of 2% of GDP (data from CBO baseline)                  | $2,899                    | 0.80%                    |

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.
Biden and Trump Plans and the Challenge of Deficit Reduction
# Joe Biden has Proposed $11 Trillion in New Spending Over the Decade

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

*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

Author: Brian Riedl, Manhattan Institute
-- @Brian_Riedl
Joe Biden has Proposed $3.6 Trillion in New Taxes Over the Decade

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

Source: Tax Policy Center (TPC) and Committee For a Responsible Federal Budget (CRFB).
Static estimate does not account for any macroeconomic revenue losses.
Biden’s Spending Increase Proposals Dwarf Recent Democratic Pres. Candidates

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

Purple = Spending Increases
Red = Tax Increases

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

Author: Brian Riedl, Manhattan Institute -- @Brian_Riedl
Extending Trump’s Tax Cuts Would Dig Long-Term Debt Deeper

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

Author: Brian Riedl, Manhattan Institute -- @Brian_Riedl
It Would Take Nearly All Progressive Hikes Just to Balance the Budget

CBO Forecasts $13 Trillion Deficit over 2021-2030

<table>
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<tr>
<th>Progressive Tax Proposal</th>
<th>2021-2030</th>
<th>Source</th>
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<tr>
<td>Repeal All 2017 Tax Cuts, Including Low-Income</td>
<td>$455</td>
<td>CBO Data (dynamic)</td>
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<tr>
<td>8% Wealth Tax (Sanders)</td>
<td>$2,809</td>
<td>Penn-Wharton (dynamic)</td>
</tr>
<tr>
<td>Lift Social Security Tax Wage Cap</td>
<td>$2,180</td>
<td>Social Security Admin.</td>
</tr>
<tr>
<td>70% Income Tax Rate Over $10 Million (AOC)</td>
<td>$189</td>
<td>Tax Foundation (dynamic)</td>
</tr>
<tr>
<td>Mark-to-Market Taxation &amp; Higher Capital Gains Rates</td>
<td>$2,000</td>
<td>CRS, Warren campaign</td>
</tr>
<tr>
<td>77% Estate Tax (Sanders)</td>
<td>$336</td>
<td>Sanders campaign</td>
</tr>
<tr>
<td>“Real Corporate Profits Tax” (Warren)</td>
<td>$476</td>
<td>Tax Foundation (dynamic)</td>
</tr>
<tr>
<td>Repeal Major Corporate Tax Preferences</td>
<td>$2,000</td>
<td>Various (dynamic)</td>
</tr>
<tr>
<td>Financial Transactions Tax of 0.1%</td>
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<td>CBO Options</td>
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<td>CBO Options</td>
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<td>CBO Options</td>
</tr>
<tr>
<td>Interest Savings (net of add'l econ/interaction losses)</td>
<td>$500</td>
<td>Author estimate</td>
</tr>
</tbody>
</table>

**Total Savings Over Decade** | $12,933 |

All figures in $billions
Policies would balance 10-year budget, but 2030s deficits would re-emerge.

Author: Brian Riedl, Manhattan Institute
-- @Brian_Riedl