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### **Consequences of the Current Fiscal Trajectory - Opening Remarks**

The green button is very subdued here. Just before answering Jackie's question, I can't help but note that the room looked different than an hour ago. I understand traffic can affect these things, and now it's packed to the gills. I just want to thank you John Podesta and the CAP team in the terrific job they did in conceiving and promoting this conference. It's been our pleasure to be their partner in working with them on it. In a word, CAP's high reputation is well deserved. As I noted, when I first got up, we at the Center (CBPP) periodically issues long term fiscal forecast. We just completed a new one. It'll be out in the next few weeks. Let me commend the budget team at the Center for their hard work in putting this together. I just want to share a few tid bits from it because it really sets the stage for my comments, Jackie, in answer to your question.

As I noted before, if you continue current policies without change, the debt held by the public rises to somewhere in the rough vicinity of 300 percent of GDP by about 2050 and deficits looks like they're in the range of 20 percent of during their period. This is all unprecedented. As Allen noted, by far the largest driver of this is the rising cost of health care. The loss of revenues from extending the Bush tax cuts also contribute. Social security is also a factor, but it actually rises fairly modestly as a share of GDP between now and 2030 and then stabilizes as the demographic changes abate. So unlike Medicare and Medicaid, Social Security does not relentlessly rise faster than GDP. Part of the reason I'm mentioning this, if I could have the first slide please, is that what's often not recognized is that all federal spending other than Medicare, Medicaid, Social Security and interest payments on the debt, has actually declining as a share of GDP for several decades and is actually projected to continue to do so. That's the blue slice on the top of the chart. Contrary to an often heard phrase, we do not have a general entitlement crisis. We have an issue with the big three—Medicare, Medicaid and Social Security—and as Allen said, with Medicare and Medicaid, and with revenues.

Now, why should we really focus on this now? In a nutshell, we can either try to shape the inevitable response or we can have it imposed upon us. I very much agree with the economic analysis that Allen and Laura have just gone through about the consequences of remaining on the current course. Some people disagree it's hard for me to understand how if the debt relentlessly rises faster than the economy, decade after decade, you don't ultimately get some economic consequences. But the point I want to make here is, even if you disagree with the analysis and I know some people disagree with that economic analysis, in a broader political sense, I'm afraid it doesn't matter because financial and international markets, and as a result the political system, are not going to let us stay on the course forever.

If I can offer a personal memory—I still remember the day in February 1980, I was running the food stamp and other food assistance programs for President Carter at the time. President Carter had brought out his budget. The deficit was 16 billion, 13 billion, 30 billion some number too small to remember in the context of current numbers. I

remember getting the phone call saying, “Bob, the bond markets have trembled. The president is redoing his budget. You have 48 hours to give us X-billion dollars in food stamp cuts.” Think of this year as another example—at the beginning of the year, President Obama said health care has to be paid for. I’ll tell you, when I went on to Capitol Hill and talked to key committees in March and April, I would say: how are you thinking about the offsets to pay for it? After discussing some ideas, people would say, “you know at the end of the day, we’re not going to come up with enough offsets to pay for the whole thing. We’ll pay for what we can. The rest of it we won’t pay for.” Then came May. With some reactions and some developments in the markets that unsettled people. The President toughened his rhetoric and basically said I will not accept a health care bill that increases the deficit. And when I went to talk to the same people on Capitol Hill, there was a sea change and the only discussion was we must fully pay for every dollar in cost in the health care bill. Now these were market responses to fiscal outlooks much less daunting than the long term fiscal path we’re discussing here today. And it takes me back to my bottom line: we can either shape the response or we can have it imposed upon us.

What are the consequences of having it imposed upon us? For those people, those progressives who are particularly interested in investments, *if I could have the second slide please*, lots of investments are in the discretionary, the non-entitlements side of the budget. Could I call your attention to your chart that only goes to 2019? Only through 2019? Look at this, interest payments on the debt are 177 billion this year. Under the current policy course, they’re projected to hit 900 billion in 2019. Now look at the blue bar, 584 billion dollars in non-defense—that’s both domestic and international discretionary spending. The 671 billion in the blue bar in 2019 is merely a mechanical extrapolation of the ’09 level adjusted for inflation. Does anyone in the room really think that it would be 671 billion dollars in 2019 if we’re paying 900 billion dollars in interest payment on the debt? If we drift, ultimately there’s some crisis or perceived crisis and deficit reduction is imposed without a very careful plan, that doesn’t involve people without progressive values, the risk is high for the people with the least political power in this country bear a disproportionate share of the burden even though, by and large, they’re lower on the income scale. Now, I’m an optimist in the sense that, in response to a comment made by Jackie earlier, I think the political system is capable of responding in a balanced way, and my evidence of that is 1990 and 1993. In both years, the political system produced a balanced deficit reduction package; both packages had progressive tax increases, health care savings, other savings; both set roughly a 500 billion dollar over a 5-year target for deficit reduction. Both were designed in a way to produce gross savings of more than 500 billion, take the additional amount and plow it back into things like the two largest expansions of the Earned Income Tax Credit for low income working families in history. The two largest expansions were part of those two deficit reduction packages. Those packages showed that it is possible in this country to reduce deficits and reduce poverty and inequality at the same time. Deficit reduction is not antithetical to moving a progressive agenda and progressives should not be afraid to step up to the plate and help tackle this issue.

Let me close with two observations. One, I wish, all of us and not just progressives, but policymakers, the media, conservatives, could get beyond the way we talk about taxes over here, and spending over there. Often the distinction is artificial. As we'll hear from the tax panel discussion, the tax code is filled with what analysts call "tax expenditures," spending in the tax code, what Alan Greenspan once called "tax entitlements." And on the spending side of the ledger, we have a variety of spending items that aren't all that different than their function than tax loopholes. Think of some of the elements of foreign price supports or look at what the current health care debate is showing us about various unwarranted subsidies in the spending side of health care. So the bottom line, let's start digging into these issues. Let's not kick the can down the road. If we do kick the can down the road, and a national or international crisis occurs, that forces swift and large deficit reduction action at a time when the political pendulum has changed sharply—think about what Charlie Cook just said—If that occurs, I really have the fear that many of the things that I and many of you have worked on throughout our lives, so that our fellow Americans can live better lives, could be swept away and little of them could remain. I think that's one of the reasons this challenge is so important.