The National Debt & Federal Budget:
2020 Presidential Election Issue Guide

In the months ahead presidential candidates will make many promises and offer ambitious economic plans. But within weeks of taking office the next president will have to fit these plans into a proposed budget to submit to Congress. With nonpartisan budget projections showing an unsustainable path under current laws, it is critical for whoever is elected president in 2020 to chart a more responsible and sustainable fiscal course. Presidential candidates should therefore explain how they would do that or explain why they would not.

The Concord Coalition is working to raise public awareness of the dangers posed by the nation's growing debt and to make dealing with this problem a high priority for 2020 presidential candidates. We encourage all candidates to answer this question:

"If you are elected president,
what will you do to address the national debt?"

The national debt and related federal budget issues are rife with myths and misinformation -- often amplified by candidates and others during campaigns. Voters have a right and a responsibility to ask how the candidates plan to put the nation on a more responsible fiscal path and to find out whether their plans are based on factual analysis.

This guide is intended to serve as a nonpartisan resource to voters, media and candidates on these issues. Voters should not settle for campaigns devoid of serious and substantive discussion about the nation's fiscal challenges. We offer this guide to help those who want to elevate a fact-based dialogue throughout the 2020 race.

The guide is organized by common themes that will likely be discussed regarding federal budget issues over the course of the 2020 campaign. This is no time for vague rhetoric and petty partisan jabs; voters should insist on credible solutions -- the more specific, the better. Some of these solutions won't be easy, but doing nothing is the height of fiscal and generational irresponsibility.

Deficits and Debt

Do candidates acknowledge that the growing national debt is a serious issue?

It is important to understand the differences between federal budget "deficits" and "debt". These terms are often misunderstood. *Deficits* occur in years when federal spending exceeds revenue. The accumulation of these deficits plus related interest costs add to the national *debt,* which also includes money the government owes to its own trust funds. In recent years, both deficits and the debt have grown and they are projected to continue on an unsustainable path.

Consider:

- The federal budget deficit has grown from $439 billion in 2015 (the post-recession low) to $779 billion in 2018. It is projected to reach $896 billion in 2019, increasing further to $1.1 trillion in 2022 and $1.3 trillion in 2029.

- Measured as a share of the economy (gross domestic product, or GDP), deficits are projected to average 4.3 percent of GDP over the next 10 years. That is a substantial increase from the average over the past 50 years (2.9 percent of GDP).

- The gross national debt is $22 trillion. This equates to about $173,000 per American household. The gross debt is comprised of "debt held by the public," which is what the government owes to its outside creditors, such as those who purchase government bonds, and "intragovernmental debt," which is what the government owes to its own trust funds, such as the Social Security and Medicare trust funds.

- Debt held by the public is currently $16 trillion (78 percent of GDP). The intragovernmental debt is nearly $6 trillion. Because debt held by the public is bought and sold on the open market and helps determine interest rates, most economists think debt held by the public is a better measure of a country's exposure than gross debt.

- As a share of GDP, debt held by the public is projected to grow by $11.4 trillion over the next 10 years, reaching a level higher than it was in the immediate aftermath of World War II -- its largest level in history -- by the mid-2030s. This is not because another war or economic depression is anticipated. Projections assume a continuously growing economy and no major foreign wars, yet the debt is still projected to skyrocket. The problem is a structural mismatch built into current law.

- If Congress follows past practice and extends a number of tax cuts that are scheduled to expire and ignores spending caps scheduled to take effect in Fiscal Years 2020 and 2021 debt held by the public would increase by an additional $3.8 trillion including added interest costs through 2029, reaching 105 percent of GDP.

Debt and the Economy

Is addressing our national debt a key part of the candidates' economic plans?

Addressing our fiscal challenges and growing the economy are not mutually exclusive policy goals. They are interrelated. Failing to deal with the rapid growth in the debt will have negative ramifications for the economic well-being of Americans.

Consider:

- High borrowing to finance the debt crowds out productive private-sector investments in people, machinery, technology and research. This can result in slower economic growth, fewer job opportunities and lower wages. Meanwhile, rising federal debt can lead to higher interest rates, increasing the cost of mortgages, car loans, student loans and credit card debt.

- Growing government debt also crowds out public investment by requiring an increasing share of the federal budget to go towards interest payments instead of public investments in research and development, education and infrastructure.

- Within 12 years all federal revenues are projected to go toward interest payments and "mandatory" spending -- programs that grow on auto-pilot such as Medicare, Medicaid and Social Security. This will leave less for the "discretionary" spending controlled through the annual appropriations process, which includes domestic investments and national defense.

- Addressing deficits can be a source of strength. According to nonpartisan analysis by the Congressional Budget Office (CBO), simply stabilizing the debt at its current share of GDP could boost the size of the economy by about $4,000 per-person after 30 years in today's dollars. Such a plan could be implemented gradually to avoid slowing the economy. Reducing the debt to GDP ratio to its average over the past 50 years could boost the future size of the economy by about $6,000 per person in the CBO analysis.

Leading Drivers of the Debt

Do candidates have credible plans that address the core drivers of our unsustainable budget path, or do they put forward commonly cited non-solutions?

The answer to our fiscal problems is not simply cutting waste, fraud, and abuse, or relying entirely on growing the economy or raising taxes on the rich. These could all help. But the most fundamental cause of our fiscal problems is the gap between projected federal revenues and programs that operate on autopilot, referred to as “mandatory spending” because their funding is not determined through the annual appropriations process. The largest mandatory programs are Social Security and Medicare, which together comprise 38 percent of the budget. As the population ages and per-person health care costs continue to rise, mandatory programs will become more expensive. Revenues are projected to grow as well, but not by enough to keep up. This will lead to growing deficits, debt and interest payments.

Consider:

- Over the next 10 years, the major health care and retirement programs, along with interest on the debt, will grow to almost 70 percent of total federal spending -- up from 57 percent in 2019.

- Interest on the debt is projected to become the fastest growing category of federal spending. In 2019, CBO projects we will spend $383 billion on interest payments, roughly equal to the combined federal spending on education, transportation, veterans benefits, environmental protection and law enforcement. CBO estimates that interest costs will exceed federal Medicaid spending in 2020, all non-defense discretionary spending in 2024 and defense spending in 2025.

- According to CBO, an interest rate increase of 1 percentage point above projections each year would increase cumulative deficits by $1.6 trillion over the next 10 years.

- It is important to combat waste, fraud and abuse -- but there is no line item in the budget for these things, and even eliminating them would only marginally reduce the debt. Foreign aid, another commonly cited target for budget cuts, makes up just 1 percent of total federal spending.

- Economic growth is crucial but alone can’t solve the debt problem. The growth required would be unprecedented. Furthermore, many spending programs -- including the large retirement and health care programs – grow faster when the economy does. This counteracts some of the deficit-reduction benefits of economic growth.

Social Security

Do candidates offer plans to make Social Security secure for future generations?

Social Security is a critical program that provides retirement and disability income to 63 million Americans. It is also the largest federal program ($1 trillion in 2019), accounting for nearly one-quarter of all federal spending. Despite its dedicated revenues, however, Social Security promises more benefits in the future than it can deliver. Since 2010, Social Security has been paying out more than it takes in on an annual basis, and its trustees warn that the program cannot sustain its projected long-run costs.

Consider:

- According to the Social Security trustees, the program will run operating deficits of nearly $1.8 trillion over the next 10 years. Benefits can still be paid by cashing in government bonds in the trust funds but to obtain this cash the U.S. Treasury must cut other spending, raise taxes or borrow from the credit markets.

- The combined Social Security trust funds (Old Age and Survivors and Disability) are projected to be depleted in 2035, which would result in an immediate across-the-board benefit cut of 20 percent.

- In 1960 there were approximately five workers for each Social Security beneficiary. Over the past two decades, the ratio has been closer to three workers for each beneficiary. As the baby boom generation retires, the ratio will shrink to two workers per beneficiary by the 2030s. This means that without placing a larger tax burden on workers or cutting benefits to retirees, the program will incur large deficits.

- Waiting to address Social Security's finances will require larger benefit cuts or tax increases, spreading this burden over fewer people, requiring abrupt and less targeted changes, and leaving workers with less time to plan and adjust.

- For example, it would now take an immediate and permanent payroll tax rate increase of 2.70 percentage points (from 12.4 percent to 15.10 percent), or a benefit cut of about 17 percent applied to all current and future beneficiaries to achieve 75-year solvency. Waiting until 2035 to act would require a payroll tax increase of 3.65 percentage points to 16.05 or a benefit cut of 23 percent to maintain 75-year solvency.

Health Care

Do candidates offer plans to rein in the growth of federal health care spending?

Nearly 18 percent of economic activity in the United States involves health care and that is projected to grow in the future because health care costs have historically grown more quickly than the economy. This puts pressure on businesses, wages, and government programs.

Federal health care programs account for over one-quarter of all government spending in 2019 (more than $1.1 trillion). In addition to projected growth because of health care cost inflation, the aging of the population will continue to drive up spending because there will be more Medicare and Medicaid beneficiaries.

Two important health care issues are sometimes conflated. Who pays for health care is a discussion about insurance, whether through a government insurance program like Medicare or private sector insurance through one's employer or the Affordable Care Act marketplace, both subsidized by the government through the tax code.

How much that insurance costs overall and how quickly those costs go up is a discussion about health care inflation and our country's uniquely expensive and inefficient health care system. This is the discussion that ultimately is most important when considering the federal budget and it is the discussion that policymakers in Washington have been largely avoiding as they argue about who pays for health insurance.

Consider:

- Over the next 10 years annual federal health spending is projected to nearly double to $2.1 trillion. Over 30 years, spending on federal health care programs is projected to grow from 5.2 percent of the economy (GDP) in 2019 to 9.2 percent of GDP.

- The US continually spends double the amount on health care per-capita versus other developed countries yet health outcomes are no better and often worse.

- Population aging accounts for roughly one-third of the projected increase in federal health care spending over the next 30 years. The remaining increase is due to cost inflation.

- There has been a recent slowdown in cost inflation -- over the last decade costs have risen at about the same rate as economic growth. How much of the slowdown represents a permanent shift is uncertain, and every nonpartisan projection shows health care costs growing more quickly than the economy in the future.

Taxes

Do candidates have a tax plan to help put the national debt on a more sustainable path?

Federal revenues are not keeping pace with expenditures, a trend that will continue as federal spending on health and retirement programs is projected to increase. At the same time the U.S. tax code is complicated and inefficient.

Consider:

- Revenues over the past 50 years have averaged 17.4 percent of the economy (GDP). In 2018, however, revenues were 16.4 percent of GDP. Under current policies, revenues are projected to remain below the historical average over the next 10 years.

- The tax cuts enacted in 2017 are projected to lower revenues by $1.3 trillion over 10 years from what they would have been otherwise even when “dynamically” scored to account for positive economic feedback. Assuming that the cuts currently scheduled to expire in 2025 are extended adds another $650 billion to the revenue loss.

- Exemptions, deductions, credits and exclusions within the income tax system are often called “tax expenditures” because they are essentially spending programs in disguise. They have much the same impact as if the government had simply written checks to the beneficiaries but these provisions generally receive far less scrutiny than direct spending.

- Tax expenditures total more than $1.6 trillion a year. That’s more than half of total revenues in 2019 and is more than all discretionary spending.

- Reducing the number or scope of these provisions would make the tax code simpler, fairer and more likely to promote economic growth. Because tax expenditures tend to have greater value for upper-income households, it would be possible to reform them in a way that lowers tax rates, retains progressivity and brings in additional revenue to reduce the deficit. A simpler tax code would also be easier to enforce, potentially boosting revenue by hundreds of billions of dollars a year.

Prioritizing Critical Investments

Do candidates prioritize and budget for critical investments to grow the economy?

The CBO projects that the economy will grow at an average annual rate of just 1.9 percent over the next 30 years (adjusted for inflation). That would be a significant drop from the 2.5 average rate over the past 30 years. As interest costs and mandatory spending continue to grow faster than the economy or the tax base, federal discretionary spending on investments such as education, transportation, research and development, and defense will increasingly be squeezed out. Candidates should have fiscally responsible plans that budget for critical investments that will help grow the economy.

Consider:

- Since 1950, the growth in potential GDP (the maximum possible production of the economy if all resources were fully utilized) has been due in roughly equal parts to a growing labor force and rising productivity. However, over the next decade, CBO projects labor force growth will be just one-third of the recent historical average while productivity growth will be slightly below its average since 1950. This means that achieving growth anywhere near past levels will require new policies that increase the size of the labor force and improve productivity.

- In 1970 mandatory spending including interest was about 40 percent of the budget and discretionary spending was about 60 percent. By 1990 those ratios had reversed, and today only 30 percent of the budget is discretionary -- compared to 61 percent on mandatory spending and 9 percent on interest. Over the next 10 years, discretionary spending is projected to fall to less than one quarter of the budget as mandatory and interest costs grow.

- Federal investment spending has already been declining for years. Forty years ago the government spent 4.1 percent of GDP and 21 percent of the budget on investments. It now spends only 2.4 percent of GDP and 12 percent of the budget on investments.

- Discretionary spending has averaged 8.4 percent of GDP over the past 50 years. In 2019, it will equal 6.3 percent of GDP and is projected to fall to 5 percent under current law. This would be the lowest level of discretionary spending relative to GDP in modern history.

Help Make the Debt a Top Issue in 2020

The debt cannot be ignored. It will be there when the next presidential term starts and it will have an influence on every new initiative the administration may propose. So it is best now, during the campaign, for candidates to prepare themselves and the public for the tough choices ahead. To help focus attention on the nation's fiscal challenges, ask the 2020 presidential candidates to do the following:

1. Acknowledge that the growing debt is a serious PROBLEM

Given budget projections, it is not credible to deny the problem or pretend that economic growth or waste reduction alone will solve it. Failure to acknowledge this problem will allow high debt levels to persist, resulting in slower economic growth and a lower standard of living than would otherwise be the case.

2. Make dealing with the debt a top policy PRIORITY in their campaigns

The debt does not need to be a candidate's only campaign priority, but it must be among the top priorities in order to have a mandate for action. Candidates must make clear, serious commitments to address the debt; they cannot just say that it must be dealt with at an undefined time in the future.

3. Put forward a PLAN for what they would do, not what they would refuse to do

Candidates need to put forth credible plans that deal with the structural mismatch between growing benefit promises and projected government revenues. At a minimum, candidates must not tie their own hands by taking items off the table during the campaign.

4. Explain how they would PAY for their policy initiatives

No matter what candidates' priorities might be, their campaign promises must fit within a sustainable budget. For example, advocating for a more activist government, a more robust military, or lower taxes must be done in tandem with information about how these plans would be credibly financed.

5. Use their platforms to engage and educate the PUBLIC about the tough choices in order to prepare for action once in office.

Candidates must engage the public on the magnitude of the problem, the importance of acting sooner rather than later and why their plan has the best solution. Additionally, candidates must be willing to consider credible alternatives offered by others and work towards building a consensus.

Some Consequences of Rising Debt

- "Crowding out" of private sector investment, leading to slower economic growth and a lower standard of living for current and future generations
- Higher interest rates on loans for households and businesses
- Higher government interest payments displacing other government priorities and investments
- Reduced fiscal flexibility for the government to react to wars, recessions, or other national needs and emergencies

50-year averages (% of GDP) vs. 2019 and 2029

	50-yr	**2019**	**2029**
Debt held by the public	42	78	92
Budget deficits	2.9	4.2	4.4
Spending	20.3	20.7	22.9*
Revenues	17.4	16.5	18.3**
Mandatory spending	9.9	12.7	14.9
Total discretionary spending	8.4	6.3	5.0
Defense discretionary	4.6	3.1	2.5
Non-defense discretionary	3.8	3.1	2.5
Net interest	2.0	1.8	3.0

*Assumes that current law spending caps for 2020 and 2021 are maintained
**Assumes that some 2017 tax cuts expire as scheduled after 2025

Demographics and the budget

- In the coming decade, the population age 65 and older will grow by roughly one-third, By 2029, 20 percent of the population will be age 65 or older, compared with 16 percent today.
- According to CBO, the average annual growth rate of potential labor was 1.4 percent from 1950 to 2018. Due mostly to the baby boomers' retirements, that rate will fall to just 0.5 percent from 2019 to 2029, slowing potential economic growth.
- Within 10 years, 50 percent of non-interest federal spending will go to people age 65 or older primarily through Social Security, Medicare, Medicaid and federal civilian and military retirement. Such spending equaled 40 percent of GDP in 2018.