



Peter G. Peterson
Foundation

Our America. Our Future.

America's Third Fiscal Turning

Federation of Tax Administrators
Denver, Colorado
June 1, 2009

Eugene Steuerle
Vice-President, The Peter G. Peterson Foundation

To receive Gene's regular column, "The Government We Deserve," send an email to:
thegovernmentweddeserve@pgpf.org

Short & Long Run Fiscal & Tax Policies Have Merged

- **Long Run**
 - Baby boomer retirement
 - Long-term health costs
 - Broken government (proliferation of agencies, programs, tax subsidies)
- **Short Run**
 - Largest deficits since World War II
 - Worst downturn (maybe) since World War II
 - Huge revenue shortfalls from spending levels
- **Intermediate Term**
 - Huge unwinding from deficits & monetary expansion
 - Unwinding from temporary spending/tax policy
 - Continually rising debt/GDP (federal & state)

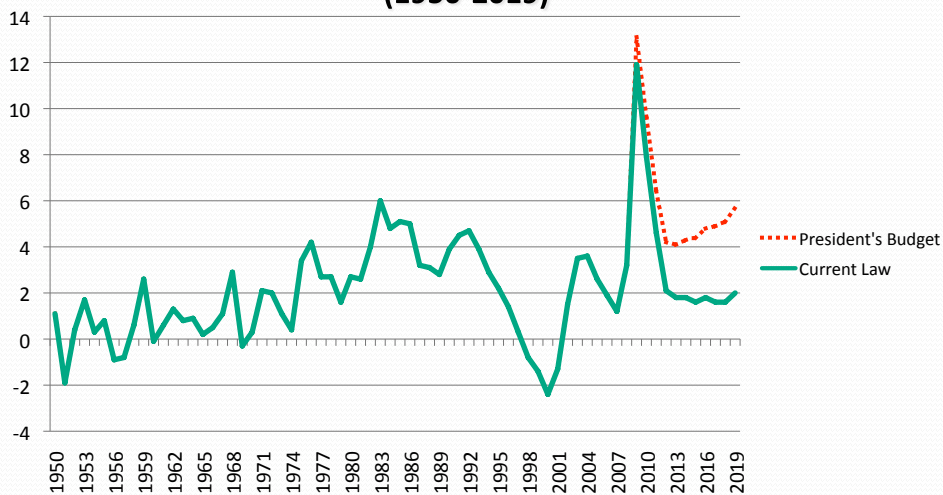
2

Outline

- Debt, Deficit, & Fiscal Misery Projections
- The Squeeze on Basic Government
- A Budget for Long-Term National Decline
- Further Implications for Tax Policy
- The Third Fiscal Turning: Restoring Slack and Democratic Decision-Making

3

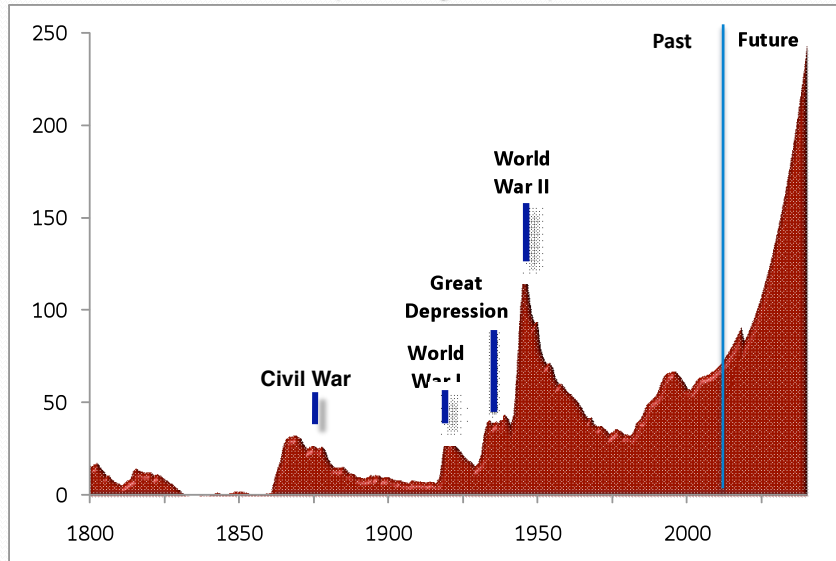
Deficits as a % of GDP (1950-2019)



Source: Office of Management and Budget FY09 Historical Tables and Congressional Budget Office Updated Budget and Economic Outlook (March-09)

4

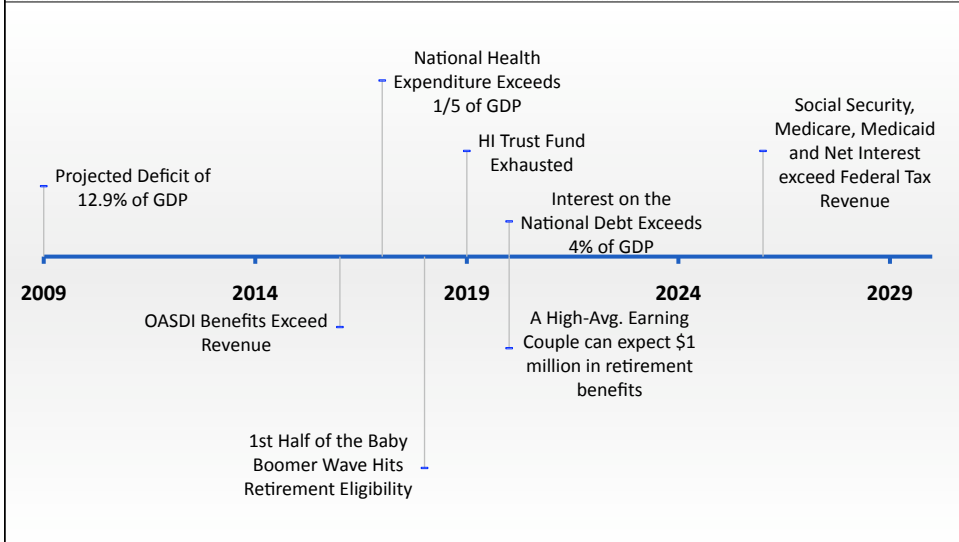
The U.S. Federal Debt (Percentage of GDP)



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

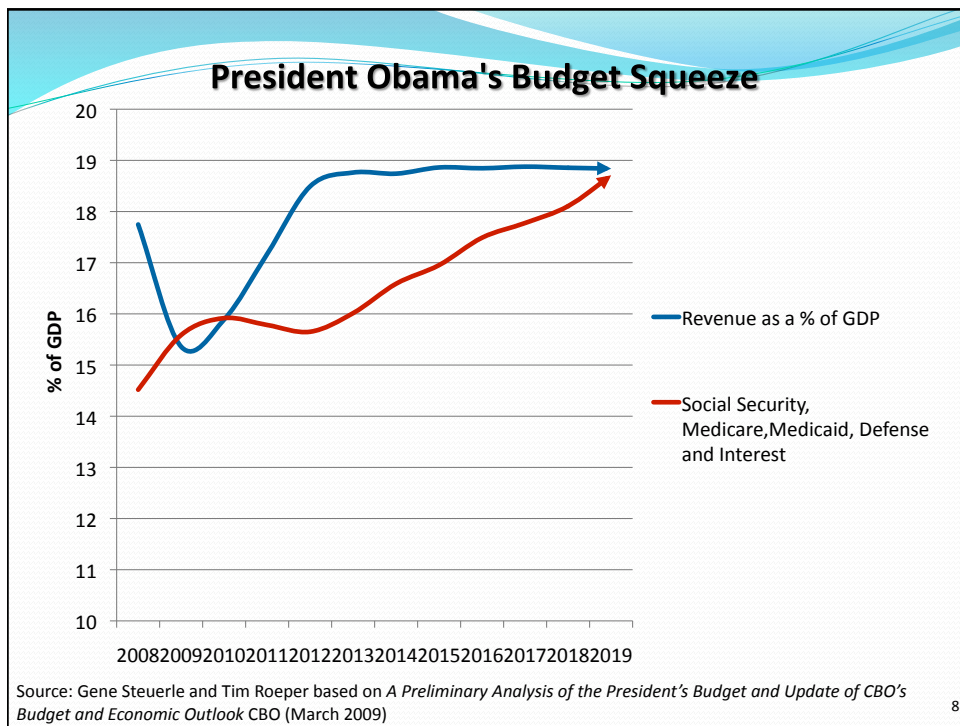
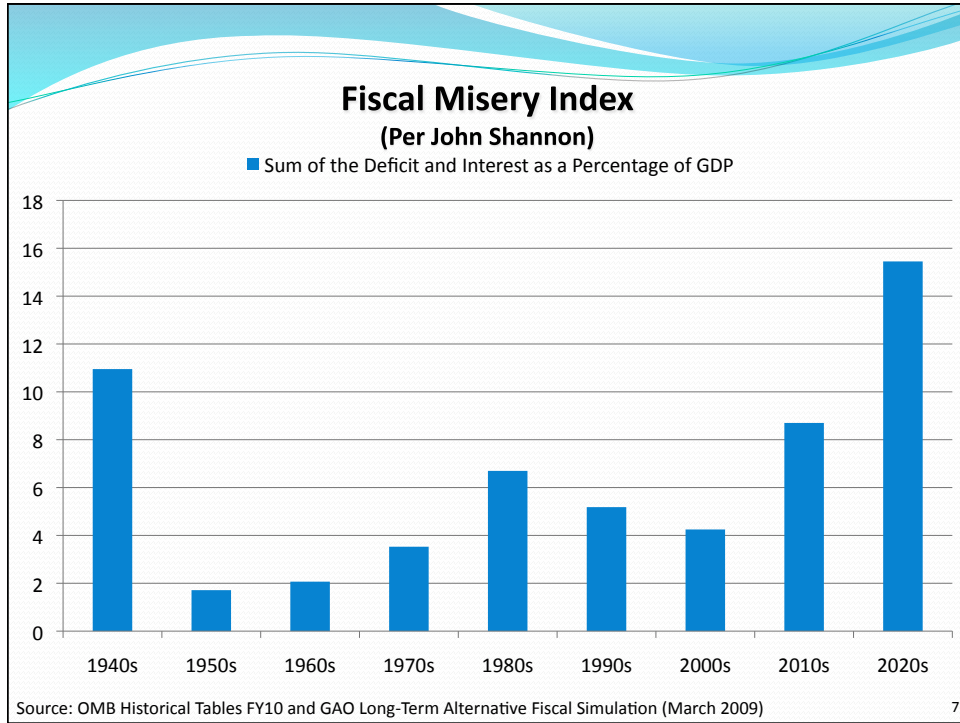
5

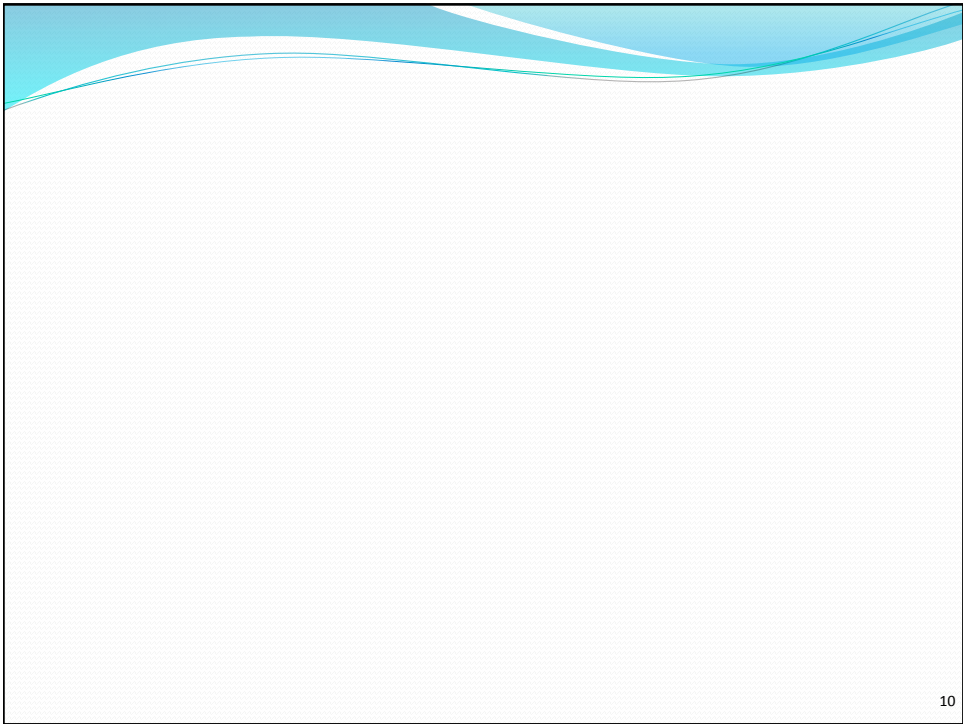
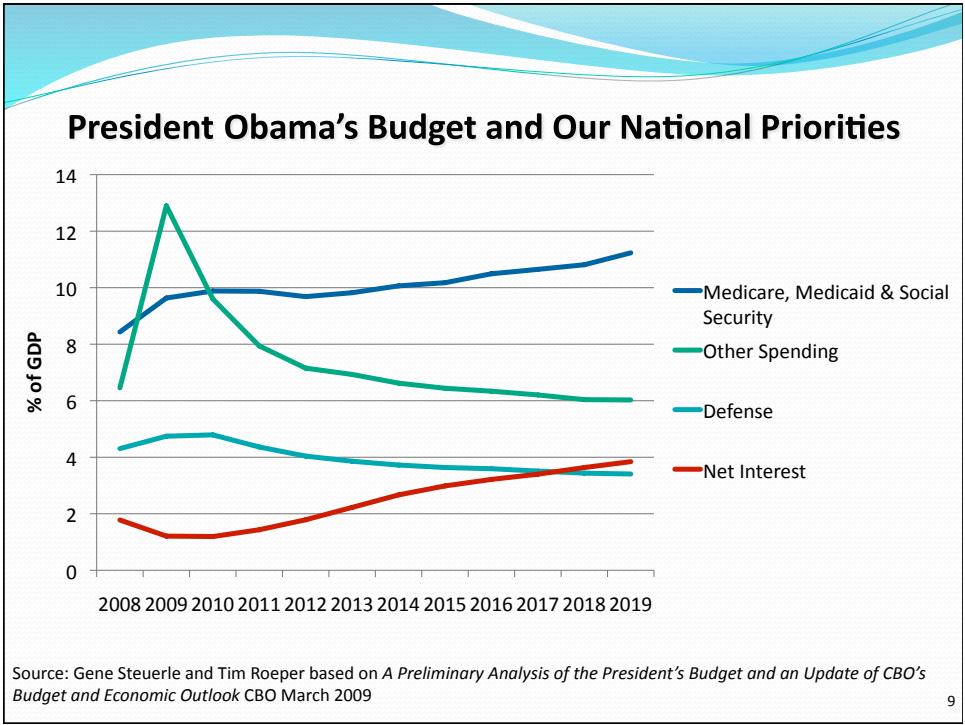
Fiscal Timeline

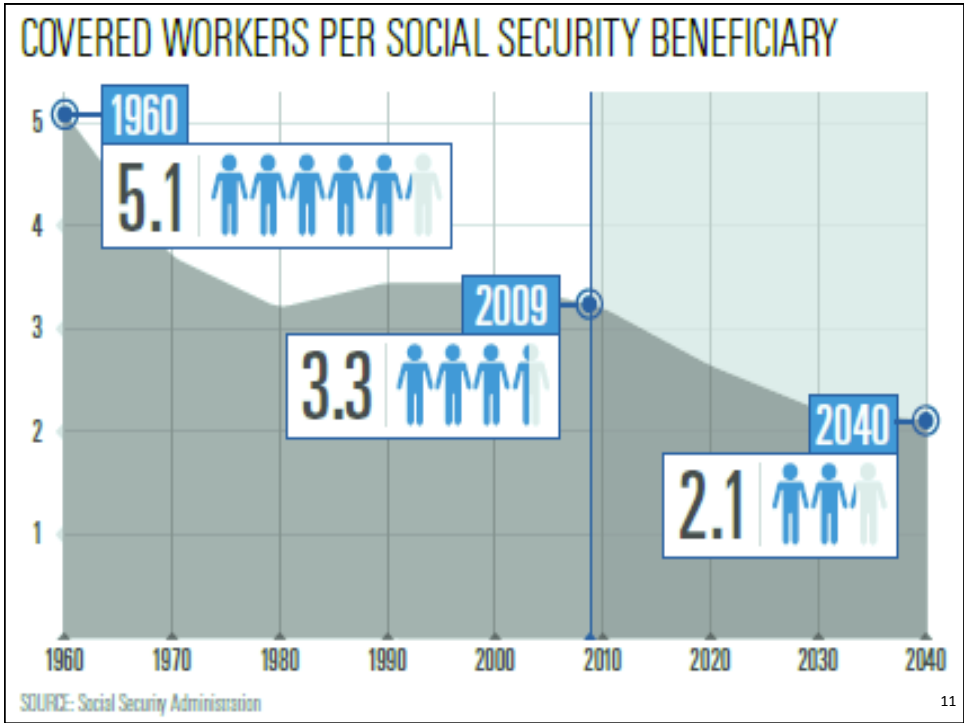


Sources: CBO Updated Budget and Economic Outlook (03/09), OASDI and HI/SMI Trustees Reports (05/09), and GAO Long-Term Alternative Fiscal Simulation Using Trustees' Assumptions (03/09)

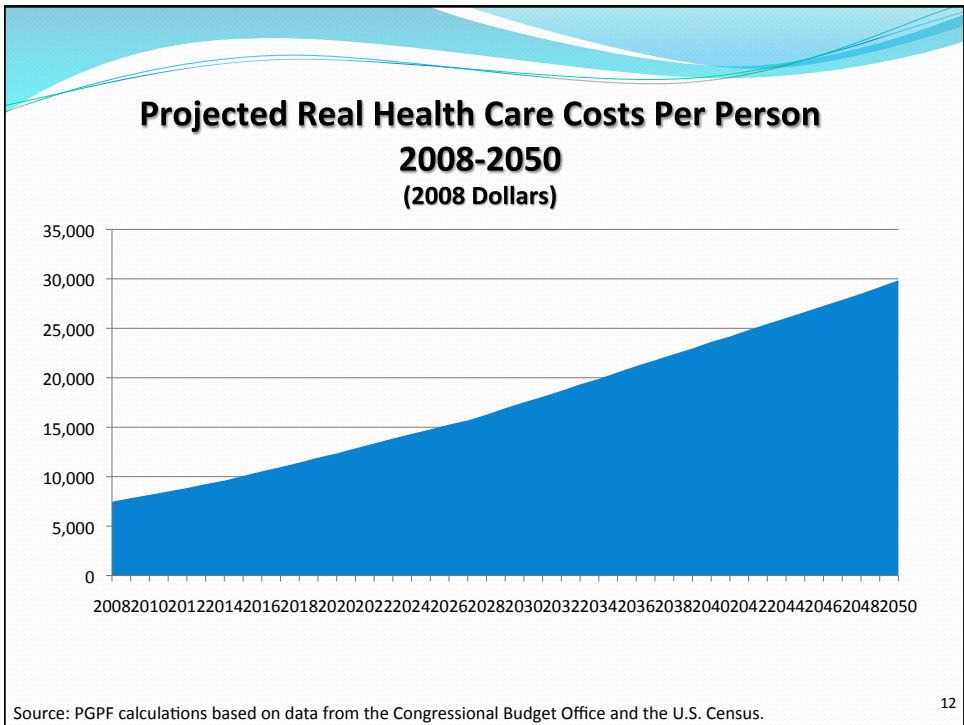
6



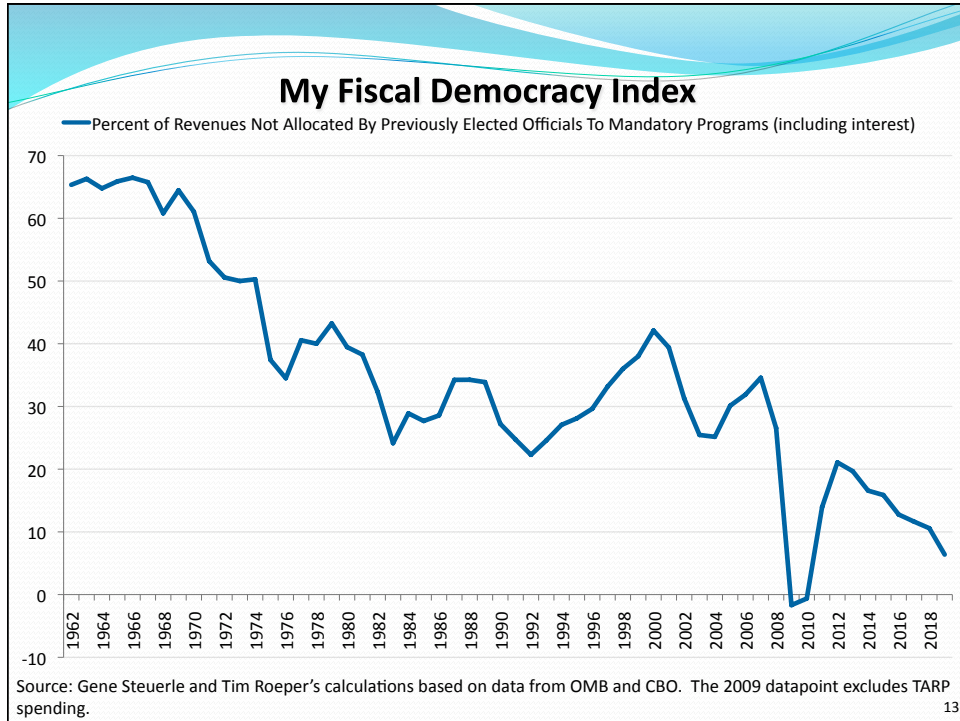




11



12

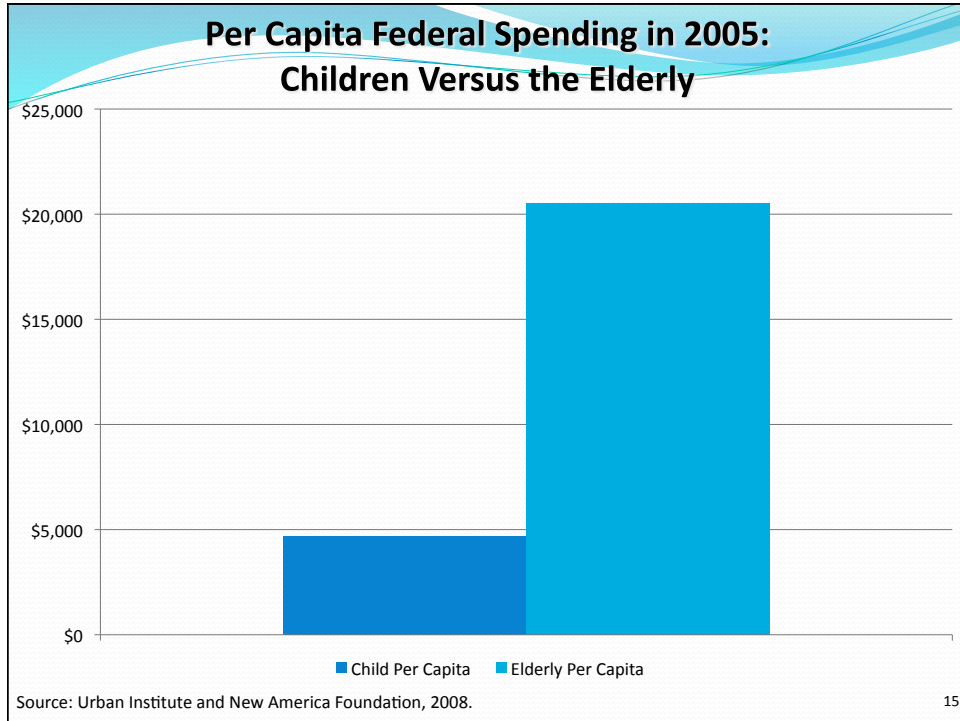


13

SOON...VERY SOON

- **ANY spending**
 - on education, environment, welfare, community development and most domestic programs must be paid for out of:
 - **Deficits (this is not sustainable)**
 - **Rescinding of tax cuts or tax increases**
 - **Pared growth in retirement and health spending**
 - **A very small international and defense presence**

14



- ### Further Implications for Tax Policy
- Tax reform: what will it address?
 - Revenue raising
 - Macro-economic policy (Keynesian, supply side)
 - Progressivity
 - Traditional tax policy principles
 - Equal justice
 - Efficiency
 - Simplicity
- 16

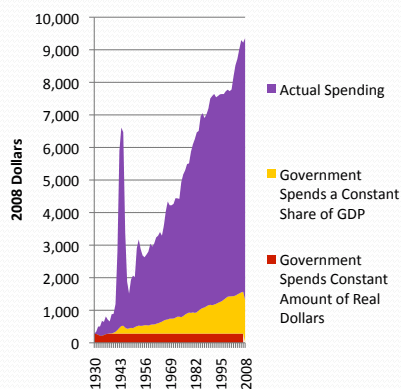
Constraints on tax reform

- Both political parties fail:
 - To recognize that tax levels = spending levels
 - Just some taxpayers are in the future or have not been identified
 - To break away from narrow debate on taxing rich
 - To address middle-class on either tax or spending
 - To admit that some complexity is inevitable
 - To break away from tax expenditure games

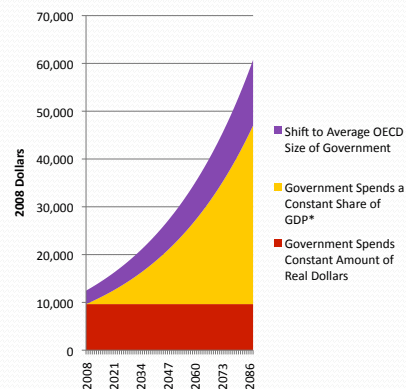
17

Real Per Capita Federal Spending

Historical Growth:
Legislative and Economic 1930-2008



Projected Growth:
With and Without Gov't Expansion 2008-2086



*Assumes 2% real per capita GDP growth, based on the average historical rate from 1977 to 2007.
Note: Current and projected government spending excludes the currently debated stimulus package.
Source: Gene Steuerle and Tim Roper. Authors' estimates, based on the *Budget of the U.S. Government FY 2009* and past years and the U.S. Census.

18

America's Third Fiscal Turning

- In the Beginning (late 18th century)
- The New Industrial Order (late 19th century)
- An Era of Fundamental Restructuring (today)

- Each of these fiscal turnings was forced by the inability to provide financing for new needs, wants & opportunities

- The first two focused on taxes and national debt.

- The last requires attention to unsustainable promises.