

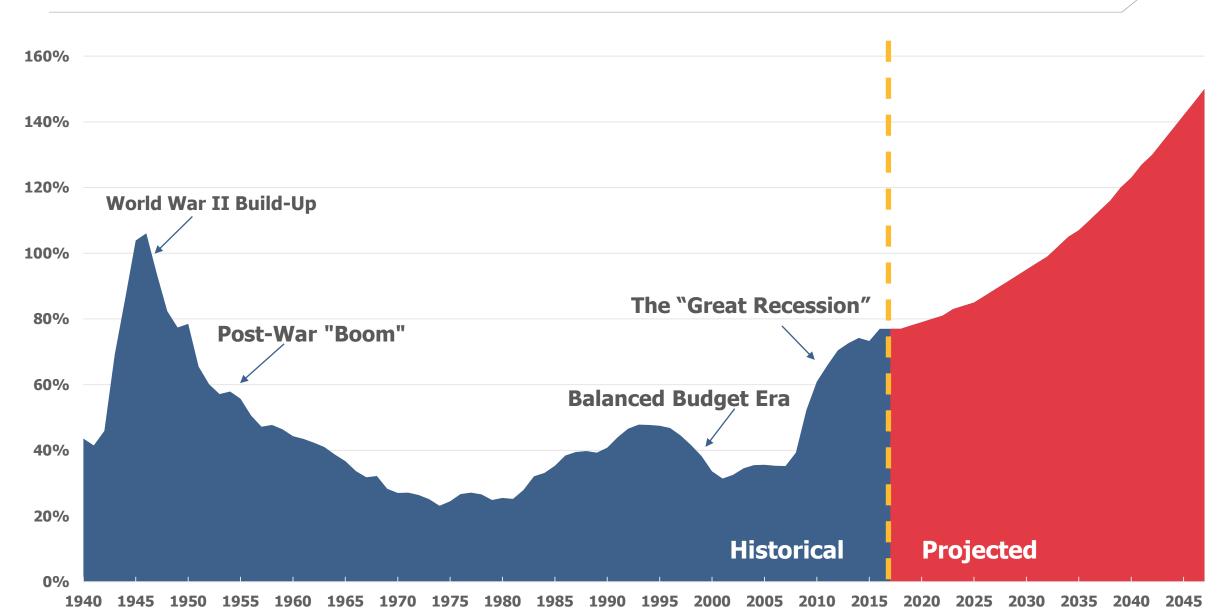
U.S. Fiscal Policy: A Story of Conflicting Priorities

BY: SHAI AKABAS



- 1) The U.S. is on an unsustainable long-term fiscal path
- 2) Major entitlement programs are key drivers and the problem cannot be solved without reform
- 3) Under almost any scenario, more revenues will be necessary
- 4) Entitlement programs and the ongoing need for fiscal adjustment are crowding out discretionary programs (e.g., investments)
- 5) While not the problem in and of itself, our broken budget process has not helped the situation

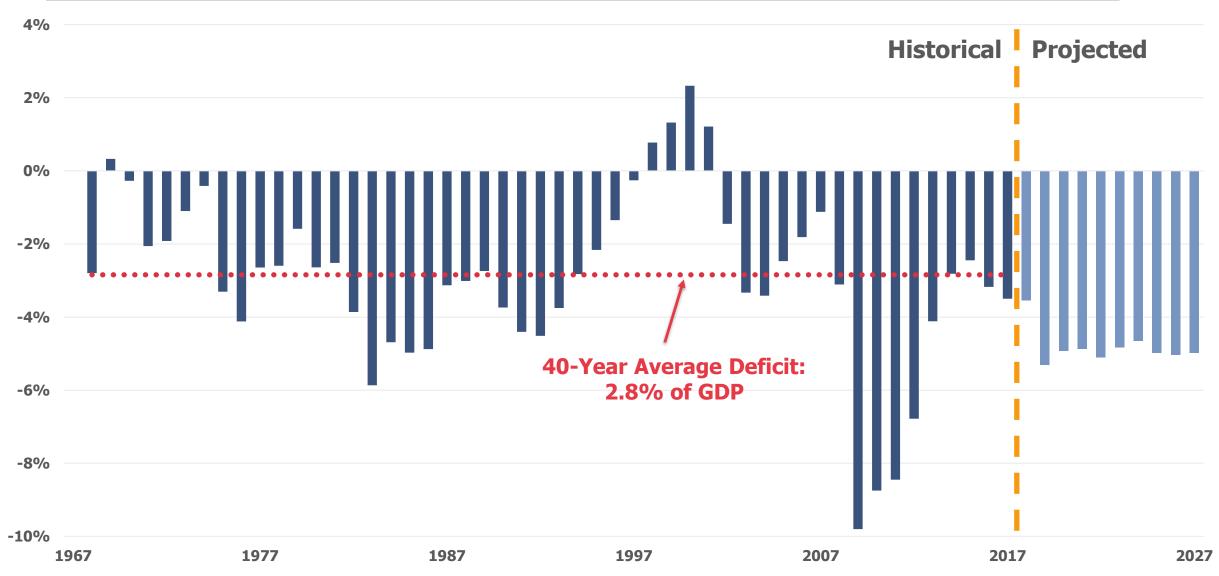
Federal Debt Is Set to Soar



Source: Congressional Budget Office

Federal Surpluses and Deficits as a Percentage of GDP



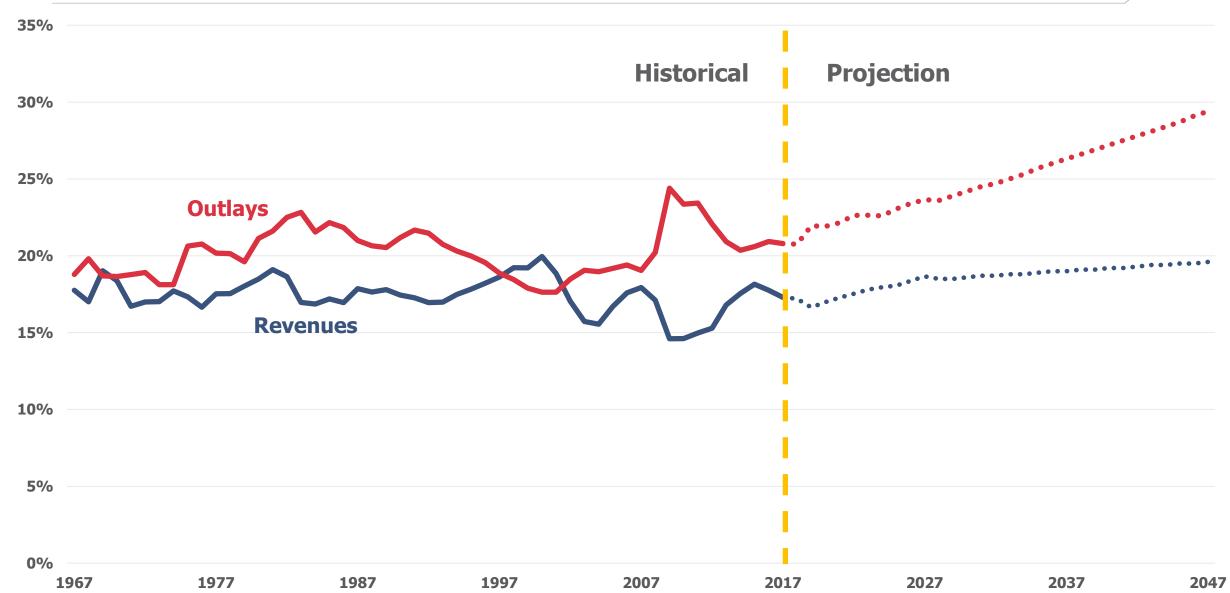




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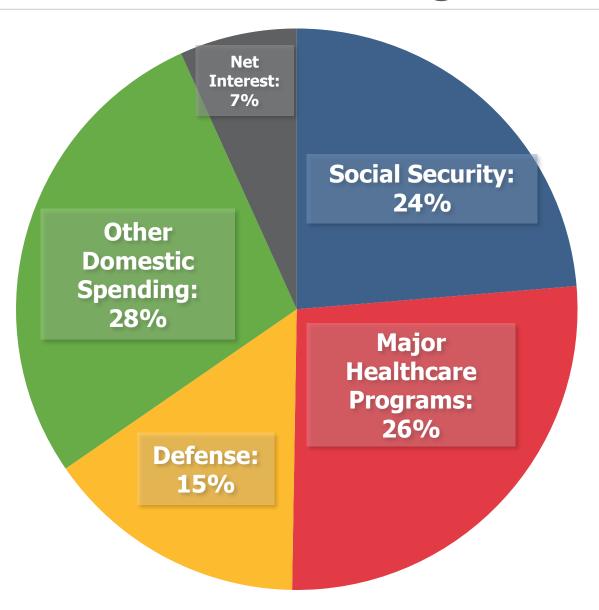






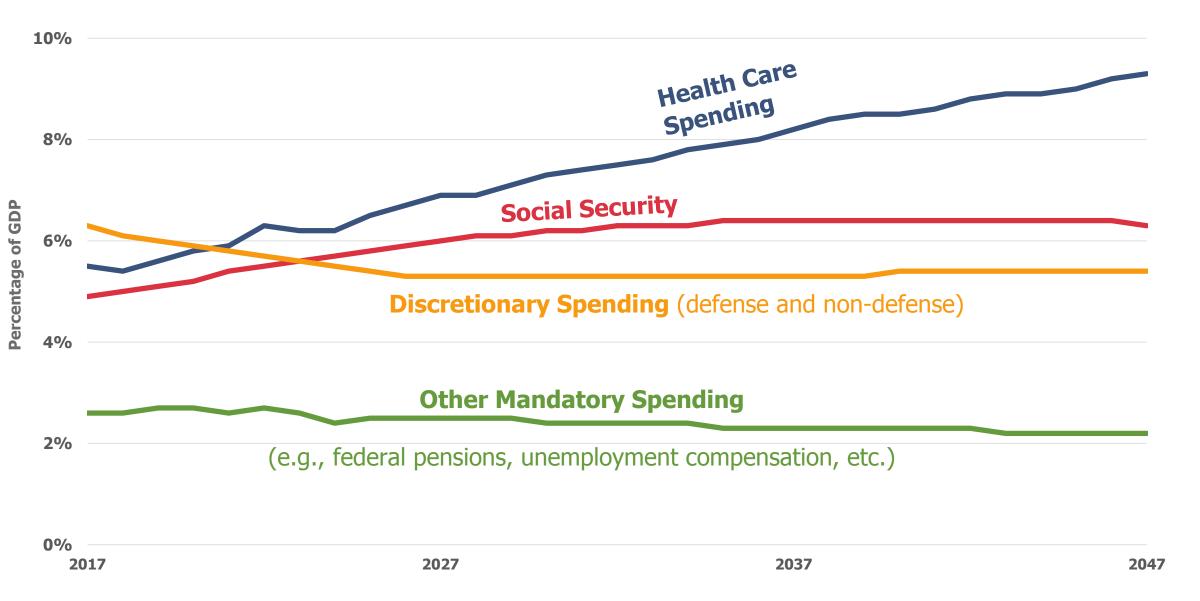
Composition of the 2017 Federal Budget





Health Care Costs are the Primary Driver of the Debt





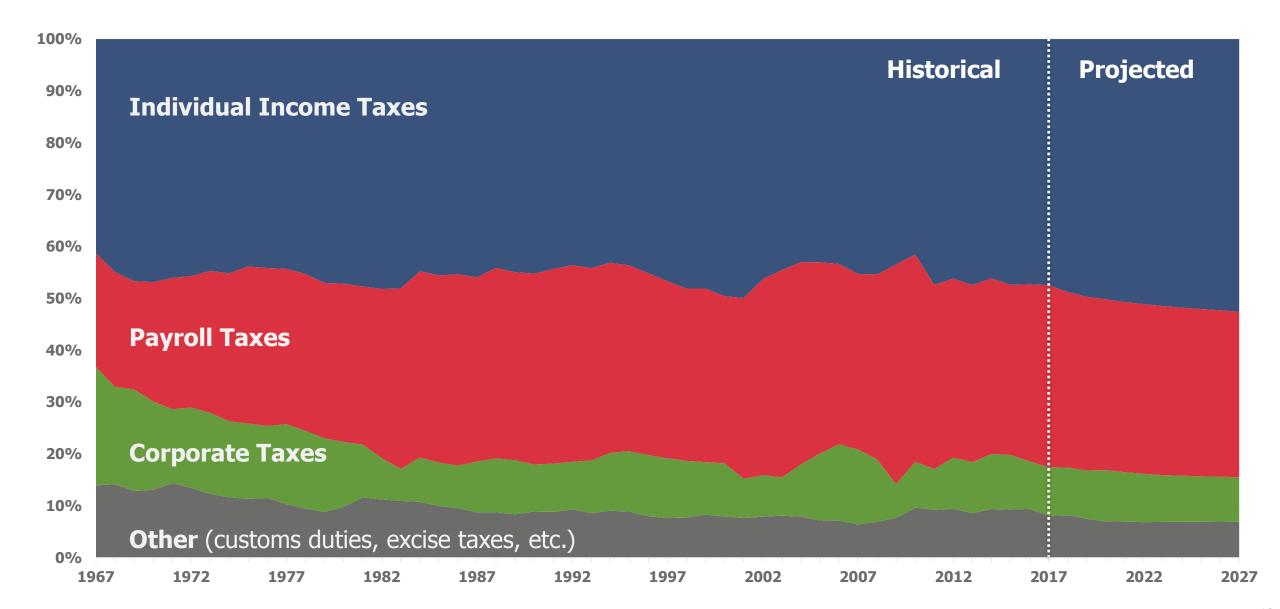
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Composition of Federal Revenues over Time

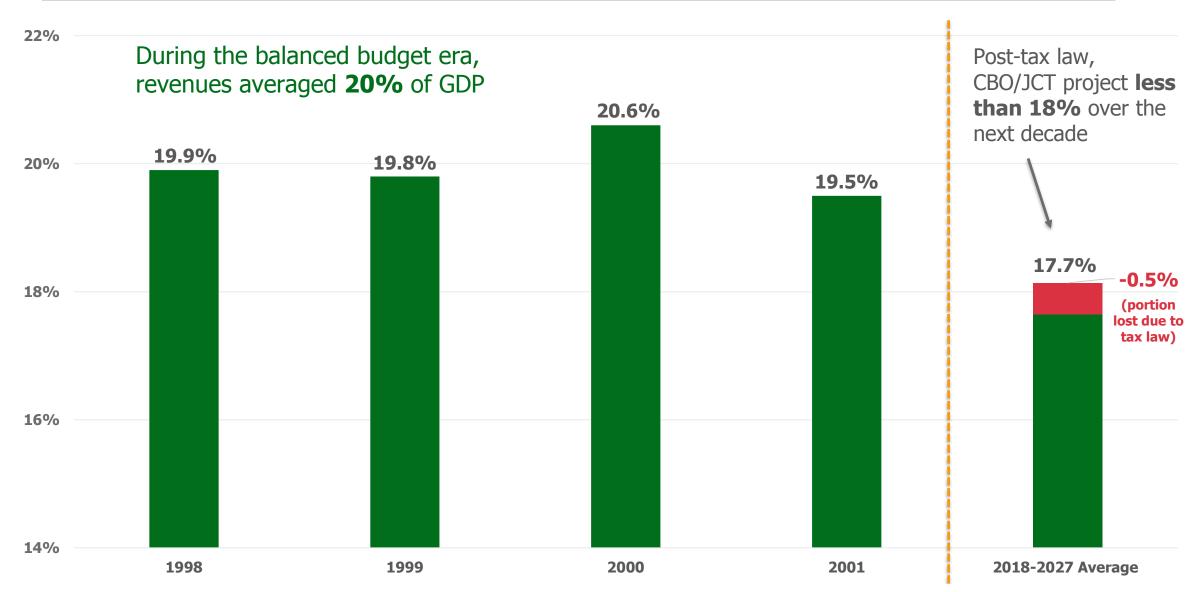




Source: Congressional Budget Office

Falling Short on the Revenue Side



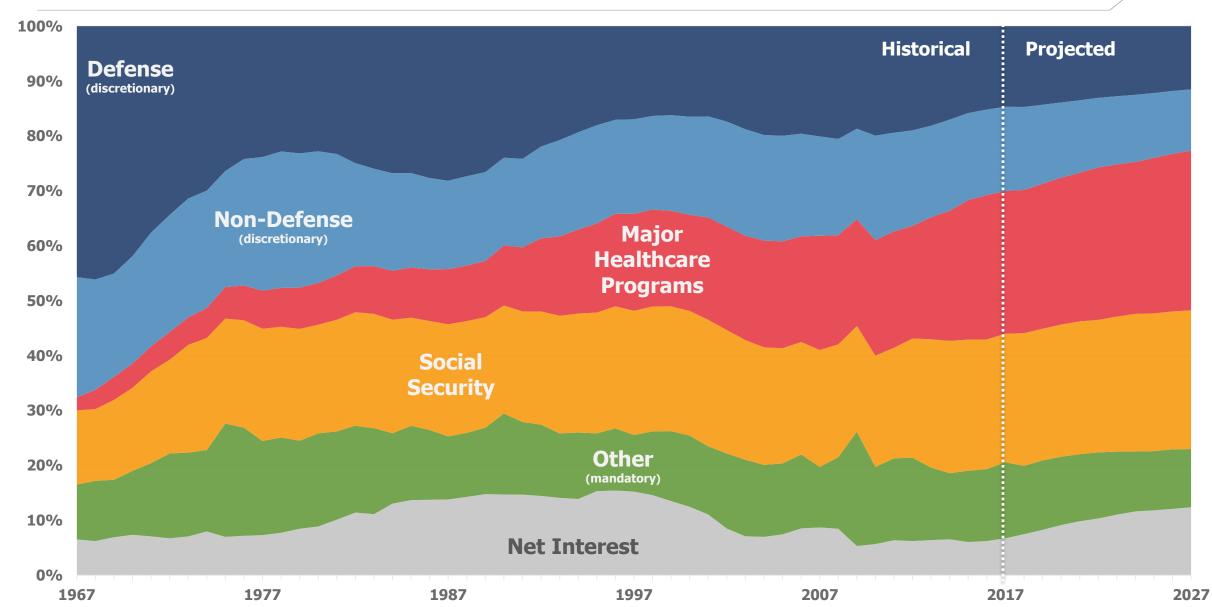




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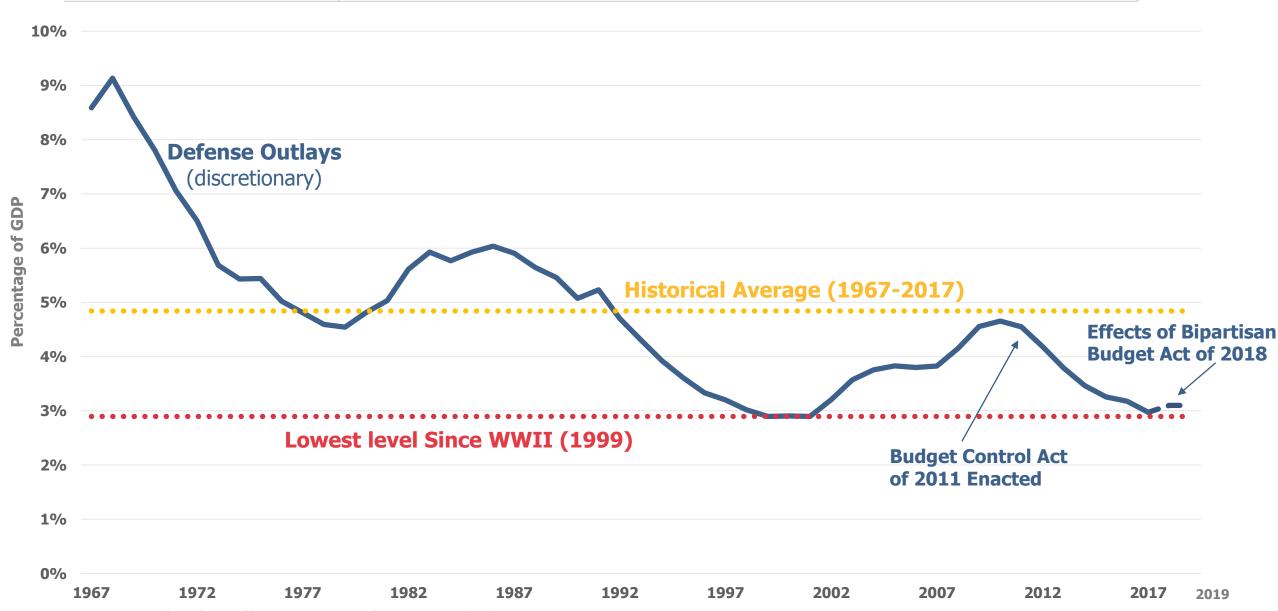
Entitlements and Interest Crowding Out Other Priorities





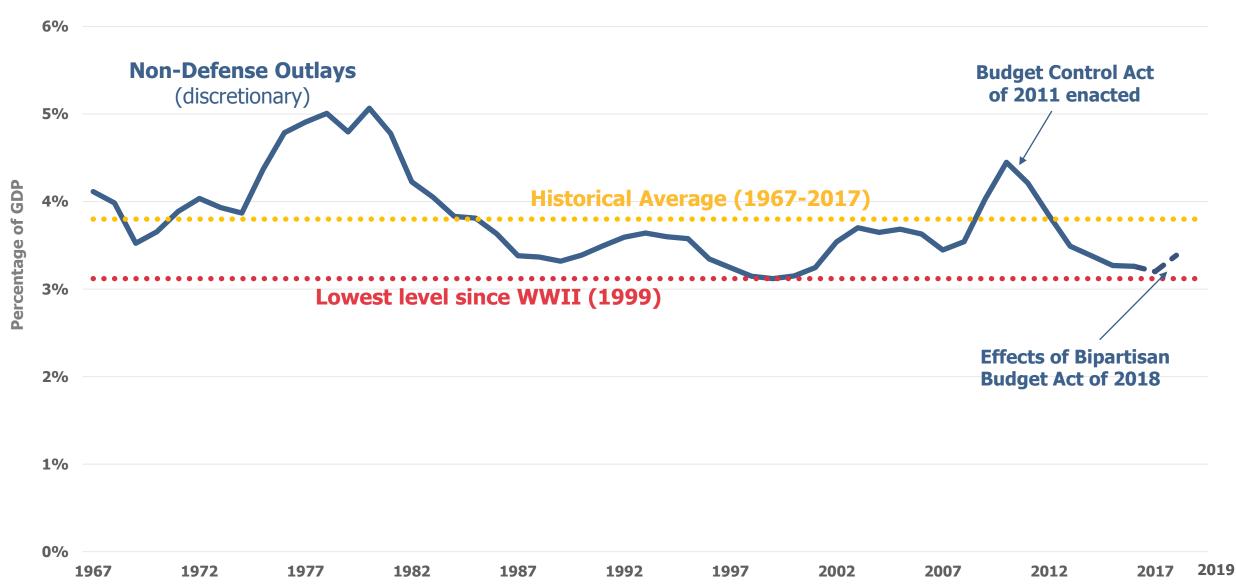
Defense Outlays Near Modern-Era Low





Nondefense Outlays Near Modern-Era Low





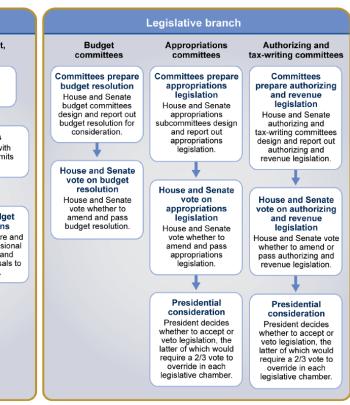


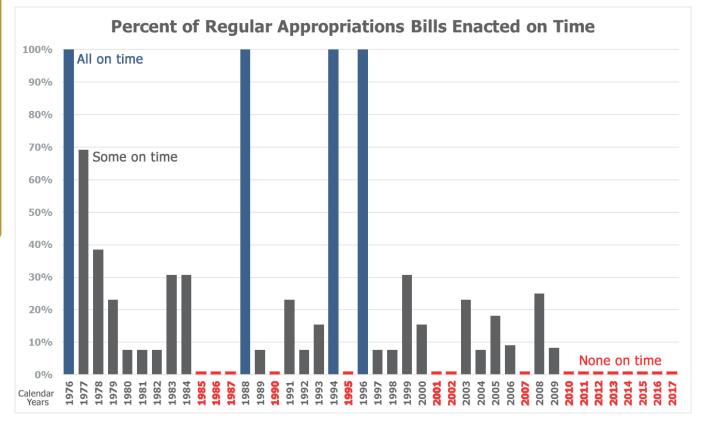
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Complex Budget Process Has Produced Poor Outcomes



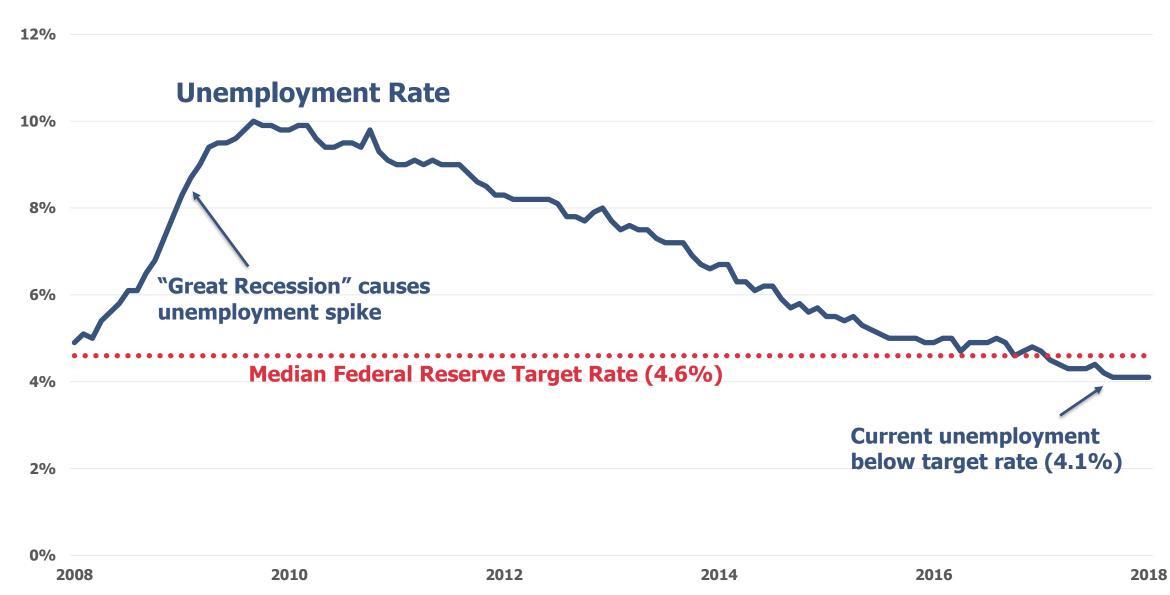
Executive branch Office of Management and Budget, the White House, and Agencies Agency budget proposals Agencies prepare budget requests and submit them to OMB. OMB review of budget proposals OMB reviews agency requests, works with agencies to make adjustments, and submits amended requests to the President. Approval and Agency budget submission of the justifications President's budget Agencies prepare and When final budget submit congressional justifications and amounts and policy priorities are approved revenue proposals to by the President, Congress. OMB, supported by agencies, prepares budget materials, after which the President submits the Budget to Congress.









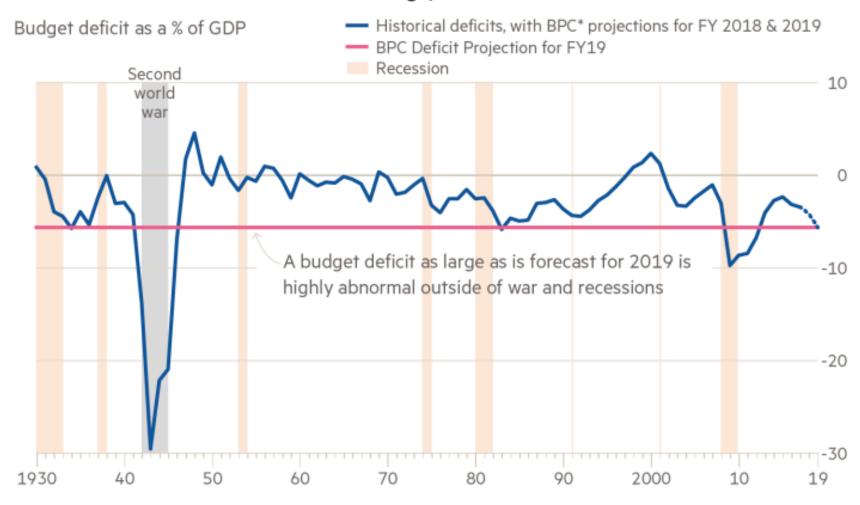


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Federal Deficits Will Likely Reach \$1 Trillion by FY 2019



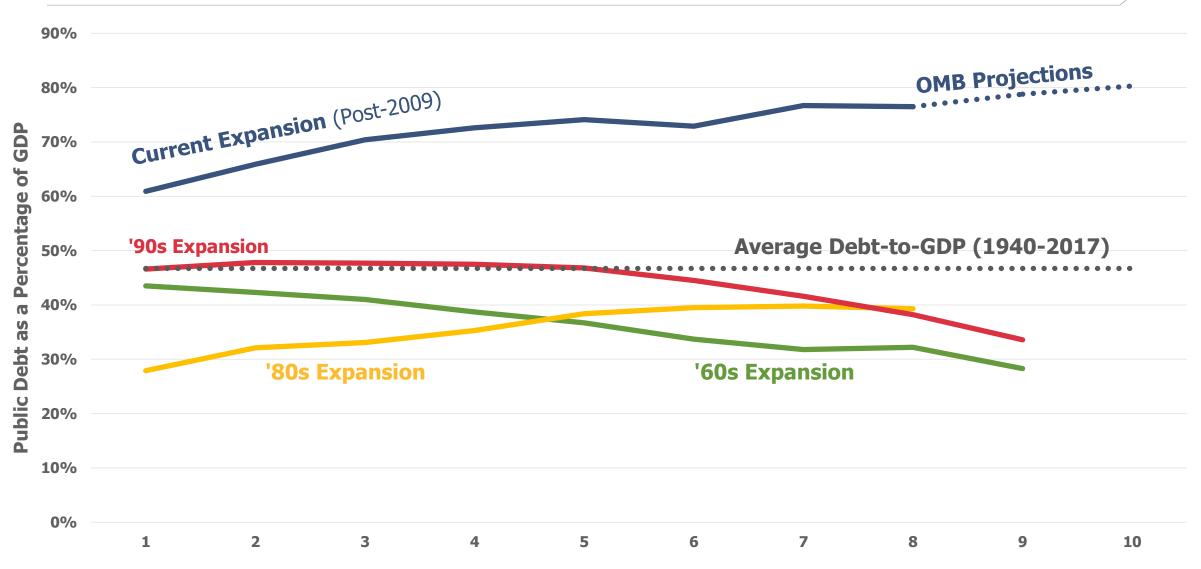
Deficit on track to increase in coming years



Source: Office of Management and Budget, Congressional Budget Office, *Bipartisan Policy Center © FT

Debt Usually Drops During Economic Expansions. Not This Time.





Years after Economic Expansion Begins

Concluding Thoughts



 Fiscal policymaking is a delicate balance between short-term political priorities and long-run economic costs

Vast majority of economists agree – deficits and debt matter.

- The hard questions:
 - o How much of either is too much?
 - At what point does debt become a problem, especially for the U.S. in particular?
 - O What is the appropriate path to right-size U.S. debt?