

Budget

Taming the Deficit

Forge a Grand Compromise for a Sustainable Future

Background

The federal government is spending beyond its means. The budget surpluses of the late 1990s have become deficits that now stand at \$248 billion for fiscal 2006. The picture seemed to be improving in 2007, but any good news is likely to be short-lived. The retirement of the baby boom generation and rapidly rising per capita health care costs will soon produce substantially larger deficits, unless action is taken to reform Social Security, Medicare, and Medicaid. Deficits could swell to \$535 billion by 2016 if recent tax cuts are extended and the red ink will continue to increase in subsequent decades as the population grows older and health care spending keeps climbing.

Recommendations

The next U.S. President and candidates for the office should not be expected to immediately provide detailed blueprints for reducing the deficit. However, all candidates can and should do the following:

- state unequivocally that deficits do matter
- commit to restore fiscal balance over a reasonable time period, such as five years, and to put the nation on a sustainable fiscal course by reforming entitlements as soon as possible
- pledge to work in a bipartisan way to achieve this objective
- put all issues and options on the table: entitlements, revenues, defense, and all other spending categories
- outline the spending cuts and revenue increases needed to achieve short-term fiscal objectives and the changes needed in Social Security and Medicare to maintain long-term fiscal discipline
- be candid with the American people about the nature and magnitude of the challenge, acknowledging that the problem cannot be solved simply by cutting fraud, waste, and abuse, curbing earmarks, raising taxes on the very wealthy, or streamlining government
- propose reforms to the budget process without assuming that these alone will be sufficient to restore fiscal balance

Key Facts

- the federal government spent \$2.7 trillion in fiscal 2006
- by the early 2030s, assuming health care costs grow at their historical rate, the three major entitlement programs will absorb *all* of the federal government's projected revenues
- Department of Defense spending totaled \$499 billion in fiscal 2006, exceeding real expenditures at the height of the Korean War and approaching a level not witnessed since the Second World War
- three-fourths of recent-year deficits have been financed by foreign nations, including the central banks of China, other Asian nations, and oil-exporting countries in the Middle East

The full version of this paper—which outlines a specific set of proposals to cut spending, enhance revenues, and eliminate the deficit in 2013—is available along with supporting background material at www.opportunity08.org

About the Authors and the Project

William Frenzel

William Frenzel is a Brookings guest scholar. He retired from the U.S. House of Representatives in 1991 after serving his Minnesota constituency for 20 years. Frenzel was the ranking minority member on the House Budget Committee and a member of its tax policy committee. He served as special advisor to President Clinton for NAFTA, and on the Social Security Commission convened by President Bush.

G. William Hoagland

G. William Hoagland is vice president of public policy at CIGNA Corporation. A policy adviser and top budget aide to former Senate Majority Leader Bill Frist (R-Tenn.), Hoagland is an expert on federal budget policy, income security, and food and nutrition policy. He served as staff director of the Senate Budget Committee, special assistant to the Agriculture Secretary, and staff economist at the Congressional Budget Office.

Charles Stenholm

Charles Stenholm served the United States House of Representatives for 13 terms, representing his Texas district from 1979 to 2005. For six years, he was the ranking Democrat on the House Agriculture Committee. He is a longtime supporter of a balanced budget amendment to the Constitution.

Isabel V. Sawhill

Isabel V. Sawhill is a Brookings senior fellow and leads the Budgeting for National Priorities project. She is an expert on issues related to the federal budget, poverty, and inequality. She was an Associate Director at the Office of Management and Budget during the Clinton Administration.

Opportunity 08 aims to help 2008 presidential candidates and the public focus on critical issues facing the nation, presenting policy ideas on a wide array of domestic and foreign policy questions. The project is committed to providing both independent policy solutions and background material on issues of concern to voters.