Eight Big Issues for the 2016 Campaign

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It's entertaining, if somewhat discouraging, to watch presidential candidates throw mud at each other. But it's far more important for the candidates to identify the major problems the nation faces and what they would do to attack them if elected. The issues emphasized by candidates and their promises should be a major determinant of how people vote. Personal characteristics, party loyalty, political philosophy, and many other factors play an important role in voters' decision about who to support, but the candidates' position on major issues and the issues they choose to emphasize should and often do play a big part in voter decisions.

Although many voters, editorial page writers, and analysts are skeptical about whether campaign promises mean much, most candidates, including or even especially presidential candidates, take their campaign promises on the issues very seriously. Research shows that presidents from Woodrow Wilson through Jimmy Carter kept their word on about 75 percent of their campaign promises.[1] Politifact.com reviewed about 500 promises President Obama made during his two campaigns and found that he has delivered or tried to deliver on nearly 80 percent of them.

Thus, despite the personal attacks that are a part of many campaigns, presidential candidates nonetheless lay out their positions on major issues and then try to implement their ideas if elected. This being the case, it makes great sense to influence candidates to be as explicit as possible about how they would address major issues that face the nation. The purpose of this report is to examine a set of eight issues that we think should play an important part in the 2016 presidential campaign. It is by no means an exhaustive list, but the issues we selected for examination are economic growth, taxes, the federal debt, health care policy, defense, avoiding another financial crisis, reducing poverty and increasing economic opportunity, and improving the nation's infrastructure. Each of these issues is addressed by our authors in a separate chapter of this report.

The papers were written by a group of scholars organized ten years ago by Brookings and other organizations as part of what we have called "the fiscal seminar." We formed the seminar to bring attention to the need to reduce the nation's deficits and debt. At first, we initiated the current project to encourage the 2016 presidential candidates to give the public a clear indication of how their administration would reduce the debt, and to propose and analyze specific spending cuts and revenue increases the candidates should consider as they formulated their plan. However, being honest with ourselves about the diminished status of debt issues in the current political environment, we realized that there were many other important issues that the candidates should address. So we broadened our original idea of concentrating exclusively on the debt and decided to take up additional issues that should be tackled by every 2016 presidential candidate.

After extensive discussion, we selected eight issues and recruited members of the seminar and a few scholars outside the seminar, to write a paper on each of the eight topics. The goal of each paper was to define the issue and then explore, in as objective and evidence-based a manner as possible, reasonable approaches to tackling the issue in a way that would produce favorable outcomes. Of course, for many issues, the approaches favored by the left and the right are diametrically opposed. On taxes, Democrats want to raise them on the rich;

Republicans don't want to raise them at all. On spending, Republicans want less; Democrats want more. But most of the issues we examine, if we set aside issues of financing, do not create such sharp differences between Republicans and Democrats.

Economic Growth. In the chapter on economic growth, former Congressional Budget Office (CBO) Director Rudy Penner examines one of the nation's most important problems; namely, the slow rate of growth of the economy. The CBO is projecting a growth rate of 2.1 percent per year between 2015 and 2025. This number looks pretty bad when compared with the average growth rate of 3.3 percent between 1950 and 2014. According to Penner, the biggest reason for the slowdown is the reduction in the rate of growth in hours worked, which in turn is caused primarily by the retirement of baby boomers and lower birth rates in the generations after the baby boomers. A related cause of slow growth is that businesses are unlikely to invest as much in physical capital if the population is expanding more slowly than in the past.

Given these causes of slower growth, Penner turns to an analysis of policies that would increase the rate of growth by increasing hours worked, improving the quality of the labor force, increasing the quantity and quality of investment, reducing the negative impact of regulations, and increasing public and private spending on research and development. In general, the news on all these factors affecting economic growth is less than encouraging. As Penner points out, policies to improve these determinants of growth all cost money. Yet, federal spending on entitlements for the elderly is squeezing out spending on nearly everything else, including education, infrastructure, and public investment in research and development. Unless the growth of entitlements is reined in, there will not be more than modest funding for these other purposes.

Taxes. Turning to taxes, William Gale and Aaron Krupkin begin by stating the widely held view that a good tax system collects enough money to finance government spending in a way that is simple, equitable, and friendly to growth. The first problem candidates should face is that our tax system does not collect enough revenue to pay for spending that is already baked into the cake, primarily spending on net interest, Social Security, and Medicare and other health programs. Projections show that under current law, in 2040 revenue will equal about 19 percent of GDP and spending about 25 percent. For a nation that already has a total debt approaching $19 trillion, these numbers don't work very well.

The Gale and Krupkin essay analyzes five major issues regarding taxes. Many analysts might expect an essay such as theirs to lay out a grandiose plan for reforming the tax code. They, however, wisely point out that such a plan is "quixotic." Given the state of partisanship in the nation's capital, comprehensive tax reform is about as likely as humility from Donald Trump. Gale and Krupkin focus on five issues: raising revenue for the long-term, increasing environmental taxes, reforming corporate taxes, treating low- and middle-income earners equitably and efficiently, and ensuring appropriate taxation of high-income households. They conclude that despite the political obstacles to a reasonable resolution of these five issues, the success of the next president might be determined by how many of these issues the president addresses successfully.

The National Debt. The tax issues raised by Gale and Krupkin provide a good background for the analysis of the federal debt by Bob Bixby and Maya MacGuineas. Although falling deficits and the recent budget accord have diverted attention from the issue, the long-term debt picture is still alarming. Since 2007, the federal debt has grown from 35 percent to 74 percent of GDP and is projected to be greater than 100 per of GDP by 2039. A major consequence of the nation's debt explosion is that interest payments on the borrowing to finance the debt are the single most rapidly growing part of the federal budget. In 2017, the nation will spend more than $300 billion to finance the debt; by 2025, we'll spend more than $800 billion. If Congress and the president don't change course, by 2030 it will require all federal revenue just to make the nation's interest payments.

Equally alarming are figures from CBO about what it would take just to hold the debt steady as a percentage of GDP. Their estimate is that it will require spending cuts or revenue increases equal to 1.1 percent of GDP between now and 2040 just to hold debt service payments constant. In 2016, that's about $210 billion. And the longer the nation waits to begin controlling its debt, the higher the costs of control become. Bixby and MacGuineas say that waiting just 5 years to begin would add another $850 billion to the cost.

The authors go on to examine three key debt issues the presidential candidates should address: Social Security, Medicare and other health care programs, and taxes. Social Security is an extremely popular program, in large part because it provides income to 59 million Americans, many of whom are completely dependent on the benefit. Since 2010, Social Security has been paying out in benefits more than it collects in taxes. As a result of this imbalance, by 2034, according to the Social Security Trustees, the trust fund that supports Social Security benefits will be completely dry. Politicians know that this will never happen because, given the popularity of Social Security, Congress will eventually take action. But the longer Congress waits, the more radical the solution will have to be in the form of huge tax increases or major benefit cuts or both.

Another major cause of the nation's debt is spending on health care. Despite the fact that the growth of health care costs has slowed in recent years, federal health care spending will nonetheless continue to grow as a share of all federal spending. Over the next 8 years, annual federal spending on health care will grow to $1.9 trillion from $1.1 trillion, an increase of more than 70 percent. It follows that a key to reducing the growth of the federal debt is to control the growth of health care spending. In fact, it is difficult to see how progress can be made on stabilizing the debt unless the growth of health care spending is reduced.

As we have seen, federal revenue is not keeping pace with the growth of spending and the problem is becoming more serious, in large part because of the growth of Social Security and health care spending, both of which will be difficult to cut very much because of the large number of people who rely on these programs and their political popularity. So a long-term solution to growing debt will almost certainly have to include revenue increases. As Gale and Krupkin argue in their chapter on taxation, the prospects for federal tax reform are not good. Unless they are wrong, progress on the debt during the term of the next president will be exceptionally difficult. All the more reason the presidential candidates should tell the public how they intend to deal with the debt.

Health. Robert Reischauer and Alice Rivlin, both former CBO directors, provide a succinct overview of three major health care issues that should be addressed by all the presidential campaigns, two of which deal with the same budget issues that are the focus of the Bixby and MacGuineas chapter. The three issues are resolving the future of the Affordable Care Act (ACA), slowing the growth of health care spending, and reforming Medicare in a way that preserves its trust fund for the future.

Regarding the ACA, Rivlin and Reischauer recommend that the Republican candidates, all of whom say they would repeal Obamacare, provide details of the health plan they would put in place of Obamacare. These details would allow health analysts at CBO and elsewhere to evaluate the plan and provide estimates of its "costs, coverage and distributional impacts." For their part, the Democratic candidates should go beyond merely defending Obamacare. The authors recommend that the candidates propose an alternative to the Independent Payment Advisory Board, eliminate the employer mandate, restructure the Cadillac tax on employers, and propose an alternative way to expand the coverage of low-income individuals and families for states that refuse to expand Medicaid.

There are a host of additional health issues the candidates should address, but that do not rise to the level of what to do about the ACA, how to slow the growth of health care spending, and how to preserving Medicare. Among these issues are addressing the health problems associated with consumption of unhealthful food, with drug abuse, and with violence; reducing the disparity in health between the affluent and the poor; and encouraging biomedical innovation which has slowed in recent years.

Defense. By contrast with the uncertain and fluid status of the nation's health policy, the nation's defense policy has been stable and more or less supported on both sides of the aisle for many years. To be sure, Republicans usually want to spend more money on defense, and Democrats less, but this distinction has diminished somewhat since the Tea Party revolution of 2010 and ensuing Budget Control Act of 2011. Moreover, this traditional difference in the predispositions of the two parties has not led to any radical changes or upheavals in defense spending in recent years (in contrast to debates over how to handle ISIS in specific cases or how to deal with Russia and China, where there is significant disagreement and policy volatility). Against this background, the defense chapter by Michael O'Hanlon contains several recommendations for issues the presidential candidates should address, but O'Hanlon makes neither recommendations for expensive additions to the nation's defense strategy (in fact, he suggests some reforms that would save money—though no further cuts in force structure for the four military services) nor fundamental changes in the strategic principles that dictate the structure of the nation's defense.

The nation's defense policy rests on four basic principles: limiting the spread of nuclear weapons, protecting international air and maritime space, deterring the rise of powers that could challenge the "generally stable international system," and preventing crises or serious conflicts. From these four general goals, O'Hanlon proposes nine more specific goals of defense strategy that include deterring Iran; defeating or at least diminishing the strength of al Qaeda, ISIS, and other terrorist groups; sustaining NATO; maintaining a nuclear deterrent; and retaining the world's best scientific and defense industrial base. To secure these goals, he presents an analysis of defense spending and the reasons he thinks a reasonable budget for defense would be a base annual budget of about $535 billion with additions for defense spending in the Department of Energy and for defense contingencies. Combined spending across these categories would bring annual defense spending to around $600 billion a year. That level would be roughly the same as that agreed to for 2016 in the October 2015 budget deal between President Obama and the GOP Congressional leadership.

O'Hanlon recommends that the candidates communicate their defense goals to the public through both a major speech and a white paper that lay out the goals and provide a “detailed description” of why their ideas are the best way to protect the nation. The candidates should also specify how much spending will be necessary to achieve their goals.

The Financial System. If the essence of defense policy is the protection of American interests when they are threatened by violence, the essence of the nation’s financial system is to provide enough credit to keep the economy growing at a healthy rate while simultaneously avoiding the type of excessive risk that caused the economic meltdown of 2008. As David Wessel argues in his chapter, “anyone with any sense wants to reduce the chances of anything resembling a repeat of 2008-2009.” After all, about $13 trillion in family wealth went up in smoke during that period, wiping out nearly 20 years of gains and requiring six years to return the nation’s per capita output to pre-2008 levels.

Wessel argues that the Dodd-Frank law has led to some important improvements in the financial system, especially because banks are in better financial position now than before the financial crisis. The major reason they’re in better shape is because regulators have forced them to hold capital cushions that are bigger than before the crisis, thereby increasing the chances that losses will not threaten their existence. In addition, the stress tests called for by Dodd-Frank have forced banks to make loans to customers with better balance sheets than in the past. As Wessel points out, the “fraction of loans that aren’t being paid is half what it was at its peak in 2010.”

Another reason for the improved condition of banks is that Congress has given financial regulators legal authority they didn’t have before the 2008 meltdown. For example, regulators, using provisions in Dodd-Frank, have the authority to liquidate large financial companies that are close to failing. This authority has not yet been used, so there’s no way to know if it will work. Even so, on its face the expanded authority for closing banks that are near to failing constitutes a significant new tool whose very existence may well compel banks to engage in less risky investing.

Despite these new provisions bestowed on regulators by Dodd-Frank, there are still a number of problems with the financial regulatory system that may render the system subject to periodic crisis. Perhaps the most important problem is that the regulatory system is still fragmented. Wessel says that a major cause of the 2008 crisis was that “turf battles and inconsistent mandates [among regulatory agencies] interfered with effective response.” Despite Dodd-Frank, the various agencies involved in financial regulation are still fragmented and uncoordinated and seem likely to remain so in the foreseeable future because regulatory agencies such as the Securities and Exchange Commission and the Commodities Futures Trading Commission are under the jurisdiction of different Congressional committees that refuse to give up jurisdiction or to have the independence of these agencies threatened. The Dodd-Frank law did create a coordinating body, called the Financial Stability Oversight Council (FSOC), but it lacks authority to require the other bodies that share regulatory power to act in coordinated fashion. In addition, members of the FSOC have authority over specific institutions or markets but are not charged with improving the stability of the entire financial system.

These and related problems of the nation’s financial system are, as Wessel puts it, “mind-numbingly complex.” Still, candidates have a responsibility to tell the public whether they want “stricter, more intrusive regulation,” or whether they want only to “strengthen the banks’ financial footings and let them figure out how to run their businesses.” Whichever approach to financial regulation the candidates prefer, they should explain their approach to voters and be transparent about whether they think the system still has too much risk or whether Dodd-Frank represents an adequate balance between risk and growth.

Economic Mobility. Another important issue we think the candidates should address is economic mobility. Although candidates from both parties recognize that economic mobility is lower than mobility in many other advanced countries and have called for greater opportunity in the U.S., Isabel Sawhill and Edward Rodrigue argue in their chapter that candidates should move beyond broad generalities and spell out in more detail how they would promote economic mobility.

Sawhill and Rodrigue begin with a descriptive analysis of the three factors that are most closely associated with poverty reduction and economic mobility. Drawing on an earlier analysis by Haskins and Sawhill,[2] they report that adults are rarely poor if they do just three things: graduate from high school, work full-time, and do not have children until they are married and out of their teen years. Specifically, only 2 percent of people who followed these three norms, which the authors refer to as the “success sequence,” were poor in 2012 and slightly more than 70 percent had achieved a middle-class income (about $57,000 in 2014). Given the importance of these three factors in accounting for economic success, Sawhill and Rodrigue review evidence on programs that promote education, work, and avoiding births outside marriage.

Of the three factors in the success sequence, work is by far the most highly correlated with economic success. Sawhill and Rodrigue urge the candidates to support policies and programs that have been shown to get more people working. These include maintaining full employment through judicious use of fiscal and monetary policy; making work pay by raising current earnings supplements (such as the Earned Income Tax Credit), creating a bonus for full-time work, and providing a second-earner deduction for two-parent families; making work easier for parents by expanding child care subsidies or providing paid family leave; and providing transitional jobs for those who can’t find employment (possibly combined with conditioning more forms of assistance on work). The authors argue that many of these policies would over the long-run pay for themselves because more work means higher tax payments to government as well as less social spending.

The major point of their chapter is that there are many ways to promote work, reduce single parenthood, and improve education—the factors most closely associated with economic success. Candidates should select and explain the policies and programs they would implement to promote economic mobility if they were elected. As the authors put it, the public “need[s] to hear less rhetoric and more substantive proposals” from the candidates.

Infrastructure. The final chapter in our report examines what the presidential candidates should say about investment in infrastructure. As William Galston and Robert Puentes show, the nation has underinvested in its infrastructure for at least the past three decades. The result is that we have fallen to twelfth in the world in the overall quality of our infrastructure according to the World Economic Forum’s 2014-2015 Global Competitiveness Report. In fact, the U.S. ranks poorly in every category. There are several consequences of the nation’s aging and poorly maintained infrastructure. These include impaired economic efficiency, fewer stable middle-class jobs, and increased costs imposed on individuals and businesses. Galston and Puentes cite several studies showing, for example, that poor road conditions are imposing higher costs for vehicle maintenance on all who use the nation’s roads.

Thus, the authors believe it is imperative for the presidential candidates to offer a plan for using the federal government to increase investments in infrastructure, especially investments in roads, bridges, and transit. In addition, the candidates should explain what financing mechanisms they would use to increase infrastructure investments. Finally, candidates should explain how, if elected, they would select infrastructure projects that make the most economic sense and then explain how they could be financed, at least in part with private capital.

According to expert estimates, between now and 2020, the nation should invest around $150 billion annually in transportation and port projects, water and sewage systems, the energy grid, and other infrastructure. Our economy is already being slowed by the poor condition of the nation's infrastructure. Unless the next president reversers this underinvestment, the toll on our economy will increase with repercussions for the entire nation. Although infrastructure is far from a glamorous issue for presidential candidates, there are few issues in which good ideas and substantial investment would produce greater returns.

Summary. Reasonable people can disagree about what to do about each of the eight issues we selected for examination. But the voters deserve thoughtful and informed answers. Ideally, the media should be educating the public about the problems addressed by each issue and the costs of solving them, not just reporting on who's up and who's down or the latest developments on the campaign trail. Candidates, for their part, need to go beyond criticism of existing policies or of an opponent's views and provide instead some specificity on their own positions and be held accountable when they mislead the public with half-truths or pure rhetoric. A presidential election is a good time to catalyze a national conversation on the issues of the day. These eight chapters are an attempt to provide a basic framework and some key facts as a guide to that vital national discussion.