Selected Charts on the Long-Term Fiscal Challenges of the United States

October 2019
Federal debt is on an unsustainable path

Debt Held by the Public (% of GDP)

- WWII
- Great Depression
- Civil War
- WWI

Actual Projected

144% in 2049

The growing debt is caused by a structural mismatch between spending and revenues.

**FEDERAL SPENDING AND REVENUES (% OF GDP)**

- **Average Spending (1984–2018)**
- **Average Revenues (1984–2018)**

**Spending**
- **Actual**
- **Projected**

**Revenues**


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Net interest costs are projected to rise sharply

Billions of Dollars

Actual vs. Projected

10-Year Interest Costs: $5.8 trillion

Interest costs are projected to outpace important investments in our future

**Federal Spending (% of GDP)**

- **Average Spending (1969–2018)**
  - R&D: 2.5%
  - Infrastructure: 1.8%
  - Education: 1.8%

- **Interest Costs**
  - 2019: 1.8%
  - 2039: 4.0%
  - 2049: 5.7%


NOTE: Infrastructure excludes defense.

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Healthcare is the major driver of the projected growth in spending over the long term.

Federal Spending (% of GDP)


Note: Major health programs include Medicare (net), Medicaid, the Children’s Health Insurance Program, and spending to subsidize health insurance purchased through the marketplaces established under the Affordable Care Act and related spending.

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The elderly population is growing rapidly and living longer.

U.S. Population Age 65+ (Millions)


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Medical spending increases rapidly with age

**Healthcare Spending per Capita by Age Group (Dollars)**

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Spending (Dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0–18</td>
<td>$3,749</td>
</tr>
<tr>
<td>19–44</td>
<td>$4,856</td>
</tr>
<tr>
<td>45–64</td>
<td>$10,212</td>
</tr>
<tr>
<td>65–84</td>
<td>$16,977</td>
</tr>
<tr>
<td>85+</td>
<td>$32,903</td>
</tr>
</tbody>
</table>

NOTE: Data are for 2014.

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Total U.S. health spending (public and private) is projected to rise to nearly one-fifth of the economy by 2025.

**National Health Expenditures (% of GDP)**

- **1980**: 9%
- **1990**: 12%
- **2000**: 13%
- **2010**: 17%
- **2020**: 18%
- **2025**: 19%


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United States per capita healthcare spending is more than twice the average of other developed countries.

**Healthcare Costs per Capita (Dollars)**

- Spain: $3,323
- United Kingdom: $4,070
- Japan: $4,766
- France: $4,965
- Canada: $4,974
- Germany: $5,986
- Norway: $6,187
- Switzerland: $7,317
- United States: $10,586
- OECD Average: $3,992


**Notes:** Data are for 2018. Chart uses purchasing power parities to convert data into U.S. dollars.
Although the United States spends more on healthcare than other developed countries, its health outcomes are generally not any better.

<table>
<thead>
<tr>
<th>Health Status</th>
<th>BEST</th>
<th>WORST</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life Expectancy at Birth</td>
<td>Japan</td>
<td>Latvia</td>
</tr>
<tr>
<td>Infant Mortality</td>
<td>Finland</td>
<td>Mexico</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Quality of Primary Care</th>
<th>U.S.</th>
<th>Latvia</th>
<th>Mexico</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unmanaged Asthma</td>
<td>Italy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unmanaged Diabetes</td>
<td>Italy</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Quality of Acute Care</th>
<th>U.S.</th>
<th>Canada</th>
<th>Mexico</th>
</tr>
</thead>
<tbody>
<tr>
<td>Safety During Childbirth</td>
<td>Poland</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Heart Attack Mortality</td>
<td>Norway</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

NOTES: Data are not available for all countries for all metrics. Data are for 2017 or latest available.
As the population ages, fewer workers will be paying taxes to support each Social Security beneficiary.

**Workers per Beneficiary**

- 1970: 3.7
- 1990: 3.4
- 2010: 2.9
- 2030: 2.4


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Social Security will run a cumulative cash deficit of $2.9 trillion between now and 2035.

**SOCIAL SECURITY SURPLUSES/DEFICITS (% OF GDP)**

- **Actual**
- **Projected**

**2019–2035**
- **Deficit:**
  - **$2.9 Trillion**

**Trust Fund Depleted in 2035**


**NOTE:** Surplus/deficit numbers exclude interest income. The total deficit of $2.9 trillion is the present value of the cash deficits between 2019 and 2035. The Old-Age & Survivors Insurance trust fund is projected to be depleted in 2034 and lead to a 23 percent cut in benefits that year; the Disability Insurance trust fund is projected to be depleted in 2052 at which time benefits would be reduced by nine percent.

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Low-income seniors rely on Social Security benefits for a major share of their retirement income

**SOCIAL SECURITY BENEFITS (% OF TOTAL INCOME)**

<table>
<thead>
<tr>
<th>Quintile</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowest Quintile</td>
<td>81%</td>
</tr>
<tr>
<td>(Under $13,499)</td>
<td></td>
</tr>
<tr>
<td>Second Quintile</td>
<td>81%</td>
</tr>
<tr>
<td>($13,499–$23,592)</td>
<td></td>
</tr>
<tr>
<td>Middle Quintile</td>
<td>61%</td>
</tr>
<tr>
<td>($23,592–$39,298)</td>
<td></td>
</tr>
<tr>
<td>Fourth Quintile</td>
<td>39%</td>
</tr>
<tr>
<td>($39,298–$72,129)</td>
<td></td>
</tr>
<tr>
<td>Highest Quintile</td>
<td>15%</td>
</tr>
<tr>
<td>(Over $72,129)</td>
<td></td>
</tr>
</tbody>
</table>


NOTE: A quintile is one-fifth of the population.
Discretionary spending funds a wide range of programs

2018 Discretionary Outlays
$1,262 Billion

- Defense
- Education
- Transportation
- Veterans' Benefits and Services
- Income Security
- Health (Discretionary Only)
- Administration of Justice
- International Affairs
- Natural Resources and Environment
- Community and Regional Development
- General Science, Space and Technology
- General Government
- Other

NOTE: Health (discretionary only) includes National Institutes of Health, the Centers for Disease Control and Prevention, veterans’ healthcare, and administrative costs for Medicaid.

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The United States spends more on defense than the next seven countries combined.

**DEFENSE SPENDING (BILLIONS OF DOLLARS)**

- **$609 Billion**
  - China
- **$649 Billion**
  - United States

- Saudi Arabia
- India
- France
- Russia
- United Kingdom
- Germany


**NOTES:** Figures are in U.S. dollars, converted from local currencies using market exchange rates. Data for the United States are for fiscal year 2018, which ran from October 1, 2017 through September 30, 2018. Data for the other countries are for calendar year 2018.

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Discretionary spending is projected to remain below its historical average


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The federal government collects revenues from a variety of sources

2018 Total Revenues
$3,330 Billion

- Payroll Taxes 35%
- Individual Income Taxes 51%
- Other 5%
- Estate and Gift Taxes 1%
- Excise Taxes 3%
- Corporate Income Taxes 6%

SOURCE: Office of Management and Budget, Budget of the United States Government, Fiscal Year 2020, February 2019. Compiled by PGPF. NOTE: Other includes customs duties and miscellaneous sources. Numbers may not sum to 100% due to rounding.
The U.S. tax system is progressive, with higher-income taxpayers facing higher tax rates.

**Effective Federal Tax Rate by Type (% of Cash Income in 2018)**

- **Excise Tax**
- **Estate Tax**
- **Corporate Income Tax**
- **Payroll Tax**
- **Individual Income Tax**

### Quintiles and Percentiles

- **Lowest Quintile**: 3%
- **Second Quintile**: 8%
- **Middle Quintile**: 12%
- **Fourth Quintile**: 16%
- **80–90th Percentile**: 18%
- **90–95th Percentile**: 20%
- **95–99th Percentile**: 22%
- **Top 1 Percent**: 30%
- **Top 0.1 Percent**: 31%

**Source:** Tax Policy Center, *Effective Federal Tax Rates by Expanded Cash Income Percentile*, 2018, August 2018. Compiled by PGPF.

**Note:** Individual income tax rates for the lowest and second lowest quintiles are negative and are netted against the payroll tax rate. A quintile is one-fifth of the population. In 2018 dollars, the income breaks are: 20% $25,100; 40% $49,300; 60% $85,900; 80% $153,300; 90% $222,900; 95% $319,100; 99% $754,800; 99.9% $3,318,600. Includes both filing and non-filing units but excludes those that are dependents of other tax units.
The top 1 percent of taxpayers generate 26 percent of total federal tax revenues

SOURCE: Tax Policy Center, Baseline Distribution of Income and Federal Taxes, All Tax Units, by Expanded Cash Income Percentile, August 2018. Data are for 2018. Compiled by PGPF.
NOTE: In 2018, a tax unit was in the top 1 percent if its income was $754,800 or higher.
Income growth since 1979 is larger for high-income earners, even when including transfers and taxes.

**Average Annual Income After Transfers and Taxes (2016 Dollars)**

- **Top 1 Percent**: (incomes up 226%)
- **Top Quintile**: (incomes up 100%)
- **Middle Quintile**: (incomes up 42%)
- **Lowest Quintile**: (incomes up 84%)


NOTE: Increases calculated for 1979–2016. Income after transfers and taxes is comprised of market income plus income from social insurance programs (i.e. Social Security), plus means-tested transfers received (i.e. Medicaid), minus federal taxes. The top quintile includes households that are also in the top 1 percent.

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Total tax expenditures are large in comparison to annual income taxes collected and to the government’s major programs.

**Budgetary Cost in 2018 (Dollars)**

- **All Tax Expenditures**: $1.9 Trillion
- **Individual & Corporate Income Tax Revenues**: $1.5 Trillion
- **Social Security**: $982 Billion
- **Defense**: $623 Billion
- **Medicare**: $582 Billion


**Note**: Tax expenditures are deductions, credits, exclusions, and preferential rates. The estimates for tax expenditures do not account for any interactive effects of combining various provisions. Medicare spending is net of premiums and payments from the states. Defense represents discretionary defense spending.

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## Six popular tax provisions accounted for a large majority of annual tax expenditures for individuals

<table>
<thead>
<tr>
<th>Major Individual Tax Expenditures</th>
<th>Budgetary Costs (2018)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exclusion of pension contributions and earnings**</td>
<td>$251 billion</td>
</tr>
<tr>
<td>Exclusion of employer contributions for medical insurance and care*</td>
<td>$146 billion</td>
</tr>
<tr>
<td>Preferential treatment of dividends and capital gains</td>
<td>$129 billion</td>
</tr>
<tr>
<td>Child Tax Credit</td>
<td>$104 billion</td>
</tr>
<tr>
<td>Earned Income Tax Credit (EITC)</td>
<td>$70 billion</td>
</tr>
<tr>
<td>Subsidies for insurance purchased through health benefit exchanges</td>
<td>$49 billion</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$749 billion</strong></td>
</tr>
</tbody>
</table>

**Source:** The Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2018–2022*, October 2018. Compiled by PGPF. 

**Note:** ** includes defined benefit plans, defined contribution plans, plans covering partners and sole proprietors, and IRAs. *Estimate includes employer-provided health insurance purchased through cafeteria plans and TRICARE medical insurance.**
The top 1 percent of taxpayers receive 28 percent of the benefit from individual income tax expenditures

Distribution of Individual Income Tax Expenditures

- Top 1 Percent: 28%
- All Other Taxpayers: 72%


NOTE: Data only includes non-business tax expenditures that are claimed on individual tax returns. TPC’s income groups are based on expanded cash income and account for family size. In 2015, a family was in the top 1 percent if its size-adjusted expanded cash income was $391,500 or higher.
The growing federal debt would reduce family incomes substantially

**Income Loss for a Four-Person Family, on Average (2019 Dollars)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Income Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>2028</td>
<td>-$4,000</td>
</tr>
<tr>
<td>2038</td>
<td>-$8,000</td>
</tr>
<tr>
<td>2048</td>
<td>-$16,000</td>
</tr>
</tbody>
</table>

**Source:** Congressional Budget Office, *The Deficit Reductions Necessary to Meet Various Targets for Federal Debt*, August 2018.

**Note:** The income measures are based on CBO’s projections of real gross national product per person. The income loss is the difference between the income level if debt rises as it does under current law and the income level if debt remains near its current share of gross domestic product.
Waiting to act raises the cost of stabilizing the debt

Size of Annual Budget Changes Needed to Stabilize the Debt (% of GDP)

If Fiscal Reforms Begin in...

2020: 1.8%
2025: 2.2%
2030: 2.7% (50% larger than 2025)


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Solutions Initiative 2019: Projected federal debt

**Debt Held by the Public (% of GDP)**

- **Current Policy**
- **Center for American Progress**
- **Bipartisan Policy Center**
- **Manhattan Institute**
- **American Enterprise Institute**
- **Economic Policy Institute**
- **Progressive Policy Institute**
- **American Action Forum**


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