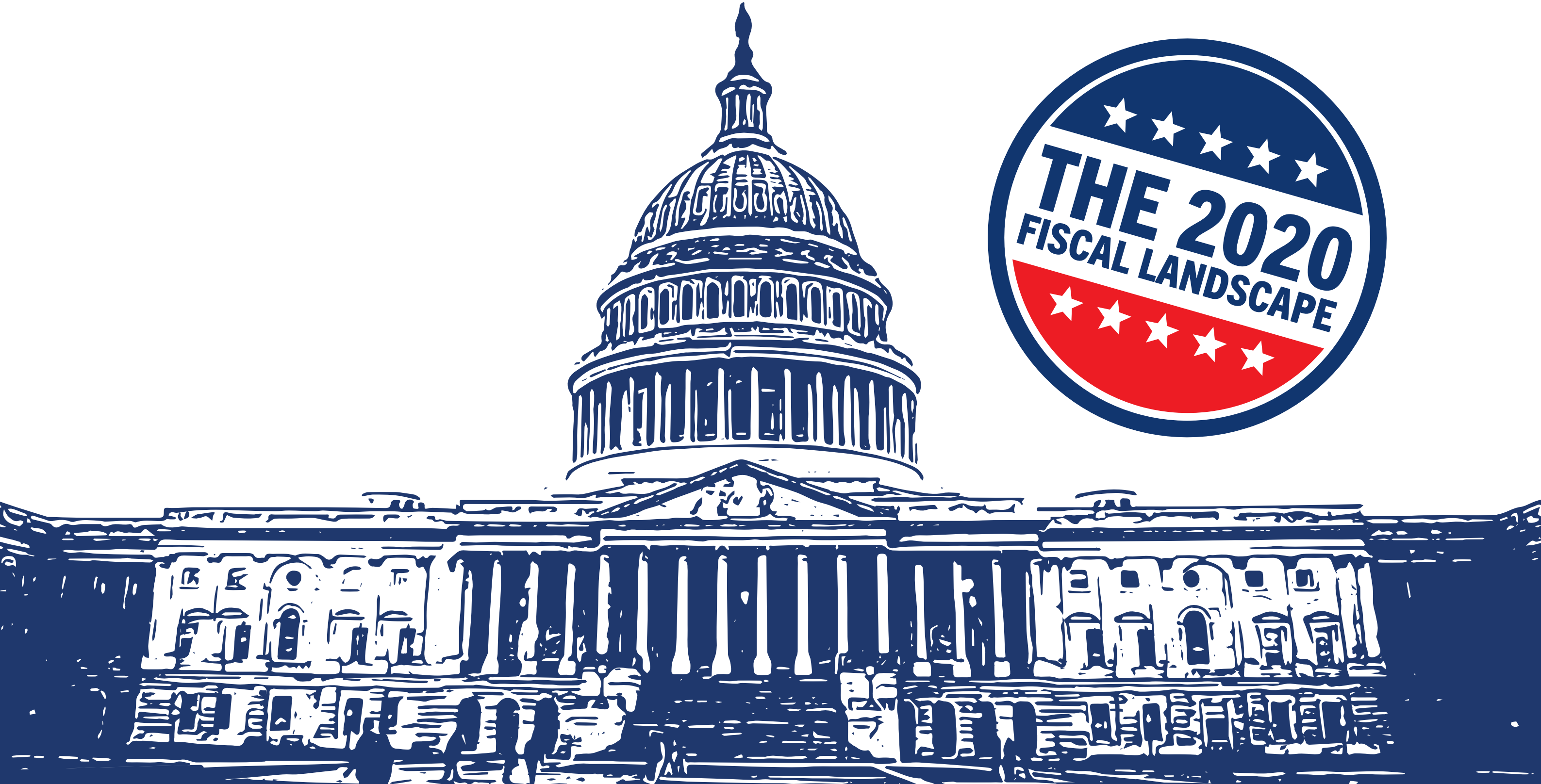
THE 2020 FISCAL LANDSCAPE



AN ELECTION YEAR GUIDE TO FISCAL ISSUES | THE PETER G. PETERSON FOUNDATION

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The Peter G. Peterson Foundation is a non-profit, non-partisan organization that is dedicated to increasing public awareness of the nature and urgency of key fiscal challenges threatening America's future, and to accelerating action on them. To address these challenges successfully, we work to bring Americans together to find and implement sensible, long-term solutions that transcend age, party lines and ideological divides in order to achieve real results.

STATE OF AMERICA'S FISCAL OUTLOOK

The United States is on an unsustainable and dangerous fiscal path, and that's a key issue for the 2020 election. Our nation's debt is already at historically high levels, but it's projected to rise dramatically in the years ahead, threatening America's economy. If we don't start to manage our debt, our economy in the future will be smaller, with fewer economic opportunities for individuals and families and less flexibility to respond to crises.

Our debt challenge isn't based on politics or partisanship, but rather on a structural mismatch between spending and revenues. Federal spending is driven by predictable demographic trends, high healthcare costs, and mounting interest payments; at the same time, revenues are inadequate for the spending policies that have been put in place.

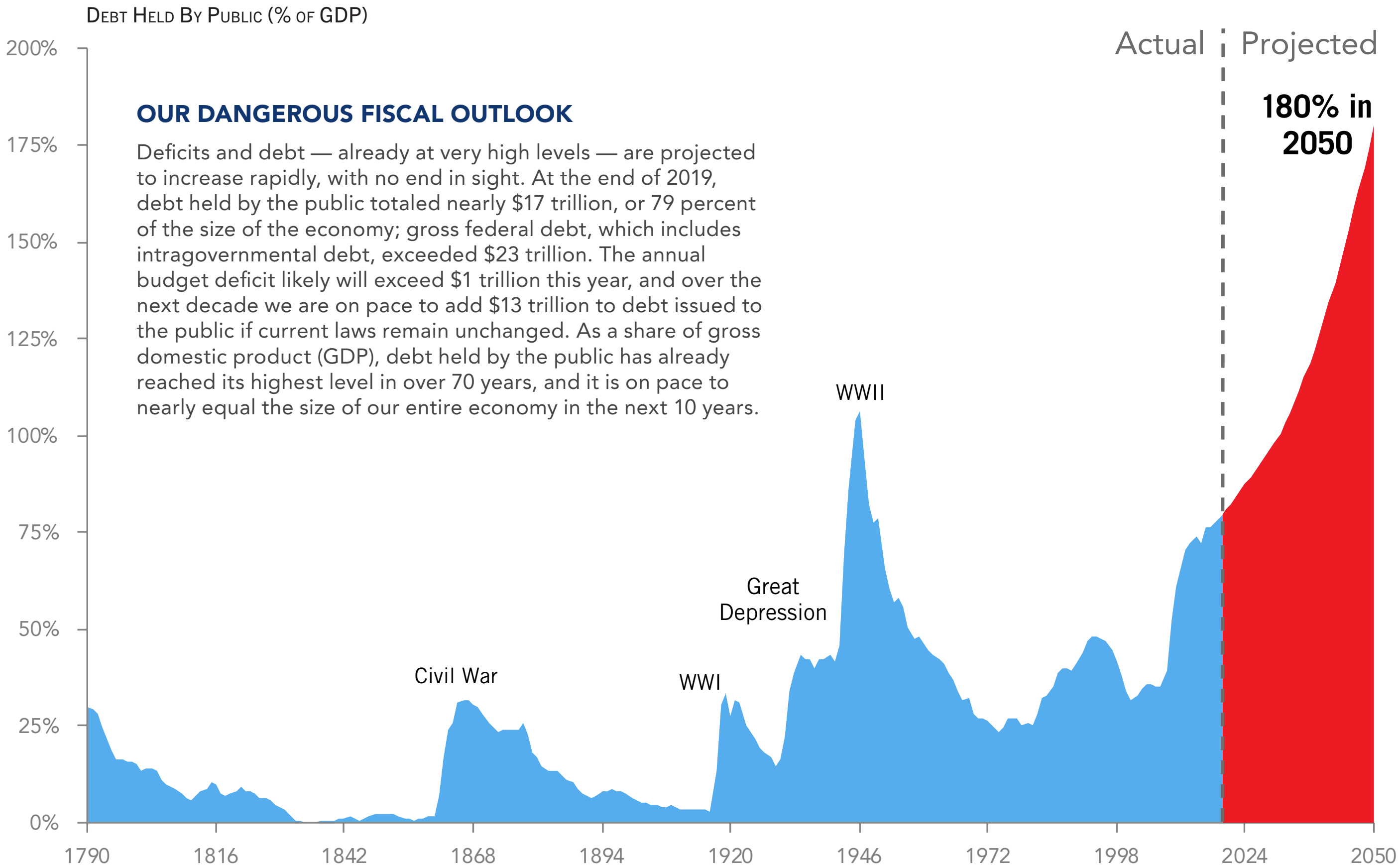
The good news is that many solutions exist. The 2020 election season is a perfect opportunity for voters and candidates to talk about how our fiscal path can be improved while strengthening our economy for tomorrow.

What follows is an election-year guide to help explain America's fiscal challenges, how those challenges threaten the future of our economy, and solutions to right the ship in the years ahead.

FEDERAL DEBT IS ON AN UNSUSTAINABLE PATH

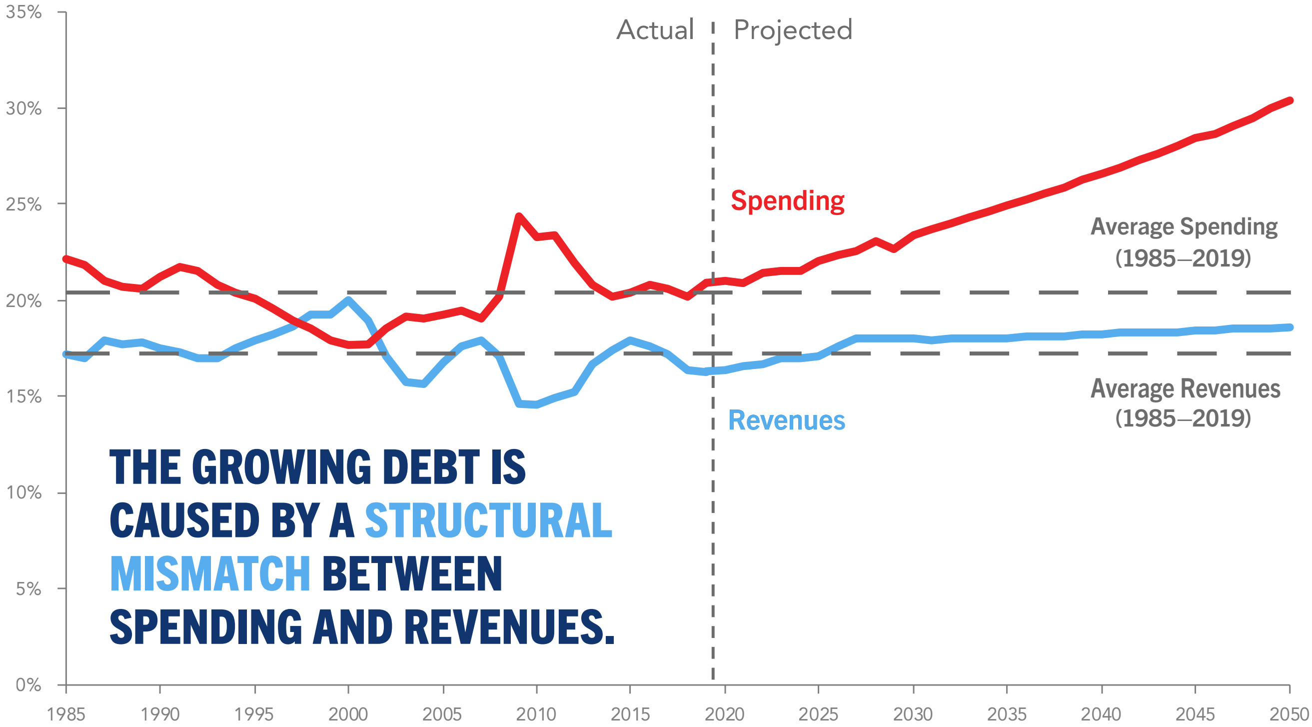
OUR DANGEROUS FISCAL OUTLOOK

Deficits and debt — already at very high levels — are projected to increase rapidly, with no end in sight. At the end of 2019, debt held by the public totaled nearly $17 trillion, or 79 percent of the size of the economy; gross federal debt, which includes intragovernmental debt, exceeded $23 trillion. The annual budget deficit likely will exceed $1 trillion this year, and over the next decade we are on pace to add $13 trillion to debt issued to the public if current laws remain unchanged. As a share of gross domestic product (GDP), debt held by the public has already reached its highest level in over 70 years, and it is on pace to nearly equal the size of our entire economy in the next 10 years.



SOURCE: Congressional Budget Office, *The Budget and Economic Outlook: 2020 to 2030*, January 2020.

Federal Spending and Revenues (% of GDP)



A STRUCTURAL PROBLEM

Throughout American history, national emergencies including wars and economic downturns have had significant short-term effects on our fiscal condition. Events like the Great Depression, World War II, and the 2008 financial crisis, for example, all caused deficits to rise temporarily.

Today's fiscal situation is different. Debt and deficits are rising, but not in response to an emergency or other temporary condition. Instead, our fiscal challenges stem from a built-in, structural mismatch between spending and revenues.

SOURCE: Congressional Budget Office, *The Budget and Economic Outlook: 2020 to 2030*, January 2020.

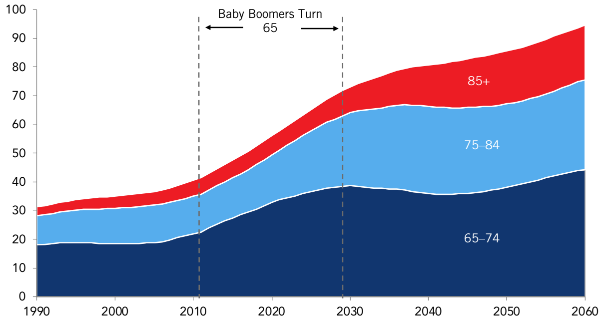
KEY DRIVERS OF DEBT

Our fiscal challenge can seem complex, but there are four primary drivers that tell the story of our nation's large and growing debt.

1. DEMOGRAPHICS

The baby boom generation — 71 million strong — has already begun to enter retirement and access federal healthcare and retirement programs. Today, and every day for the next 9 years, roughly 12,000 baby boomers will celebrate their 65th birthday. In the coming years, not only will the number of older Americans increase, but they are also expected to live longer in retirement due to significant improvements in life expectancy.

U.S. POPULATION AGE 65+ (MILLIONS)



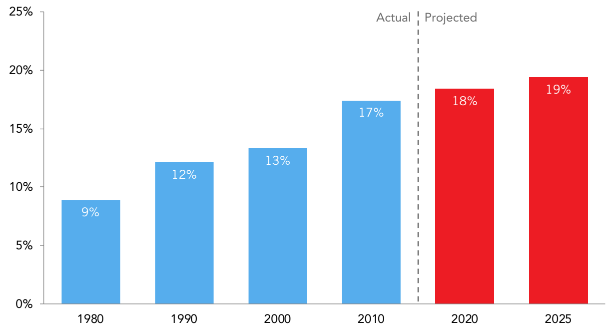
SOURCES: U.S. Census Bureau, *National Intercensal Estimates; 2016 Population Estimates*, June 2017; and *2017 National Population Projections*, September 2018.

Those trends mean that the government will spend more for the important programs that serve this growing population of older Americans, including Social Security, Medicare, and Medicaid.

2. HEALTHCARE COSTS

America's healthcare system is the most expensive in the developed world. Overall spending on healthcare totals a staggering $3.6 trillion, or 18 percent of the economy. But despite spending around $12,000 per capita on healthcare this year, our health outcomes are no better, and in some cases are worse, than other advanced nations.

NATIONAL HEALTH EXPENDITURES (% OF GDP)



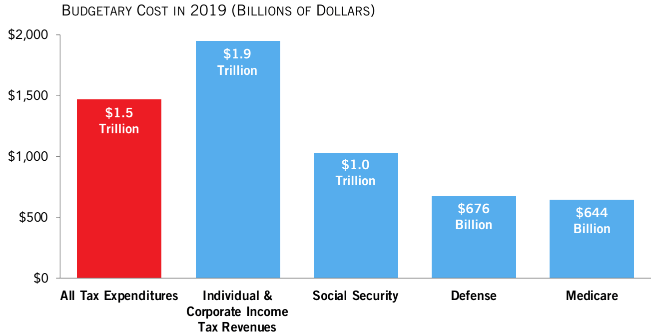
SOURCE: Centers for Medicare and Medicaid Services, *National Health Expenditures*, February 2019.

While healthcare costs have grown less rapidly in recent years, they are still projected to exceed the rate of growth of the economy. The combination of an expensive healthcare system with our aging population creates a "perfect storm" of challenges for the U.S. economy, as seniors, who consume more healthcare than younger Americans, are entering retirement at historically high rates and living longer in retirement.

3. INADEQUATE REVENUES

It would be one thing if our tax code were designed to fund all the promises we're making. But it's not. The U.S. tax system does not generate enough revenues to cover the spending policymakers have chosen. Even though there are many options to choose from that would increase revenues, lawmakers have failed to tap new sources that would pay for their priorities.

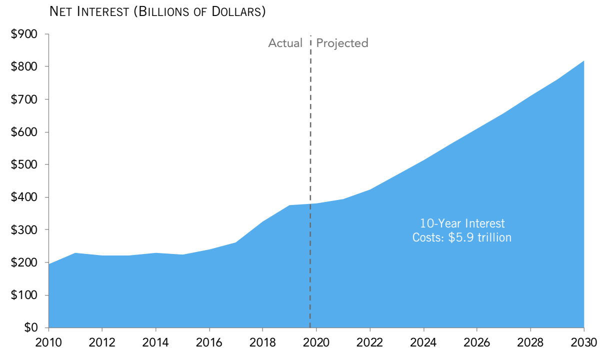
Our tax code is overly complex, confusing, inefficient, and unfair. It remains riddled with tax expenditures, or "tax breaks," that provide financial benefits to specific activities and groups, but not others. Those tax breaks — which total $1.5 trillion annually — are a lot like government spending, but run through the tax code. They also create market distortions that are damaging to economic growth and productivity.



SOURCES: Congressional Budget Office, *The Accuracy of CBO's Baseline Estimates for Fiscal Year 2019*, December 2019; and The Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2019–2023*, December 2019.

4. INTEREST COSTS

When the government runs a deficit by not having sufficient revenues to cover its expenses, it must borrow money. The interest we pay on its debt is the fastest growing part of the federal budget, projected to climb from $382 billion in 2020 to $819 billion by 2030. Over the next decade, interest will total nearly $6 trillion, and it is likely that we will spend more on interest than on children this year.



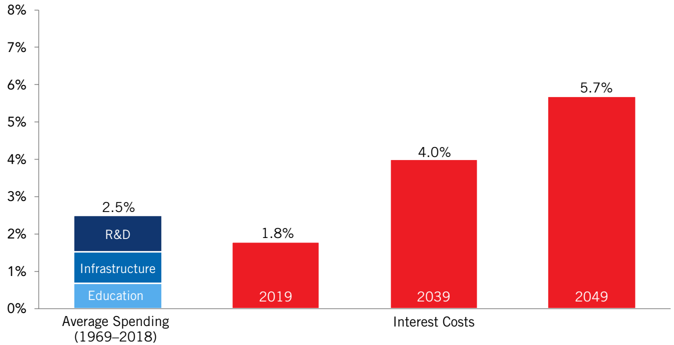
SOURCES: Congressional Budget Office, *The Budget and Economic Outlook: 2020 to 2030*, January 2020.

WHY DEBT MATTERS

This election season, you may ask yourself, "What does this mean for me?"

Put simply, a stable fiscal foundation is essential for a strong and prosperous American economy. **Rising debt matters because it can harm our economic future and threaten the opportunities available to every American.** A nation saddled with debt has fewer resources available to invest in its own future, as higher interest costs crowd out important public investments that can fuel economic growth.

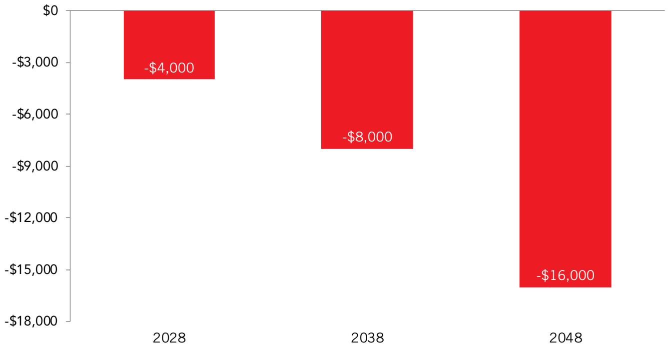
FEDERAL SPENDING (% OF GDP)



SOURCE: Congressional Budget Office, *The 2019 Long-Term Budget Outlook*, June 2019; and Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 2020*, March 2019.
NOTE: Infrastructure excludes defense.

Growing federal debt also **diminishes the amount of private capital for investment, which reduces income over time**. It also can **shrink business and consumer confidence** as well as decrease certainty. Our growing debt will likely eventually **push up interest rates**, which would make it harder for Americans to afford college, buy a home, or start a business. In addition, the growing federal debt could **depress wages**: if we fail to improve our fiscal outlook, a 4-person family, on average, could see their income reduced by $16,000 annually in 30 years.

INCOME LOSS FOR A FOUR-PERSON FAMILY, ON AVERAGE (2019 DOLLARS)

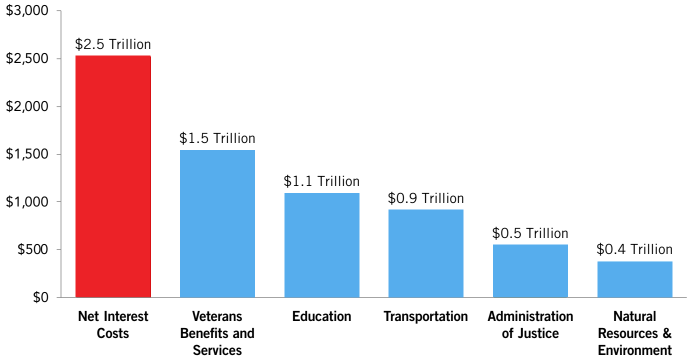


SOURCE: Congressional Budget Office, *The Deficit Reductions Necessary to Meet Various Targets for Federal Debt*, August 2018.
NOTE: The income measures are based on CBO's projections of real gross national product per person. The income loss is the difference between the income level if debt rises as it does under current law and the income level if debt remains near its current share of gross domestic product.

Our **fiscal security is also closely linked to our national security** and ability to maintain a leading role in the world. As Admiral Mullen, former Chairman of the Joint Chiefs of Staff, put it: "The most significant threat to our national security is our debt."

As debt grows, not only are we more beholden to creditors around the globe, but we have **fewer resources to invest in strength at home**. Over the last 10 years, we have spent more on interest on the debt than on many of our national priorities, and within the next decade, interest costs will approach the amount spent on national defense.

Federal Spending From FY2010 to FY2019 (Billions of Dollars)



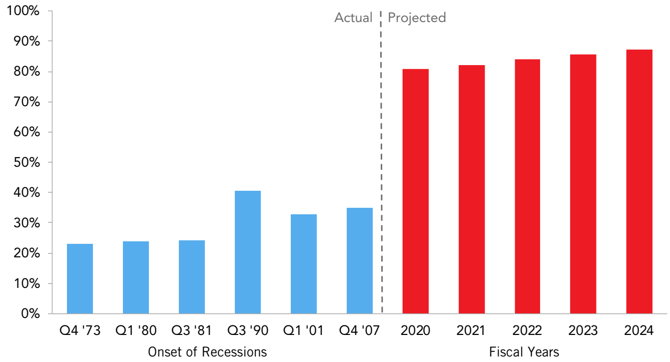
SOURCES: Office of Management and Budget, *Budget of the United States Government: Fiscal Year 2020*, March 2019; and Department of the Treasury, *Monthly Treasury Statement*, issue for September 2019.

Additionally, dangerously high debt not only makes a fiscal crisis more likely, it leaves policymakers with **less flexibility to deal with unexpected events**, such as a significant recession, wars, or natural disasters.

And importantly, **America's debt imperils the safety net and the most vulnerable in our society**. If our government does not have the resources and the stability of a sustainable budget, those essential programs, and those who need them most, are put in jeopardy.

Our debt is currently much larger than it was at the beginning of previous recessions.

Debt Held by the Public (% of GDP)



SOURCE: Federal Reserve Bank of St. Louis, *Federal Debt Held by the Public as a Percent of Gross Domestic Product*, December 2018; and Congressional Budget Office, *The Budget and Economic Outlook: 2020 to 2030*, January 2020.

THE IMPACT OF HIGH AND RISING DEBT

LOWER PRODUCTIVITY, CERTAINTY AND ECONOMIC OPPORTUNITY

CROWDING OUT OF PUBLIC AND PRIVATE INVESTMENTS, WHICH WILL REDUCE FUTURE ECONOMIC GROWTH

LESS FISCAL FLEXIBILITY TO RESPOND TO UNFORESEEN CHALLENGES

HIGHER LIKELIHOOD OF A FISCAL CRISIS IN THE UNITED STATES

SPENDING MORE ON INTEREST THAN ON CHILDREN BY 2020

REDUCTION IN 4-PERSON FAMILY INCOME BY $16,000 IN 2048

THE PATH FORWARD

By any reasonable definition, the fiscal path we are on is unsustainable and dangerous, threatening the future we all want for our nation. Despite clear warning signs, policymakers have been unwilling to make responsible choices.

But there is a better path forward.

A sustainable long-term fiscal outlook will give our economy the best chance to succeed, creating conditions that encourage growth. A stable path enables an environment with greater access to capital, increased public and private investment, enhanced confidence, and a solid safety net. Those factors, in turn, create a more vibrant economy, with rising wages and greater productivity.

Many policy options exist to reduce America's long-term debt and lay a stronger foundation for future economic growth. Comprehensive plans generally phase in changes slowly to give people time to plan and to avoid sudden economic shocks. While some plans would rely more on spending reductions and others more on tax increases, a combination of both approaches would be more likely to receive bipartisan support, and therefore, be more durable.

THE 2020 CAMPAIGN

The vast majority of American voters recognize the danger and believe that addressing our nation's debt should be a priority in Washington. Most elected officials say that they agree. Yet the problem remains unaddressed.

This election season, voters have a key opportunity to ask candidates about their plans to put our nation on a better fiscal path.

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www.pgpf.org/2020-Voters-Fiscal-Guide