The 2016 election presents an important opportunity for a national conversation between citizens and candidates about the leadership required to secure America’s future.

The growing national debt threatens our fiscal, economic, and national security. Within the next 10 years, interest on the debt will become the third largest category of the federal budget, threatening to crowd out investments in our economy such as education, infrastructure, and R&D.

Voters understand that our nation’s strength and prosperity depend on our long-term fiscal health. On our current path, the debt is projected to grow to levels that would damage America’s economy, threaten our way of life, and diminish our role in the world. Our global standing and ability to confront our greatest threats tomorrow are dependent on our leaders today.

The charts in this book outline the nature of the long-term challenges we face. It is clear that the United States continues on an unsustainable fiscal path, driven by a structural imbalance between spending and revenue. This election year, voters are calling on candidates across the country to put forward their plans for securing America’s fiscal and economic future.

The Peter G. Peterson Foundation regularly produces charts and analyses to explain the scope and seriousness of America’s fiscal challenges and to help policymakers, experts, and the public make progress toward solutions. To view and share these charts and other materials, please visit [www.pgpf.org](http://www.pgpf.org).
Federal debt is on an unsustainable path

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

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

- **175% in 2040 (Alternative Fiscal Scenario)**
- **131% in 2040 (Current Law)**

**Civil War**

**WWI**

**WWII**

**Great Depression**


**NOTE:** Current law projections are from CBO’s extended baseline scenario. Both scenarios include economic feedback.
The growing debt is caused by a structural mismatch between spending and revenues

**Federal Revenues and Spending (% of GDP)**

- **Average Spending (1980–2015)**
- **Average Revenues (1980–2015)**
- **Spending**
- **Revenues**


**NOTE:** Projections are from CBO’s extended baseline scenario.
Net interest costs are projected to rise sharply

Billions of Dollars

Actual | Projected


10-Year Interest Costs: $5.8 trillion

By 2050, interest costs are projected to be more than three times what the federal government has historically spent on R&D, infrastructure, and education combined.

**Federal Spending (% of GDP)**

- **Average Spending (1966–2015)**:
  - R&D: 2.6%
  - Infrastructure: 1.5%
  - Education: 2016

- **Interest Costs**:
  - 2040: 6.3%
  - 2050: 9.0%


**Note:** Infrastructure excludes defense. Current law projection for 2040 is from CBO’s extended baseline scenario, which PGPF extended to 2050.
Interest costs are projected to become the largest category of the budget.

**Budget Categories (% of GDP)**

- **Interest**
- **Social Security**
- **Medicare**
- **Defense Discretionary**
- **Nondefense Discretionary**
- **Medicaid, CHIP & Exchanges**
- **Other Mandatory**

**SOURCE:** Congressional Budget Office, *The 2015 Long-Term Budget Outlook*, June 2015. Calculated by PGPF.

**NOTE:** Projections are based on CBO’s alternative fiscal scenario.
The elderly population is growing rapidly and living longer.

U.S. POPULATION AGE 65+ (MILLIONS)

As the population ages, fewer workers will be paying taxes to support each Social Security beneficiary.

**Workers per Beneficiary**

<table>
<thead>
<tr>
<th>Year</th>
<th>Workers per Beneficiary</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>3.7</td>
</tr>
<tr>
<td>1990</td>
<td>3.4</td>
</tr>
<tr>
<td>2010</td>
<td>2.9</td>
</tr>
<tr>
<td>2030</td>
<td>2.2</td>
</tr>
</tbody>
</table>

Social Security will run a cumulative cash deficit of $2.8 trillion between now and 2034.

**Social Security Surpluses/Deficits (% of GDP)**

- **Total Deficit**: $2.8 Trillion


**NOTE:** Surplus/deficit numbers exclude interest income. The total deficit of $2.8 trillion is the present value of the cash deficits between 2015 and 2034.
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>Social Security Benefits (% of Total Income)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowest Quintile (Under $13,300)</td>
<td>83%</td>
</tr>
<tr>
<td>Second Quintile ($13,300 to $22,000)</td>
<td>83%</td>
</tr>
<tr>
<td>Middle Quintile ($22,000 to $35,500)</td>
<td>64%</td>
</tr>
<tr>
<td>Fourth Quintile ($35,500 to $63,600)</td>
<td>44%</td>
</tr>
<tr>
<td>Highest Quintile (Over $63,600)</td>
<td>16%</td>
</tr>
</tbody>
</table>


Note: A quintile is one fifth of the distribution.
Healthcare is the major driver of the projected growth in federal spending over the long term.

FEDERAL SPENDING (% OF GDP)


NOTE: Projections are based on CBO’s extended baseline scenario. Major health programs include Medicare (net), Medicaid, Children’s Health Insurance Program (CHIP), and the health exchanges.
Medical spending increases rapidly with age

ANNUAL HEALTHCARE SPENDING PER CAPITA (DOLLARS)

SOURCE: Centers for Medicare and Medicaid Services, *National Health Expenditures by Age and Gender*, May 2014. Data are for 2010. Compiled by PGPF.
United States per capita healthcare spending is more than twice the average of other developed countries.

**Healthcare Costs per Capita (Dollars)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>$3,077</td>
</tr>
<tr>
<td>U.K.</td>
<td>$3,235</td>
</tr>
<tr>
<td>Japan</td>
<td>$3,713</td>
</tr>
<tr>
<td>Australia</td>
<td>$3,866</td>
</tr>
<tr>
<td>France</td>
<td>$4,124</td>
</tr>
<tr>
<td>Canada</td>
<td>$4,351</td>
</tr>
<tr>
<td>Germany</td>
<td>$4,819</td>
</tr>
<tr>
<td>Sweden</td>
<td>$4,904</td>
</tr>
<tr>
<td>Switzerland</td>
<td>$6,325</td>
</tr>
<tr>
<td>United States</td>
<td>$8,713</td>
</tr>
<tr>
<td>OECD Average</td>
<td>$3,453</td>
</tr>
</tbody>
</table>


**NOTE:** Data are for 2013 or latest available. Chart uses purchasing power parities to convert data into U.S. dollars.
Total U.S. health expenditures (both public and private) are projected to rise to one-quarter of the economy by 2040.

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual</th>
<th>Projected</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>8%</td>
<td></td>
</tr>
<tr>
<td>1990</td>
<td>11%</td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>13%</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>16%</td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>18%</td>
<td></td>
</tr>
<tr>
<td>2040</td>
<td>25%</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Centers for Medicare and Medicaid Services, *National Health Expenditures,* December 2015; and the Congressional Budget Office, *The 2015 Long-Term Budget Outlook,* June 2015. Compiled by PGPF.

**Note:** CMS data are for 1980–2020. The 2040 figure is based on the latest projection from CBO. National spending on healthcare is health consumption expenditures as defined in the national health expenditure accounts and excludes spending on medical research, structures, and equipment.
Although the United States spends more on healthcare than other developed countries, its health outcomes are generally no better.

**Health Status**

<table>
<thead>
<tr>
<th>Metric</th>
<th>Worst</th>
<th>Best</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life Expectancy at Birth</td>
<td>South Africa</td>
<td>Switzerland</td>
</tr>
<tr>
<td>Infant Mortality</td>
<td>India</td>
<td>Iceland</td>
</tr>
</tbody>
</table>

**Quality of Primary Care**

<table>
<thead>
<tr>
<th>Metric</th>
<th>Worst</th>
<th>Best</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unmanaged Asthma</td>
<td>Slovak Republic</td>
<td>Italy</td>
</tr>
<tr>
<td>Unmanaged Diabetes</td>
<td>Hungary</td>
<td>Italy</td>
</tr>
</tbody>
</table>

**Quality of Acute Care**

<table>
<thead>
<tr>
<th>Metric</th>
<th>Worst</th>
<th>Best</th>
</tr>
</thead>
<tbody>
<tr>
<td>Safety During Childbirth</td>
<td>Switzerland</td>
<td>Poland</td>
</tr>
<tr>
<td>Heart Attack Mortality</td>
<td>Mexico</td>
<td>Australia</td>
</tr>
</tbody>
</table>


NOTE: Data are not available for all countries for all metrics; all published data are shown. Data are for 2013 or latest available.
Life expectancy at birth in the United States is lower than in other developed countries, despite higher healthcare costs.

LIFE EXPECTANCY (YEARS)


NOTE: The trend line comes from a logarithmic regression.
Mandatory spending and interest costs will climb significantly, while discretionary spending will fall to well below historical averages.

**% of Federal Spending**

<table>
<thead>
<tr>
<th>Year</th>
<th>Mandatory Spending and Net Interest Costs</th>
<th>Discretionary Spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>61%</td>
<td>38%</td>
</tr>
<tr>
<td>2016</td>
<td>69%</td>
<td>31%</td>
</tr>
<tr>
<td>2026</td>
<td>78%</td>
<td>22%</td>
</tr>
</tbody>
</table>

**% of GDP**

- **Actual**: 20-Year Average (1996–2015)
- **Projected**: Discretionary Spending

*Source: Congressional Budget Office, Updated Budget Projections: 2016 to 2026, March 2016. Compiled by PGPF.*
Discretionary spending funds a wide range of government programs

2015 Discretionary Outlays
$1,169 Billion

Defense
Education
Transportation
Veterans Benefits and Services
Income Security
Health (Discretionary Only)
International Affairs
Administration of Justice
Natural Resources and Environment
General Science, Space and Technology
Community and Regional Development
General Government
Medicare Administrative Costs
Agriculture
Social Security Administrative Costs
Energy

NOTE: Data excludes allowances and functions with negative outlays. Health (discretionary only) includes National Institutes of Health, the Center for Disease Control and Prevention, veteran healthcare, and administrative costs for Medicaid.
The United States spends more on defense than the next seven countries combined.

SOURCE: Stockholm International Peace Research Institute, SIPRI Military Expenditure Database, April 2016. Data are for 2015. Compiled by PGPF.

NOTE: Figures are in U.S. dollars, converted from local currencies using market exchange rates.
The government collects revenue from a variety of sources

2015 Total Revenues
$3,250 Billion

Individual Income Taxes 47%
Payroll Taxes 33%
Corporate Income Taxes 11%
Excise Taxes 3%
Estate and Gift Taxes 1%
Other 6%

NOTE: Other includes customs duties and miscellaneous sources. Numbers do 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 (% of Cash Income In 2015)

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 2015 dollars, the income breaks are: 20% is $22,769; 40% is $44,590; 60% is $78,129; 80% is $138,265; 90% is $204,070; 95% is $290,298; 99% is $709,166; 99.9% is $3,474,762.
Corporate and individual tax expenditures are large in comparison to annual taxes collected, as well as to the government’s major programs.

**BUDGETARY COST IN 2015 (BILLIONS OF DOLLARS)**

<table>
<thead>
<tr>
<th>Category</th>
<th>Cost 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Tax Expenditures</td>
<td>$1.5 Trillion</td>
</tr>
<tr>
<td>Individual &amp; Corporate Income Tax Revenues</td>
<td>$1.9 Trillion</td>
</tr>
<tr>
<td>Medicare</td>
<td>$540 Billion</td>
</tr>
<tr>
<td>Social Security</td>
<td>$882 Billion</td>
</tr>
<tr>
<td>Defense</td>
<td>$583 Billion</td>
</tr>
</tbody>
</table>


**NOTE:** Medicare spending is net of premiums and payments from the states. Those receipts were $94 billion in 2015. Defense represents discretionary defense spending. Tax expenditures are deductions, credits, exclusions, and preferential rates. The estimates for tax expenditures include effects on income, payroll, and excise tax revenues, as well as effects on outlays.
Six popular tax provisions account for nearly 60 percent of annual tax expenditures

<table>
<thead>
<tr>
<th>Major Individual Tax Expenditures</th>
<th>Budgetary Costs (2015)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exclusion of employer contributions for medical insurance and care*</td>
<td>$329 billion</td>
</tr>
<tr>
<td>Exclusion of pension contributions and earnings **</td>
<td>$172 billion</td>
</tr>
<tr>
<td>Preferential treatment of dividends and capital gains</td>
<td>$169 billion</td>
</tr>
<tr>
<td>Deduction for state and local taxes</td>
<td>$80 billion</td>
</tr>
<tr>
<td>Earned Income Tax Credit (EITC)</td>
<td>$64 billion</td>
</tr>
<tr>
<td>Deduction of mortgage interest on owner-occupied homes with loan values up to $1 million</td>
<td>$59 billion</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$872 billion</strong></td>
</tr>
</tbody>
</table>


NOTE: *Includes the exclusion from payroll taxes and income taxes. **Includes employer pension plans, employee and employer contributions to 401k plans, IRAs, and self-employed plans.
The top 1 percent of taxpayers receive 17 percent of the total value of major tax expenditures.

Distribution of Major Individual Income Tax Expenditures

- Top 1 Percent 17%


NOTE: In 2013, the top one percent includes a four-person household with income of at least $654,000 annually or a single-person household with income of at least $327,000 annually.
The top 1 percent of taxpayers generate 44 percent of individual income tax revenue


Note: In 2015 dollars, the income break for the top one percent is $709,166.
The median real income for families in the United States has been relatively stagnant for two decades.

**MEDIAN FAMILY INCOME (2014 DOLLARS)**

Although the incomes of the wealthy are volatile, they have grown much faster than the incomes of other groups.

**Average Annual After-Tax Income (2011 Dollars)**

- **Top 1%**: Increase of $688,200 (+200%)
- **Top 20%**: Increase of $87,700 (+87%)
- **Middle 20%**: Increase of $15,400 (+35%)
- **Lowest 20%**: Increase of $7,800 (+48%)

The growing federal debt is projected to reduce average income per person by as much as $6,000.


Note: Income is measured as real gross national product (GNP) per person. The income reduction is the difference between the level of income if debt rises as it does under the alternative fiscal scenario and the level of income if debt remains near its current share of GNP.
Delaying action raises the cost of stabilizing the debt in the long run.

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

- **2016**: 3.2%
- **2021**: 4.0%
- **2026**: 5.4%

*Source: Congressional Budget Office, *The 2015 Long-Term Budget Outlook*, June 2015. Calculated by PGPF.*

*Note: Calculations are based on CBO’s alternative fiscal scenario.*
Solutions do exist: PGPF Solutions Initiative plans from five think tanks show stable or declining federal debt through 2040

Debt Held by the Public (% of GDP)

NOTE: Current policy is defined as the alternative fiscal scenario without economic feedback from CBO’s 2014 Long-Term Budget Outlook.