As the 2018 campaign gets underway within a rapidly changing policy environment, America’s unsustainable fiscal condition remains a transcendent threat to our collective future. Over just the course of the past year, significant tax and spending measures have made our nation’s fiscal outlook considerably worse. This recent legislation, coupled with existing structural deficits, makes our rising debt a substantial danger to our economy.

Our national debt is at its highest level relative to the size of our economy since shortly after World War II, and is projected to grow rapidly in the years ahead. We face a structural mismatch between revenues and outlays, which is driven by an aging population, rising healthcare costs, and increasing interest payments, combined with insufficient revenue to support existing commitments.

Over the last ten years, we have added nearly $10 trillion in new borrowing and nearly tripled the amount of debt outstanding. Under current policies, we will add $15 trillion more debt to the ledger over the upcoming ten years, and the balance will double again. At that point, the amount of debt outstanding would be greater than the size of our entire economy.

Rising interest rates and a return to trillion-dollar deficits as early as next year ensure that budgetary pressure will continue to increase. Absent a change in course, we will confront reduced public and private investments, less flexibility to deal with future crises, and diminishing economic opportunities for Americans.

Now, while the economy is strong, it is time to face the challenge anew, and reset our priorities to create the conditions for sustained economic growth and prosperity into the future. The 2018 Fiscal Summit: Debt Matters will reiterate the urgent need for a fiscal reset, and examine how we can refocus the nation on building a fiscally sustainable path for America.
Deficit projections since June 2017 have risen by nearly $4 trillion through 2027, primarily due to recent legislation.

Annual Deficits (Billions of Dollars)

Source: Congressional Budget Office, An Update to the Budget and Economic Outlook: 2017 to 2027, June 2017, and The Budget and Economic Outlook: 2018 to 2028, April 2018. Compiled by PGPF.

Note: Projections reflect a continuation of current policy, rather than current law, and are consistent with CBO’s alternative fiscal scenario.
The deficit is projected to exceed $1 trillion by 2020 and $2 trillion by 2028.


NOTE: Projections reflect a continuation of current policy, rather than current law, and are consistent with CBO’s alternative fiscal scenario.
Recent legislation has significantly and quickly damaged our fiscal outlook

<table>
<thead>
<tr>
<th></th>
<th>Then June 2017</th>
<th>Now April 2018</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projected 2018 Deficit</td>
<td>$563 billion</td>
<td>$805 billion</td>
<td>$243 billion larger deficit</td>
</tr>
<tr>
<td>10-Year Deficit Total</td>
<td>$10.1 trillion</td>
<td>$13.7 trillion</td>
<td>$3.6 trillion larger deficit</td>
</tr>
<tr>
<td>(2018–2027)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest Costs</td>
<td>$5.6 trillion</td>
<td>$6.5 trillion</td>
<td>$1 trillion more in interest</td>
</tr>
<tr>
<td>Over 10 years</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt-to-GDP Ratio</td>
<td>91.2%</td>
<td>101.4%</td>
<td>10 percentage points higher</td>
</tr>
<tr>
<td>In 2027</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10-Year Revenue Total</td>
<td>$43.0 trillion</td>
<td>$41.2 trillion</td>
<td>Nearly $2 trillion less in revenues</td>
</tr>
<tr>
<td>10-Year Spending Total</td>
<td>$53.1 trillion</td>
<td>$54.8 trillion</td>
<td>Nearly $2 trillion more in spending</td>
</tr>
</tbody>
</table>

SOURCE: Congressional Budget Office, The Budget and Economic Outlook: 2018 to 2028, April 2018 and PGPF calculations based on CBO data. Compiled by PGPF.

NOTE: Projections reflect a continuation of current policy, rather than current law, and are consistent with CBO’s alternative fiscal scenario. Numbers may not add due to rounding.
Federal debt is projected to be twice the size of the U.S. economy by 2050.

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


NOTE: Projections reflect a continuation of current policy, rather than current law, and are consistent with CBO’s alternative fiscal scenario.
The growing debt is caused by a structural mismatch between spending and revenues

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

- **Average Spending (1983–2017)**
- **Average Revenues (1983–2017)**

**Spending**

**Revenues**

SOURCE: Congressional Budget Office, *The Budget and Economic Outlook: 2018 to 2028*, April 2018 and PGPF calculations based on CBO data. Compiled by PGPF.

NOTE: Projections reflect a continuation of current policy, rather than current law, and are consistent with CBO’s alternative fiscal scenario.
Net interest costs are projected to rise sharply

Interest Costs
2019–2028:
$7.2 trillion

SOURCE: Congressional Budget Office, The Budget and Economic Outlook: 2018 to 2028, April 2018 and PGPF calculations based on CBO data. Compiled by PGPF.
NOTE: Projections reflect a continuation of current policy, rather than current law, and are consistent with CBO’s alternative fiscal scenario.
Interest costs are projected to become the third largest category of the budget.

SOURCE: Congressional Budget Office, *The Budget and Economic Outlook: 2018 to 2028*, April 2018 and PGPF calculations based on CBO data. Compiled by PGPF.

NOTE: Medicare spending is net of premiums and payments from the states. Projections reflect a continuation of current policy, rather than current law, and are consistent with CBO’s alternative fiscal scenario.
By 2022, annual interest costs will exceed what the federal government has historically spent each year on R&D, infrastructure, and education combined.

**Table: Federal Spending (% of GDP)**

<table>
<thead>
<tr>
<th>Year</th>
<th>R&amp;D</th>
<th>Infrastructure</th>
<th>Education</th>
<th>Interest Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>1.6%</td>
<td></td>
<td></td>
<td>1%</td>
</tr>
<tr>
<td>2022</td>
<td>2.8%</td>
<td></td>
<td></td>
<td>2%</td>
</tr>
</tbody>
</table>

**Average Spending (1968–2017):**

- R&D: 2.5%
- Infrastructure: 1%
- Education: 2%

**Interest Costs:**

- 2018: 1.6%
- 2022: 2.8%


**Note:** Projections reflect a continuation of current policy, rather than current law, and are consistent with CBO’s alternative fiscal scenario.
Healthcare is the major driver of the projected growth in federal spending

**Federal Spending (% of GDP)**

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

**Major Health Programs**

**Social Security**

**Discretionary:**
- Non-defense
- Defense
- Other Mandatory

Source: Congressional Budget Office, The Budget and Economic Outlook: 2018 to 2028, April 2018. Compiled by PGPF.

Note: Major health programs include Medicare (net), Medicaid, Children’s Health Insurance Program (CHIP), and the health exchanges. Projections reflect a continuation of current policy, rather than current law, and are consistent with CBO’s alternative fiscal scenario.
The elderly population is growing rapidly and living longer

U.S. POPULATION AGE 65+ (MILLIONS)

Medical spending increases rapidly with age

**ANNUAL HEALTHCARE SPENDING PER CAPITA (DOLLARS)**

![Bar chart showing annual healthcare spending per capita by age group.](chart)

- **0–18**: $3,552
- **19–44**: $4,458
- **45–64**: $9,513
- **65–84**: $16,872
- **85+**: $32,411

*Source: Centers for Medicare and Medicaid Services, *National Health Expenditures by Age and Gender*, August 2016. Data are for 2012. Compiled by PGPF.*
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)

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual</th>
<th>Projected</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>9%</td>
<td></td>
</tr>
<tr>
<td>1990</td>
<td>12%</td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>13%</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>17%</td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>18%</td>
<td></td>
</tr>
<tr>
<td>2025</td>
<td>19%</td>
<td></td>
</tr>
</tbody>
</table>

SOURCE: Centers for Medicare and Medicaid Services, National Health Expenditures, January 2018. 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>Healthcare Costs per Capita (Dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>$3,352</td>
</tr>
<tr>
<td>U.K.</td>
<td>$4,125</td>
</tr>
<tr>
<td>Japan</td>
<td>$4,269</td>
</tr>
<tr>
<td>Australia</td>
<td>$4,289</td>
</tr>
<tr>
<td>France</td>
<td>$4,530</td>
</tr>
<tr>
<td>Canada</td>
<td>$4,613</td>
</tr>
<tr>
<td>Sweden</td>
<td>$5,266</td>
</tr>
<tr>
<td>Germany</td>
<td>$5,353</td>
</tr>
<tr>
<td>Switzerland</td>
<td>$7,536</td>
</tr>
<tr>
<td>United States</td>
<td>$9,507</td>
</tr>
<tr>
<td>OECD Average</td>
<td>$3,851</td>
</tr>
</tbody>
</table>

Although the United States spends more on healthcare than other developed countries, its health outcomes are generally no better.

**Health Status**

- Life Expectancy at Birth
  - Worst: South Africa
  - Best: Japan

- Infant Mortality
  - Worst: India
  - Best: Slovenia

**Quality of Primary Care**

- Unmanaged Asthma
  - Worst: Latvia
  - Best: Italy

- Unmanaged Diabetes
  - Worst: Mexico
  - Best: Italy

**Quality of Acute Care**

- Safety During Childbirth
  - Worst: Canada
  - Best: Poland

- Heart Attack Mortality
  - Worst: Mexico
  - Best: Norway


**NOTE:** Data are not available for all countries for all metrics. Data are for 2015 or latest available.
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>2.3</td>
</tr>
</tbody>
</table>

The Social Security trust fund will be depleted by 2034

Social Security Surpluses/Deficits (% of GDP)


NOTE: Surplus/deficit numbers exclude interest income. The total deficit of $2.8 trillion is the present value of the cash deficits between 2017 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</td>
<td>81% (Under $13,499)</td>
</tr>
<tr>
<td>Second Quintile</td>
<td>81% ($13,499–$23,592)</td>
</tr>
<tr>
<td>Middle Quintile</td>
<td>61% ($23,592–$39,298)</td>
</tr>
<tr>
<td>Fourth Quintile</td>
<td>39% ($39,298–$72,129)</td>
</tr>
<tr>
<td>Highest Quintile</td>
<td>15% (Over $72,129)</td>
</tr>
</tbody>
</table>


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

2017 Discretionary Outlays
$1,200 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 Centers for Disease Control and Prevention, veterans healthcare, and administrative costs for Medicaid.
The United States spends more on defense than the next seven countries combined.

DEFENSE SPENDING (BILLIONS OF DOLLARS)

<table>
<thead>
<tr>
<th>Country</th>
<th>Spending ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>610</td>
</tr>
<tr>
<td>China</td>
<td>578</td>
</tr>
<tr>
<td>Russia</td>
<td>220</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>150</td>
</tr>
<tr>
<td>India</td>
<td>80</td>
</tr>
<tr>
<td>France</td>
<td>70</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>60</td>
</tr>
<tr>
<td>Japan</td>
<td>50</td>
</tr>
</tbody>
</table>

Discretionary spending is projected to fall to well below historical averages

![Bar chart showing percentage of federal spending](chart)

**% of Federal Spending**

- 2008: 62%
- 2018: 69%
- 2028: 77%

**% of GDP**

- Actual 20-Year Average (1998–2017): 77%
- Projected Discretionary Spending: Decrease over time

**Discretionary Spending**

- 2008: 38%
- 2018: 31%
- 2028: 23%

**Mandatory Spending and Net Interest Costs**

The federal government collects revenue from a variety of sources.

2017 Total Revenues
$3,316 Billion

- Payroll Taxes: 35%
- Individual Income Taxes: 48%
- Corporate Income Taxes: 9%
- Excise Taxes: 3%
- Other: 5%
- Estate and Gift Taxes: 1%


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 2016)**

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


**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 2017 dollars, the income breaks are: 20% $24,600; 40% $47,700; 60% $84,300; 80% $147,700; 90% $214,700; 95% $306,100; 99% $717,900; 99.9% $2,917,600. Includes both filing and non-filing units but excludes those that are dependents of other tax units.
The top 1 percent of taxpayers generate 40 percent of individual income tax revenue

Share of Individual Income Tax Revenue

- Top 1 Percent: 40%
- All Other Taxpayers: 60%


NOTE: CBO's income groups account for household size. In 2014, a one-person household was in the top 1 percent if its income was $374,400 or higher. A four-person household was in the top 1 percent if its income was $748,800 or higher.
The incomes of the wealthy have grown much faster than the incomes of other groups

The incomes of the wealthy have grown much faster than the incomes of other groups

**Average Annual After-Tax Income (2014 Dollars)**

- **Top 1%:** Increase of $819,100 (+230%)
- **Top 20%:** Increase of $102,200 (+100%)
- **Middle 20%:** Increase of $16,600 (+38%)
- **Lowest 20%:** Increase of $12,700 (+70%)

**Source:** Congressional Budget Office, *The Distribution of Household Income 2014*, March 2018. Data are for 2014. Compiled by PGPF.

**Note:** Increase calculated for 1979–2014.
Tax expenditures are large in comparison to annual income taxes collected and to the government’s major programs.

### Budgetary Cost in 2017 (Dollars)

- **All Tax Expenditures**: $1.7 Trillion
- **Individual & Corporate Income Tax Revenues**: $1.9 Trillion
- **Social Security**: $939 Billion
- **Medicare**: $591 Billion
- **Defense**: $590 Billion

**Source:** Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2019*, February 2018. Compiled by PGPF.

**Note:** Tax expenditures are deductions, credits, exclusions, and preferential rates. The estimates for tax expenditures include effects on outlays but 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.
Six popular tax provisions accounted for more than 60 percent of annual tax expenditures

<table>
<thead>
<tr>
<th>Major Individual Tax Expenditures</th>
<th>Budgetary Costs (2017)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exclusion of employer contributions for medical insurance and care*</td>
<td>$341 billion</td>
</tr>
<tr>
<td>Exclusion of pension contributions and earnings**</td>
<td>$193 billion</td>
</tr>
<tr>
<td>Preferential treatment of dividends and capital gains</td>
<td>$175 billion</td>
</tr>
<tr>
<td>Deduction for state and local taxes</td>
<td>$104 billion</td>
</tr>
<tr>
<td>Deduction of mortgage interest on owner-occupied homes with loan values up to $1 million</td>
<td>$66 billion</td>
</tr>
<tr>
<td>Earned Income Tax Credit (EITC)</td>
<td>$64 billion</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$942 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, the low and moderate income savers credit, and self-employed plans. Changes to some of these tax expenditures were included in the Tax Cuts and Jobs Act of 2017. Numbers may not sum to total because of rounding.
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 4-PERSON FAMILY, ON AVERAGE (2017 DOLLARS)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Income Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>2027</td>
<td>-$2,000</td>
</tr>
<tr>
<td>2037</td>
<td>-$8,000</td>
</tr>
<tr>
<td>2047</td>
<td>-$16,000</td>
</tr>
</tbody>
</table>

**SOURCE:** Congressional Budget Office, *The 2017 Long-Term Budget Outlook*, March 2017. Calculated by PGPF.

**NOTE:** The income measures are based on CBO’s projections of real gross national product (GNP) 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 GDP.
Waiting 5 years raises the cost of stabilizing the debt by 21 percent.

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Needed Budget Change (% of GDP)</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>1.9%</td>
<td></td>
</tr>
<tr>
<td>2023</td>
<td>2.3%</td>
<td>21% larger</td>
</tr>
<tr>
<td>2028</td>
<td>2.9%</td>
<td>53% larger</td>
</tr>
</tbody>
</table>

**Source:** Congressional Budget Office, *The 2017 Long-Term Budget Outlook*, March 2017. Compiled by PGPF.
Solutions exist: PGPF Solutions Initiative plans from five think tanks showed stable or declining federal debt through 2040

DEBT HELD BY THE PUBLIC (% OF GDP)

Current Policy

Bipartisan Policy Center
American Enterprise Institute
Economic Policy Institute
Center for American Progress
American Action Forum

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