Pew's new projections estimate that, absent any corrective action, U.S. publicly held federal debt will reach 111 percent of GDP by 2025, the highest level in American history.

Addendum

No Silver Bullet: Paths for Reducing the Federal Debt

In September 2010, the Pew Fiscal Analysis Initiative released *No Silver Bullet: Paths for Reducing the Federal Debt*, which analyzed the implications of rising federal debt and modeled different remedies for reducing it to 60 percent of gross domestic product (GDP) in fiscal years 2025 or 2035. Since then, the Congressional Budget Office (CBO) has updated its 10-year projections to reflect the most recent economic data as well as the cost of new legislation enacted after August 2010.

Using the latest CBO data and certain revised assumptions, Pew's new projections estimate that, absent any corrective action, publicly held federal debt will reach 111 percent of GDP by 2025, the highest level in American history. Reducing the debt in 2025 to sustainable levels by only cutting discretionary spending would now require a 70 percent across the board cut in 2016 (the earlier report showed that a 43 percent cut was required in 2015). By contrast, if all spending and taxes were on the table and adjusted equally, the new required permanent spending cut and tax hike would be about 12 percent across the board in 2016 (7.5 percent in 2015 in the earlier report).

Only Cutting Discretionary Spending

On the spending side, stabilizing federal debt at 60 percent of GDP in 2025 by *only* cutting discretionary spending would require a permanent 70 percent cut in discretionary spending beginning in 2016 totaling $995 billion. This would be the equivalent of permanently eliminating *all* defense spending *plus* cutting an extra $220 billion elsewhere in the federal budget in 2016.

Only Cutting Mandatory Spending

If only mandatory spending were cut to reach the 2025 goal, then beginning in 2016 all spending and benefits would need to be

GLOSSARY

Mandatory Spending
Spending (budget authority and outlays) controlled by laws other than annual appropriations acts.* Includes Medicare, Medicaid, Social Security and some veterans benefits, among other programs.

Discretionary Spending
Spending (budget authority and outlays) controlled in annual appropriations acts.* Includes most defense and administrative spending, as well as most spending by agencies such as NASA and the FBI.

* Source: U.S. Senate Glossary.

reduced by about a third (34 percent). This action would lead to such cuts as decreasing average monthly Social Security payments by about $450, from $1,305 to $855, in 2016.

Cutting All Federal Spending

If *all* spending were cut across the board to reach the 2025 goal, then the permanent cut to both discretionary and mandatory spending in 2016 would be 23 percent, a cut of about $330 billion in discretionary spending (the equivalent of eliminating all federal discretionary education, employment training, transportation, environment, science, and space spending in 2016). Additionally, there would be cuts in mandatory spending such as a drop in average monthly Social Security benefits of about $300.

Only Raising Individual Income Taxes

If policy makers choose to stabilize the debt by only raising taxes, Pew finds that reaching the 2025 goal would require a 55 percent increase in individual income tax revenues. This would raise the average per person individual income tax liability in 2016 by about $2,600, from $4,735 to $7,340.

Raising All Taxes

Expanding the policy base to include *all* taxes (corporate income taxes, payroll taxes, excise taxes and others) would require a revenue hike of about 26 percent in 2016 leading to an increase of average per person individual income tax liability of about $1,240 in addition to higher payments for all other taxes.

Multi-Pronged Strategy

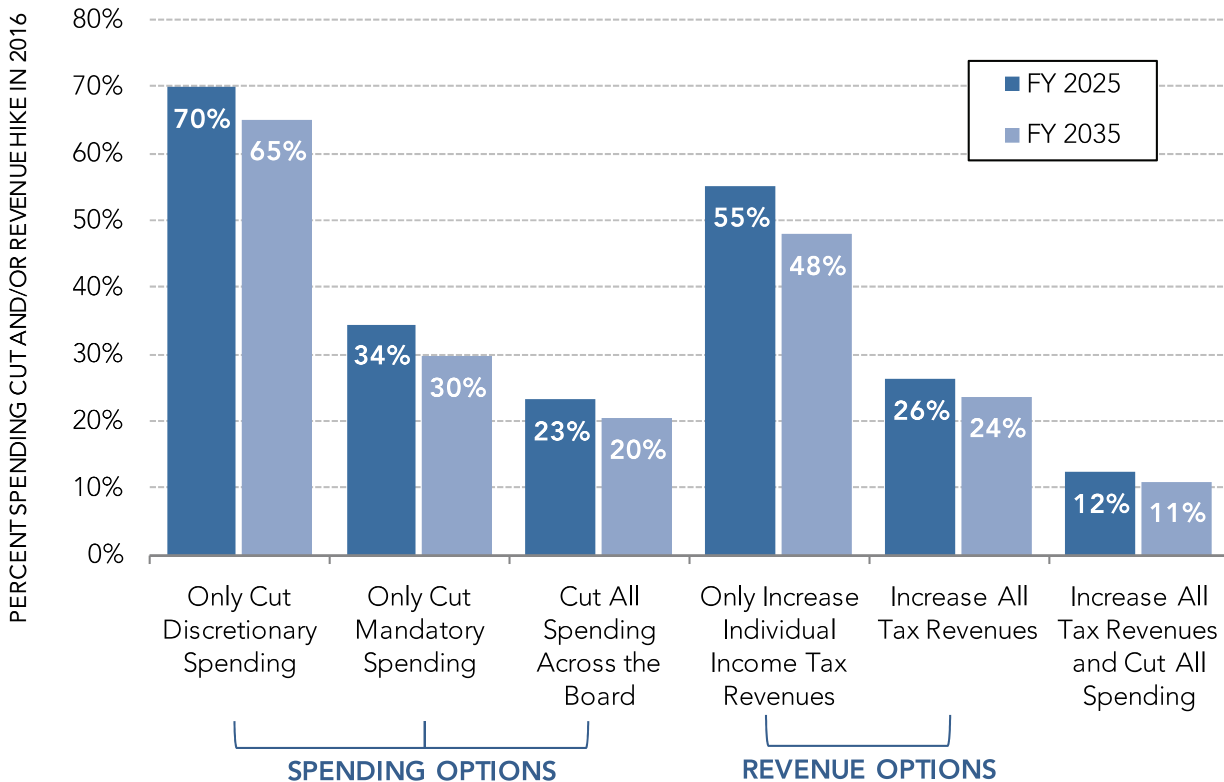
Finally, if all spending and taxes were on the table and adjusted equally, the required permanent spending cut and tax hike would be about 12 percent beginning in 2016. Such a change would entail cutting discretionary spending by about $175 billion (the equivalent of eliminating all federal discretionary spending in education, employment training, natural resources and the environment), cutting average monthly Social Security benefits by about $160, raising individual income taxes by about $580 per person in 2016 and other spending cuts and tax increases. Figure 1 shows the spending cuts and tax hikes in 2016 necessary to reach a debt-to-GDP ratio of 60 percent in fiscal years 2025 or 2035.

Changes to the Baseline

The original report was based on the CBO budget projections released in August 2010

Figure 1

Spending Cuts and/or Revenue Hikes in Fiscal Year 2016 Necessary to Reach Debt-to-GDP Ratio of 60 Percent in Fiscal Years 2025 or 2035



Source: Pew Analysis of Congressional Budget Office (2010, 2011) data.

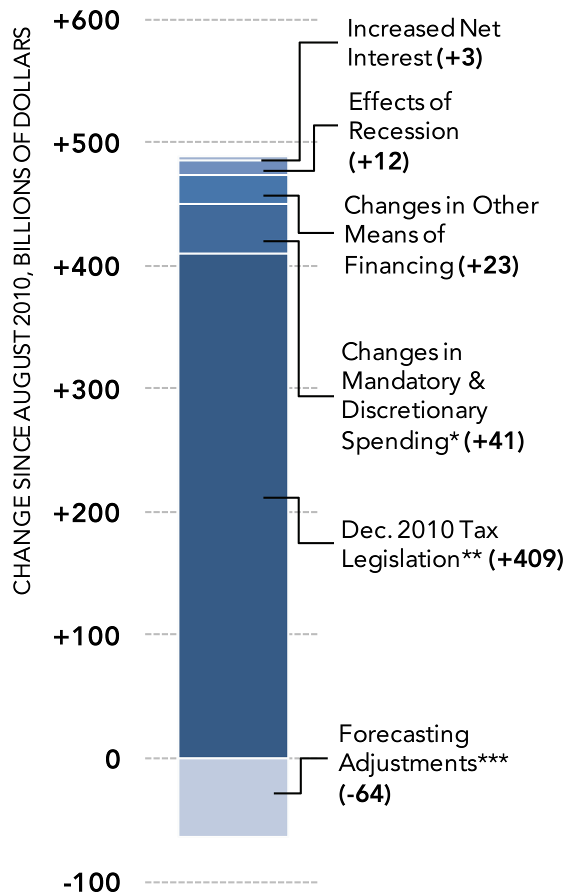
with several adjustments. In January 2011, CBO updated its 10-year *current law* projection that assumes no additional legislation that would affect spending or revenue will be enacted. The new CBO baseline estimates that publicly held federal debt by the end of fiscal year 2011 will be $423 billion higher than what was previously estimated in August 2010. This increase in debt is primarily the result of the enactment of the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act enacted in December 2010 (see Figure 2).

For this Addendum, Pew's baseline uses the CBO January 2011 baseline and also includes the cost of several policies that are set to expire under current law, but that Congress has historically extended.[1] After making these adjustments, Pew projects that the U.S.

[1] Because of the temporary extension of all the 2001 and 2003 tax cuts enacted in December 2010, and because of the changes to PAYGO rules introduced in the 112th Congress, Pew's January 2011 baseline methodology assumes permanently: 1) extending the 2001 and 2003 tax cuts for all filers; 2) indexing the 2009 parameters of the Alternative Minimum Tax (AMT) to inflation; 3) extending the December 2010 parameters of the estate and gift taxes; and 4) overriding the cuts to Medicare physician reimbursement required under the Sustainable Growth Rate (SGR).

Figure 2

Drivers of the Change in CBO's Fiscal Year 2011 Publicly Held Federal Debt Projections Between Aug. 2010 and Jan. 2011



Source: Pew analysis of Congressional Budget Office (2010, 2011) data.

* The Congressional Budget Office (CBO) projects mandatory spending will increase by $55 billion in fiscal year 2011 as a result of legislation passed since August 2010. Discretionary spending will fall by $14 billion as a result of legislation.

** The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (Public Law 111-312).

*** Includes adjustments categorized as "technical" by CBO as well as adjustments to year-end fiscal year 2010 debt.

debt-to-GDP ratio will rise to 97 percent ($23.1 trillion) in fiscal year 2021 (see Figure 3) and 111 percent in 2025.

These ratios are far from the 60 percent long-term debt-to-GDP level recommended as a sustainable level for advanced economies by organizations such as the International Monetary Fund, the National Academy of Public Administration and the Peterson-Pew Commission on Budget Reform.

In addition, CBO's new projections estimate that the U.S. will return to full employment in 2016 (the previous estimate was 2015). To minimize adverse effects on the economy, *No Silver Bullet* modeled all policy remedies beginning in 2015 and this Addendum models the policy simulations beginning in 2016.

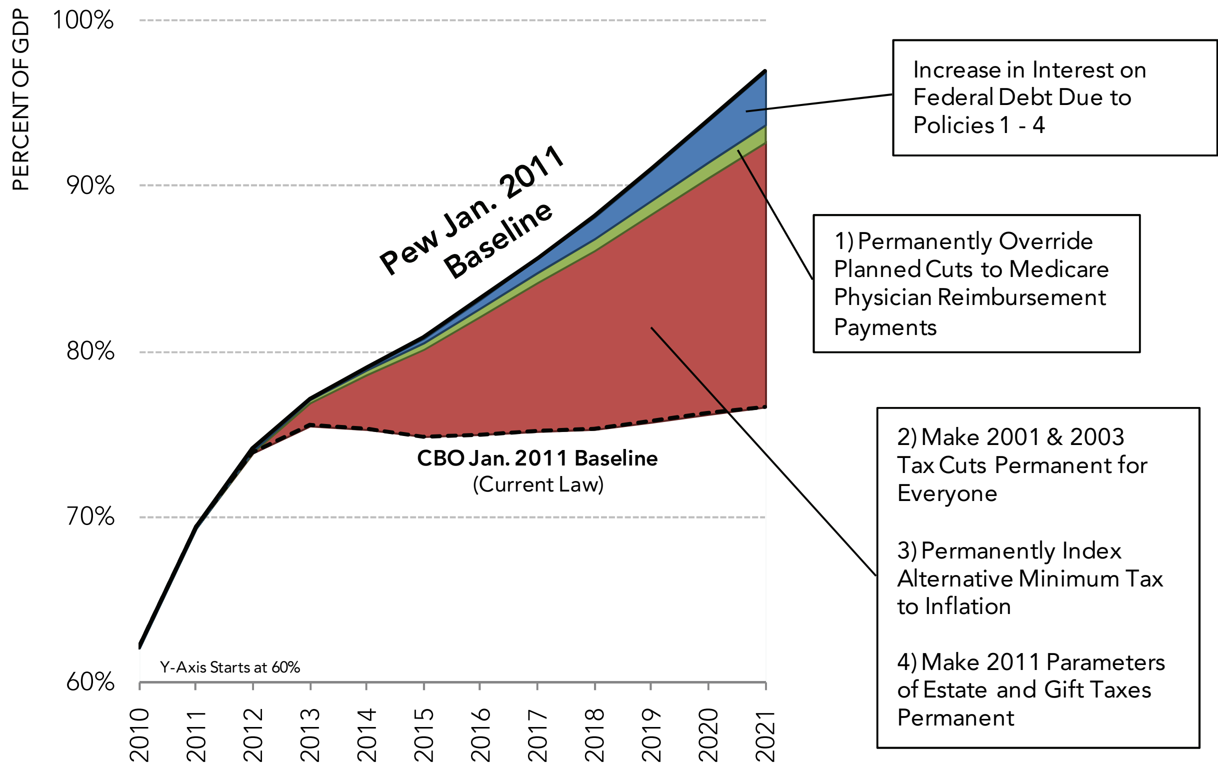
The new Pew analysis of various policy remedies to address the debt uses the January 2011 Pew baseline and begins the remedies in 2016. The findings illustrate what it would take to reach a debt-to-GDP ratio of 60 percent by 2025 using varying strategies of cutting spending and raising revenue.

The **Pew Fiscal Analysis Initiative** seeks to increase fiscal accountability, responsibility and transparency by providing independent and unbiased information to policy makers and the public as they consider the major policy issues facing our nation.

For additional information, please visit www.pewtrusts.org or contact Samantha Lasky at slasky@pewtrusts.org or 202-540-6390.

Figure 3

Differences Between Jan. 2011 CBO and Pew Baselines of Publicly Held Federal Debt, Fiscal Years 2011 to 2021



Source: Pew Analysis of Congressional Budget Office (2011) data.