

The Fiscal Wake-Up Tour's Suggested Questions for the Candidates

October 1, 2007

In January 2008, two significant events will take place. The first actual votes will be cast in the presidential nomination contests and the first of the 78 million baby boomers will qualify for Social Security retirement benefits. By 2010, during the next president's term, the Social Security cash surplus will be declining. In 2011, also during the next presidential term, the baby boomers will begin to qualify for Medicare. That same year, tax cuts enacted in 2001 and 2003 are scheduled to expire. Meanwhile, if nothing is done to reform it, the Alternative Minimum Tax (AMT) will subject millions of additional households to higher taxes over the next few years.

Given this convergence of events, it is clear that whoever is elected president in 2008 will face crucial decisions about the path of our nation's fiscal policy.

Our fiscal decisions must go well beyond what may be needed to balance the budget in the short-term. The baby boomers' imminent retirement will usher in a permanent rise in the cost of programs such as Social Security, Medicare and Medicaid, which already comprise 40 percent of the federal budget. Demographic change, however, is only part of the problem. For the past several decades, health care spending has outpaced economic growth by a substantial margin. If this situation persists, it will greatly compound the growing fiscal problems attributable to the rising number of aged. With all this, federal government spending is on track to go from about 20 percent of our national economy (GDP) today to roughly 30 percent by 2030. There is currently no plan to pay for it all other than running up the national debt.

Taxes are also projected to grow as a percentage of the economy, but not by nearly as much. Federal taxes in 2006 equaled 18.4 percent of GDP -- about average over the past 25 years. Even if all of the expiring 2001 and 2003 tax cuts are made permanent and Congress continues to provide AMT relief, taxes would rise to about 19 percent of GDP by 2030. If all the tax cuts are allowed to expire as scheduled in 2010 and no further AMT relief is provided, taxes would rise to 22 percent of GDP by 2030 but lag far behind the projected growth in spending.

Members of the Fiscal Wake-Up Tour believe that all presidential candidates in 2008 owe the American people, and future generations, an explanation of how they plan to address the long-term fiscal challenges they will face if elected. Finding solutions will require bipartisan cooperation, a willingness to discuss all options and courage to make tough choices. Those who argue that spending must come down from projected levels should explain which programs they would target and how the savings would be achieved. Those who argue for higher taxes should explain what level of taxation they are willing to support and the manner in which the new revenue would be raised. Those who are unwilling to do either should explain how much debt they are willing to impose on future generations of Americans.

The reaction to the Fiscal Wake-Up Tour demonstrates that if politicians are willing to engage in a serious discussion with the public -- speaking honestly about the situation and realistically about the options -- Americans are willing to contemplate tough choices. Politicians have a responsibility to hold community-wide "family meetings" to discuss those choices.

Voters also have a responsibility, particularly in early primary and caucus states. They must probe for answers to tough questions on fiscal policy. That is the only way to know whether the candidates appreciate the magnitude of the problem, the consequences of doing nothing (or making the problem worse) and the realistic trade-offs needed to find real and sustainable solutions. With that in mind, we suggest the following as an initial list of key fiscal questions for the candidates:

- Do you support imposing strong budget controls, such as caps on annual spending, a "pay-as-you-go" rule for new spending and tax initiatives, and/or putting today's entitlements on a firm, long-term budget?
- What specific spending cuts, if any, do you propose and how much of the problem would they solve?
- What specific tax increases, if any, do you propose and how much of the problem would they solve?
- According to the 2007 trustees' report, scheduled benefits for Social Security over the next 75 years exceed the earmarked taxes for this program by \$6.8 trillion in present value. Measured as a share of the economy, Social Security will be nearly 50 percent larger by 2035. What is your vision for the future of Social Security and what strategies would you pursue to bring it about?
- Medicare poses a much bigger challenge than Social Security. According to the 2007 trustees report, Medicare's projected costs over the next 75 years exceed its earmarked taxes and premiums by \$34 trillion in present value. Measured as a share of the economy, Medicare will more than double by 2035. Much of this is driven by rising health care costs rather than demographics. What is your vision for the nation's health care system, including the future of Medicare, and what strategies would you pursue to bring it about?

The Fiscal Wake Up Tour is a joint initiative of The Concord Coalition, the Budgeting for National Priorities Project at the Brookings Institution, The Heritage Foundation and Comptroller General of the United States David M. Walker. Beginning in September of 2005, the Tour has visited more than 20 cities in all regions of the country explaining in plain terms why budget analysts of diverse perspectives are increasingly alarmed by the nation's daunting long-term fiscal outlook. Fiscal Wake Up Tour panel members prepared the questions and background material presented above as part of our ongoing public education initiative. We do not support or oppose candidates for political office.