

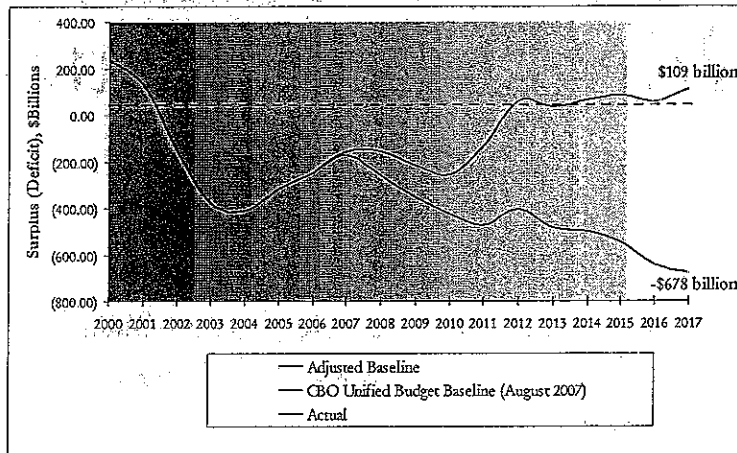
Why Deficits Matter

Paul R. Cullinan, Research Director for Budgeting
for National Priorities Project, Brookings Institution,
September 2007

The Problem

- Current Projected Deficit (FY 2007): \$158 B
(1.2% of GDP)
- Projected with plausible policies (2017): \$678 B
(3.1% of GDP)
- Such deficits reduce national savings and
jeopardize future living standards
- Current fiscal policy is unsustainable over the
long run because of rising costs of entitlements,
primarily the health care programs

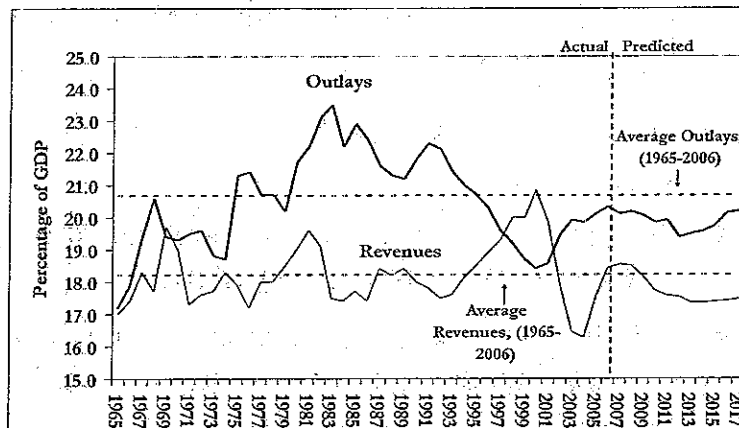
Budget Projections



Source: I. Sawhill's calculations from Brookings-Urban Tax Policy Center, Budget Outlook Tables, August 2007, Appendix 2

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Federal Revenue and Outlays



Source: FY 2007 Budget of the United States Government, Historical Table 1.2; I. Sawhill's calculations from Brookings-Urban Tax Policy Center, Budget Outlook Tables, March 2007, Appendix 3a

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Why Deficits Matter

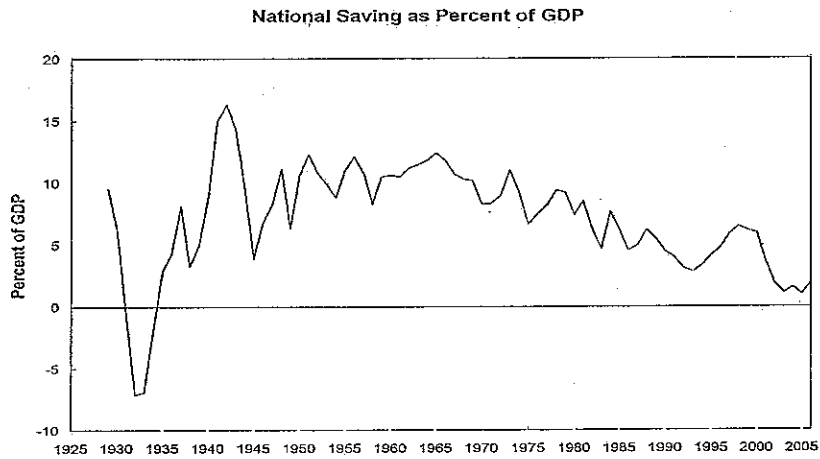
- Reduce national savings
- Increase burden on future generations
- Increase dependence on foreign lenders
- Create rapidly rising debt service costs
- Weakened ability to meet contingencies or invest in future

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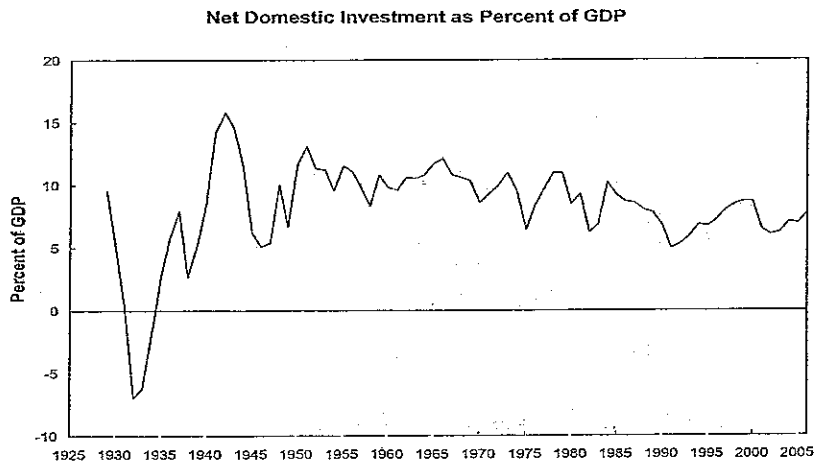
Budget Deficits Reduce Saving

	(\$ billions in 2006)
Personal saving:	39
Business saving:	408
State and local govt. saving:	<u>25</u>
Non-federal saving:	472
Federal govt. saving:	<u>-220</u>
Net national saving:	252

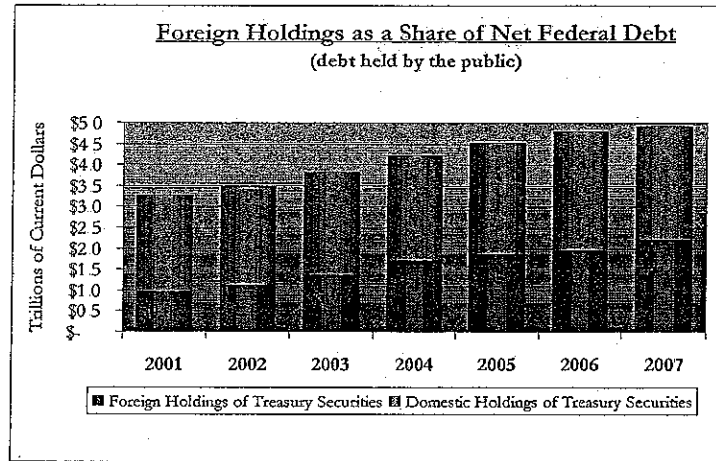
National Saving Is Very Low by Historical Standards



Investment is a Little Low by Historical Standards



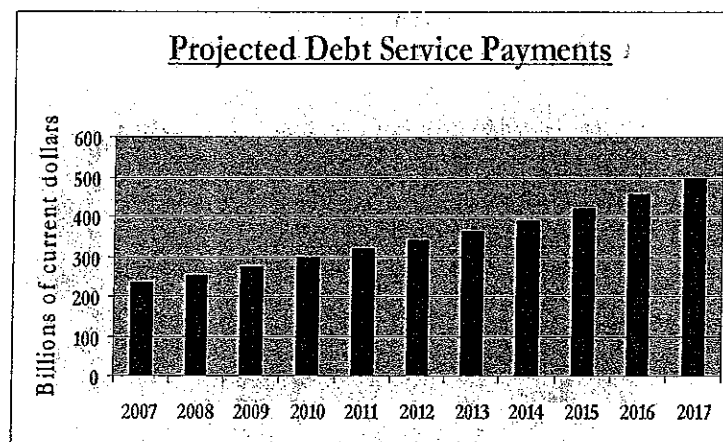
Dependence on Foreign Lenders



Source: U.S. Treasury Department (through June 2007) and U.S. Bureau of Public Debt (through June 2007)

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Rapidly Rising Interest Costs



Source: I. Sawhill's calculations from Congressional Budget Office, Budget and Economic Outlook: An Update, August 2007, Current Budget Projections Data

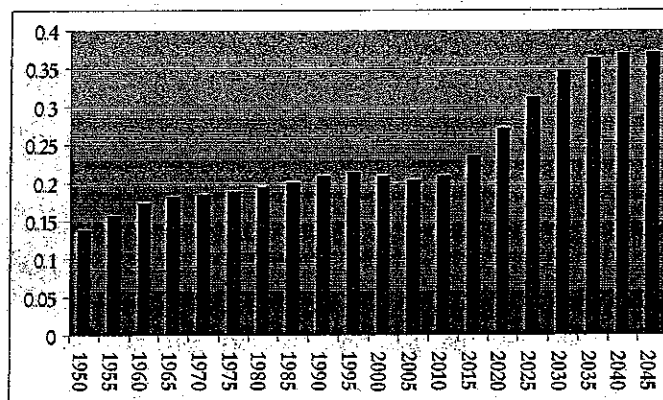
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Other Costs of Deficits

- Deficits raise uncertainty about future policies
- Deficits reduce the government's flexibility for dealing future contingencies and crises
- Deficits undermine budget discipline

Dealing with an Aging Population

Ratio of Population Aged 65 +
to Working Age Population (20-64), 1950-2045



Source: Concord Coalition

Why address the future deficits now

- Changes now improve national savings and enhance future living standards
- Burden of government commitments would be spread over more cohorts of taxpayers and beneficiaries
- Exposure to an international crisis of confidence would be reduced

What Needs To Happen

- First and foremost, public recognition that deficits are a problem
- Public willingness to accept tax increases (relative to current levels) and/or spending cutbacks (relative to current promises)
- The sooner this is done, the less costly it will be
- Bipartisanship to make the tough choices
- Rules to help politicians stay fiscally responsible

	<p data-bbox="492 709 1192 779">www.brookings.edu/budget</p> <p data-bbox="1235 982 1258 1012">14</p>