

Will you be as committed to slowing the growth of health costs as you are to expanding health care coverage?

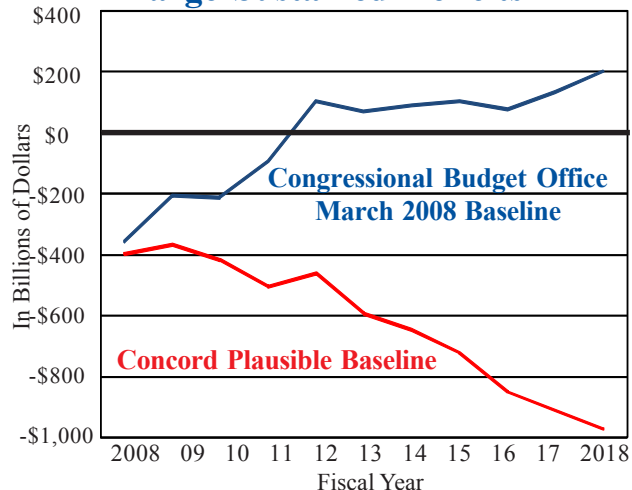
Dramatically increasing health care costs have a huge impact on the federal budget. Medicare costs are projected to grow faster than the economy, and faster than can be reasonably supported. Both candidates talk of expanding health care coverage, which is an important goal. However, it would not, by itself, lower health care costs. Yet, as a politically popular reform, it might provide the momentum for other health care reforms that could slow cost growth. This linkage between broader coverage and tough cost control will be crucial for those seeking a fiscally responsible path for the federal budget. Ultimately our nation must decide what level of health care we wish to provide as an entitlement and how much we are willing to pay for it. Medicare is a leader in the health care system, accounting for 20 percent of total spending. If the next President, with the help of Congress, can agree on meaningful Medicare reforms, it may well lead the way for necessary reforms of the broader health care system.

What steps would you take to close Social Security's long-term funding gap?

Social Security promises far more in future benefits than it can deliver under current law. Candidates

must confront some tough issues. Finding a cure for the challenges facing Social Security will require reduced benefits, increased revenues, or both. Candidates who promise to preserve benefits at the levels promised under current law should explain where the money will come from to fund these promises. Likewise, candidates who promise to oppose any tax increases should explain what changes they would make to restrain the growth of Social Security costs to stay within current tax levels.

Current Policy Trends Lead to Large Sustained Deficits



Concord Plausible Baseline assumes: *appropriations grow with the economy; war costs slow gradually; and all expiring tax provisions are extended, including inflation adjustment for the Alternative Minimum Tax.*
Source: CBO, March 2008 and Concord Coalition analysis

ABOUT THE CONCORD COALITION

The Concord Coalition is co-chaired by former U.S. Senators Warren B. Rudman (R-NH) and Bob Kerrey (D-NE). Former Secretary of Commerce Peter G. Peterson serves as President. The Concord Coalition was founded in 1992 by Rudman, Peterson and the late Senator Paul E. Tsongas (D-MA).

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ELECTION 2008
Convention Edition

Key Questions

VOTERS SHOULD ASK CANDIDATES ABOUT THE BUDGET AND OUR NATION'S FISCAL FUTURE



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What the Experts are Saying About Our Nation's Fiscal Future:

Federal Reserve Board Chairman Ben Bernanke: "As the population ages, the nation will have to choose among higher taxes, less non-entitlement spending, a reduction in outlays for entitlement programs, a sharply higher budget deficit, or some combination thereof. . . Consequently, the choices that fiscal policy makers make with respect to these programs will be a crucial determinant of the way the economic burden of an aging population is distributed between the current generation and the generations that will follow."

The Congressional Budget Office: "Over the long term, the budget remains on an unsustainable path. Unless changes are made to current policies, growing demand for resources caused by rising health care costs and the nation's expanding elderly population will put increasing pressure on the budget."

Key Questions

Voters Should Ask Presidential Candidates About the Budget and Our Nation's Fiscal Future

The next president will face crucial decisions about our nation's fiscal policy. To begin with, he will take charge of a government that is spending over \$400 billion more than it takes in.

That is bad enough, but the problems don't end there. Deficits have traditionally been caused by factors such as we are seeing now — a slow economy or a war. Over time, these factors tend to fade and the budget outlook improves. This time, however, there is a big difference.

The baby boomers' retirement, starting this year, ushers in a permanent shift to an older population — and a permanent rise in the cost of Social Security, Medicare and Medicaid, which already comprise 42 percent of the federal budget.

Over the next 30 years, the number of Americans aged 65 and older is expected to grow from 13 percent of the population to 20 percent. Demographic change, however, is only part of the problem. Over the long-term, rising health care costs are an even bigger factor. For the past 40 years health care spending has consistently grown faster than the economy. If the same growth rate continues over the next 40 years, Medicare and Medicaid will equal nearly as much of our nation's economy as the entire federal budget does today.

How would the presidential candidates deal with these problems if elected? The 2008 campaign offers a stark contrast between the budgetary priorities of Republican John McCain and Democrat Barack Obama. At this stage of the campaign, however, it is far from clear that either candidate has a viable plan to close the short-term deficit, let alone the unsustainable long-term gap. While each of them touts

“fiscal responsibility” as a goal, they define that concept in very different ways with very different policy implications.

Senator McCain says he would balance the budget by 2013 while cutting taxes, but the large unspecified spending cuts he has proposed seem implausible and unlikely to get the job done. Senator Obama is more specific about the spending and tax trade-offs he would make, but he is only promising to reduce, not eliminate, the deficit by 2013.

Between Obama's unambitious goal and McCain's lack of specifics, it is quite possible that annual deficits would remain in the \$400 billion range for the next four years under either set of proposals and the debt would continue to grow. Offsetting the costs of new initiatives, whether spending increases or tax cuts, is important but would still leave us with the massive gap that already exists.

This pamphlet does not draw conclusions about which candidate has a better plan. That is up to the voters to decide. The purpose here is simply to pose some key questions that both candidates should address so that voters can assess whether the candidates recognize the magnitude of the fiscal challenge and whether their policies would address those challenges, ignore them, or make them worse.

Do you believe that budget deficits matter?

The accumulation of large deficits, year after year, burdens taxpayers and undermines future living standards. It does so by soaking up national savings, crowding out investment, and raising interest expenses. Today's budget policy threatens to place ever-tighter constraints on the ability of future citizens to determine their own fiscal priorities. It also increases our reliance on borrowing from other countries; in effect, mortgaging our future national income. The United States would be in a stronger position to weather

difficult times, address emerging national needs and invest in future economic growth if it had greater flexibility and strength in its fiscal position.

Do you have a plan to balance the federal budget?

There is no quick fix. However, commitment to a balanced budget is a good first step. Restoring a balanced budget would increase national savings, lower future interest costs, signal to world financial markets that we are serious about getting our fiscal house in order, and reduce our dependence on foreign lenders. Yet, even with a near-term balanced budget plan, current fiscal policy would remain unsustainable over the long term. A serious effort to maintain sound fiscal policies will require policymakers to tackle the underlying structural imbalance between existing entitlement spending and tax laws, including the many tax preferences that function as “tax entitlements.” Eliminating, or even reducing, the deficit requires tough choices, explicit tradeoffs and bi-partisan cooperation. Insisting that we can solve our fiscal problems by *just* cutting spending or *just* raising taxes is unrealistic.

What specific spending cuts would you propose to help balance the budget?

Politicians often talk tough on spending without mentioning what programs they would cut. This is a convenient way to avoid making hard choices. Vague calls to crack down on “pork” or “waste, fraud and abuse” are not enough. Similarly, targeting only certain spending categories for scrutiny is problematic. All parts of the budget must be subject to fiscal scrutiny.

What assumptions do you make regarding the future of defense spending?

Defense spending is 20% of the federal budget and has experienced a sharp increase in recent years primarily due to military operations in Iraq and Afghanistan and growing personnel costs. Last fiscal

year alone, Congress appropriated \$182 billion for war costs bringing the total spending for military action since 2001 to \$859 billion. These costs have been entirely deficit-financed, an historic first for war-related expenses, and have shifted the financial burden to future generations. While savings in the defense budget can be achieved in a variety of ways (e.g., scaling back or ending operations in Iraq, cancelling outdated or unproven weapon systems, eliminating waste), any proposal to direct these “savings” to other programs, defense or non-defense, simply shifts priorities while relying upon a continued fiscal policy of borrowing — much of it from abroad.

How do you plan to deal with the budgetary consequences of extending some or all of the expiring tax cuts?

Since 2001, Congress has enacted numerous tax cut packages that expire by 2011. Economists generally acknowledge that tax cuts do not fully pay for themselves through greater economic growth. Thus, extending the tax cuts will require substantial spending cuts, an increase in other taxes or a significantly larger national debt. Both candidates propose tax cut extensions. McCain would extend all of them and Obama would extend them for people with incomes below \$250,000. Relative to the laws on the books right now, *any* extension of expiring tax cuts reduces revenues. (*See chart on opposite side*) The pay-as-you-go (paygo) budget rules in Congress require that this be fully offset with spending cuts and/or increases in other taxes. Yet both candidates propose to exempt these tax cut extensions from the paygo rule, thus ignoring the revenue loss and giving current tax policy an inevitability it should not have. In light of the deteriorated fiscal outlook since the tax cuts were first enacted and the fact that we have not taken action to prepare for the costs of the baby boomers' retirement, it makes sense to ensure any tax cut extension does not do further fiscal damage.