

## OVERVIEW: THE CHALLENGE AHEAD

All Americans, regardless of political party or ideological perspective, want to leave a more prosperous, secure and compassionate nation to future generations. Yet we are putting our nation's future at risk with an unsustainable fiscal policy that promises them more debt than prosperity, levels of taxation that we would not tolerate for ourselves, and diminished prospects for higher living standards.

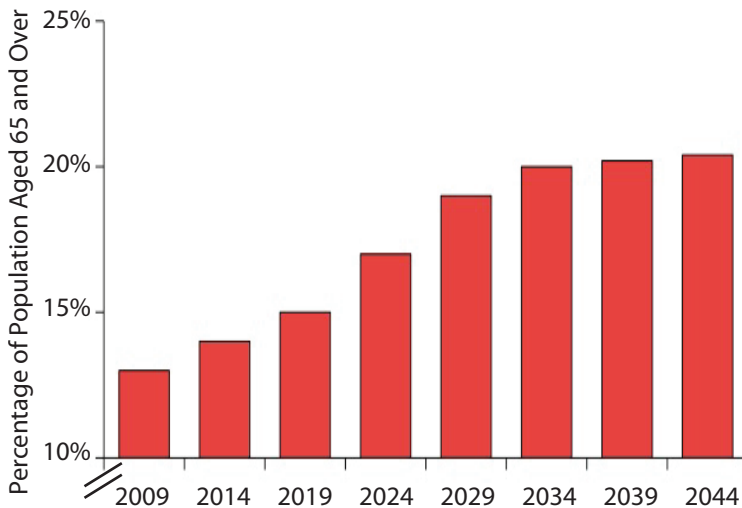
The most immediate challenges are recovery from a deep recession and the problems caused by falling home prices and frozen credit markets. Addressing these challenges called for a loosening of fiscal policy and higher deficits than would have been acceptable under normal circumstances. That is why even many “deficit hawks” have been willing to tolerate temporarily high deficits in 2009 and 2010.



Yet in addition to the short-term difficulties, our nation continues to face long-term fiscal trends that are dangerous and unsustainable. These trends are a structural problem, not one caused by the ups and downs of the business cycle. Without a firm commitment to long-term fiscal discipline, reviving the economy in the short term will be of fleeting value.

The bottom line is that the government's current spending promises cannot be financed for long at today's level of taxation. The basic facts are a matter of arithmetic, not ideology. Two underlying factors stand out: demographics and health care costs.

**America's Population is Aging**  
Population age 65 and over



Source: Social Security and Medicare Trustees' Report, 2009.

- Over the next 25 years, the number of Americans aged 65 and older will grow from 13 percent of the population to 20 percent. This will drive up the cost of Social Security, Medicare and Medicaid, which already comprise 41 percent of the budget, excluding recent financial bailouts.
- The working-age population will grow much more slowly, meaning that fewer workers will be available to financially support Social Security and Medicare. While there are about 3.1 workers for each beneficiary of these programs today, that number will fall to only 2.2 workers by 2030.

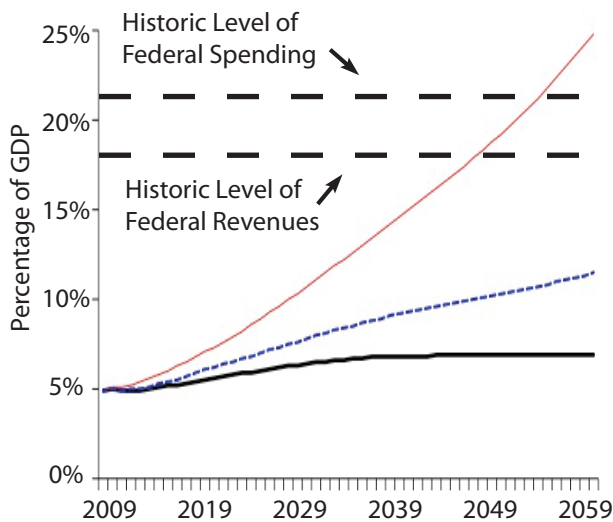
- Health care costs have consistently outpaced economic growth for several decades. If this phenomenon persists at the same pace, Medicare and Medicaid will double as a share of our economy by 2030.



All of this has ominous implications for the size of government relative to the nation's Gross Domestic Product (GDP) -- a more meaningful measure of federal activities than dollar figures alone. By the time today's 20-year-olds reach retirement age, the overall cost of government as a share of GDP is on track to reach levels not seen since World War II. But instead of spending the money on a temporary emergency, we would be spending it on a permanent stream of rising benefit payments.

Borrowing our way through the problem is not a viable option because the rising costs of Social Security, Medicare and Medicaid are not simply a temporary blip. A permanently rising debt would eventually result in snowballing interest costs, a falling value for the dollar and, ultimately, a debt burden that would crush the economy.

### Health Care Costs are Rising Faster than the Economy



- Assumes that health care cost growth will not exceed GDP growth.
- Assumes that health care cost growth continues at the average rate for the past 40 years (2.5 percentage points greater than GDP growth).
- .... Assumes that health care cost growth rate declines to 1.0 percentage point greater than GDP growth--consistent with the assumption used by the Medicare Trustees.

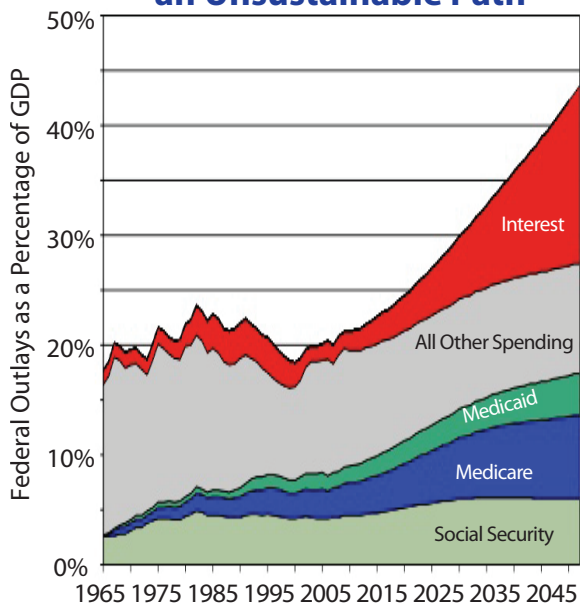
Source: Congressional Budget Office, 2009.

Nor is it realistic to assume that the problem can be fixed by trimming everyone's favorite target: waste, fraud and abuse. These problems exist throughout the federal government, and every effort should be made to reduce them. Unfortunately, this is much easier said than done. There is no line-item in the budget labeled "waste, fraud and abuse." Defining these terms can often be a matter of subjective judgment, particularly among members of Congress who want large amounts of federal money flowing to their districts. What may seem like waste to some -- from farm subsidies to transportation projects to community development programs -- can seem like vital government services to those who directly benefit from them.

Stories about "bridges to nowhere" and other such earmarked spending justifiably diminishes public confidence in the willingness of Congress to exercise fiscal discipline. But even if all such earmarks were eliminated, it would only save one to two percent of all federal spending.

Growing the economy would help because it would make the looming fiscal burden more affordable. However, even this has its limitations. No plausible level of economic growth would be enough to avoid hard policy choices. The Government Accountability Office (GAO) has estimated that it would require real (inflation-adjusted) average annual economic growth in the double-digit range for the next 75 years to close

## Current Fiscal Policy is on an Unsustainable Path



Source: Government Accountability Office, October 2009.

the gap through growth alone. Given that real economic growth has averaged about 3 percent annually over the past 30 years, the idea of simply growing our way out of the problem is more of a fantasy than a plan.

The real options require difficult decisions to curb rising health care costs, reduce federal benefit promises, increase revenues or some combination of these.

Without such decisions, the policies embedded in the federal budget threaten to place ever-tighter constraints on the abilities of future generations to determine their own fiscal priorities and to meet challenges that we cannot foresee today. As the share of federal resources pledged to retirement and health care benefits grows, there will be less for other programs, substantially higher taxes or both.

Generational fairness requires a change in course. The choices we make today will determine what kind of society our children and grandchildren inherit 20 and 30 years

from now. The sooner we get started the better. Failure to act now increases the prospects of severe changes later. By contrast, even modest changes in retirement and health care programs, enacted promptly and phased-in over many years, could have a substantial impact in bringing future costs down to a more sustainable level.

Wall Street's recent troubles and the bursting of the housing bubble have important lessons for dealing with the nation's long-term fiscal challenges:

- Don't become overly reliant on debt.
- Don't hide debt off the books.
- Don't imagine that a rosy economic scenario will bail you out.
- Remember that things can go very bad, very fast.

Political realities, however, explain why so little has been done. Neither party wants to be the first to propose tough choices because each fears attack from the other side. Neither side wants to discuss possible compromises of their own priorities out of fear that the other side will take the concessions and run. Unfortunately, these fears are justified.



In The Concord Coalition's view, the active involvement of the American people is critical. The problems we face can be cured. But without greater public understanding of the problem and greater public pressure, Washington is unlikely to take more responsible action.

It is against this troubling background that The Concord Coalition, with the support of the Peter G. Peterson Foundation, launched its Fiscal Stewardship Project a year ago. The good news is that in focusing on seven different parts of the country, we found thoughtful, highly motivated people of all ages -- community leaders, business executives, workers, students and retirees -- who are deeply concerned about the nation's fiscal and economic challenges.



They were concerned enough that they made time in their busy lives to study these challenges in detail as members of Fiscal Advisory Councils. They questioned experts on the federal budget, weighed the strengths and weaknesses of the U.S. health care system and reviewed the many ways in which federal policies have affected their own cities and states. There were moral questions as well as factual ones as the advisory council members considered the responsibilities of one generation for another, or the obligations that the more fortunate members of a society have toward those who are less fortunate.

Some members of three advisory councils also participated in day-long learning and discussion sessions with others in their communities. These sessions, called "Choice-Dialogues" and "Stakeholder Dialogues," were conducted by Viewpoint Learning, Inc., which has prepared a separate summary of these sessions. (See Appendix.) These sessions shed light on the views held by residents and community leaders in Atlanta, Milwaukee and Northern California, and on how their thinking evolved as they received additional information.

In addition, the advisory councils met to discuss and debate among themselves what they had learned, and began working to identify possible solutions to the nation's fiscal problems and to related economic and social concerns. It was an often difficult process, forcing some council members to question their initial thinking and others to marshal better evidence to persuade colleagues on certain points.



But it was gratifying work as well, with the participants often discovering more common ground than they had first supposed. The resulting reports offer recommendations on a wide range of subjects that included achieving greater efficiencies in health care, moving forward on entitlement reform, cutting back defense spending without jeopardizing national security, simplifying the federal tax code, improving the federal budget process, promoting financial literacy, dropping low-priority federal projects and improving communication between elected officials and their constituents.

Many of these recommendations are directed primarily at the legislative and executive branches in Washington. But others could prove helpful to state and local leaders, health care professionals, educators, students, working people planning for retirement and -- perhaps most of all -- the American voters who ultimately hold the power to shift our nation onto a more ethical and responsible path.



Each fiscal advisory council devoted considerable energy to the wording of their reports and recommendations, which sometimes reflected compromises among members with different life experiences and ideological starting points. The councils also had different regional perspectives, and they did not necessarily agree with each other -- or The Concord Coalition's positions -- on some points. So summarizing their work carries some inevitable risks. Yet in the advisory councils' discussions, reports and plans for future activities, some central themes emerged:

- **Disappointment and frustration with Washington**
- **A preference for broad, sweeping reforms rather than piecemeal efforts**
- **A sense of urgency**
- **The essential need for improvements in the health care system**
- **A willingness to consider significant changes in Social Security**
- **Deep concern for future generations**
- **The need to better educate the public**
- **Commitments to future action**

### **Disappointment and frustration with Washington**

Advisory council members across the country are disappointed that Washington has failed to exercise greater responsibility in handling the nation's finances. They decried a long and continuing pattern of elected and appointed federal officials failing to set meaningful budget priorities, borrowing more than was necessary, and refusing to pursue obviously needed reforms in both the public and private sectors.

The Milwaukee-Area Fiscal Advisory Council, for example, complains of "an overarching failure in the management of the nation's business." It found that the fiscal crisis facing the nation "was not inevitable but rather is the result of the government's failure to take steps that could have ameliorated or avoided it."

Advisory councils also expressed resentment at budget gimmicks, misleading rhetoric and dubious financial projections in Washington that so frequently cloud the public's understanding of the critical choices that are being made -- or not made. Elected officials in particular should be working to make government more accountable and transparent, not less so. Otherwise they can hardly expect the public's trust and support when difficult fiscal choices must be made.

In addition, the Fiscal Advisory Council of Northern Virginia voices concern about the federal government's increasing reliance on mandates and other "coercive methods" in dealing with state and local governments. Washington, the council said, should view lower level governments as more than "just another interest group."

Around the country, people complained about the harsh tones and overly partisan rhetoric in Washington, noting that this made it more difficult for political leaders to build consensus and forge the compromises necessary for constructive action.

### **A preference for broad, sweeping reforms rather than piecemeal efforts**

Convinced that the time for tentative, half-hearted measures has passed, the advisory groups generally favor big, systemic changes in government and critical areas such as health care. The fiscal and economic threats facing the country, they argue, require nothing less than that.

“We must examine the policy goals of all taxes and expenditures, change entitlement programs, cut all federal expenses that do not meet our goals and, if necessary, raise taxes,” argues the Fiscal Advisory Council of Northern California.

Its counterpart in Northern Virginia says, “More sustainable approaches should be developed in most critical public service areas, including pensions, health care, education, infrastructure, and energy supply and conservation.” The council believes that today’s fiscal challenges call for much higher levels of collaboration among federal, state and local governments.



Atlanta residents, meanwhile, speak of the need for “sweeping, transformational change” not only in government but in how Americans view their personal responsibilities in such areas as overspending on consumption and under-saving for college costs and retirement.

### **A sense of urgency**

The more the participants in the Stewardship Project studied the issues, the greater their sense of urgency for new policies and reforms. They concluded that further procrastination would only deepen the fundamental problems and make the solutions more painful and controversial.

Asked what options they would consider unacceptable, more than one advisory council member answered: “Doing nothing.” The Milwaukee council said, “We can no longer ignore our responsibility to act.” The Atlanta council offered this succinct explanation: “The status quo is unacceptable because it is doomed to failure.”



While the recent economic situation may have required heavy short-term deficit spending, advisory council members argued that government had the responsibility to at least start planning for the necessary structural reforms and future debt reduction.

“The sooner policymakers get working on solutions, the better,” the Philadelphia Fiscal Stewardship Committee says. “The current financial crisis confirms the need to address long-term problems before they become a crisis. Hard choices now, whether to reform entitlement spending, raise revenues or re-prioritize current spending to focus on those investments that can increase economic growth in the future, can help stave off even harder and more drastic decisions in the future.”

## The essential need for improvements in the health care system

Even before this year's debate over health care legislation began making headlines, some of the advisory councils had decided to focus much of their time and energy on health care issues. Council members, including some who work in health care, noted that spiraling costs combined with an aging population and growing demand for services have put the United States economy at a competitive disadvantage. In addition, many people emphasized the need to curb the growth of Medicare and Medicaid spending.



Noting that the American health care delivery system is “broken in many places,” the Atlanta advisory council warned that “unless the United States can curb the rapid increase in health care costs, it will be impossible to put the Medicare program on a sustainable course, bring the massive federal deficits under control and enable our economy to compete as effectively as it should in the global marketplace.”

Health care received a particularly close look in Iowa. There the Fiscal Stewardship Project brought together an array of experts in the state, from both the public and private sectors, as the Iowa Committee for Value in Healthcare. Not only does the U.S. spend far more per capita than other industrialized countries on health care, the committee said, but Americans were often not getting good value for their money. Increasing value in American health care, the committee argued, “should be a top priority for federal, state and local reform efforts.”

The Iowa committee identified five “Principles for Value-Based Health Care” that ranged from expanding the role of primary care to promoting greater individual involvement in obtaining high-value care. These principles were distributed in July to President Obama's administration, the Iowa congressional delegation and others on Capitol Hill, state legislators and Iowa's executive branch agencies. The committee's full report, released in October, offers helpful examples of these principles in action in Iowa, a state that has received national recognition for delivering high-quality, low-cost health care.

In Northern California, the advisory council proposed broad changes in the health care system, including better information systems, a shift away from the fee-for-service model, restrictions on federal payments for treatments that lack scientific support, and the encouragement of greater competition among insurance providers.

The advisory council of Northern Virginia describes rising health care costs as “the primary culprit” in the long-term structural deficits that are threatening state and local governments. “The states are chained to the health care crisis by their financing role in Medicaid as well as insuring their own employees,” the council notes. And unlike the federal government, it says, the lower levels of government generally cannot run deficits in their general funds.

## **A willingness to consider significant changes in Social Security**

Several advisory councils indicated that they saw the need for significant changes in Social Security as well as Medicare. And again, the sooner the changes were made, the better.

“Social Security requires sweeping reforms to modernize the program, clarify the nation's social contract and put the system on a more realistic and sustainable path,” the Atlanta council concludes. It endorses gradually making further increases in the Social Security retirement age. But even with some benefit cuts, the group says, it appears that additional revenue will still be needed.



The advisory council in Northern California believes means testing should be part of the solution for Social Security, arguing that benefit reductions would be less harmful to people with relatively high incomes from other sources.

The Milwaukee-Area Fiscal Advisory Council urges members of Congress to focus more public attention on the available data concerning the entitlement programs, including the annual reports of the Social Security trustees. The council calls for a plan to ensure that the system's projected revenue will cover its projected expenses. The Philadelphia group expressed concern about the growing percentage of the federal budget that is devoted to mandatory spending programs such as Social Security.

## **Deep concern for future generations**

Many participants in the Fiscal Stewardship Project were particularly motivated by their concern for future generations. They argued that American adults today should be trying to build a better future for those who will follow us, not leaving them with a mountain of debt and liabilities.

“This is a critical time in our nation's history, and if Americans don't make the hard decisions now, it will have a devastating impact on the quality of life for our children and grandchildren,” warns the Atlanta council. The Northern California group says that future generations, like Americans today, should be able “to enjoy a full and rewarding life in a stable economic and political environment.”

Concern for future generations led The Concord Coalition to partner with the Institute for Public Policy Studies at the University of Denver to present some youth-oriented programs in October. Institute Director Richard Caldwell believes it is critical for college students to understand the stakes that are involved in today's budget debates and economic policies: “What will life actually be like when interest rates double and debt service is the only salient economic fact?” As nationally recognized budget experts told Colorado college students this fall, their generation is in danger of having a considerably lower standard of living than their parents have enjoyed.

The Philadelphia committee bluntly refers to current fiscal policy as “stealing from future generations.” Those generations, the committee argues, “should be able to make their own decisions about how to allocate their resources, instead of being overburdened with the debt of previous generations.”

## **The need to better educate the public**

A persistent theme in the reports of the advisory councils is that the American public must become better informed about the nature and scale of the nation's fiscal problems and their potential to undermine our living standards, our strength as a nation and our position of world leadership. Although much of this information is already available, that alone is not sufficient. The councils see a need for Congress, the President, the educational system, community leaders, the news media and other organizations to help draw more attention to the challenges ahead.

“It is essential to enhance significantly the level, nature and impact of public engagement with these issues,” the Milwaukee council says. “An educational campaign is needed to enhance general public and media awareness of, and sensitivity to, the seriousness of the problems associated with the national debt. The campaign should also encourage citizens to talk with their elected officials about their responsibility to alter current governmental behavior.”



## **Commitments to future action**

As they wrapped up this year's work, many advisory council members expressed enthusiasm and determination to continue their efforts in some form next year and beyond. They saw these efforts both as a civic duty and in more personal terms, as protecting their children and grandchildren.

In Milwaukee, advisory council members are working on plans for a state-wide educational campaign called the “Truth in Spending” initiative. “We hope to identify, recruit and mobilize a cadre of citizens, opinion leaders and activists in each congressional district who are committed to informing others and encouraging greater fiscal transparency and responsibility.”

The Northern California council makes a similar commitment, saying it is “dedicated to establishing a grassroots movement to help push for the policy changes that are needed to get the country back on track.” Council members say they will continue to press for their recommendations and encourage “elected officials as well as community and business leaders to remain focused on the long term and the big picture in making their day-to-day decisions about the use of tax dollars, the health system, federal assistance programs and other matters.”

The Atlanta council said it would “monitor progress on our key recommendations and remind the appropriate government officials of our interest in seeing them move forward.” Council members said they would spread the central messages of their report through professional and social networks and through other organizations. They said they would also encourage more thorough media coverage of the fiscal and economic issues involved.

In addition, administrators, faculty and students at the University of Denver, George Mason University, the University of Iowa and the University of Pennsylvania have all expressed an eagerness to develop further educational efforts on fiscal issues and their consequences.