Toward A Fiscally Responsible Economic Growth Agenda

Robert L. Bixby, Executive Director

I. Introduction

After a lifetime of public service, including eight years as our nation's first president, George Washington had some advice for his fellow citizens about the national debt. In his Farewell Address of 1796 President Washington said:[1]

As a very important source of strength and security, cherish public credit.

One method of preserving it is to use it as sparingly as possible, avoiding occasions of expense by cultivating peace, but remembering also that timely disbursements to prepare for danger frequently prevent much greater disbursements to repel it, avoiding likewise the accumulation of debt, not only by shunning occasions of expense, but by vigorous exertion in time of peace to discharge the debts which unavoidable wars may have occasioned, not ungenerously throwing upon posterity the burden which we ourselves ought to bear.

The execution of these maxims belongs to your representatives, but it is necessary that public opinion should co-operate.

For more than two centuries following Washington's administration, presidents, Congress and the American public generally followed this advice. Debt spiked to fund major wars or in times of economic peril and then gradually receded.

But times have changed. Federal debt is now on an unsustainable path *despite* a growing economy and the absence of a major military conflict. We have created a structural problem in which spending promises exceed projected revenues by growing amounts.

The Government Accountability Office (GAO) summarized the current outlook in a blunt April 2019 message to the president and congressional leaders:[2]

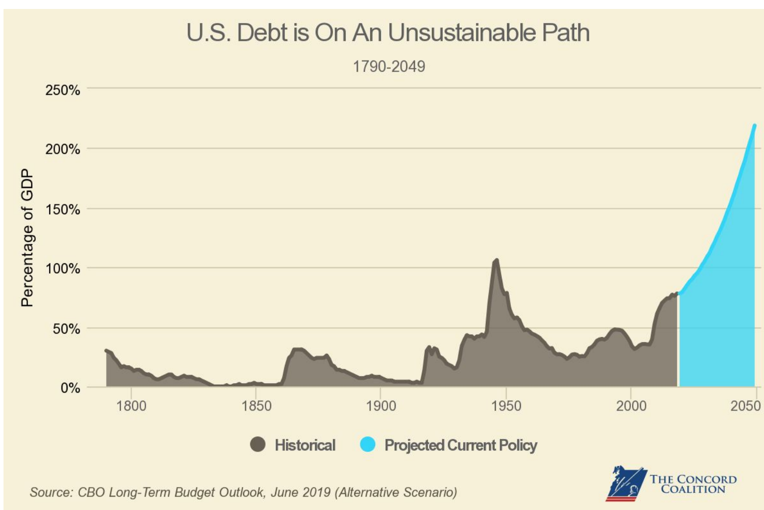
> *Congress and the administration face serious economic, security, and social challenges that require difficult policy choices in the near term in setting national priorities and charting a path forward for economic growth…. These policymakers also face a federal government highly leveraged in debt by historical norms and on an unsustainable long-term fiscal path caused by an imbalance between revenue and spending that is built into current law and policy … <u>[T]hus, decisions</u>*

in the near term to enhance economic growth and address national priorities need to be accompanied by a long-term fiscal plan to put the federal government on a sustainable long-term path. (emphasis added.)

Similar warnings have been consistently issued by GAO, the Congressional Budget Office (CBO) and others over the past several years.[3] Few have questioned the basic conclusions of these reports. The mystery is why policymakers have done so little in response to them.

We are now facing a fiscal problem so large and so ingrained in current policy that it poses an economic threat as well. Over time our fiscal future and our economic future are inevitably linked. We cannot ensure future economic growth without doing more to ensure fiscal sustainability, nor can we ensure fiscal sustainability without doing more to enhance economic growth.

Since its founding in 1992, The Concord Coalition has urged lawmakers of both parties to make the hard choices on spending and taxes needed to achieve a sustainable fiscal path and grow the economy. We have emphasized that the budgetary decisions of today -- including the need for responsible investment in research and development, infrastructure, and human capital -- affect the economic opportunities of future generations.



As our founding co-chairs, former Senators Paul E. Tsongas (D-Mass) and Warren B. Rudman (R-NH) put it: “We see a nation whose economy is failing to grow fast enough to meet the needs of our people. We see a stalled, stagnating, undernourished economic system where staggering deficits choke much-needed investment…. For too long, we have postponed necessary surgery on the economy…. Being free does not allow us to hope that by avoiding today’s problems we will avoid tomorrow’s crises.”[4]

We do not believe that it is time to throw in the towel or embrace the dangerous proposition that deficits and debt don't matter. It is the duty of this generation to fight for a sustainable budget and a brighter economic future. This begins by taking a hard look at how the fiscal challenge has evolved and how that evolution affects the solutions needed to get the job done.

Our focus is on the positive: a vision of a more prosperous economy where people, businesses, and government invest in the future; more people find employment in higher-paying jobs; retirement security is improved; the social safety net is strengthened, and the United States maintains its standing in the world.

The American people must be involved in this process. They will support change if they believe they are participating in a program that is fair, truly comprehensive and will actually work to cure the nation's ills. If, on the other hand, they believe they are being asked to support a piecemeal, crisis-driven hodgepodge that has been rushed together with breaks for one special interest after another, they will rightfully view it with contempt.

In this report, we examine five fiscal and economic challenges that deserve priority attention: health care costs, Social Security sustainability, legal immigration reform, workforce training, and investment in cutting-edge technology.

These topics were not randomly chosen. In different ways they all address some of the fundamental causes of our economic and budgetary problems: large deficits that lead to lower domestic capital stock and investment, substantially slower labor force growth, and stagnant productivity. All these factors contribute to the vicious cycle of widening budget deficits and weaker economic growth that current policies portend.

We examine health care spending and Social Security because these programs already comprise nearly half of the federal budget and, unlike all other major spending categories other than interest on the debt, are projected to grow faster than the economy. The future of Social Security and health care programs will thus be crucial in determining whether the budget is put on a more pro-growth and sustainable path. They will also affect the economy through the incentives they present to millions of Americans for work, saving, and consumption decisions.

We examine legal immigration policy, workforce training, and federal investment in new technology because of their potential for boosting labor force growth and productivity, which are two critical factors, along with capital formation, in building a stronger economy.

Here is the line-up of papers and their authors:

- **A New Vision for Health Reform** (Alice M. Rivlin, The Brookings Institution, and Joseph Antos, American Enterprise Institute)
- **Promoting Economic Growth Through Social Security Reform** (Maya MacGuineas, Marc Goldwein, and Chris Towner, Committee for a Responsible Federal Budget)

- **Building a Pro-Growth Legal Immigration System** (Douglas Holtz-Eakin and Jacqueline Varas, American Action Forum)
- **Why Federal R&D Policy Needs to Prioritize Productivity to Drive Growth and Reduce the Debt-to-GDP Ratio** (Robert Atkinson, Information Technology & Innovation Foundation)
- **Training for Jobs of the Future: Improving Access, Certifying Skills, and Expanding Apprenticeship** (Robert Lerman, Pamela Loprest, and Daniel Kuehn, Urban Institute)

These prominent scholars propose thoughtful solutions that have the potential to cut across predictable party lines, Each paper can stand alone and would individually advance the goals of fiscal responsibility and economic growth. They are best considered, however, as a comprehensive package of reforms that would have a far greater pro-growth impact if pursued together. For example, increasing labor force growth and productivity would achieve both the individual benefits and their interaction.

Some of the proposals will be controversial. That is inevitable. It comes from suggesting changes to things that people have become familiar with. Old habits die hard. But if the result of those old habits is to condemn future generations to a lower standard of living, it is our moral obligation to change course. As George Washington reminded us, we should not *"ungenerously [throw] upon posterity the burden which we ourselves ought to bear."*

II. The evolving challenge: Fiscal and economic

As we entered the 21st Century the nation was in much better shape to confront what was then considered a long-term challenge. The budget was in surplus, the baby boomers were in their peak earning years and the economy was growing at about 3 percent annually, adjusted for inflation.

But even then economists warned that the good times would not last forever, and that policymakers should begin to prepare for the combination of an aging population and rising health care costs.

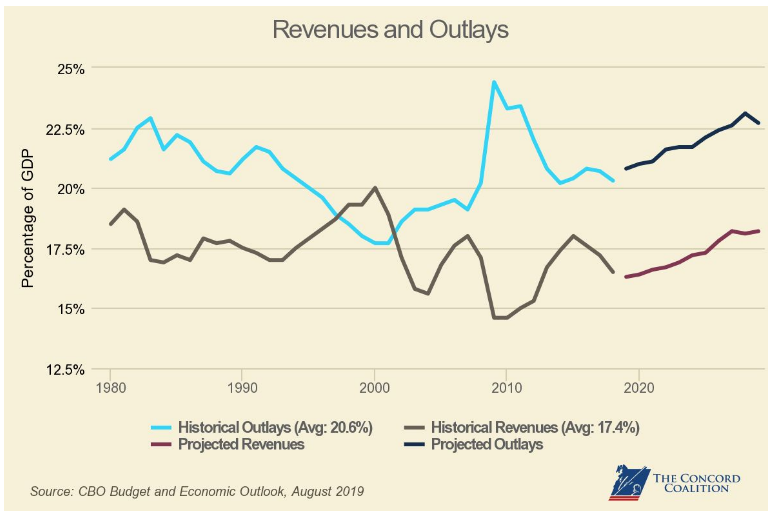
Such warnings went unheeded. Instead of "patching the roof while the sun was shining," policymakers enacted new benefits and launched new military campaigns while cutting taxes. We now find ourselves in a far worse fiscal position. As expected, the ongoing retirement of the baby boomers has increased budgetary pressures, diverted resources from needed investments and contributed to lower economic growth projections. Reversing our fiscal course will not be easy but it must be done.

A. The structural mismatch: Debt on an unsustainable path

Absent serious policy changes, the federal budget will remain on an unsustainable path. The federal deficit climbed from $439 billion in 2015 (the post-recession low) to $779 billion in 2018. The CBO projects that the deficit will reach $1 trillion in 2020 and $1.4 trillion in 2029.[5]

Measured as a share of the gross domestic product (GDP), deficits are projected to average 4.7 percent over the next 10 years. That would be a substantial increase from the average level of deficits over the past 50 years (2.9 percent of GDP).

These deficits are the product of policies that grow spending faster than revenues and the economy. Under current law, federal spending will grow from 20.8 percent of GDP in 2019 to 22.7 percent of GDP in 2029. The 50-year average is 20.3 percent of GDP.



Most of the spending growth is driven by retirement and health care programs, which are projected to increase from 10.2 percent of GDP in 2019 to 12.5 percent in 2029. In terms of today's budget, that would be the equivalent of adding about $500 billion. Moreover, this increase will take place automatically because retirement and health care programs are largely considered "mandatory," meaning that their amounts are not dependent upon the annual appropriations process. Instead, such spending is determined by factors such as the number of beneficiaries and the cost of providing health care services.

Federal revenues are expected to grow as well, from 16.3 percent of GDP in 2019 to 18.2 percent of GDP in 2029, assuming that several tax cuts for individuals enacted in 2017 expire as scheduled after 2025. This growth is not enough to keep pace with projected spending. Revenues are constrained by tax expenditures (exclusions, deductions, credits, etc.) which CBO estimates total roughly $1.6 trillion (equalling about 50 percent of revenues collected). Revenues over the past 50 years have averaged 17.4 percent of GDP.

Federal debt held by the public is projected to grow from 79 percent of GDP in 2019 to 95 percent in 2029, the highest level since 1946 and more than twice the average over the past 50 years (42 percent of GDP).[6]

Even this scenario may prove to be optimistic. Under an alternative fiscal scenario developed by CBO in which discretionary spending (annual appropriations) remains at the current share of GDP (6.3 percent) and Congress extends a number of tax cuts that are scheduled to expire and further delays or cancels a tax on high-cost health care plans (the "Cadillac tax"), the debt-to-GDP ratio would climb to 104 percent by 2029.[7] The highest recorded debt level in U.S. history is 106 percent of GDP in 1946.

Beyond the next 10 years, CBO projects that the debt will continue rising faster than the economy.

In its most recent long-term budget outlook, CBO modeled two 30-year scenarios using different assumptions about discretionary spending and revenues. In the more optimistic scenario ("extended baseline"), debt reaches 144 percent of GDP in 2049. In the second scenario ("extended alternative"), which assumed higher discretionary spending and lower revenues than the baseline, the debt reaches 219 percent of GDP in 2049.

Since these 30-year projections were made in June 2019, CBO has increased its 10-year projection of discretionary spending and deficits to reflect the budget deal reached by Congress and the president in August of 2019. The CBO has also lowered its projection of interest rates and resulting interest costs of servicing the debt, which somewhat mitigates the higher discretionary spending assumption.

While the CBO has not updated its 30-year projections, it seems likely that the debt-to-GDP ratio would now fall somewhere between the numbers outlined in the two scenarios (i.e., between 144 and 219 percent of GDP by 2049). Because long-term projections are always subject to great uncertainty, the precise numbers are not as significant as the clear and troubling trend under a range of plausible assumptions.

It is important to remember the potential consequences of the current trend. There is a tie between budget deficits today and what we can enjoy tomorrow.

In its June 2019 *Long-Term Budget Outlook*, the CBO warned, "The path of federal borrowing in [the] extended baseline projections would have negative economic consequences over the long-term. CBO projects that rising debt would crowd out resources available for private investment, reducing the growth of economic output and income. In addition, rising interest payments would result in increasingly large payments to foreign investors and thus further dampen domestic income."[8]

Moreover, CBO noted, "If investment in capital goods declined, workers would, on average, have less capital to use in their jobs. As a result, they would be less productive, their compensation would be lower and they would be less inclined to work. Those effects would increase over time as federal borrowing grew."[9]

Putting the budget on a sustainable path will help put the nation back on the path to lasting prosperity and a rising standard of living. That larger goal cannot be achieved as long as the nation continues to run large, chronic budget deficits that grow faster than the economy.

The principal way Americans can increase their standard of living is if each worker becomes more productive: produces more goods and services for each hour worked.

For workers to become more productive, investments must be made in better-educated and better-trained workers; in modernized plants, equipment, and productive techniques; in new discoveries and innovation; and in transportation, communications, and other infrastructure.

To make these investments, there must be a pool of savings that can be used for this purpose. When the government spends more than it has, it borrows the rest. Most of the money borrowed comes from domestic private savings and competes with, or "crowds out," savings used for investment.

Some of the borrowed savings comes from foreign investors who purchase U.S. government securities. While foreign borrowing helps increase the U.S. economy, it subtracts from national income because as foreign holding of U.S. debt grows, so will interest payments to foreign nationals. It also increases our dependence on the actions of foreign investors and governments.

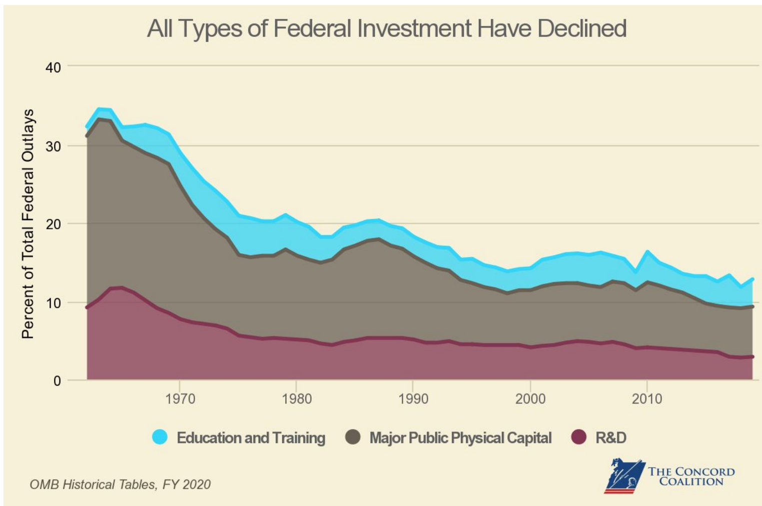
If the government reduces its take on private savings by lowering the deficit and borrowing less, that money will be freed for investment. More of the nation's savings could then be used to increase our productivity, create good jobs, and raise the standard of living.

Increasing productivity would also benefit the budget. According to CBO, a 0.1 percent annual increase in productivity over 10 years would reduce the deficit by about $300 billion. Higher increases would have a roughly proportional effect, meaning that a 0.2 percent increase in productivity would improve the budget outlook by about $600 billion over 10 years and a 0.3 percent increase would improve it by about $900 billion.[10]

Deficits can be helpful when the economy needs a temporary jolt or to finance investments. That, however, is not true of large growing deficits that persist through good times and bad and mostly go to finance today's consumption rather than investment in tomorrow's growth, as is now the case.

Discretionary spending (annual appropriations), where most investment spending comes from, is getting squeezed out. Total discretionary spending (defense and non-defense combined) comprises roughly 30 percent of the budget. Forty years ago it was more than twice that (66 percent). Under current law, discretionary spending will shrink from 6.4 percent of GDP in 2020 to 5.6 percent in 2029 -- the lowest level since this statistic was first reported in 1962.

One result of this is that federal investment spending has been declining relative to GDP for many years. Forty years ago, the government spent 4.1 percent of GDP and 21 percent of the budget on investments. By 2018, federal investment spending had fallen to 2.4 percent of GDP and 12 percent of the budget. During that time, transfer payments to individuals have increased from 46 percent of the budget to 70 percent.[11]



50-year averages (% of GDP) vs. 2019 and 2029

	50-yr	2019	2029	2029*
Debt held by the public	42	79	95	104
Budget deficits	2.9	4.5	4.8	7.0
Spending	20.3	20.8	23	23.9
Revenues	17.4	16.3	18.2	16.9
Mandatory spending	9.9	12.8	14.4	14.6
Total discretionary spending	8.4	6.3	5.6	6.3
Defense discretionary	4.6	3.2	2.8	3.2
Non-defense discretionary	3.8	3.1	2.8	3.1
Net interest	2.0	1.8	2.6	3.0

*CBO August 2019 Alternative Scenario, which assumes that discretionary spending remains constant as a share of the economy and that certain tax policies are extended[12]

B. The vicious cycle: Interest costs, deficits and debt

The structural mismatch between spending and revenue grows the debt and drives up interest payments on that debt. The projected rise in interest payments, from $372 billion in 2019 to $807 billion in 2029, is attributable to a mix of more government borrowing and interest rates gradually increasing from their current levels.

Interest rates on 10-year Treasury notes are projected to rise from an average of 2.3 percent in 2019 to 3.2 percent in 2029. This projected increase would still leave interest rates well below the average of 5.8 percent experienced from 1990 to 2007 before the “Great Recession.” According to CBO, an interest rate increase of 1 percentage point above projections each year could increase cumulative deficits by about $1.8 trillion over the next 10 years.[13]

Following the recession, low interest rates on the federal debt have allowed the government to borrow more without seeing the cost of servicing the debt rise as a share of the economy. As the debt climbed from 39 percent of GDP in 2008 to 78 percent in 2018, interest costs actually dropped slightly from 1.7 percent of GDP in 2008 to 1.6 percent last year.[14]

The persistence of unusually low interest rates on U.S. Treasury debt has led to some speculation that the high debt and its troubling projections might not be such a big problem after all. This optimistic view, however, overlooks the magnitude of the fiscal hole we’re already in.

According to CBO, even if interest rates remain low rather than rising somewhat as assumed in baseline projections, deficits in non-interest spending (“primary deficits”) would still push the debt-to-GDP ratio up by nearly 8 percentage points over the next 10 years. It would require a primary deficit cut of about $1.8 trillion over 10 years just to keep the debt from rising as a share of GDP.[15]

Moreover, CBO observed, “Even if interest rates ended up being well below projected rates, the projected primary deficits are still too large for debt as a share of GDP to decline. Indeed, if the interest rate on federal debt fell by one-half of one percentage point and remained at that low rate over the next decade, primary deficits of the size projected under current law would still result in rising debt as a share of GDP.”[16]

Of course, interest rates might not remain at the current level. If interest rates, primary deficits - or both - turn out to be higher than CBO projects, reducing or stabilizing the debt as a share of GDP will be even harder.

The message for policymakers is that low interest rates are not a magic wand that will allow us to keep ignoring the growing debt. They make the existing debt easier to finance but structural deficits keep digging the hole. It will require some combination of spending cuts and revenue increases to stabilize the debt over the long-term. Moreover, given the risk of higher interest rates in the future, the more prudent course would be to concentrate on lowering or at least stabilizing the debt-to-GDP ratio before thinking of new ways to add to the debt.

Some Consequences of Rising Debt

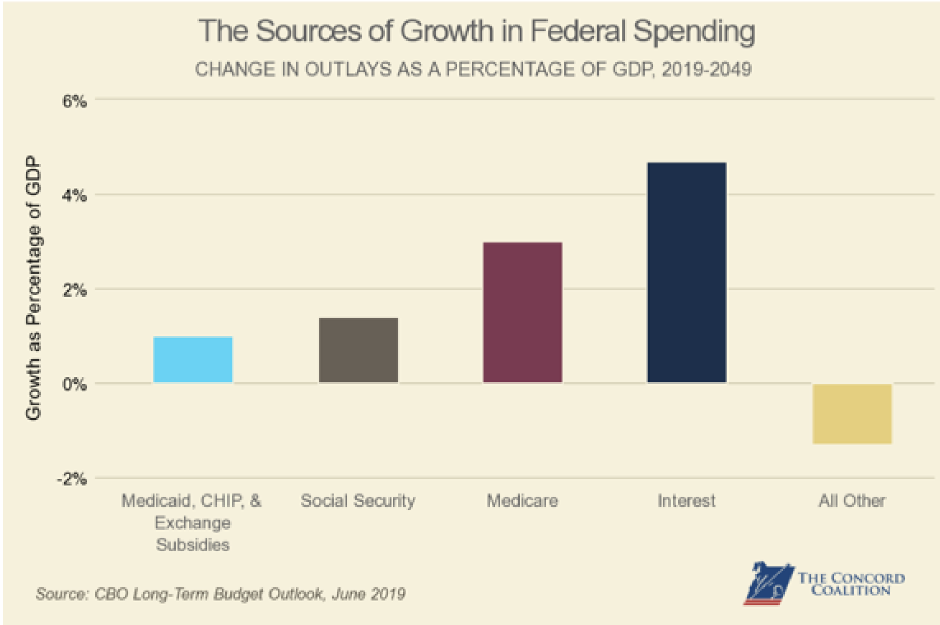
- “Crowding out” private sector investment, leading to slower economic growth and a lower standard of living for current and future generations
- Increased reliance on foreign investment
- Higher government interest payments displacing other government priorities and investments
- Reduced fiscal flexibility for the government to react to wars, recessions or other national needs and emergencies

C. The crosscutting challenge: An aging population

The aging of the population has long been identified as a budgetary and economic challenge. The number of Americans over age 65 is more than twice what it was 50 years ago. In the coming decade, the population age 65 and older will grow by roughly one-third, CBO projects. In contrast, the population age 20-64 is projected to grow by about 2 percent over that time. By 2029, 20 percent of the population will be age 65 or older, compared with 16 percent today.

While other long-term variables such as interest rates and health care costs are shrouded in uncertainties, demographic factors are more predictable. We are going to have an older population, and that has consequences that must be dealt with.

From a budgetary perspective, an aging population means more beneficiaries for retirement and health care programs, most notably Medicare, Medicaid, and Social Security. These programs account for all of the projected growth in non-interest federal spending relative to the size of the economy over the next 30 years. Today, 40 percent of federal program spending goes to people age 65 and older. Within 10 years that number will top 50 percent.[17]



Many people assume that Social Security and Medicare do not pose a budgetary challenge because they each have dedicated sources of income, primarily payroll taxes and Medicare premiums. However, they still present a serious fiscal challenge because these income sources do not fully cover current or future expenses. Medicare, in fact, has never been fully paid for by its payroll tax and premiums income, nor was it intended to be.

According to the 2019 Social Security and Medicare Trustees Reports, general revenue expenditures for the two programs, which add to budget deficits, are projected to total $431 billion this year, or 2 percent of GDP. If full benefits were maintained in both programs, the expenditures from general revenues would more than double to 4 percent of GDP by the early 2030s. The trustees have consistently warned that Social Security and Medicare cannot meet their projected long-run costs with their currently scheduled financing.[18]

For health care programs, the budgetary impact of an aging population is compounded by the rising cost of delivering health care services. According to CBO projections, under current law spending on the major federal health care programs will grow from 5.3 percent of GDP in 2019 to 9.3 percent of GDP by 2049.

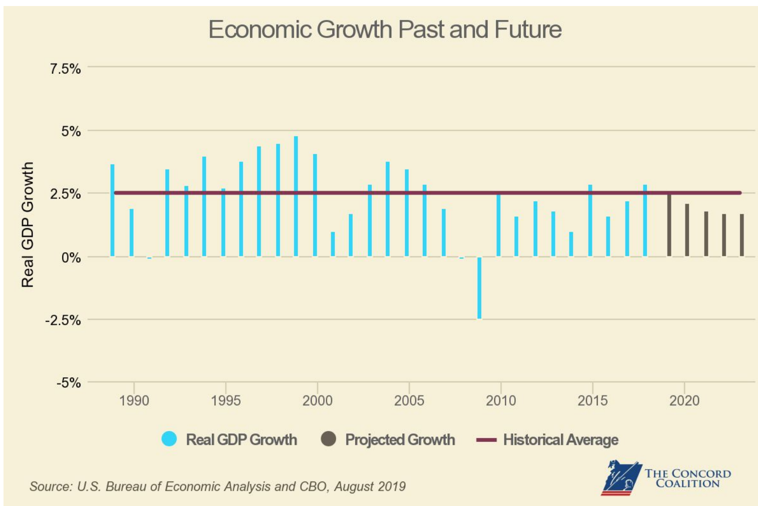
While population aging accounts for roughly one-third of the projected increase in federal health care spending over the next 30 years, the remaining increase is due to “excess cost growth” -- the phenomenon in which health care costs rise more quickly than the economy overall.[19]

This is a problem for the nation’s entire health care system, not just federal health care spending. Medicare, Medicaid, and private insurance are all projected to grow at about the same annual rate on a per-enrollee basis.

The result is a national health care sector projected to grow from 17.9 percent of GDP in 2017 to 19.4 percent by 2027, with growth averaging about 0.8 percent faster annually than the expected growth of the economy over the same period.[20] This has the potential to harm overall economic growth as more economic activity is centered around the inefficient consumption inherent in the U.S. healthcare system.

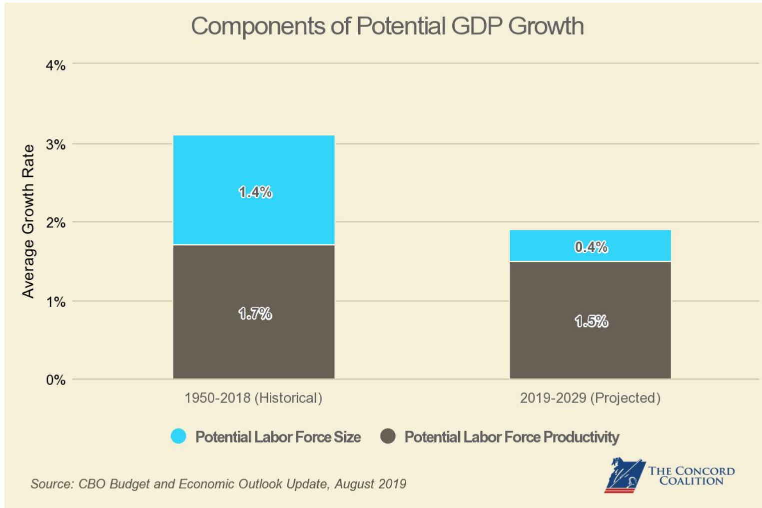
Budgetary pressure is not the only consequence of an aging population. It also has an effect on the economy.

The CBO projects that the economy will grow at an average annual rate of 1.9 percent over the next 30 years (adjusted for inflation). That would be a significant drop from the 2.5 percent average over the past 30 years.[21]



Demographic changes drive these lower projections. Since 1950, the growth in potential GDP (the maximum possible production of the economy if all resources were fully utilized) has been due in roughly equal parts to a growing labor force and rising productivity.

However, over the next decade, CBO projects labor force growth will be less than one-third of the recent historical average while productivity growth will be slightly below its average since 1950. This means that achieving growth anywhere near past levels will require new policies that increase the size of the labor force and improve productivity.



Democrats and Republicans generally agree that higher levels of economic growth must be part of the long-term fiscal solution. Moreover, there is a broad consensus among non-partisan experts that for growth options to be effective they must combine to increase labor force participation, improve productivity of the workforce, and stabilize or reduce long-term federal debt projections.

Current policies work against these goals. They depress labor force growth by encouraging early retirement and placing arbitrary limits on legal immigration. At the same time the federal government lacks a clear strategy for helping the existing workforce adapt to changing circumstances.

More should also be done to increase federal investment in cutting-edge technologies that would boost productivity. As a greater share of the budget is devoted to health care, retirement, and interest on the debt, less is available for domestic investment in education, infrastructure, and research and development.

The growing national debt compounds the problem because increased government borrowing crowds out private sector investments in people, machinery, technology and research, resulting in a self-propelled downward cycle of slower economic growth and lower wages than would otherwise be the case.

In short, we are piling up more and more burdens on future generations while investing less in the future economy from which those burdens must be paid. It is not just economically nonsensical, it is a path of generational bad faith.

To be clear, greater economic growth alone would not be enough to put the debt on a sustainable path. It would, however, help to mitigate the size of necessary spending and tax changes. Unfortunately, growth targets are often thrown out as a panacea without solid, well-researched policy options showing how higher growth rates could be achieved. Moreover, when considered in isolation, many “growth options” would add to projected deficits. If not balanced with other policies that close the long-term mismatch between spending and revenues, policies designed to grow the economy could actually end up hindering long-term growth.

Fiscal responsibility is itself a growth agenda. Growing commitments from one generation to the next cannot be honored on empty pockets. A stagnant long-term economy cannot support retirement payments, medical care, and all the other benefits and services we would like. And it cannot support economic opportunity for today’s youth to live as well as their parents did. A pro-growth agenda must therefore consist of policies that not only promote economic growth but work together to bring about a sustainable budget.

As The Concord Coalition’s founding president Peter G. Peterson put it, “Unless a nation pays the dues for economic progress, its politics become a harsh and illiberal contest over scarce resources. With each passing day the losers are more likely to be the poor and the weak, our children and grandchildren.”[22]

III. The way forward: Five priorities

When it comes to supporting sustained economic growth, the federal government is missing in action. There is no plan to grow the workforce, no plan to ensure adequate and flexible training for workers, no plan to invest in the technologies that will drive future growth, no plan to slow the growth of health care costs while improving outcomes, no plan for Social Security solvency (the largest federal program) and, most glaring of all, no plan to ensure fiscal sustainability.

In the papers that follow, the authors present some ideas for addressing all of these concerns. They constitute an agenda for both economic growth *and* fiscal responsibility because we believe that over the long term we can’t have one without the other.

There are no perfect or quick-fix solutions. Tweaks around the edges won’t do the job. According to CBO, if policymakers simply aim to keep the debt stabilized at its current share of GDP over the next 30 years without the help of higher economic growth, it would require tax and spending changes totaling 1.8 percent of GDP per year (or about $400 billion in 2020).[23] Real solutions will require elected leaders and the people who elect them to think outside their comfort zones. It is, after all, the comfort zone that has led us to an unsustainable path.

The substantive topics included in this report and the authors’ recommendations are not the only potential answers. Other topics, such as tax, trade, and regulatory policy can make a difference as well. Our purpose here is to get a discussion going about what might reasonably be done to improve the nation’s anemic economic growth projections.

Health Care

Health spending is the largest component of the federal budget. Left unchecked, federal health spending is expected to double over the next decade. A similar sharp increase is projected for consumers, employers, and state governments. A viable agenda for growing the economy must include policies to control the growth of health care spending while promoting access to affordable, quality health care and better health outcomes. Otherwise, there is a big risk that much of the federal budget and the economy's future growth will be absorbed by an excessively costly health system without appreciable gains in health. Controlling costs will require a comprehensive approach that addresses the root causes of high spending. It must increase competitive pressures on health care prices, both from the demand- and supply-sides, allowing pressure from patients to help control costs.

The health care paper, authored by Joseph Antos of the American Enterprise Institute and the late Alice M. Rivlin of The Brookings Institution, details how to arm purchasers – consumers, physicians, insurers, employers, and the government – to make cost-effective decisions in a competitive market environment. Key elements include: promoting competition among health care providers and insurers to lower health care prices; improving information on prices and outcomes to help patients and their physicians make more cost-effective decisions; shifting to new ways of paying for health care that promote efficiency, innovation, and better outcomes; and recognizing the appropriate and necessary role of regulation where markets are not workable.

Social Security

As the population ages, America is likely to experience slowing economic growth and rising social insurance costs. Maya MacGuineas, Marc Goldwein, and Chris Towner of the Committee for a Responsible Federal Budget, present a Social Security reform framework to address both issues, restoring the program to solvency while simultaneously boosting economic growth. The framework suggests changes to the Social Security program that would promote delayed retirement and productive aging, reward work at all ages, increase savings and investment, and improve certainty and sustainability. Specifically, it proposes raising the retirement ages in conjunction with a new Age 62 Poverty Protection Benefit (62-PPB), applying Social Security's benefit formula annually to all years worked, automatically enrolling workers into new add-on Supplemental Retirement Accounts (SRAs), and making Social Security sustainably solvent through a mix of progressive tax and benefit changes.

Taken together, these policies would significantly improve economic welfare and increase the rate of economic growth. The authors estimate that a plan based on this framework would increase the projected size of the economy by between 3.5 and 13 percent by 2050, the equivalent of a 0.25 percentage point increase in the annual growth rate under their central estimate. The framework would also restore Social Security trust fund solvency for 75 years and beyond, enhance retirement security, improve certainty, and increase progressivity and retirement income for low- and middle-income seniors.

Immigration Reform

Real GDP per capita in the United States is only projected to grow at an average rate of 1.1 percent per year over the next 10 years, a significant decrease from the post-war average of 2.1 percent. Immigration is a vital tool that, if used correctly, can advance entrepreneurship, drive innovation, inspire productivity gains, fill skills gaps, and combat labor market decline. Our paper, authored by Douglas Holtz-Eakin and Jacqueline Varas of the American Action Forum, proposes an economics-based system that would fully take advantage of the growth benefits of legal immigration while respecting the importance of family ties.

The two-part visa reform recognizes the value of both high-skilled and low-skilled workers in contributing to the economy and filling labor shortages. High-skilled applicants are identified by credentials like education, English-language ability, and proven work histories, while lower-skilled workers are given an opportunity to demonstrate labor market success through a temporary visa program with a clear path to permanent residence. The paper outlines a points system that sets the standards for desirable immigrants based on criteria that is proven to advance productivity. By focusing on the qualities of the individual over the number of immigrants admitted, the proposed system has the potential to be a positive force for growth.

Research and Development

For decades, those focused on the troubling growth of the federal budget deficit have counseled policymakers to cut spending and increase taxes. The research and development paper, authored by Robert Atkinson of the Information Technology & Innovation Foundation, argues that it’s time for a supplementary approach that seeks to grow the U.S. economy by spurring productivity-enhancing technologies.

Research and development (R&D) spending in the United States has fallen significantly as a share of GDP and current R&D is not focused on advancing technologies that drive productivity. Congress and the administration need to devote more direct and indirect funding to R&D focused on developing technologies that will boost productivity.

The federal government needs to spur an increase in government and business R&D and better allocate that R&D to areas likely to best spur productivity growth such as robotics, artificial intelligence, and new materials. This will require recognizing productivity-related innovation as a key national mission that deserves support from government the way defense, health, and energy do. If successful, it will not only reduce the debt-to-GDP ratio, it will boost productivity and worker wages.

Workforce training

Long run labor market trends in the American economy pose significant challenges. Growth in real money wages has been slow, with the most rapid gains taking place among workers at the top of the earnings distribution. Labor force participation and employment rates have been falling. Reduced labor force participation and obsolescence of workers' skills weighs down GDP growth, with predictable negative repercussions for living standards and federal revenue. The workforce training paper, authored by Robert Lerman, Pamela Loprest, and Daniel Kuehn of the Urban Institute, suggests the need for a major revamping of policies and programs that prepare people for careers and retrain people who must change careers.

The authors focus on three major policy initiatives to maximize worker training to bolster productivity and wages: Improve access to in-demand training; strengthen connections between career and technical education and training and employer needs; and build a robust apprenticeship system that emphasizes learning by doing in a context that involves apprentice contributions to production, and culminates in a respected occupational credential. This new system goes beyond the "academic-only" approach commonly pursued in the US and should match individual interests, aptitudes, and skills to in-demand jobs and make new training investments that are cost effective and valued by employers.

IV. Conclusion

We do not believe that the U.S. economy is played out, nor that it is destined for decades of lower growth and higher debt. Such would be our fate only if we stubbornly fail to reconsider existing policies in light of changing circumstances.

Achieving faster and broadly shared economic growth will be a critical part of putting our nation's finances on a sustainable path. Without it, the way forward will be much more difficult and the chances of failure much more likely. On the other hand, higher growth would improve wages, bring in more federal revenues and improve the budget and economic outlook.

Failing to address the unsustainable long-term growth in the debt will harm the economic well-being of future generations, and there is a substantial cost in delay. According to CBO, waiting just five years to begin reforms aimed at stabilizing the current debt-to-GDP ratio in 2049 would increase the cost by 22 percent. Waiting 10 years would increase the cost by 50 percent. Delay also shifts more of the burden to future generations.[24]

Increased government borrowing crowds out productive private sector investments in people, machinery, technology, and research, resulting in slower economic growth and lower wages than would otherwise be the case.

A high and rising debt also crowds out public investment by requiring an increasing share of the budget to go towards interest payments instead of into new public investments in education, infrastructure, and research and development.

On the other hand, reducing deficits can be a source of strength. According to CBO, a gradual deficit reduction plan that lowered the debt-to-GDP ratio to its average over the past 50 years (42 percent) could boost inflation-adjusted per-person income by about $5,500 in 2049 compared to the extended baseline in which debt rises to 144 percent of GDP, and by about $9,000 per person compared to CBO's alternative scenario in which debt rises to 219 percent of GDP.[25]

It will take a coordinated effort across federal policies to move the needle on economic growth and improve the fiscal outlook. These papers present one approach to that task. We hope they will spark a conversation and subsequent action on meaningful solutions. Deficits and debt do matter. The only way to ensure a crisis is to pretend there is no problem.

Endnotes

1. https://www.senate.gov/artandhistory/history/minute/Washingtons_Farewell_Address.htm
2. GAO, Annual Report to Congress, April 10, 2019.
3. The GAO began publishing long-term fiscal simulations showing federal deficits and debt under different sets of policy assumptions in 1992. https://www.gao.gov/assets/160/151852.pdf. The CBO began issuing regular long-term budget outlooks in 1997. https://www.cbo.gov/sites/default/files/105th-congress-1997-1998/reports/ltbudg.pdf
4. The Concord Coalition, "Citizens For America's Future," 1992.
5. Unless otherwise specified, all numbers come from the Congressional Budget Office, An Update to the Budget and Economic Outlook, August 2019 and The Long-Term Budget Outlook, June 2019.
6. Debt numbers in this paper refer to "debt held by the public," which is what the government owes to its outside creditors, such as those who purchase government bonds. The total, or "gross debt," also includes "intragovernmental debt," which is what the government owes to its own trust funds, such as the Social Security and Medicare trust funds. Debt held by the public is currently $16 trillion (79 percent of GDP). The intragovernmental debt is nearly $6 trillion. Because debt held by the public is bought and sold on the open market and helps determine interest rates, most economists think debt held by the public is a better measure of a country's exposure than gross debt.
7. CBO, Budgetary Outcomes Under Alternative Assumptions About Fiscal Policy, August 2019.
8. CBO, The Long-term Budget Outlook, p. 9, June 2019.
9. Ibid. p.10.
10. CBO, The Budget and Economic Outlook, Appendix B, January 2019
11. Office of Management and Budget, FY2020 Budget, Historical Tables, Tables 9.1 & 11.1, March 2019.
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13. CBO, The Budget and Economic Outlook, Table B.3, January 2019.
14. Ibid. Table F.3.
15. CBO. Updated Budget Projections, Box 1, May 2019.
16. Ibid.
17. CBO, 2019 Long-Term Outlook p.20.
18. See Social Security and Medicare Trustees, The 2019 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, June 2019.
19. The Congressional Budget Office defines "excess cost growth" as the extent to which the growth rate of nominal health care spending per person (adjusted to remove the effects of aging) exceeds the growth rate of potential GDP per person. (Potential GDP is the maximum sustainable output of the economy.)
20. Office of the Actuary at the Centers for Medicare & Medicaid Services, Health Spending Projections Through 2027, *Health Affairs*, February 2019.
21. CBO, Long-term Outlook, p.53, Table A-2, p.54.
22. Peter G. Peterson, *Facing Up*, Simon & Schuster, p. 66, 1993.
23. CBO, The Long Term Budget Outlook, Figure 2.2, June 2019.
24. CBO, The Long-Term Budget Outlook, Figure 2.3, June 2019.
25. CBO, The Impact of Various Levels of Federal Debt on GNP and GNP per Capita, August 2019.