NEWS

FOR IMMEDIATE RELEASE: January 13, 2010
Contact: Derek LaVallee, 202-615-7134, pressinquiry@napawash.org

REPORT OFFERS POLICYMAKERS MULTIPLE WAYS TO STABILIZE NATIONAL DEBT; DELAYING ACTION WILL CAUSE GREATER FISCAL PAIN AND ECONOMIC RISKS

WASHINGTON — A new joint report from the National Research Council and the National Academy of Public Administration offers U.S. leaders ways to address the nation's fiscal problems and confront its rapidly growing debt -- a burden that if unchecked will inevitably limit the nation's future wealth and risk a disruptive fiscal crisis that could lead to a severe recession.

“The report is unflinching in its assessment of the fiscal challenges we face, but it is far from disheartening,” said Jennifer L. Dorn, President and CEO of the National Academy of Public Administration. “Unlike other calls to action, the Committee’s work creates a framework for a national conversation, and demonstrates that solutions *are* possible.”

The report offers tax and spending options that would stabilize the debt relative to the size of the economy within a decade. The report also provides a set of simple tests to determine whether any proposed federal budget would lead to long-term fiscal stability.

Delaying action for even five or 10 years will make addressing the problem more painful and costly, requiring even higher taxes or greater spending cuts, the report notes. Delay also raises the risk that the nation's creditors – especially foreign governments – will conclude that the U.S. has no plan to restore fiscal stability and will require higher interest rates or make other economic demands.

"Our committee members have varying political backgrounds and views, but we all agree that future economic prosperity is at grave risk if our nation does not change its fiscal course," said John Palmer, co-chair of the committee that wrote the report and university professor and dean emeritus of the Maxwell School of Citizenship and Public Affairs at Syracuse University. The committee includes three former heads of the Congressional Budget Office — June O'Neill, co-chair Rudolph Penner, and Robert Reischauer -- and other experts.

Policymakers should move aggressively to restrain growth of the debt beginning in 2012, as soon as the economic recovery strengthens, the report says. Leaders should set a target of stabilizing the ratio of the nation's debt to its gross domestic product (GDP) -- a common indicator of fiscal health -- at a sustainable level by 2022. While there is no magic number for this ratio, the committee judged that a ratio of 60 percent is an achievable target within a decade, and can be a useful guide to policymakers. Any higher ratio would create an unacceptable risk of higher interest rates and financial crisis.

The Growing Burden of Debt

The nation's rapidly growing debt now totals more than $12 trillion -- of which $7.5 trillion is publicly held, about half of it by investors abroad. As the publicly held debt rises, so does the amount of federal revenue that must be spent on interest payments, leaving less money for other services and programs. The amount the government spent on interest was more than $800 per person in 2008 and would roughly double by 2020, even if interest rates remain at their current low levels.

-- more --

As the debt grows unchecked, so too does the risk of a crisis; if a loss of investor confidence led interest rates to climb suddenly, the government may be forced into a rushed, ill-considered response that could deprive people of needed services and hobble the economy for years, the report says.

The greatest contributor to the nation's long-term fiscal challenge is the rapid growth of health care spending, and any scenario leading to a sustainable budget will require forceful actions to slow the growth of Medicare and Medicaid spending, the report says.

Multiple Paths to a Stable Fiscal Future

The report details four scenarios to illustrate how policymakers can gradually align spending and revenues to hit the illustrative target of holding debt to 60 percent of GDP. These are far from the only options, the committee stressed; how the nation chooses to address the growing debt will depend on people's views about the role of government and a range of other values. But the paths show that it is possible to construct responsible fiscal paths over a range of ideological orientations.

- **Low spending and low taxes.** This path would allow payroll and income tax rates to remain roughly unchanged, but it would require sharp reductions in the projected growth of health and retirement programs; defense and domestic spending cuts of 20 percent; and no funds for any new programs without additional spending cuts.
- **Intermediate path 1.** This path would raise income and payroll tax rates modestly. It would allow for some growth in health and retirement spending; defense and domestic program cuts of 8 percent; and selected new public investments, such as for the environment and to promote economic growth.
- **Intermediate path 2.** This path would raise income and payroll taxes somewhat higher than with the previous path. Spending growth for health and retirement programs would be slowed, but less than under the other intermediate path; and spending for all other federal responsibilities would be reduced. This path gives higher priority to entitlement programs for the elderly than to other types of government spending.
- **High spending and taxes.** This path would require substantially higher taxes. It would maintain the projected growth in Social Security benefits for all future retirees and require smaller reductions over time in the growth of spending for health programs. It would allow spending on all other federal programs to be higher than the level implied by current policies.

Delaying action will mean even higher levels of taxes than in the committee's illustrative paths, or lower levels of government services.

"We know it will be hard for people and their representatives to come to agreement on the kinds of changes needed, given the obvious divisions among people in priorities and views of government," said co-chair Rudolph Penner, a fellow at the Urban Institute, Washington, D.C. "Yet everyone will benefit in the long term if we accept some short-term pain. We call on the nation's leaders to take the necessary steps, and we call on everyone to hold them accountable for ensuring a healthy fiscal future for the United States."

A new Web site -- www.ourfiscalfuture.org -- will be launched by the National Academy of Public Administration with the release of the report to spur online discussion about the nation's fiscal future and how to get America back on the road to fiscal responsibility in coming months.

The report was sponsored by the John D. and Catherine T. MacArthur Foundation. Copies of ***Choosing the Nation's Fiscal Future*** are available from the National Academy of Public Administration at http://www.napawash.org or from the National Academies Press at http://www.nap.edu. In addition, a podcast of the public briefing held to release this report is available at *http://national-academies.org/podcast.*

###