

Inquiring Minds Topic

23 & 30 September 2016

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Questions for the Candidates

Attached is a lengthy paper offering questions which may be put to the candidates for the Presidency as we move toward the national election.

We will consider the first four on September 23rd, and the rest of the questions September 30th.

Please remember that we will seek to determine the answers we hope to hear from the candidates. Marshal facts and avoid lengthy anecdotes.

As usual we will try to observe the two-minute rule for each contribution, and we will allow those who have not spoken to be recognized for speaking before others.

Thank you for your continuing participation.



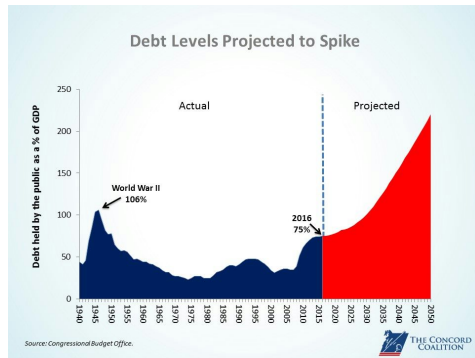


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Key Questions Voters Should Ask Candidates About Our Fiscal Future



The federal budget deficit is on the rise again and the nation's debt remains on a long-term path that is unsustainable. Voters should expect candidates in this year's elections to explain how they intend to deal with the huge challenges ahead.

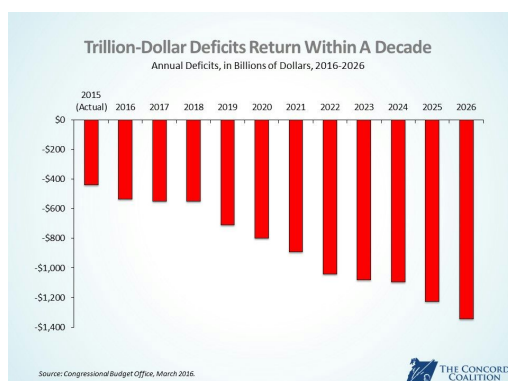
This is no time for vague rhetoric and petty partisan jabs; voters should insist on credible solutions -- the more specific, the better. Some of those solutions won't be easy

because the problems go far beyond the simple "waste, fraud and abuse" we hear about so frequently in campaign speeches. Nor can we expect even strong economic growth alone to put the country on a sustainable path.

Doing nothing would be the height of fiscal irresponsibility, could jeopardize our economy and undermine our position of global leadership. It would also burden our children and future generations with massive government debt. So what do the candidates propose? Voters have a right -- and a responsibility -- to find out.

The Key Questions

To close the government's long-term fiscal imbalance, would you consider changes in all parts of the federal budget? If not, what parts would you target and what would you consider untouchable?



Nearly everyone running for federal office expresses concern about the budget deficit and growing national debt. When turning to solutions, however, candidates all too often focus on what they would not do rather than what they would do. Taking reform options off the table may be popular with partisan party bases but each

item removed from the table makes finding solutions all the more difficult. Doing so is a good tip-off that a candidate either does not really understand the fiscal challenges or is not serious about addressing them.

The budget has a basic structural problem: Spending is projected to grow faster than revenues. This problem is driven by growing long-term commitments -- notably for retirement and health care programs. Social Security and Medicare alone are projected to account for nearly half of the increase in federal spending over the next 10 years. Revenues are projected to rise as well but not by enough to keep up. Absent some corrective action, the result will be ever-growing budget deficits. By 2026, the deficit is projected under current law to exceed \$1.3 trillion, up from just over \$500 billion this year. The debt is projected to reach 86 percent of the economy (GDP), the highest level since 1947 and far in excess of the average level over the past 50 years (39 percent of GDP).

The problem is so large that a comprehensive approach to deficit reduction is required. Spending cuts and revenue increases should all be under consideration, and the cuts will have to be made in more than just a few of the less-popular programs.

The thousands of baby boomers who retire every day mean substantial increases in the size and cost of programs such as Social Security, Medicare and Medicaid. Those three programs already comprise almost half of the entire federal budget. The government must spend more and more each year just to provide the same benefits to additional recipients.

Americans have also become accustomed to huge tax-code subsidies for everything from home mortgage payments to employer-provided health care benefits. These subsidies reduce federal revenues by about \$1 trillion a year.

The current plan to finance all of this is for the government to simply borrow more money. That will mean paying more and more each year just to service the expanding debt. These payments will rise even higher when interest rates, which are now extremely low by historical standards, inevitably start to rise to more traditional levels. The government's annual interest costs are projected to rise from \$250 billion this year to more than \$800 billion in 2026

Where does deficit reduction fit within your priorities?

Deficit reduction should be among every candidate's top priorities because no agenda -- liberal or conservative -- can long be sustained if it relies on an unsustainable debt path. Deficits have fallen from the record-high levels of the Great Recession, but the continuing flow of red ink remains a critical problem. This year the government will still spend roughly \$500 billion more

than it takes in. Over the next decade, the debt is on track under current law to grow by more than \$9 trillion. Even though the debt may remain stable as a share of the economy for a few years, its growth is projected to accelerate after 2018 and to exceed the size of the entire economy by the mid-2030s.

The longer we wait to put the federal budget on a sustainable course, the larger the required benefit cuts or tax increases will need to be. If policymakers were to wait 10 years, for example, spending cuts or tax increases would need to be two-thirds larger than what is currently needed to pare the debt back to the historical average. We would also have less flexibility to respond to unforeseen national emergencies, and it would be harder to protect the most vulnerable in society.

Some say that our political system only responds to a crisis. Yet the problem with our growing debt is its steady negative impact on economic growth and future standards of living. Waiting for a crisis could prove devastating to the country.

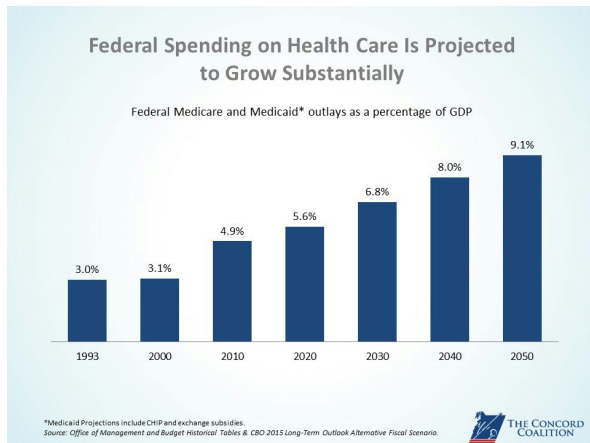
Could you identify some areas in the budget where you see opportunities for bipartisan cooperation on reform?

Neither political party has the strength in numbers or the public credibility to force through its own agenda, and the 2016 election is unlikely to change that. And if one party pursues fiscal reform efforts on its own, it would present the other party with an almost irresistible opportunity for demagoguery over the sacrifices that would inevitably be required.

So compromise and bipartisan cooperation will be necessary. Candidates should have at least a few specific areas where they can suggest credible ways to move forward in a bipartisan manner. Those who can offer voters nothing more than complaints about the other party's positions are unlikely, if elected, to get anything done.

Voters should also be skeptical of claims that further study is needed before reforms can be suggested. The nation's fiscal challenges have already been studied extensively by bipartisan groups that have put forth detailed proposals. In addition, agencies such as the Congressional Budget Office and the Government Accountability Office produce an endless stream of budget-related reports and possible improvements. Serious candidates should be familiar enough with this work to identify at least a few proposals that they can endorse.

How should the government curb the growth of its health care spending programs while maintaining or improving the quality of care?



The federal government spends over \$1 trillion per year on health care programs, accounting for a little more than one-quarter of the budget. Controlling health care costs is thus critical to getting the budget on a sustainable path.

Government health care programs are projected to grow in part because an aging population will mean more beneficiaries, and they will cost more as they get older. In addition, health care costs are projected to grow more quickly than the

economy -- as has been the general pattern over last 40 years.

In recent years, however, the growth rate of health care costs has slowed to the same rate as the economy. This has led to lower growth projections in Medicare and other government programs. Yet great uncertainty remains about whether the slowdown represents a permanent shift to a more efficient health care system. An ongoing transformation of health care is still required just to hold spending to the current problematic projections, let alone to reduce costs further. Candidates should specify how they would encourage and reward greater efficiency and effectiveness. For instance, are there some models for moving away from fee-for-service payments that they prefer over others?

Opinions continue to differ sharply over the Affordable Care Act (ACA). Yet regardless of whether a candidate wants to maintain and build on the ACA or repeal and replace it, voters should expect them to present realistic plans to further rein in health care costs, improve the quality of care, and ensure that key federal programs such as Medicare and Medicaid are put on sustainable long-term paths.

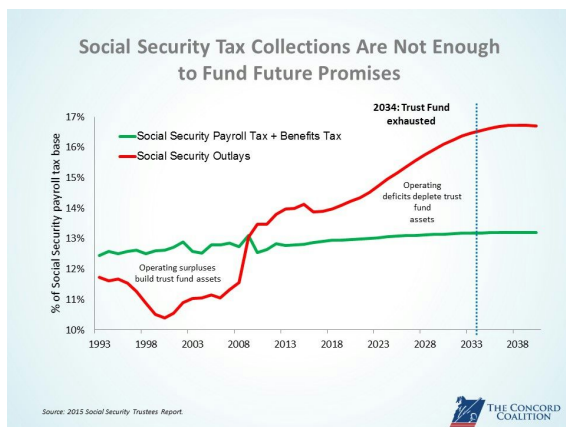
It's important to keep in mind that some less popular features of the ACA -- new taxes, reduced payments to providers, and mandatory insurance coverage -- are intended to make the more popular ACA features affordable. These popular features prohibit certain restrictions that were imposed by insurance companies in the past, and expanded coverage with subsidies for many

individuals. If candidates call just for dropping the unpopular provisions in the law, they should explain how they would find new ways to pay for the popular ones.

Reforms are also needed in the military Tricare program. Its premiums and deductibles are much lower than in most private insurance plans. This discourages younger military retirees from obtaining insurance coverage through their second-career employers. And many older retirees with substantial resources do not need such heavily subsidized care.

The Defense Department supports Tricare reforms because it sees health care expenditures crowding out other spending that more directly supports national defense.

Social Security is projected to run increasingly large cash deficits as the population ages and more people qualify for retirement benefits. How should we address these shortfalls?



The 2015 Social Security Trustees' Report warns that the program cannot sustain its projected long-run costs, and calls for prompt legislative action. The key challenge is demographic change. Before the baby boomers began to retire, there were three taxpayers putting money into the system for each person who was receiving benefits. That will drop to only 2 taxpayers per beneficiary in the coming years.

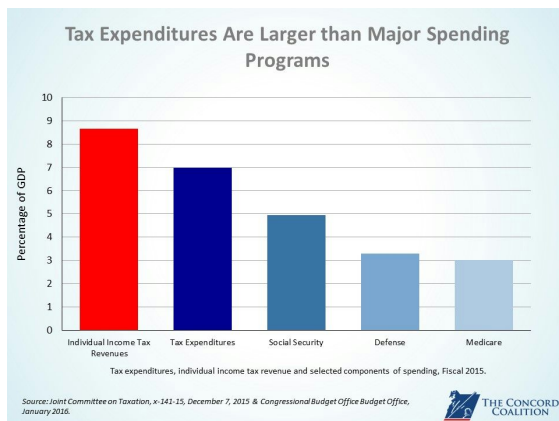
Since 2010, Social Security has been paying out more than it takes in. Under current law the gap is projected to grow and continue indefinitely. For the time being, this doesn't affect benefits because the program's trust funds (Old Age and Disability) authorize the Treasury to keep making payments. However, this does affect the overall federal budget because the Treasury must get the money through higher taxes, cuts in other spending, or more borrowed money. And if no reforms are enacted there would still have to be benefit cuts of roughly 25 percent when the program's trust funds are depleted in the 2030s. Today's workers are thus the most at risk if no reforms are put in place.

Some people argue that no action is required now because Social Security has a surplus for its combined trust funds that will last into the 2030s. But the system's cash flows are more significant than its trust fund holdings, which are simply internal government IOUs. When Social Security cashes some of its trust fund bonds to pay benefits, the government must still come up with the money from somewhere.

Moreover, as the Trustees observed in their 2015 report, prompt action is needed “so that a broader range of solutions can be considered and more time will be available to phase in changes while giving the public adequate time to prepare. Earlier action will also help elected officials minimize adverse impacts on vulnerable populations, including lower-income workers and people already dependent on program benefits.”

Bipartisan panels and others have suggested an array of thoughtful proposals that could help. Some would reduce future benefits. Other recommendations would raise additional revenue through the system’s payroll tax. Many proposals would make the program more progressive, trimming net benefits for higher-income households while increasing benefits for lower-income households. Candidates should be clear with voters about what options, if any, they favor. And voters should be wary of assertions that Social Security is in fine shape and needs no reforms.

Are there some examples of tax provisions favoring specific activities or categories of taxpayers that you would support eliminating? If so, would you favor using the resulting revenue to reduce federal borrowing, lower tax rates, or both?



The exemptions, deductions, exclusions, credits and preferential rates within the income tax system are often called “tax expenditures” because they are essentially spending programs in disguise. They have much the same impact as if the government had simply written checks to the beneficiaries. These tax expenditures total over \$1 trillion a year in foregone revenue.

Many bipartisan groups have suggested eliminating or scaling back these provisions to make the tax code simpler and more economically efficient. Reducing or eliminating tax expenditures could enable the government to reduce overall tax rates, which would have economic benefits and help ease the sting some people would feel from lost tax breaks. The money could also be used to reduce federal borrowing. To gain significant revenue, however, Congress would need to reduce or do away with some of the largest and most popular tax breaks, such as deductions for home mortgage interest and for charitable contributions.

Candidates should be specific about what changes in the tax code they would pursue and what tax expenditures they would like to keep.

Some candidates would use all of the additional revenue from reform measures to cut tax rates. Others would use all the revenue for additional federal spending. Either course overlooks the importance of reining in the federal debt to protect ourselves and future generations. That's why at least some of the revenue from any tax reform efforts should be used to reduce government deficits.

Are there federal programs that you consider clearly wasteful or subject to widespread fraud and abuse, and how much savings would you expect to recover by reforming or eliminating these programs?

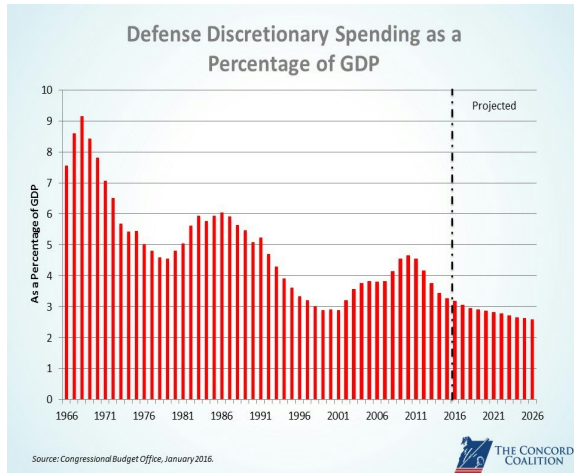
Candidates and elected officials like to talk about eliminating waste, fraud and abuse in the abstract. That sounds easy enough. Unfortunately, however, there is no line-item in the budget labeled "waste, fraud and abuse" that we can simply cross out. And people often vehemently disagree on what belongs in this category. What some call waste may seem to others like valuable government services and initiatives.

Candidates should be as specific as possible about the programs they would target and the corrective actions they would seek. Voters should also consider whether the candidates are relying on reasonable sources of information that can be verified, or are simply passing along gossip and speculation about programs they dislike anyway. Candidates should also focus less on small-budget items than on areas where reforms would actually produce significant efficiencies and savings.

Policymakers should of course try to cut truly wasteful spending whenever they find it. The Government Accountability Office (GAO), for example, issues reports highlighting programs that are at "high risk" of mismanagement or that involve much duplication. But even substantial improvements in efficiency, effectiveness and enforcement would not be enough, by themselves, to cure the government's budget woes. Congress would have to virtually eliminate all annual appropriations ("discretionary" spending) by 2026 to balance the budget. More than cutting waste will have to be done, and voters should demand specific answers on what these additional measures would be.

Spending caps over the next decade will reduce “discretionary” spending -- the money Congress approves on an annual basis for defense and many domestic programs -- well below the historic lows for each as a share of the economy.

Should defense spending be reduced further, kept the same or increased?



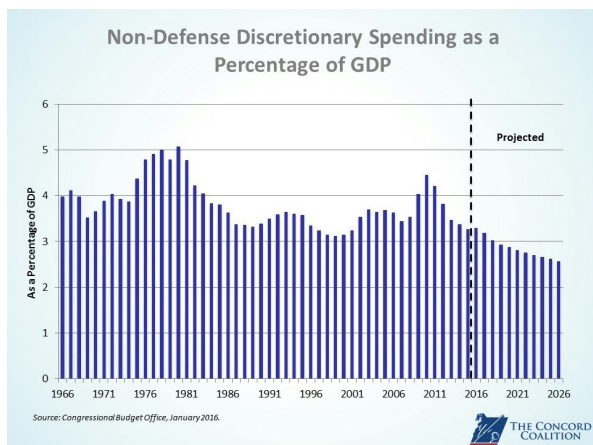
As in the past, our military may face unexpected challenges in the years ahead. But after years of large budgets to fight two ground wars abroad, the Pentagon faces demands for substantial belt-tightening.

While this partly reflects congressional efforts to deal with increasing pressures on the entire federal budget, lawmakers with parochial perspectives frequently undermine military reform efforts by, for example, opposing closure of military bases that are no longer needed.

A third of the defense budget goes to personnel compensation, and officials fear that health care costs in particular are squeezing other priorities like troop readiness and modernization efforts.

Candidates should explain how large they think the defense budget should be and what reforms they would support to save money and improve efficiency. Candidates who advocate increased defense spending should explain in detail how this would be financed and used.

Should domestic discretionary spending be reduced further, kept the same or increased?



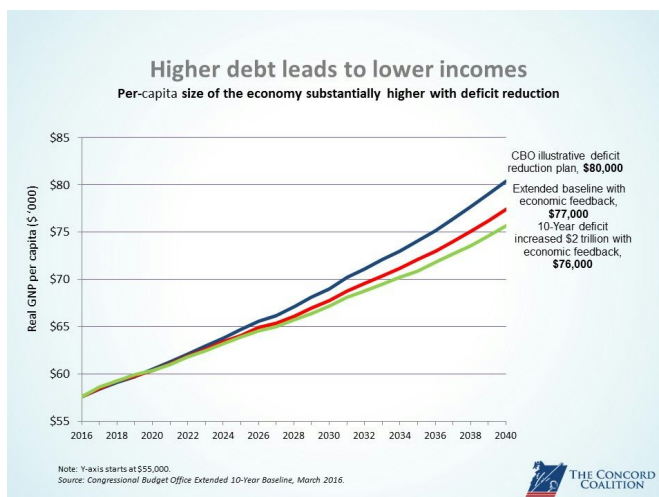
Although politicians often promise more cuts in discretionary spending, these programs are already subject to tight spending caps over the next several years. While no part of the budget should be exempt from further scrutiny, the discretionary programs are not the key drivers of the large projected budget deficits we face. And it is not clear how realistic some of the projected spending cuts in these programs actually are.

Domestic discretionary spending often includes funds for infrastructure, research, and education that tend to have bipartisan support and can potentially help increase economic growth in the future.

The current caps will leave discretionary spending at its lowest level relative to GDP since 1962, when the government first started tracking this measure. Discretionary spending accounts for 31 percent of the budget this year, and under current law it will drop to 22 percent in a decade.

Candidates should say whether they believe the scheduled caps on discretionary spending are realistic, and they should explain any changes that they would make in them. Voters should ask how any proposed increases in the caps would be paid for. If candidates propose reductions in these programs below the caps, they should be specific about where these cuts would be made and how they would affect government services.

What relationship do you see between getting our fiscal house in order and a strong economy?



A more responsible and sustainable federal budget is essential to foster a strong U.S. economy. The main reason to be concerned about the deficit is not its immediate effect in any one year, but its projected path. While deficits can be an appropriate near-term response to an economic slump, allowing the debt to grow faster than the economy over a long period of time ultimately slows growth and reduces personal income from what it would be otherwise.

As the Congressional Budget Office has stated, “the high and rising amount of federal debt” projected under current law “would have significant negative consequences for both the economy and the federal budget.”

Reforms can reduce deficits, hold down the government’s interest costs, build confidence in essential entitlement programs and still enable the government to make key investments in areas such as transportation and medical research that will promote future prosperity and higher living standards. Properly designed tax reforms can be an important factor, laying a much stronger foundation for economic growth in the coming decade and beyond.

In March the Congressional Budget Office (CBO) found that a 10-year \$4 trillion deficit-reduction package would help the economy, increasing average income nearly \$5,000 by 2040. Average income would be over 6 percent higher than if policymakers allow debt to rise rapidly.

Stronger economic and wage growth could in turn produce more tax revenue, creating a positive feedback loop in which the government would need to borrow less and less money. But while economic growth can be part of the solution to the growing federal debt, such growth can't solve the debt problem alone. To suggest otherwise is unrealistic.

For example, productivity growth would have to be 50 percent higher over the next quarter-century just to hold the debt at its current high level. So voters should be wary of campaign promises that rely on projections of unprecedented levels of economic growth.

Voters should also be skeptical of claims that deficit reduction and economic growth are incompatible. A sensible fiscal policy and a responsible campaign platform would recognize that deficit reduction can be phased in to accommodate any lingering sluggishness in the economy while directing the bulk of the savings to future years, when the deficit is otherwise projected to rise at a much faster pace.