

Federal Deficits and Policy Risk

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Budget Pressure Building*

- FY 2015 deficit \$434 billion
 - lowest since 2007, 2.5 percent of GDP
 - Recovery from crisis and recession
- Next ten years
 - “deficits rise because growth in revenues is outpaced by increases in spending”
 - Cumulative deficit will be \$9.3 trillion
 - Deficit will rise to 4.9 percent of GDP

*CBO Budget Projections and Updated Baseline 2016-2026 (March 2016)

Budget Pressure Building

- If current laws remain unchanged, budget deficits will grow to 141 % of GDP in 2046, the highest ever recorded.
- Most spending growth for Soc. Sec. and health care programs results from the aging population. By 2046, projected spending for programs for people age 65 or older accounts for about half of all federal non-interest spending.

*CBO Long-term Budget Outlook (July 2016)

Mandatory Spending the Real Problem

- 2/3 of FY 2017 Federal spending (\$2.6T)
- Not subject to appropriations
- Costs go up with no legislation
- Social Security, Medicare, Medicaid, SCHIP and interest on the debt
- Will rise from 11.8 to 15.4 percent of GDP by 2026
- 50-year average is 10.8 percent of GDP
- 83 percent of increased spending – 2026

A Look at Social Security

- 80 years old – from 29 to 2,600 pages
- Benefits taxed in 1983 (Reagan)
- Rate increased in 1993 (Clinton)
- 2010 negative cash flow started
- Fund to be depleted in 2035
- A two average-wage couple turning 65 in 2010 will get one-third more than paid in (UI)
- Past and current generations will pay \$71.3 trillion in payroll taxes but will receive \$93.4 trillion in benefits (Cato)

Discretionary Spending

- \$1.1T in FY 2017 (29 percent)
- Funded through annual appropriations
 - Most defense spending
 - Transportation
 - Education
 - Housing assistance
 - Agricultural support programs
 - Etc., etc., etc.

Federal Spending Trajectory (percentage of GDP)

	Social Security	Health Care	Interest on debt	Defense	Non-defense
1991	4.4%	2.5%	3.2%	5.2%	3.5%
2016	4.9%	5.6%	1.4%	3.2%	3.3%
2026	5.9%	6.6%	3.0%	2.6%	2.6%

“Pay Fors” Paired with Spending

- Painless, gimmicky pay fors mostly used
- Once scored, it stays on the menu
- Fannie/Freddie g-fees
- Dave Camp Tax Reform as scored
 - Changes to itemized deductions (\$858B)
 - Mortgage interest deduction
 - Charitable contributions
 - Business taxes
 - No tax-exempt private activity bonds (\$24B)
 - NLIHTC (\$11B)
 - Cap gain on home sale (\$16B)

The Budget Path Forward

- Long-term increasing budget pressure
 - Mandatory spending going up, no revenue increase leads to a discretionary spending pressure cooker
- S&P's 2011 downgrade message
 - “America's governance and policymaking becoming less stable, less effective, and less predictable than what we previously believed”
 - “the differences between political parties have proven to be extraordinarily difficult to bridge”