NATIONAL ISSUES FORUMS

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>>America's Future

What Should Our Budget Priorities Be?

About This Issue Guide

As with all disagreements about money and how to spend it, disputes over the federal budget reflect more fundamental questions about what we value. Deliberative forums on this issue will not be easy. It will be important to remember, and remind participants, that the objective of these forums is to begin to work through the tensions that arise between and among some of our highest priorities: economic well-being, national security, and compassion for those in need.

Participants in these forums may become angry. Those with strong feelings may feel attacked by those who hold other points of view. This can sidetrack the deliberation. In productive deliberation, people examine the advantages and disadvantages of different options for addressing a difficult public problem, weighing these against the things they hold deeply valuable.

The framework in this issue guide presents several options as an alternative means for moving forward in order to avoid polarizing rhetoric. Each option is rooted in a shared concern, proposes a distinct approach addressing the problem, and includes roles for citizens to play. Equally important, each option presents the drawbacks inherent in each action. Recognizing these drawbacks allows people to see the trade-offs that they must consider in pursuing any action. It is these drawbacks, in large part, that make coming to shared judgment so difficult—but ultimately, so productive.

One effective way to hold deliberative forums on this issue:

- Ask people to describe how this issue has affected them, their families, or their friends. Many will have direct experiences. They are likely to mention the concerns raised in this issue guide.
- Consider each option one at a time, using the actions and drawbacks as examples to illustrate what each option entails.
- Review the conversation as a group, identifying any areas of common ground as well as issues that still must be worked through.

The goal of this issue guide is for people to move from initial reactions to more reflective judgment. That requires deliberation, or weighing options for action against the things people hold valuable.

The National Issues Forums Institute

This issue guide was prepared for the National Issues Forums Institute in collaboration with the Kettering Foundation. Issue guides in this series are used by civic and educational organizations interested in addressing public issues. These organizations use the books in locally initiated forums convened each year in hundreds of communities. For a description of the National Issues Forums, log on to the website: **www.nifi.org**.

Other Topics and Ordering Information

Recent topics in this series include higher education, bullying, Medicare and Medicaid, and immigration. For more information, please visit **www.nifi.org**

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America's Future: What Should Our Budget Priorities Be?

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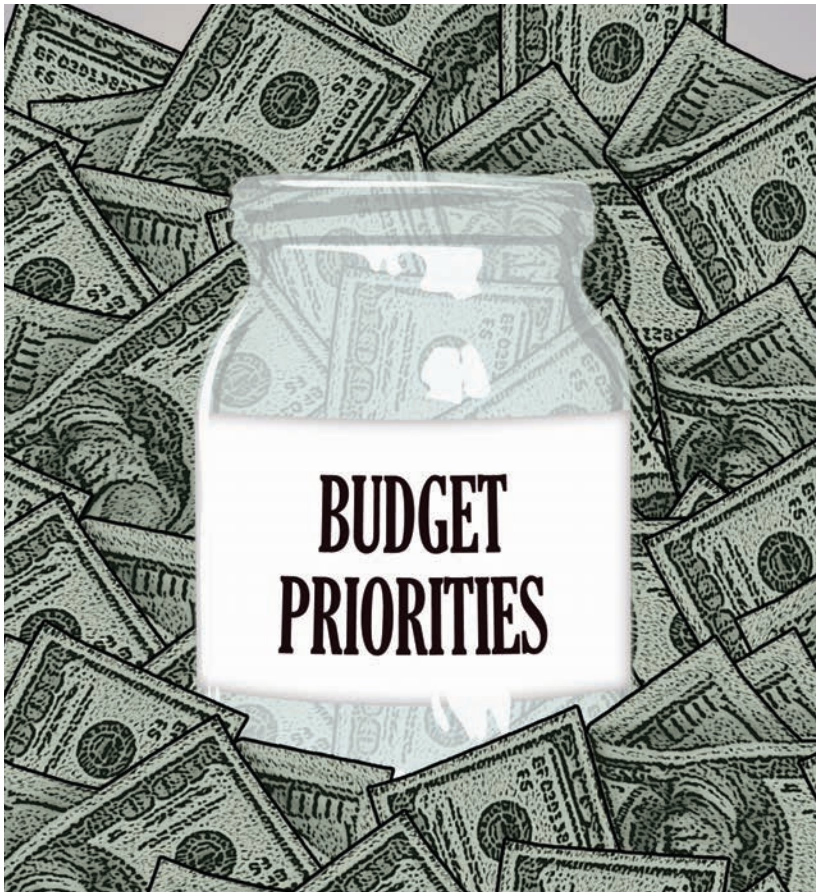

>>America's Future

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AMERICA IS SLOWLY coming out of a long recession. Unemployment, after peaking at 10 percent in 2009, has fallen below 7 percent; new home building has begun to pick up. Despite the heavy blow we've taken in the last few years, the US economy is very large and still growing. Our national output, known as the gross domestic product, has expanded by 50 percent in the last decade.

"The reality is that the US remains the fastest-growing rich economy, and is in fact regaining some of the recent ground lost to newcomers like China," wrote Ruchir Sharma, author of "Breakout Nations," in *The Atlantic*.

Yet three urgent pressures shape the conversation about our future priorities: the unchecked growth of the so-called "entitlement programs"—Social Security, Medicare, and Medicaid; our unmet needs in areas like education and infrastructure; and the steadily expanding national debt. Willingly or not, we will spend large sums of money on each of these; but we can choose to emphasize one more than another.

Whatever direction we choose, it is imperative we continue to encourage growth, which would make all the other issues that much easier to address.

As we gradually shed the effects of the recession, we need to make decisions about our nation's spending. What should our priorities be as we face those choices?

Social Security and Medicare

The logic of the entitlement programs was simple—shore up basic sustenance for the elderly and provide health care for older Americans and for those of all ages living in poverty. The object was both to improve their lives and to prevent the inevitable social and economic costs of widespread poverty and untreated health problems.

Overall, they have worked. The National Bureau of Economic Research documented a drastic decline in poverty among the elderly in the second half of the 20th century. Nationwide, hunger is far less widespread or severe than it was a century ago, although the problem worsened somewhat during the recession.

Today, however, we are facing the consequences of significant growth in these anti-poverty and anti-hunger efforts. The "baby boom" is hitting Social Security and Medicare full force, and rising medical costs have further fueled their growth. Some people also feel these programs may have expanded beyond their original purpose.

Any vision for future spending by the US government will need to somehow manage the growth in these public programs while still serving those who need help.

Planning for the Future

At the same time, if we want to continue to grow and prosper, we need to focus on the things that will move us in that direction.

"Better roads drive better jobs," Michigan governor Rick Snyder said in 2012. "A sound and modern infrastructure is vital to attracting and retaining jobs. [Our] infrastructure is deteriorating from a lack of investment."

Although he was directly addressing his own state's infrastructure, studies show the same is true nationwide. The American Society of Civil Engineers estimated in 2013 that the United States needs to spend $3.6 trillion by 2020 on ports, roads, bridges, and all the other underlying equipment that keeps our economy humming along.

It is also clear, based on our high school students' math and science scores relative to those in other countries, that the US educational system still needs attention. This intellectual infrastructure is just as important as bridges and roads.

The Debt

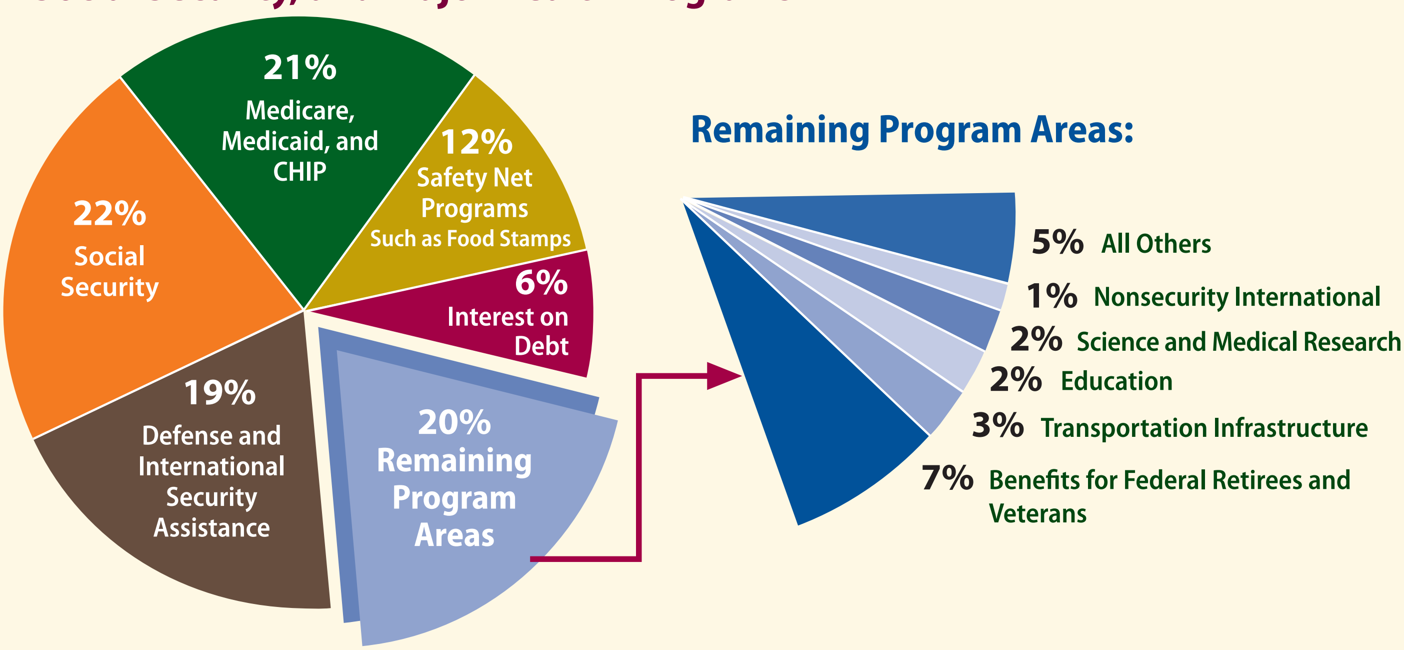
The US government owed about $17 trillion by the end of 2013, or about $12 trillion if one does not count the amounts government agencies owe each other, such as money the Treasury has borrowed from the Social Security trust fund.

As the largest and most stable economy in the world, the United States can borrow at very low interest rates. That has kept payments on the debt relatively low, considering the amount we owe. But the national debt continues to rise, and it is now roughly equal to our gross domestic product, the total of all the goods and services we produce every year.

That is uncomfortably large, and it should make us think about how we want to deal with it over time. With the recession fading, it probably will not grow as fast as it did over the last several years. But how much money do we want to keep borrowing?

This issue guide suggests three possible options, which emphasize different priorities for our nation's spending. One option would continue to reduce spending in all areas except defense and increase taxpayer contributions to Social Security and Medicare; a second option would increase investment in roads, bridges, and other infrastructure while reducing spending more gradually and postponing benefits paid to retirees; and a third option aims to aggressively attack the biggest budget items: entitlement costs and the military.

Most of the Federal Budget Goes Toward Defense, Social Security, and Major Health Programs



Source: 2012 figures from Office of Management and Budget, FY 2014 Historical Tables

OPTION ONE

Though painful, the sequester showed that we can get by with less. We should continue cutting gradually to bring down the deficit, shrink the national debt, and let the private sector drive the recovery.

>>Keep Tightening Our Belt

THIS OPTION WOULD CONTINUE trimming the budget across the board, with the exception of defense, and would require workers to pay more into Social Security and Medicare.

In 2011 and 2012, the great fear in Washington, DC, was the "sequester"—automatic spending cuts set up by Congress and President Obama in case they couldn't reach an agreement on reducing the national deficit. It was widely expected that the sequester was such a drastic alternative that both political parties would find some compromise to avoid it at all costs.

In fact, they did not reach an agreement, and the sequester began in March of 2013. It was modified later in the year, but not reversed. If it continues as intended until it expires in 2021, the sequester cuts a total of $1.1 trillion in federal spending—although it does not touch Social Security, Medicaid, federal pensions, or veterans' benefits.

It has been painful, but these across-the-board cuts showed that we can get by with less. There were no catastrophic consequences; the US economy has continued to grow and recover from the recession even with the sequester in effect.

Those who support this option say the top priority is reducing the deficit and ultimately shrinking the national debt. We should allow the process of sequestration to continue at some level—but we should spare the Pentagon from some or all of the cuts so that our national readiness is not undermined. At the same time, we should make several strategic reforms to Social Security and Medicare, a first step toward getting spending on those programs under control. With the economy improving, the federal government can step back from its role in stimulating the economy and let the private sector drive the recovery.

This option's priority is a trimmer, fiscally fit nation that is prepared for an uncertain global future.

Cut the Fat

Over time, less government spending will mean less borrowing and a smaller annual deficit, making it easier to manage the national debt. The sequester, once considered unimaginable, may turn out to be one of the simplest tools we can employ to achieve that goal.

This is not an easy process and it comes with real drawbacks. Head Start estimates it will serve 57,000 fewer children each year under sequestration, and the federal government had to cut at least 700 research grants. Yet there is no way to trim government spending without causing pain somewhere, and the fairest way is to spread the pain as widely and equally as we can.

"The only way Congress can make cuts is across the board, because they have trouble making decisions," the Concord Coalition's Robert L. Bixby told *The Washington Post*. Those who support this option agree—when confronted with individual budget decisions, there is always an interest group prepared to nudge lawmakers away from the difficult choices.

Going in this direction, however, means reducing the government-funded stimulus so more of the responsibility for keeping the recovery rolling would shift to the private sector. Business and industries certainly can afford to do more; some estimates place US corporate cash reserves at $5 trillion.

We can encourage companies to put more of that cash to work by cutting the corporate tax rate, according to this option. The reduced revenues should be offset by the increased investment in the economy that it would encourage.

Maintain Our Defense

We have ended one war in Iraq and are winding down another in Afghanistan. Yet the world continues to be a dangerous place. Witness the civil war in Syria that threatens to spill over its borders, the tensions with China and Russia, and the ever-present threat of terrorism. We also have significant responsibilities to allies like Japan, South Korea, and the nations of NATO.

According to this option, we cannot afford to scale back our military. This is an important exception we should make to the sequester. While we will reap savings from the ends of two wars in Iraq and Afghanistan, we should exempt the Pentagon from the most severe effects of the sequester and we should continue increasing the defense budget at least to keep pace with inflation.

The Bipartisan Policy Center reported in October of 2013 that the sequester would erode our defense readiness and ultimately shrink fighting forces to unacceptable levels by 2021. According to the center's report, "The full brunt of the cuts hasn't hit yet, and if we go down the sequester path for too long, we won't be able to reverse the devastating impacts."

The American military and the businesses that support it also are significant economic drivers. People and businesses in many communities across the United States rely on spending by local military bases for their livelihoods. A 2012 study by Deloitte calculated that the armed forces and the companies that support them are responsible for about 6.5 million jobs and at least 2 percent of the gross domestic product.

Increase Contributions to Social Security and Medicare

At the same time, we need to keep programs like Social Security and Medicare financially fit. Combined, they form the largest segment of federal spending, and even modest reforms in this area could have large beneficial returns.

The best approach "would be to repeal the wage cap, which would lessen the regressive nature of the current system. Our lowest income wage earners pay Social Security taxes on every dollar that they earn," said Dorothy A. Brown, a professor of tax law at Emory University School of Law. "The wage cap operates to limit Social Security taxes paid by those wage earners with income above the cap who coincidentally have the greatest ability to pay. In 1982, 90 percent of all wages were subject to Social Security taxes."

Currently, employees stop making contributions each year when their salaries exceed a certain point (for 2014, the cap was $117,000). With the rise in executive salaries in recent decades, the Social Security payroll tax is now paid on about 83 percent of all earnings. Raising the payroll cap would bring in more revenue and help balance Social Security's books.

According to this option, we cannot afford to scale back our military.

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Americans Receiving Social Security Benefits

Wages Subject to Social Security Taxes

Similarly, we could gradually raise Medicare premiums to cover a larger share of the cost, a step that could save up to $200 billion.

According to this option, we don't need to fix the federal benefit programs all at once, for all time. We need to keep adjusting them enough to get through the next few decades, until the tidal wave of the baby boom generation subsides.

What We Could Do

Option One's view is that we need steady, sequestration-style cutting from the federal budget to reduce the annual deficit and ultimately the national debt. To maintain our security, we should exempt the defense budget from those cuts; at the same time, we can begin to balance Social Security and Medicare by requiring workers to contribute more.

Here are some things this option suggests that we could do, along with some drawbacks:

- Congress could cut a small percentage of the federal budget across the board every year for at least the next five years. Our experience so far with sequestration shows that government departments can adjust to such reductions when they have no choice. The broad-brush approach of sequestration is its very strength.

  But . . . *if we continue cutting the budget across the board, we could endanger the economic recovery, since government spending does have an impact on jobs and businesses. We also might begin to see negative effects—children who have not been through Head Start, for instance, may do poorly in grade school.*

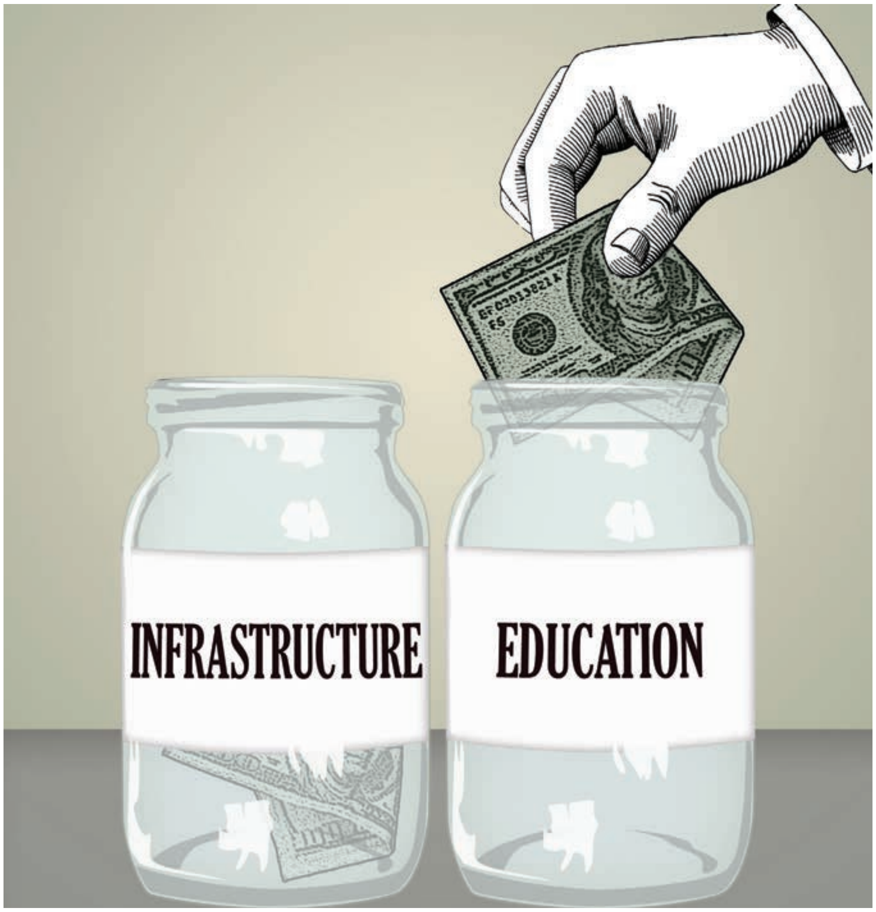
- We can raise the wage cap for Social Security payroll taxes and increase payroll taxes for both Social Security and Medicare. This would be a big step toward balancing the books on those programs, which will otherwise become an ever-larger drag on the budget.

  But . . . *this would divert billions of dollars from workers' pockets into federal coffers just when we need that money going into the economy. It also might damage the widespread public support both Social Security and Medicare now enjoy.*

- We should maintain the defense budget at current levels and increase it each year to adjust for inflation. The civil war in Syria, the attacks on our embassies in multiple countries, and the tension with China over its declared coastal airspace all demonstrate that the world is still a dangerous place, with a demonstrated need for the kind of military might that only we possess.

  But . . . *continuing to expand the military when we are not at war could make some nations suspicious of our motives. We can remain strong through smart defense spending without expanding our armed forces every year.*

For a summary of the possible actions and drawbacks that this option suggests, see the table on Page 12.



We are making progress on the deficit. We need to make some adjustments to entitlements, but now is not the time to slash programs and hobble the recovery.

>>Invest for the Future

THIS OPTION WOULD SPEND more money on infrastructure and education instead of aggressively cutting the deficit, and it would extend the retirement ages for Social Security and Medicare.

The federal government's deficit for fiscal year 2013—the dollars it spends minus the dollars it takes in—is estimated at $680 billion. That is the lowest it has been since 2008, when the recession began, and far lower than the figure of $1.1 trillion for 2012.

This shows that we are making progress, according to this option. We can make more progress on the deficit, and we should, but not just by slashing spending. It is time to spend money in ways that will grow the economy, solve some problems, and still shrink the deficit.

We can do this, according to this option, by shifting spending and putting a priority on investment. We can save money from the defense budget, reform entitlements, and then spend more in areas like infrastructure, education, and energy.

"In a depressed economy with record low interest rates, the government should be spending more, not less," says Nobel Prize-winning economist, professor, and syndicated columnist Paul Krugman. Severe cuts in government spending, he says, depress economies and worsen unemployment. Right now, concerns about deficit spending should be secondary in Krugman's view. "[An] era of mass unemployment is no time to be focusing on potential fiscal problems decades in the future," he says.

This option's priority is "putting money to work"—increase spending in certain strategic areas, raise the retirement ages for Social Security and Medicare, and raise additional revenues by increasing the capital gains tax and by growing the economy.

Investing in Roads and Bridges

In October 2013, the *Financial Times* reported that spending on infrastructure in the United States—roads, bridges, ports, water supply—had plunged over the past decade to a new low of less than $240 billion a year. About 12 percent of all bridges are now rated by federal inspectors as "structurally deficient."

Ed Rendell, the former governor of Pennsylvania, mentioned one example in an interview on PBS in early 2014:

> The Panama Canal is being deepened and these supertankers are coming through. When they unload, they create longshoreman jobs and trucker jobs. . . .
>
> But only 2 of America's 12 Eastern ports are ready to receive them because we haven't done proper dredging. So those ships are going to go to Canada. And the jobs are going to be produced in Canada, not the US.

This option holds that it is time to start seriously investing again in all the steel-and-concrete-and-wiring parts that literally support our economy. Building infrastructure is good for the economy in at least three ways: it positions us for the future, it puts people to work, and it saves lives.

It does not have to be all government spending. The idea of a national infrastructure "bank," which would leverage a small amount of federal funds with as much as $500 billion of private investment, was first proposed in the US Senate in 2007. Unfortunately, it has been passed from subcommittee to subcommittee and gone nowhere.

A key segment of this strategy would be investing in digital infrastructure, such as broadband and fiber-optic lines, filling the gaps in areas that the private sector doesn't consider cost effective. Studies suggest that wider access to the Internet would spur economic growth.

Investing in People

At the same time, we should take several steps to invest in the future of American workers who make the economy run.

The minimum wage has remained unchanged at $7.25 since 2009; inflation, especially in food and transportation costs, has eaten away at the dollar's buying power since then. In fact, adjusted for inflation, the purchasing power of the minimum wage is less now than it was in 1968. Twenty US states have recognized this already and raised their minimum wage past the federal standard.

"We are never going to get a growing middle class and more people into the middle class unless we have broad-based wage growth," said economist Lawrence Mishel on National Public Radio. "And this is the single, simplest direct instrument we have for obtaining that."

President Obama called for raising the federal minimum wage to $10.10 in his 2014 State of the Union address, and more than 100 economists across the country have put their names to a petition urging an increase to $10.50 an hour. Among other positive effects, they maintain, a higher minimum wage could reduce what the United States spends on food stamps.

According to this option, we should be spending more money on schools, not less. We should expand preschool availability, increase the number of educational grants and

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According to this option, building infrastructure is good for the economy in at least three ways: it positions us for the future, it puts people to work, and it saves lives.

low-cost loans, and hire more teachers. So, we also should exempt our educational spending, which was estimated at $3 billion in 2013, from the effects of the sequester.

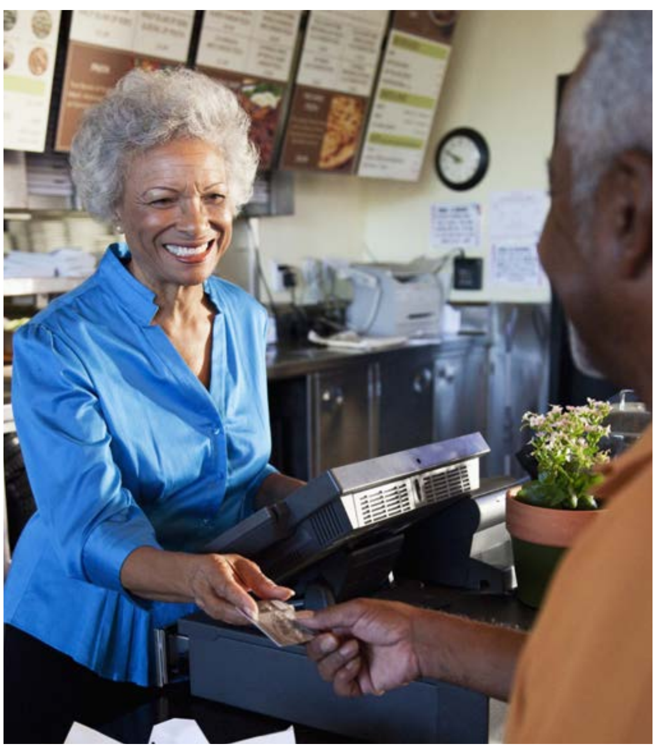
Postpone Retirement

We can make several small changes in Social Security and Medicare that would begin to address the shortfall in those programs. We don't have to take drastic steps; neither program is in default or close to it. However, any cost-saving measures we begin now will keep them solvent that much longer.

Because Americans are living and working longer, we should raise the age when people can begin to collect full benefits in both programs. For Social Security, which is now transitioning to a full retirement age of 67, we should go out another year, to 68. This is estimated to save the program $160 billion a year; raising it further would save even more. The Business Roundtable and others have suggested raising the retirement age to 70.

For Medicare, we could raise the age of eligibility to 67, which is estimated to save the program $140 billion a year. Medicare's minimum age has never increased since it was launched in 1965, even as Social Security's minimum (for full benefits) already has increased to 67 for those born after 1959.

"This is not a hard problem to solve," wrote William Gale, co-director of the Tax Policy Center, in *The New York Times;* he advocated raising the age of retirement with full benefits to 69. "Probably the single most important change is to raise the retirement age. Raising the retirement age for Social Security would be more effective in reducing costs if the eligibility age for Medicare were also raised."



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What We Could Do

We're turning the corner on the deficit, according to Option Two, and now is the time to invest for the future. We have significant unmet needs in education, infrastructure, and other areas. This is not simply humanitarian—these are good investments that will pay off for our economy and our families in the long run.

Here are some things this option suggests that we could do, along with some drawbacks:

- We can form a National Infrastructure Bank, and kick it off with $50 billion in seed money. This would attract private investors and launch nationwide projects that would both put people to work and begin dealing with our infrastructure deficit.

  But . . . *an infrastructure bank would tempt members of Congress to push local pork barrel projects that are more political than necessary. Also, investors would expect a return on their money, which often would require tolls or other user fees from taxpayers who expect government to do the job with the money they already pay.*

- Congress could raise the minimum wage. This would increase the buying power of many workers and move families out of poverty. It also would save us money elsewhere, since people living on the current minimum wage often must turn to social services to get by.

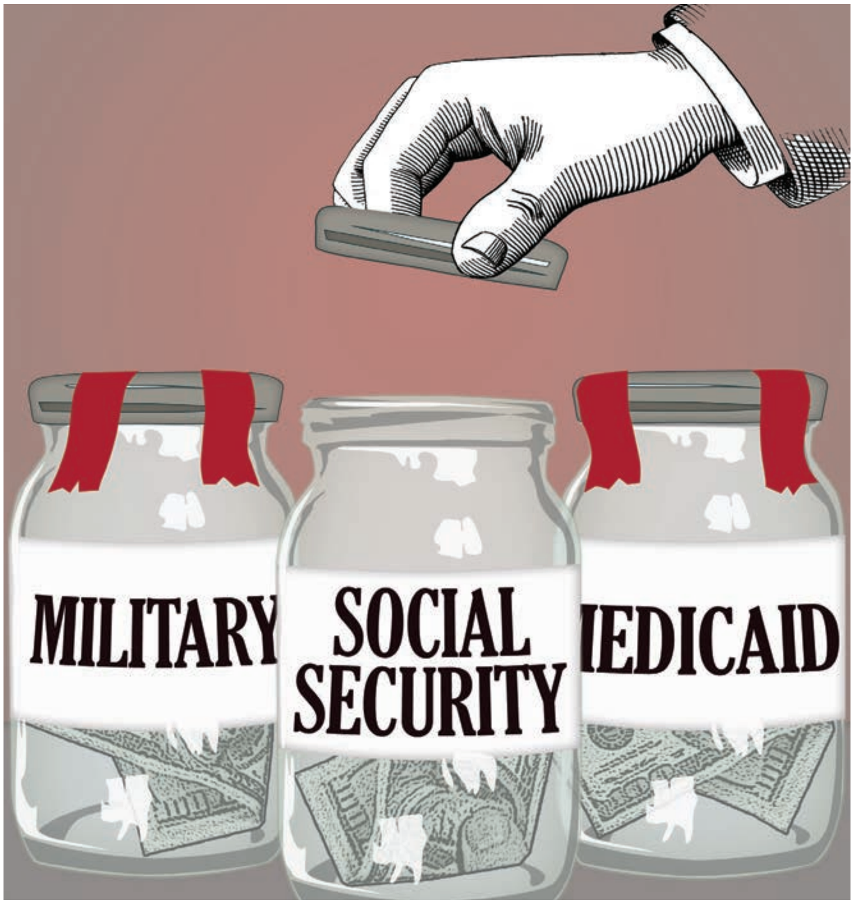
  But . . . *this could cause employers, especially small businesses, to hire fewer workers in order to remain profitable. It would increase costs across the board for business just when we're trying to keep the recovery going.*

- We could raise the age of eligibility for Social Security to 68 immediately. This move acknowledges that people are living and working longer than they used to, and would begin to balance Social Security's books by postponing some of the costs.

  But . . . *at the other end of the spectrum, young people would have more difficulty finding jobs because older workers would have to hold on to them longer. It also would be a hardship for people who spend their working lives doing strenuous manual labor.*

For a summary of the possible actions and drawbacks that this option suggests, see the table on Page 13.

We need to control the unbridled growth of defense, Social Security, and Medicare/Medicaid, which are the main consumers of federal dollars.



>>Tame the Monsters

THIS OPTION WOULD CUT more deeply into defense, Social Security, and Medicare/Medicaid to rein in the growth of the budget.

We need to control the unbridled growth of defense, Social Security, and Medicare/Medicaid, which are the main drivers consuming the federal budget.

Interest payments on the debt and payments of public benefits consumed about half of federal spending in 2012, according to the nonpartisan Center on Budget and Policy Priorities. Defense spending required another 19 percent, and other "safety net" programs, such as food stamps and free school meals, took up about 12 percent.

All of that left about one-fifth of the budget, or $700 billion, for everything else—national parks, airports, scientific research, US embassies, you name it.

What's more, that was just for 2012. On their current path, entitlements and debt payments will steadily consume more federal dollars, elbowing aside all other priorities.

Mitch Daniels, former director of the US Office of Management and Budget and now president of Purdue University, gave one example: "Investments in basic research on university campuses is a major driver of the innovation we need to grow as a nation, but it's being squeezed, squeezed, squeezed by entitlements. This is one of the biggest examples of the essential need to rein it in."

This option's priority is "act now." We need to get these money pits under control and let taxpayers keep more of their money. Once we get the deficit to manageable levels, we can tackle important needs in education, infrastructure, and other areas.

Shrink the Military

Since we are no longer at war, this option holds that the Pentagon should return to its pre-war spending levels. According to its own figures, we can save at least $160 billion a year in defense costs.

The F-35 Joint Strike Fighter, currently under development, is the Pentagon's newest war plane and, to date, its most expensive weapons system ever.

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Adjusting for inflation, the defense budget has risen from about $450 billion in 2003 to more than $600 billion in 2013. While the sequester and other budget measures will begin shrinking that figure, they don't go far enough.

One target for budget cutting might be hugely expensive weapons systems the military doesn't even want. When the Air Force decided to stop buying and flying the Global Hawk drone to save about $2.5 billion over 5 years, Congressman Howard McKeon, from the California district where the drone is made, leaped to the rescue. Congress restored the funding and Northrup Grumman Corporation received a $144 million contract to build three more. Congress has also spent about $400 million in the last 2 years on updated versions of the Abrams tank the Army doesn't want, according to the *Los Angeles Times*.

Then, there are new and expensive systems, such as the F-35 Joint Strike Fighter, a next-generation stealth aircraft currently 7 years behind schedule, $160 billion overbudget, and continually plagued by basic problems like substandard wing-tip lights and flawed tires.

Winslow Wheeler, of the Project on Government Oversight, called the Joint Strike Fighter "the jet that ate the Pentagon" in *Foreign Policy* magazine: "The F-35's price is headed in one direction—due north." By choosing cheaper, proven fighters like the F-16 and F/A-18, we could save $80 billion a year.

Another target would be overhead costs. According to *Defense One*, a digital newsletter, overhead costs for the Pentagon's back-office bureaucracy that oversees its business functions, account for roughly 40 percent of its total budget. By comparison, private industry averages about 25 percent for overhead, and the largest government domestic programs—Social Security and Medicare—"get by with overhead costs in the single digits."

We already have the largest, most capable military in the world by far. If we are not at war, we could do considerable streamlining and should shift some of those resources to other needs, according to this option.

Rethink Entitlements

Social Security and Medicare should be need-based and self-sustaining. They began as efforts to curb poverty and provide basic health care for the elderly, but their benefits have grown into rights.

One significant reason is that when workers pay into Social Security and Medicare, especially the former, they consider it "their" money, locked in a bank somewhere. While these programs keep track of what each taxpayer contributes, there is no direct link between the dollars they put in and the dollars they receive.

We need to step back from the whole concept of entitlement. This option says that, regardless of how much money someone paid into the program, benefits should be paid out based on recipients' needs, and reduced or removed for those with higher incomes. Usually referred to as "means-testing," this would not, by itself, make these programs solvent. However, it would be an important step toward changing public attitudes about the money they receive.

The notion of entitlement, Robert J. Samuelson wrote in *The Washington Post*, "has outlived its usefulness. Programs shouldn't be shielded from constructive criticism and change just because they're hiding behind an obsolete label."

Another important reform to Medicare would be cutting reimbursements to physicians. Congress has routinely passed an annual patch to avoid cuts in reimbursement costs, but over the next decade that could cost as much as $140 billion.

We can't afford to continue that practice; doctors will need to share in the sacrifices being made across the board.

Fix the Tax Code

Our tax laws should be simplified and reformed, according to this option, with the goal of increasing private investment. This likely will cost the government money in the short run, but increase revenue in the long haul.

Among the steps we could take would be to eliminate the capital gains tax for small and start-up firms, which could spur more investment and more employment. According to the US Small Business Administration, small businesses comprise 99.7 percent of US firms and provide 64 percent of all new private-sector jobs.

"We have not had major tax reform in almost 30 years," said Carl Allegretti, CEO of Deloitte Tax and an advocate of reform, on Bloomberg News. "If done right, tax reform would drive more robust economic growth, which in turn would increase tax receipts."

One place to start is the tax code itself, which is now 74,000 pages long. It has grown so complex that about 6 out of 10 Americans hire tax preparers, and the IRS' own Taxpayer Advocate Service has estimated that we spend $168 billion a year in lost work hours and accountants' fees to prepare our taxes.

But tax reforms also should focus on making better use of our productivity and our income. One possible change would be reducing or eliminating taxes on "capital gains"—profits from home sales, stock sales, and other such income—for families earning up to $200,000 a year, as proposed by Governor Mitt Romney during the 2008 presidential campaign. This would encourage investment for many Americans.

What We Could Do

According to this option, we must move quickly to get defense, Social Security, and Medicare under control before their growth squeezes out all other spending. We should reduce defense spending to pre-war levels and keep it under control. Social Security and Medicare should become need-based and self-sustaining, and we should get away from the whole concept of entitlement.

Here are some things this option suggests that we could do, along with some drawbacks:

- We should introduce so-called "means testing" to Social Security and Medicare, making sure that benefits are going only to those people who truly need them. All Americans need to change their view of these benefit programs as automatic, regardless of income.

  But . . . *if we put Social Security and Medicare on a needs-only basis, it would make life harder for many people. As they, in turn, cut back their spending on essential items, it may cause the economy to slow.*

- Congress could cut the Pentagon's budgets back to where they were 10 years ago. It is easy to accept the new, larger military as the status quo, but those troops and weapons were only necessary for fighting two wars. It will not hurt our readiness if we return to a peacetime defense budget.

  But . . . *many states and communities rely on defense spending for a large chunk of their economy, and deeply cutting defense spending all at once would hit them very hard, probably causing layoffs and other unpleasant ripple effects for many families. There also are many trouble spots around the world that could flare up at any time, and we need to have enough troops and equipment ready to handle crises.*

- We should reduce Medicare reimbursements to hospitals and doctors for the services they provide. Ample waste has been documented in the health-care system; like sequestration, cutting reimbursements will compel providers to find less costly ways to serve their patients.

  But . . . *more doctors might choose not to take Medicare patients—thousands drop out of the Medicare system every year. Also, if hospitals look for ways to cut costs, one of the first casualties could be the free or reduced-cost care they provide indigent patients now.*

For a summary of the possible actions and drawbacks that this option suggests, see the table on Page 13.

SUMMARY

>>America's Future

What Should Our Budget Priorities Be?

AMERICA IS SLOWLY COMING OUT OF A LONG RECESSION. Unemployment, after peaking at 10 percent in 2009, has fallen below 7 percent; new home building has begun to pick up. Despite the heavy blow we've taken in the last few years, the US economy is very large and still growing. Our national output, known as the gross domestic product, has expanded by 50 percent in the last decade.

There has been robust discussion across the country, some of it sparked by the recession, about what we should do next. Our national debt is rising at a rate many view as unsustainable, and the "entitlement programs"—Social Security, Medicare, and Medicaid—are consuming an ever-larger chunk of the national budget. There are unmet needs in infrastructure, education, and health care.

This issue guide suggests three possible options, each emphasizing different priorities for our nation's spending. We have significant resources, but they are finite. What direction should we take? This issue advisory presents three options for deliberation, along with their drawbacks.

OPTION ONE

Keep Tightening Our Belt

Though painful, the sequester (mandatory across-the-board budget cuts) showed that we can get by with less. We should continue cutting gradually to bring down the deficit, shrink the national debt, and let the private sector drive the recovery.

Those who support this option say it is vital to keep entitlement programs like Social Security and Medicare financially fit by making changes that would slow their overall growth. We should not cut our defense budget while other nations, such as China, grow theirs.

But *the cuts called for by this option could stall the economic recovery.*

EXAMPLES OF WHAT COULD BE DONE	SOME CONSEQUENCES AND TRADE-OFFS TO CONSIDER
Cut the government's budget across the board every year for at least the next five years.	Steadily taking that much government spending out of the economy could stifle the recovery.
Raise the wage cap for Social Security payroll taxes.	This would take billions of dollars out of the economy when it most needs them and could harm public support for Social Security.
Increase payroll taxes to help balance Social Security and Medicare.	This would likely mean small businesses would hire fewer workers.
Maintain the defense budget at current levels, increasing for inflation each year.	A strong military could antagonize other nations.
Lower the corporate tax rate to encourage more investment at home and allow the private sector to further recover.	Corporations could simply keep the savings instead of investing them.

OPTION TWO

Invest for the Future

We are making progress on the deficit. We need to make some adjustments to entitlements, but now is not the time to slash programs and hobble the recovery. Instead, we should make strategic expenditures and grow the economy, which in turn will shrink the deficit. We ought to shift some spending from the defense budget and entitlement programs and put it into projects that will both put people to work and address other needs. Education is another vital area in which we should invest, especially in science and technology.

But *this may put us deeper in debt.*

EXAMPLES OF WHAT COULD BE DONE	SOME CONSEQUENCES AND TRADE-OFFS TO CONSIDER
Increase education grants and low-cost loans to students.	Easier money for school may cause students to value their education less.
Raise the minimum wage.	This could mean companies will hire fewer people.
Raise the age at which individuals would become eligible for Social Security to 68 immediately.	This could mean fewer available jobs for young people entering the workforce.
Raise income taxes on people in higher income brackets.	This could discourage investments in the economy and impede the creation of new jobs.
Launch a National Infrastructure Bank with at least $50 billion in seed money.	Such a bank could become a channel for pork barrel spending.

OPTION THREE

Tame the Monsters

The unbridled growth of defense, Social Security, and Medicare/Medicaid is the main consumer of federal dollars. Meanwhile, our national debt is growing by approximately one trillion dollars a year. We need to get these money pits under control.

Since we are no longer at war, the Pentagon should return to its pre-war spending levels. Social Security and Medicare should be need-based and self-sustaining. We also should simplify the tax code. Once we get the deficit under control, we can tackle other needs, such as education and infrastructure.

But *this could make life much harder for many people.*

EXAMPLES OF WHAT COULD BE DONE	SOME CONSEQUENCES AND TRADE-OFFS TO CONSIDER
Put Social Security and Medicare on an as-needed basis (“means testing”).	This would drain the savings of many middle-class seniors.
Cut the defense budgets back to pre-war levels.	The United States could fall behind in defense capabilities while other nations overtake us.
Reform and simplify the tax code to spur investment.	This may reduce government revenue and could increase the deficit.
Reduce Medicare reimbursements for services provided.	This could make more doctors unwilling to take Medicare patients.
Allow the Defense Department to eliminate expensive or unwanted weapons programs.	Cutbacks in defense contracts would devastate many communities that rely on the military.

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