

Economic Town Hall

Senator Lisa Murkowski

America's Debt & Deficit Challenge

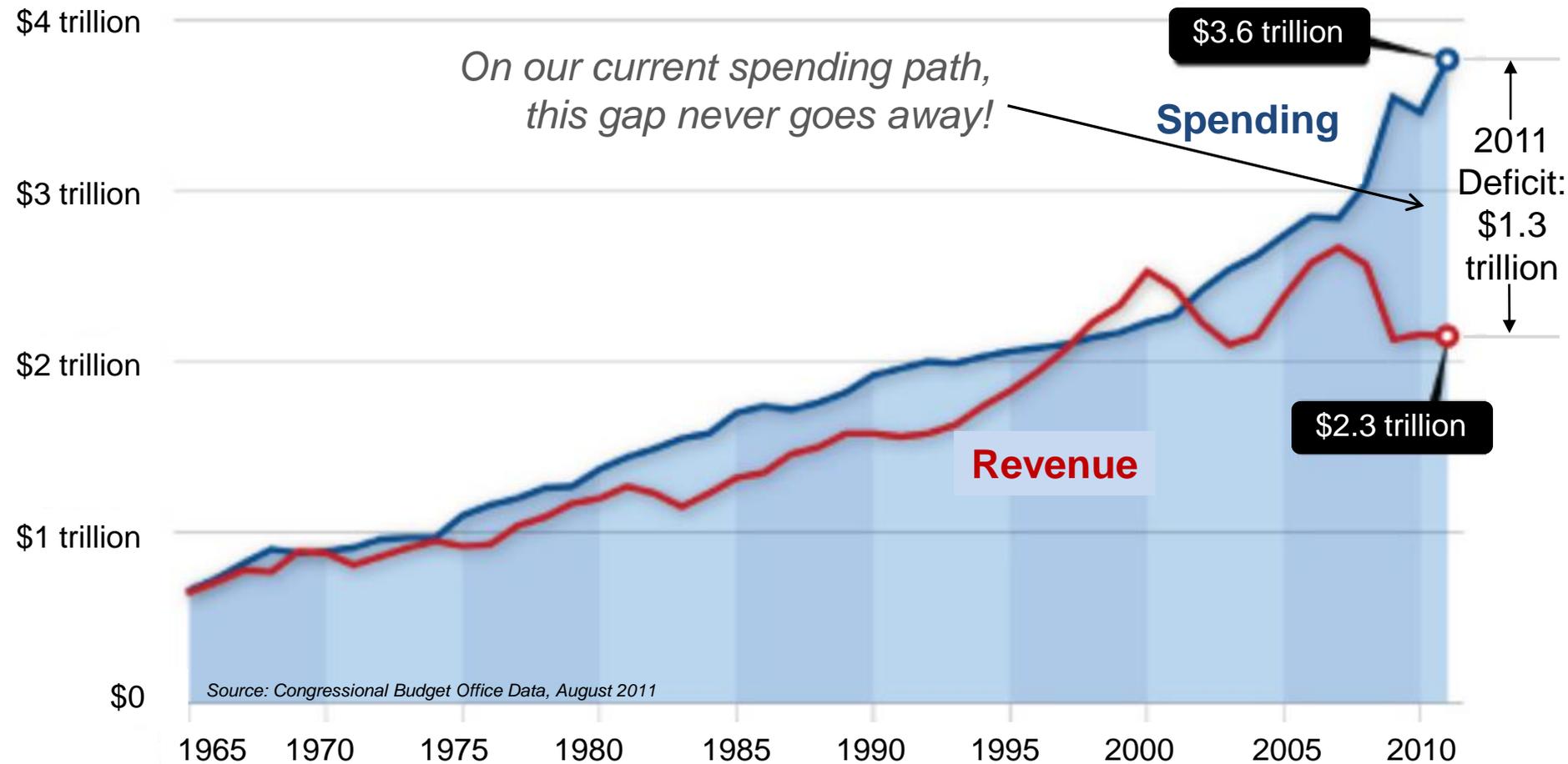
October 2011

Today's Agenda: *American's Debt & Deficit Challenge*

- America's Fiscal Crisis
- Federal Spending Drivers
- Impact on Alaska
- Consequences of Inaction
- Working Towards Solutions

The Problem: Annual Overspending

Federal Spending vs Revenue (\$)



Federal Government Is Spending More Than It Takes In

The Problem: *Living Beyond Our Means*

Income: \$64,600 Average Alaskan Family's 2010 Household Income

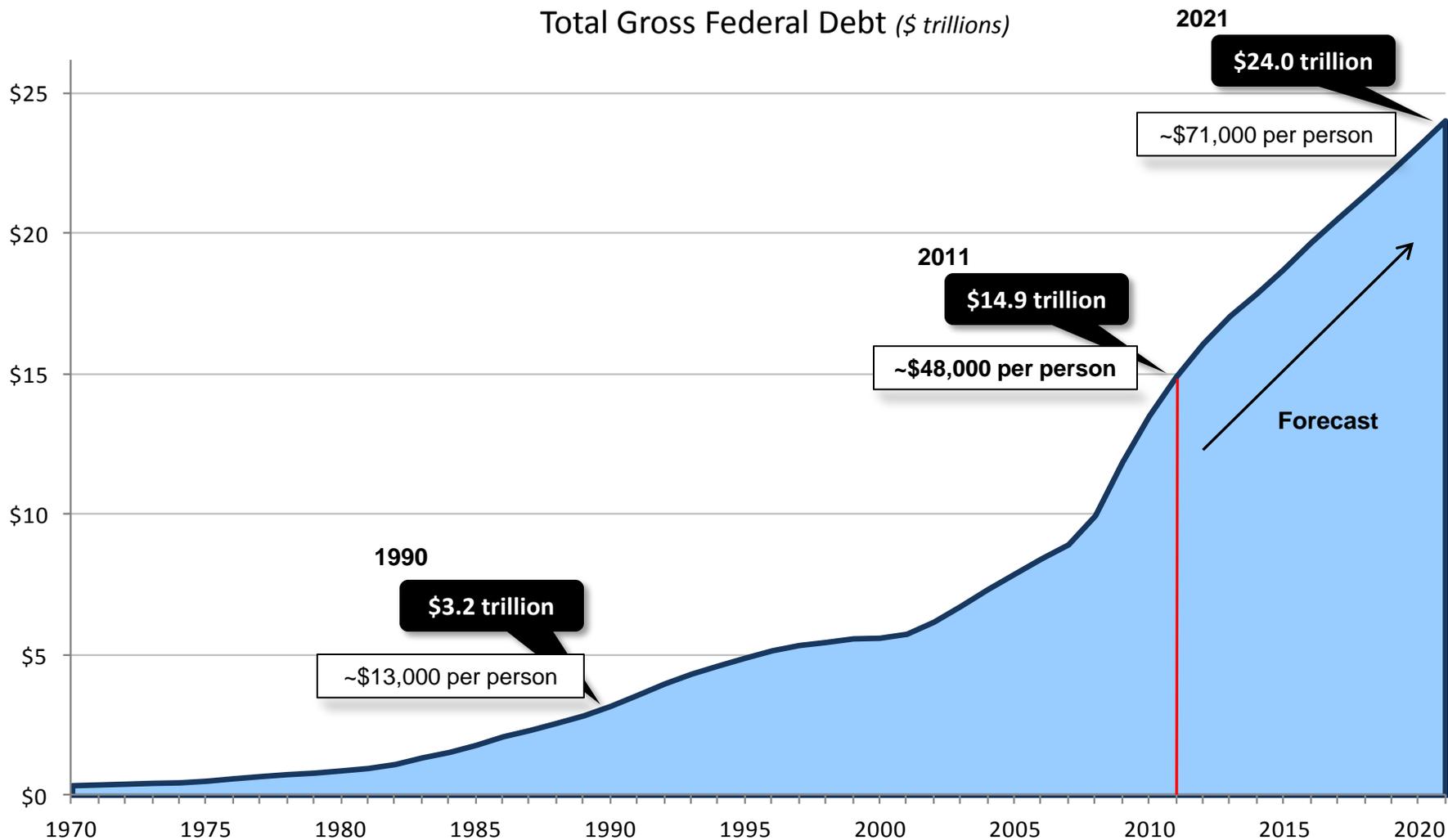
Expenses: \$88,500 What they can spend using the federal government's approach to annual budgeting

Deficit: - *\$23,900* The amount they will need to borrow
--- *40% more than their income!*

.....and the government is doing this each and every year

Washington is Borrowing 40 Cents of Every Dollar – Year after Year

The Problem: *Debt Financing*

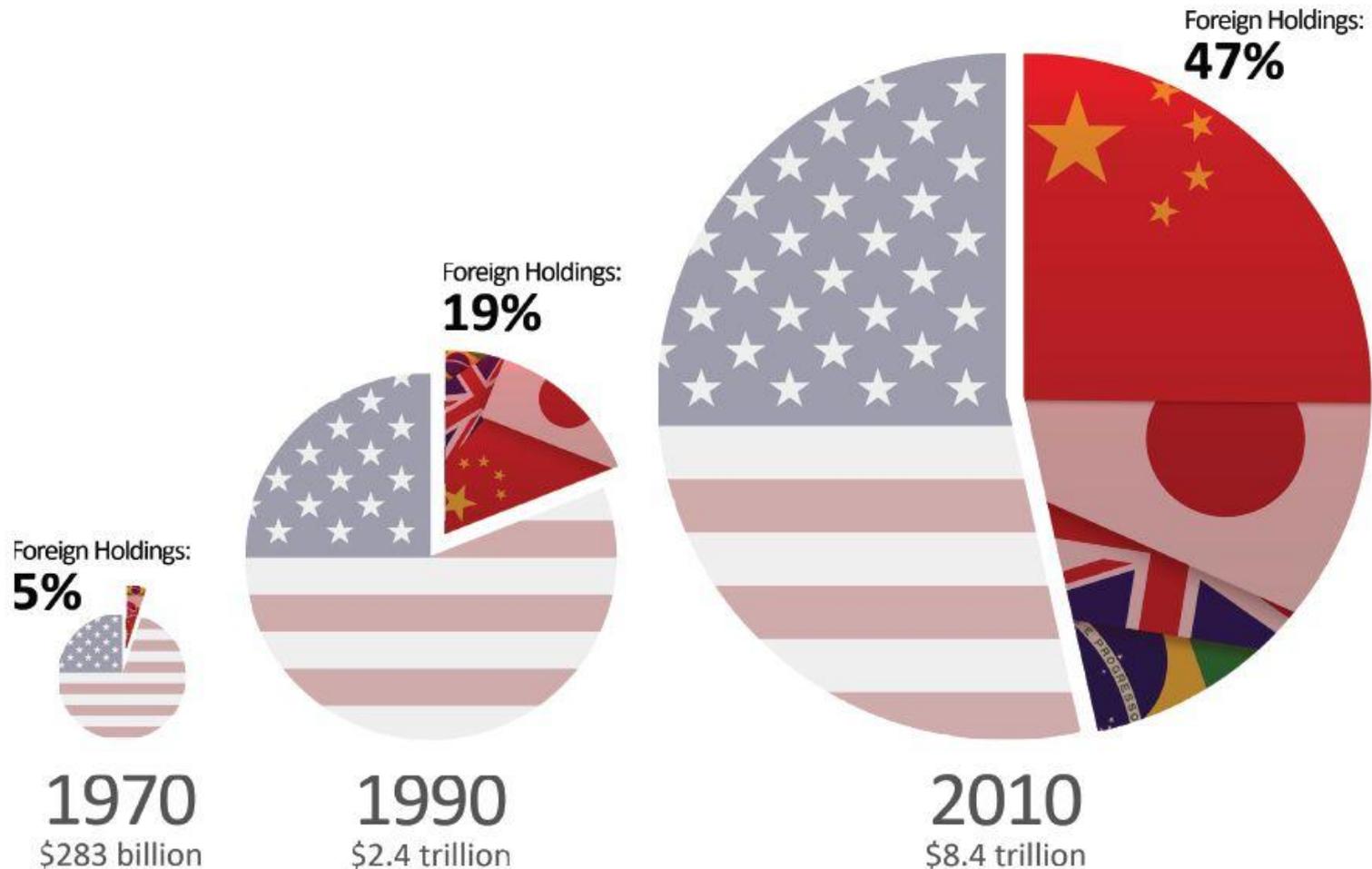


Source: U.S. Dept of Treasury Data

U.S. Borrowing is Destabilizing the Financial Markets

The Problem: *Outsourcing Our Debt*

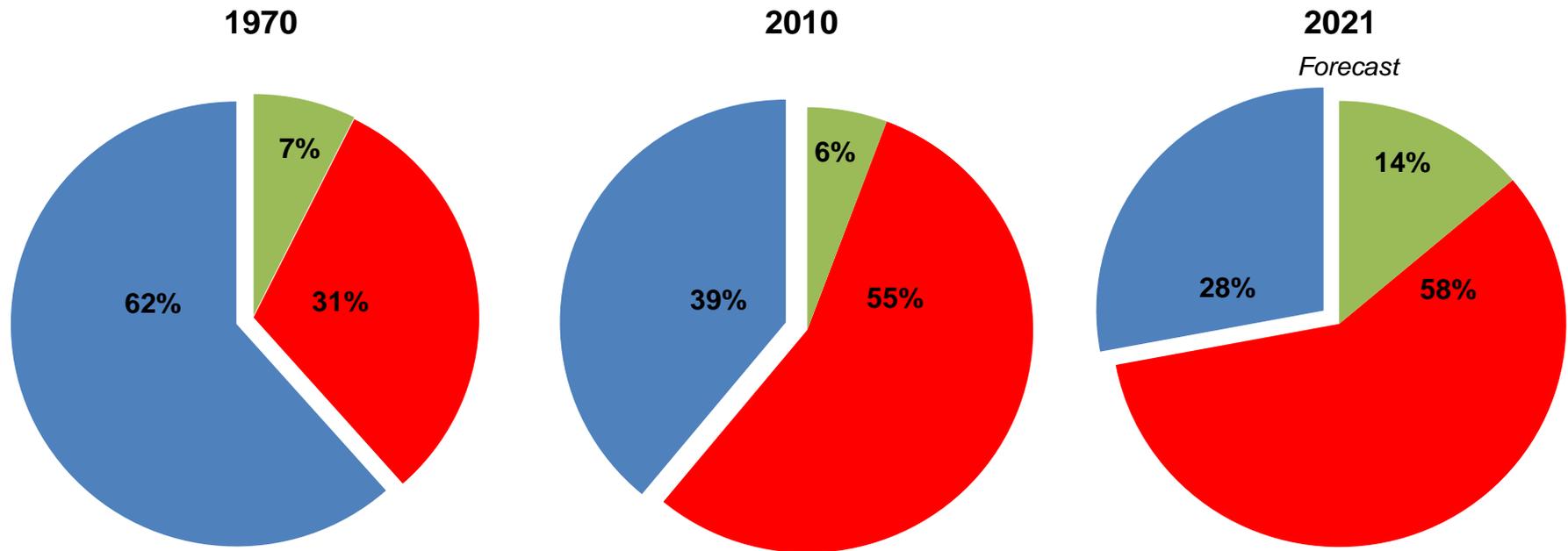
Public Debt Ownership (%)



Source: U.S. Dept of Treasury Data

A Growing Percentage of U.S. Debt is Held By Foreign Countries

The Drivers: *Mandatory Spending & Interest*



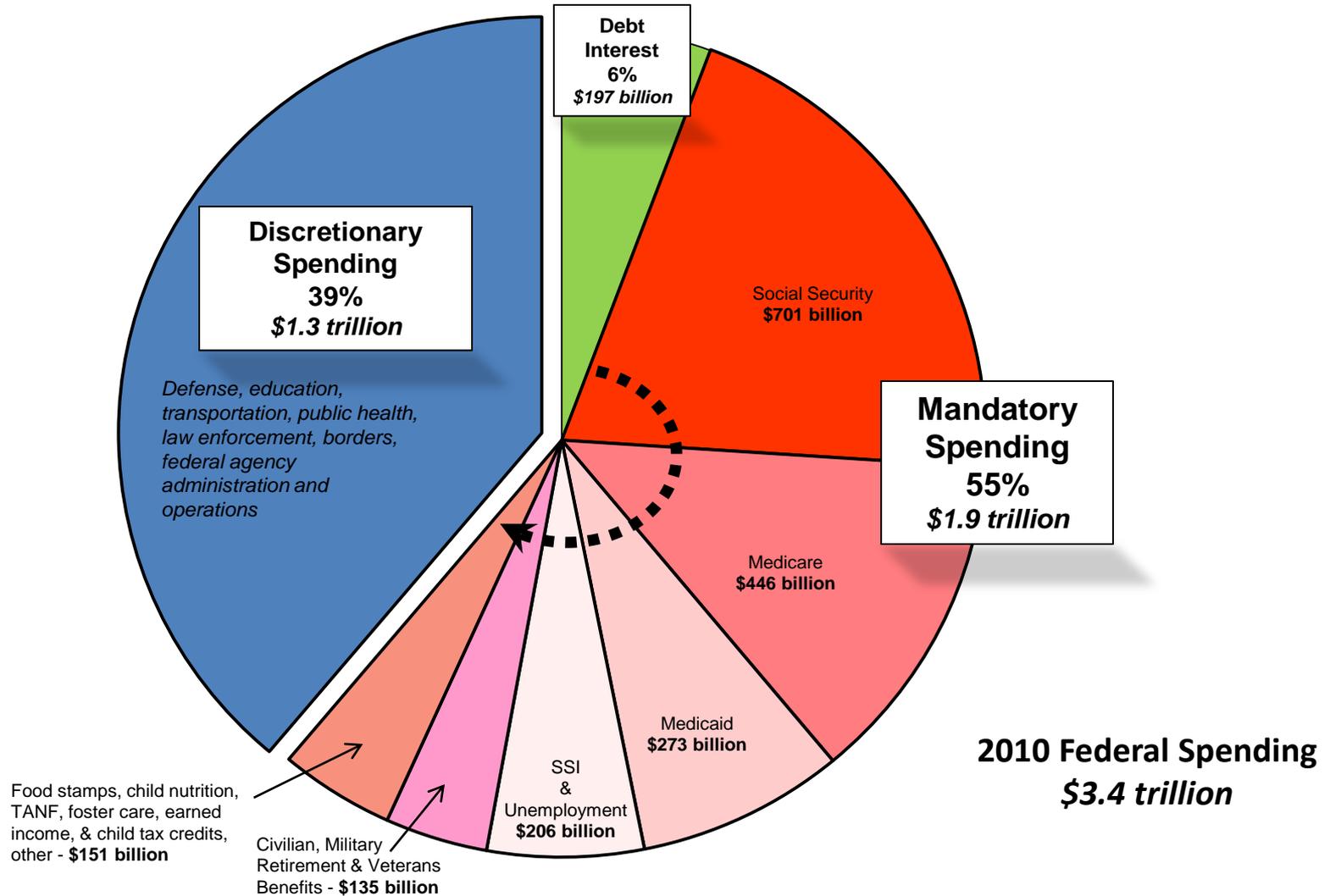
Mandatory vs Discretionary Spending Growth

Source: Congressional Budget Office (CBO) Data

- **Mandatory:** *Social Security, Medicare, Medicaid, unemployment, veterans, federal retirement and other eligibility driven spending*
- **Discretionary:** *Defense, education, transportation, public health, law enforcement, borders, federal agency administration and operations*
- **Net Debt Interest:** *Interest payments made on publicly held debt, less income from loans and investments*

Mandatory Spending is Growing 5X Faster Than Discretionary

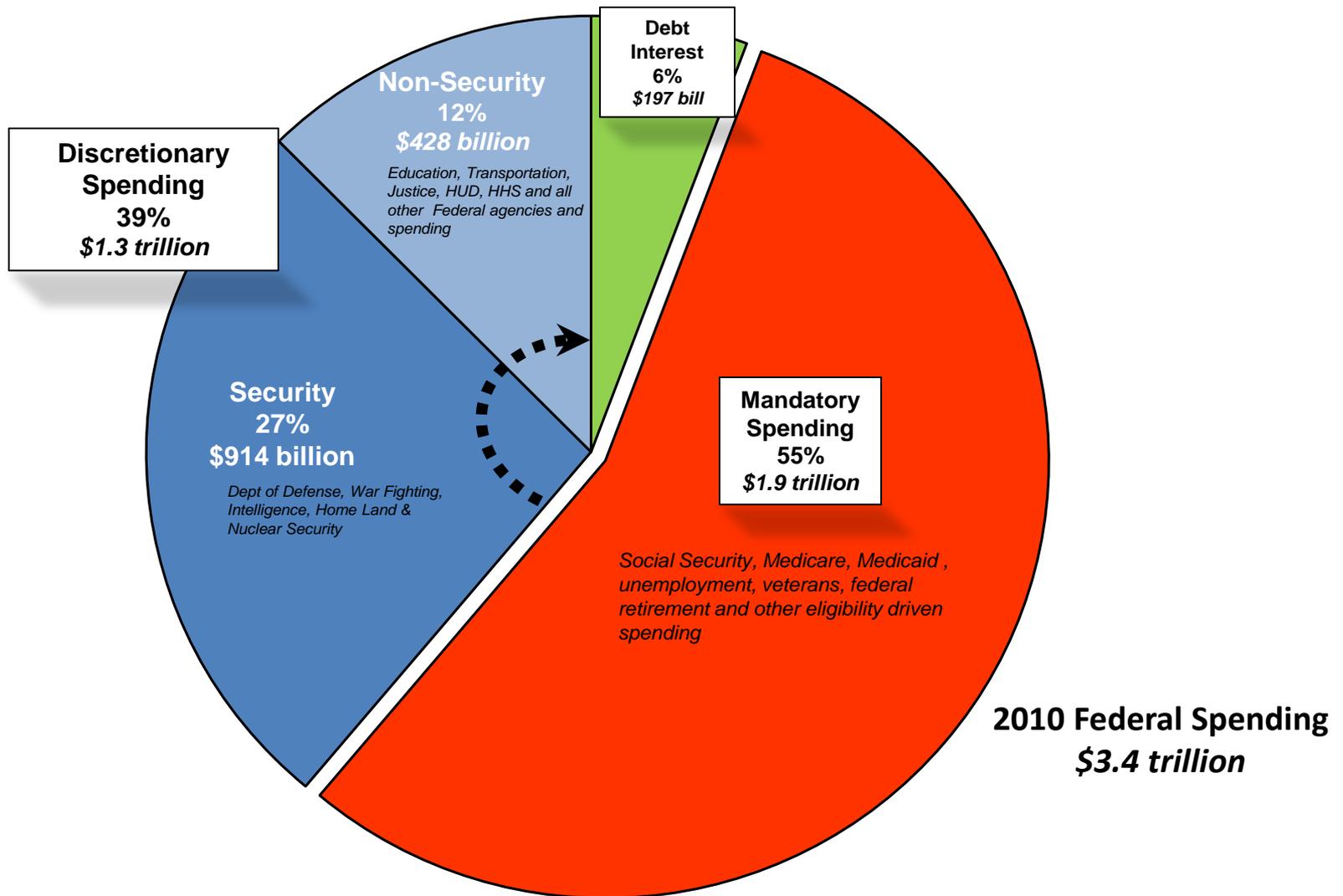
The Challenge: Mandatory Spending Growth



Source: Congressional Budget Office (CBO) Data

Over Half of the Federal Budget is on Autopilot

The Challenge: Discretionary Spending Being Compressed

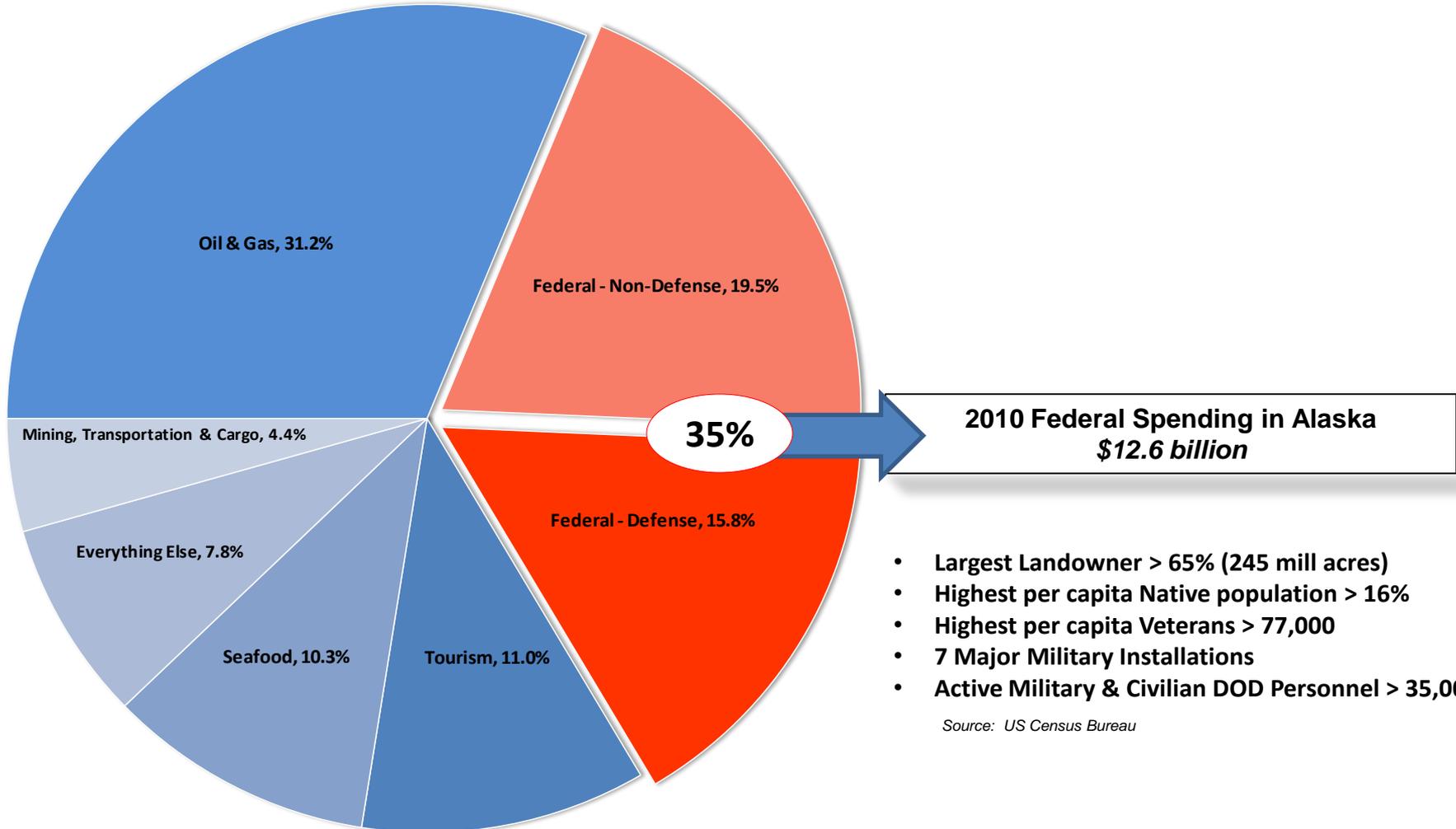


Source: Congressional Budget Office (CBO) Data

Only 39% of the Federal Budget is Annually Appropriated

Alaskan Impacts: *Federal Footprint*

Alaska's Economy (% contribution)



Source: UAA, Institute of Social & Economic Research

Source: US Census Bureau

Federal Government 35% of Alaskan Economy

Consequences of Inaction

Erosion of Leadership Credibility – at Home and Abroad

Loss of Faith in Our Ability to Govern

Lack of Consumer & Business Confidence

Financial Instability

- *Credit Downgrades*
- *Increased Borrowing Costs– Mortgage, Car, School, Credit Cards*

Crippling Multi-Generational Debt Burden

Inability to Meet Future Obligations

- *“By 2025 federal revenues will only be enough to pay for Medicare, Medicaid, Social Security and interest on our debt” - The President’s Fiscal Commission*

Washington Inaction Has Consequences for All Alaskans

- We have Significant Prior Initiatives to Draw From:
 1. President's Fiscal Commission (*Simpson/Bowles*)
 2. Debt Reduction Task Force (*Domenici/Rivlin*)
 3. Senate's Bipartisan "Gang of Six" (*Warner/Chambliss*)
- Different Approach but Same Conclusion - *We Need Immediate & Comprehensive Action:*
 - *Spending Caps & Budget Process Reform*
 - *Mandatory Spending Reform*
 - *Tax Reform*

A Substantial Body of Good Work Has Already Been Done

Solutions: Spending Caps & Budget Reform

- **Reset Discretionary Spending to 2008, Pre-Stimulus Levels**
(Simpson/Bowles)
- **Cap FY12/FY13 Spending** *(Budget Control Act, P.L. 112-25)*
- **Index Annual Spending Growth to Inflation or GDP**
(Simpson/Bowles, Domenici/Rivlin, Hatch - S.J.Res.3)
- **Balanced Budget Constitutional Amendment** *(Hatch – S.J.Res.3)*
- **Move to two-year, biennial budgeting** *(Domenici/Rivlin, Isakson – S.211)*

Cut & Control All Federal Spending Categories

Solutions: *Mandatory Spending Reform*

- ✓ **Protect Current Beneficiaries and Those Close to Eligibility**
- ✓ **Ensure Solvency & Sustainability for Future Retirees**
 - Index Annual Cost-of-Living Adjustments to More Accurately Reflect Out-of-Pocket Costs (*Simpson/Bowles, Domenici/Rivlin, Gang of Six*)
 - Gradually Raise Social Security Eligibility Age (*Hutchison - S. 1213, Graham – S.804*)
 - Match Medicare and Social Security Eligibility Age (*Simpson/Bowles, Domenici/Rivlin, Lieberman/Coburn*)
 - Initiate Financial Means Testing (*Simpson/Bowles, Domenici/Rivlin, Lieberman/Coburn*)

Restrain Program Growth to a Sustainable Level

Solutions: Tax Simplification & Reform

We need comprehensive reform that increases equity, efficiency and simplicity in our tax code

Individual *(Simpson/Bowles, Domenici/Rivlin, Gang of Six, Wyden/Coats)*

- Consolidate Number of Income Brackets
- Lower Tax Rates
- Modify Deductions & Credits

Corporate *(Simpson/Bowles, Domenici/Rivlin, Gang of Six, Wyden/Coats)*

- Reduce Overall Rate
- Limit Exclusions, Subsidies, Exemptions, Credits and Off-Sets

Tax Code is Too Complex Creating Uncertainty, Inefficiency & Inequity