NATIONAL ISSUES FORUMS

www.nifi.org

>>A Nation in Debt:

How Can We Pay the Bills?

DEBT BEGINS WITH EACH OF US. Every time we charge a meal or a home entertainment system, or take out a mortgage or car loan, we accumulate debt. By mid-2011, Americans held an estimated $13.4 trillion of personal debt.

The U.S. government owed even more in the summer of 2011—$14.3 trillion. The government owed so much that, in order for the nation to continue to function, the legal limit on the debt had to be increased again. Lengthy, often acrimonious, negotiations between political leaders went down to the 11th hour.

It's become apparent to many Americans that if we do not act decisively on the nation's debt soon, our economy will be seriously hobbled and we will dump an unsustainable burden on our children and grandchildren.

"What's decided (or not decided) over the next few years will spell big changes for the way we live our daily lives," write Scott Bittle and Jean Johnson in *Where Does the Money Go? Your Guided Tour to the Federal Budget Crisis*. "How the country solves or doesn't solve this problem will affect our paychecks, our investments, our mortgages, our kids' prospects in life, what kind of health care we'll get, our chances of ever getting to retire—even whether we live in a country that's fair, stable and prosperous."

Debts, Deficits

Most years, the U.S. government spends more than it earns in taxes. In the 2011 fiscal year, revenues were $1.9 trillion, while expenditures were estimated at $3 trillion—creating a $1.1 trillion deficit.

The terms *deficit* and *national debt* are not the same. When our government spends more than it takes in, it runs a *deficit*. To make up the difference, the country borrows money and this is added to the national *debt*.

The United States cannot just take out a bank loan when it needs to borrow money. Instead, it issues Treasury bonds—basically IOUs that are purchased by individuals, organizations, and other governments. When these bonds mature, the government pays back the money plus interest. U.S. bonds have been considered good investments—at least, so far.

Debt is not always a bad thing. The national debt rose and fell over much of our history.

A common way of measuring the size of a country's debt is to compare it to the entire economy, or Gross Domestic Product (GDP). As of early 2011, the U.S. national debt was 98 percent of our GDP.

Various solutions to the debt problem are often suggested. Most don't take into account the sheer size of the debt. Even if we completely eliminated the federal departments of Education, Energy, Agriculture, Transportation, Health and Human Services, and Housing and Urban Development, we would save less than $300 billion, but the annual deficit is about $1.1 trillion.

How much is a trillion? A million seconds is 11 1/2 days. A billion seconds is about 32 years. A trillion seconds is 32,000 years.

Federal Debt 1980-2012 in Trillions

Data: U.S. Office of Management and Budget

Why Worry?

Too much debt makes it harder for families and individuals to pay their bills, and it's no different for the nation. When someone goes into too much debt, lenders begin to doubt the borrower's ability to make payments. Creditors may refuse to lend any more money, or begin charging very high interest rates.

In August 2011, something similar happened to the United States, when the Standard & Poor's bond rating agency downgraded America's credit rating for the first time in history, from AAA to AA+. This was unprecedented and touched off dramatic gyrations in the stock market. If other agencies follow suit, the entire economy could be harmed for years.

"It will come with amazing swiftness," David Brooks wrote earlier in the *New York Times*. "The bond markets are with you until the second they are against you. When the psychology shifts and the fiscal crisis happens, the shock will be grievous: national humiliation, diminished power in the world, drastic cuts and spreading pain."

Furthermore, in 2011 about 47 percent of our debt was owned by foreign individuals and governments, including about 10 percent by the Chinese. The top foreign governments that own portions of the U.S. debt are, in descending order: China, Japan, and the United Kingdom. Nearly half of the interest payments on the public debt are flowing abroad, rather than staying in the United States.

A Framework for Deliberation

This issue book asks: What should we do about the national debt?

In addressing it, we have many things to consider and weigh. This book lays out three possible options to approach the national debt. Each suggests actions that we might take to address it, but every action has trade-offs we should consider.

By working through each option, we can come to our own individual and collective decisions about what we would support and under what conditions.

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 onto the website: **www.nifi.org**.

Other Topics and Ordering Information
Recent topics in this series include economic security, America's role in the world, health care, and education. For more information, please visit **www.nifi.org** or contact NIF Publications, 1800 N. Stonelake Drive, Bloomington, Indiana. Phone: 1-800-600-4060.

Writer: Tony Wharton, Noëlle McAfee
Executive Editor: Brad Rourke
Managing Editor: Ilse Tebbetts
Design and production: Long's Graphic Design, Inc.
Copy Editor: Lisa Boone-Berry

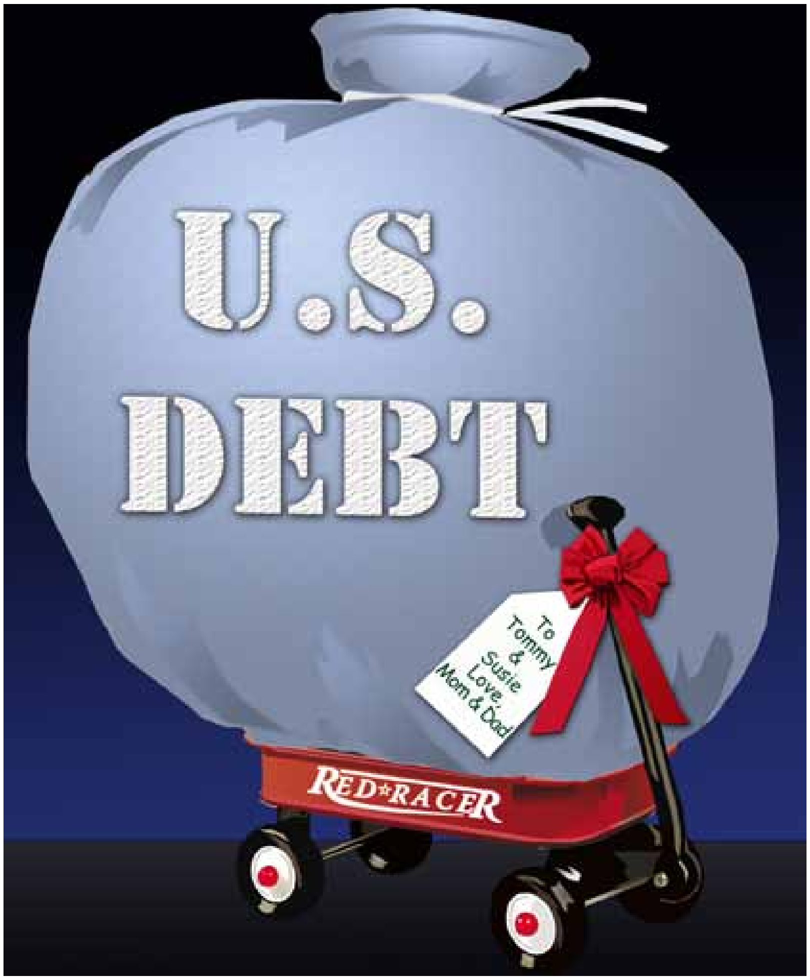
A Nation in Debt: How Can We Pay the Bills?

ISBN: 978-0-945639-51-7

Founded in 1927, the Kettering Foundation of Dayton, Ohio (with offices in Washington, D.C., and New York City), is a nonprofit, nonpartisan research institute that studies the public's role in democracy. It provides issue guides and other research for the National Issues Forums. For information about the Kettering Foundation, please visit **www.kettering.org** or contact the foundation at 200 Commons Road, Dayton, Ohio 45459-2799.

OPTION ONE

We need to compromise on our differences and act now to reduce the national debt. If this generation doesn't make needed sacrifices, we're simply passing the burden to the next generation. It's time to face this urgent problem. We need to raise taxes *and* cut spending; neither will get the job done alone.



>>Agree to Make Sacrifices Now

THIS FIRST OPTION HOLDS that the only responsible, fair way for us to get out of this hole is for this generation to make the broad-based sacrifices necessary to get a real handle on our national debt. This will require compromise. If ever there were a time for compromise, this is it.

"I view debt as a profound moral issue and a disgraceful breach of a core social contract between our generation and that of future generations, including our grandchildren's," retired economist Bob Tosterud wrote in the Dubuque, Iowa, *Telegraph-Herald*.

A February 2011 survey by the Pew Research Center found that a majority of those asked about increasing or decreasing spending on the major segments of our government's budget did not want to cut spending (although a few were more willing than had been two years earlier). At the same time, however, they wanted no tax increases.

In other words, we continue to imagine we can have our cake and eat it, too. "Basically we should all just look our kids in the eye and say, 'sorry, we wanted to spend a lot but not pay for it, so we are passing the bills onto you. Good luck with that,'" said Maya MacGuineas, president of the Committee for a Responsible Federal Budget, in testimony before a U.S. House budget committee.

This option says that those days are over. We will need to strike a compromise between paying more in taxes and accepting fewer benefits from the government. Until now, by pretending we can have low taxes and still afford generous programs, we've just been shifting today's burdensome decisions onto the shoulders of tomorrow's generations.

Each of us has faced the same choices in our family budgets. When it can't make ends meet, a family cuts expenses and, if at all possible, increases income. Some families facing shortfalls, like the nation, have turned to credit cards as a solution. But when credit card bills become a mountain of debt, families are in trouble.

The solution is a straightforward, but very painful compromise:

- Cut our government's spending—everywhere. That includes defense, salaries, Social Security, and Medicare. Each of us should share in the sacrifice needed to get our government's finances in order.
- At the same time, boost our government's revenue, or income. According to the nonprofit Tax Policy Center, U.S. taxes are lower than in most developed countries. We enjoy one of the lowest tax burdens in the world, yet we expect more and more in return. We can afford to increase taxes, according to this option.

Reform Social Security and Medicare

If we're serious about getting our financial house in order, according to this option, we urgently need reforms to Social Security and Medicare, two of our government's largest obligations.

Social Security and Medicare were financially sound through their first decades of life, largely because the post-World War II baby boom meant that much more was being paid into the funds than was being paid out. The problem is that as baby boomers begin to retire, that equation is reversing—less is being paid in than will need to be paid out. In the case of Medicare, rising health-care costs have exacerbated the problem.

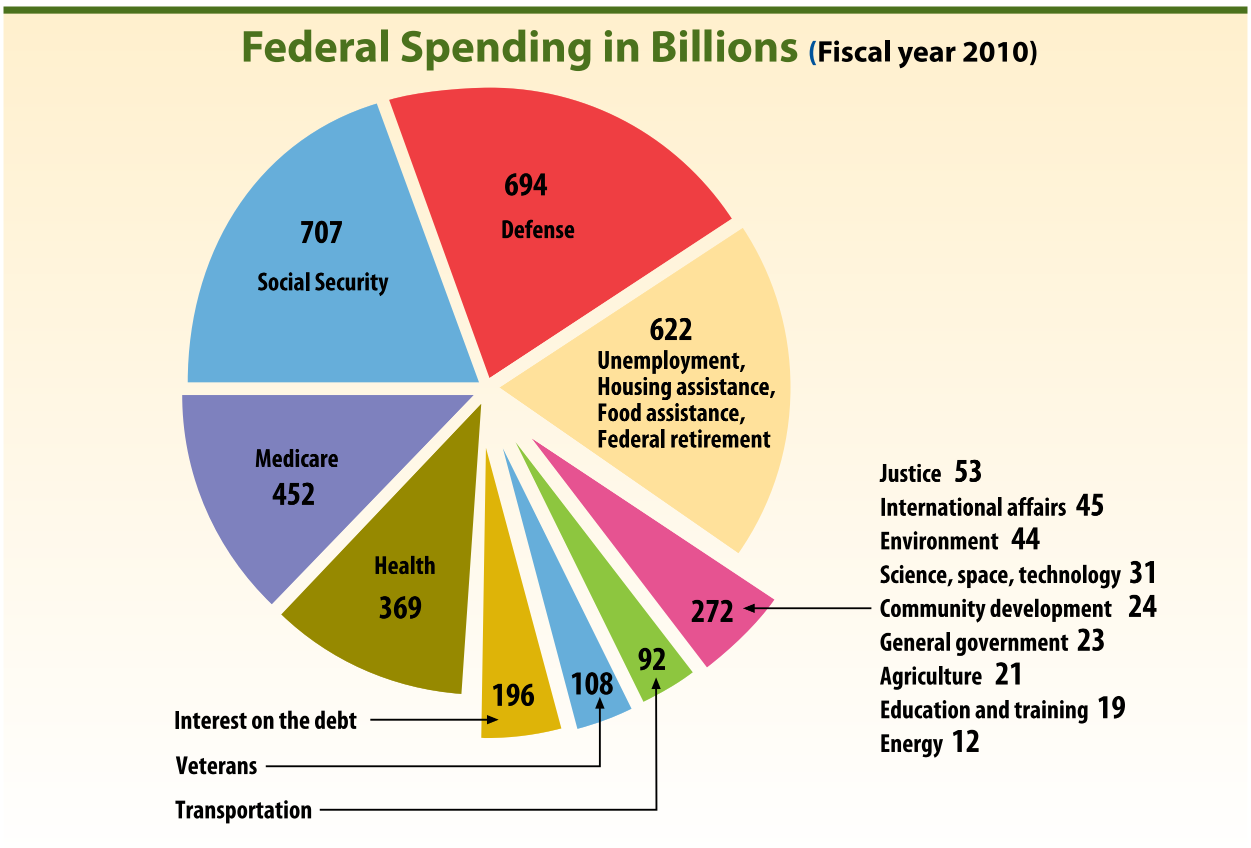
One very simple step for improving Social Security funding would be raising or eliminating the salary cap on contributions. The cap, which is $106,800 (in 2011) and rises with inflation, means that people making, say, $200,000, only pay Social Security tax on the first half of their income. (There is no similar cap on contributions to Medicare.)

According to this option, we also should raise the age at which people can begin drawing Social Security benefits. In 1983, Congress began adjusting full retirement age to reflect the fact that people are living longer now than when the program was created. However, you can still begin receiving partial benefits at age 62. That age should be at least 64, and we should raise the age at which people can retire with full benefits to 69.

This means all of us would be accepting a sacrifice—fewer benefits and a longer time spent working.

Medicare, like Social Security, faces insolvency because so many baby boomers are retiring in the next 20 years. But Medicare has the added disadvantage of steadily rising health-care costs.

New Yorker writer and surgeon Atul Gawande, looking at high health-care costs in one Texas city in 2009, found that doctors were ordering more tests on patients than in most other places—without any apparent improvement in local residents' health. He found that the best health care was in parts of the country where preventive medicine was the norm, not where more expensive tests were ordered.



Source: U.S. Budget, FY2012

That kind of knowledge needs to be brought to bear on the health-care system, which is putting rapidly increasing pressure on the federal budget.

Raise Revenue

Americans enjoy some of the lowest individual tax rates in the developed world. The Organization for Economic Co-operation and Development calculated that Americans send 24.7 cents of every dollar to some form of government; in France that figure is 27.8 cents and in Germany, 42.7 cents.

As recently as 1981, the highest tax rate on individuals was 70 percent, for couples making $215,000 and above. In the 1950s, the highest rate was 92 percent. While no one is suggesting returning to those rates, the highest tax rate for 2011 was just 35 percent.

We have room to raise tax revenues, according to this option, and it should be done across the board. Everyone should share in the sacrifices we need to make. One alternative is a national sales tax, sometimes also called a value-added tax, or VAT, which is used widely around the world.

At the same time, we could reduce or eliminate the tax breaks for home mortgage interest and having children, as well as the pre-tax savings provided for 401(k) contributions. We simply can't afford those anymore.

Cut Federal Spending Everywhere

According to this option, we also have to accept fewer "goodies" from the government. Some rich uncle isn't paying for all those benefits—we are. Seriously cutting expenditures will have the dual effect of reducing debt and also reducing the size of government to a sustainable level.

Our first step should be a cut of, say, 10 percent from every agency budget. The exact number isn't the point. We just need to start facing the reality that cuts must be made everywhere. In addition, there are a number of specific places to look if we are to begin cutting spending.

For one thing, there is still $45 billion unspent from the economic stimulus packages passed during the recession. One proposal would be to save the rest of it—although this would only make a small dent in a $1.1 trillion annual deficit.

We can also examine the defense budget more closely. Defense spending is estimated at about 19 percent of the federal budget (the cost of the wars in Iraq and Afghanistan through 2011 are estimated at $1.2 trillion). However, when the Secretary of Defense recommends ending a program, as Secretary Robert Gates did in early 2011 with the "alternate engine" project for a new jet —and Congress resists his recommendation— it shows how hard it can be to curtail defense spending.

Defense projects bring jobs and money to many congressional districts, projects that are hard to criticize because it seems unpatriotic. Yet there must be some reasonable limit to defense spending.

We could also take a look at the farm-subsidy program, which costs taxpayers $20 billion to $35 billion a year.

The Environmental Working Group, a nonpartisan Washington watchdog, reported in 2010 that the wealthiest 10 percent of farm businesses received three-fourths of the farm-subsidy dollars from 1995-2010, for a total of $165.9 billion, and 62 percent of farmers received no subsidy at all.

Taking action on defense spending and farm subsidies won't be nearly enough on their own to fix the national debt. But they are examples of the ways we can start examining how we really need to spend our money.

What We Could Do

The problem, according to Option One, is that no one seems willing to compromise to make the hard budget choices necessary for fiscal responsibility. Here are some actions that this option suggests, along with some of the drawbacks:

- Lawmakers could increase the retirement age for Social Security benefits and raise the taxable maximum for Social Security.

    But *this would compel people to work longer, for less money, and tie up jobs needed for young people entering the workforce.*

- Each of us, instead of protesting cuts in benefits and programs, can embrace shared sacrifice as a necessary cost of tackling the national debt.

    But *this means each of us would have to get by with less assistance. More of us will have to work multiple jobs, postpone college, live with relatives, or make do with one car.*

- Federal, state, and local governments should increase tax rates across the board, instead of borrowing more money.

    But *this may push the country into another recession. It would reduce the incomes of families and may undermine productivity and slow innovation.*

- To ensure that everyone contributes at least something to the solution of the problem, the federal government could impose a national sales tax.

    But *taking more money out of individuals' pockets could hamper the nation's recovery and disproportionately affect those with the least income.*

- The federal government can reduce or eliminate the tax breaks for mortgage interest, 401(k) contributions, and having children.

    But *this could lower home values and it would remove incentives for home ownership and saving for retirement.*

- Congress can reduce defense spending, farm subsidies, and other parts of the budget we can't afford anymore.

    But *a reduced defense budget would leave the United States more vulnerable in an increasingly volatile world. Loss of farm subsidies may drive farmers out of business.*

We cannot just hope that personal discipline and basic legislative safeguards will control the urge to spend. Citizens willingly accept more benefits than government can afford, and our leaders are too willing to help us dig this hole. Our top priority should be to make systemic changes to increase fiscal responsibility.

>>Strengthen Checks and Balances

BECAUSE PEOPLE ARE NOT always perfect, many checks and balances were built into our government. But those safeguards do not seem to be controlling the urge to spend.

As a recent editorial in the *Economist* magazine said, "American politicians of both parties are still feeding chocolate to the electorate, and getting them onto a gruel-based regime looks harder than ever."

We willingly accept more benefits from the government than the nation can afford, and the two main political parties, instead of reining each other in, have been too willing to help us dig this hole. The trend is unsustainable.

Option Two suggests that we can't just rely on personal discipline, in ourselves or in our leaders. We need laws and procedures that compel us, through our representatives, to reduce spending and impose greater accountability and fiscal responsibility in government.

This option would not end deficits and erase the debt immediately—no solution will. But, just like a family that finds it has more income as it pays down the bills, we would make steadily faster progress.

In some cases, the tools are already there, but have been laid aside by Congress. We need to pick them up again and put them to use.

Pass a Balanced-Budget Amendment

One important safeguard, according to this option, would be to go back to the blueprint of our government, the Constitution, and enact a balanced-budget amendment. This would mean that the nation could not run a deficit. Borrowing simply would not be an option. Nearly every U.S. state has such a requirement, but the federal government does not (some founders considered the idea, but it didn't seem critical then).

There have been many proposals for a balanced-budget amendment. In February 2011, several U.S. senators, both Republicans and Democrats, endorsed such a proposal.

"I've long gone by the saying, if you find yourself in a hole, stop digging," said U.S. Senator Mark Udall of Colorado, who joined Senator Richard Shelby of Alabama in cosponsoring the amendment. "This amendment would send a strong signal to the financial markets, U.S. businesses, and the American people that we are serious about stabilizing our economy for the long term."

Approving an amendment to the Constitution is a lengthy process, for good reason, so this would be a long-term solution. Going from the current $1.1 trillion annual deficit to a balanced budget in one year would be wrenching to the national economy. So, this option holds that we still need to take other steps, such as those outlined elsewhere in this section, to begin dealing with the debt *now*. But a balanced-budget amendment in the long run could prevent the United States from sliding into this fiscal quagmire again.

Time—Again—for "Pay-as-You-Go"

Another way to control spending is a so-called "pay-as-you-go" requirement, which means the government can't approve any program or expenditure without showing how we would pay for it. Nearly every state has this requirement for its own budget, according to the National Conference of State Legislatures.

Pay-as-you-go fits into Option Two's approach, which is to build more legal controls and mechanisms into our government to manage spending, rather than simply changing policies. It sounds obvious, but as the habit of deficit spending has taken hold, the basic safeguard of pay-as-you-go has been disregarded.

"What we really need to do is not focus as much on the short term deficits, but put mechanisms in place to deal with the true threat that's structural," said David M. Walker, the federal government's former chief auditor. "We need real pay-as-you-go rules on the spending and tax side that eliminate the trillions of dollars of loopholes."

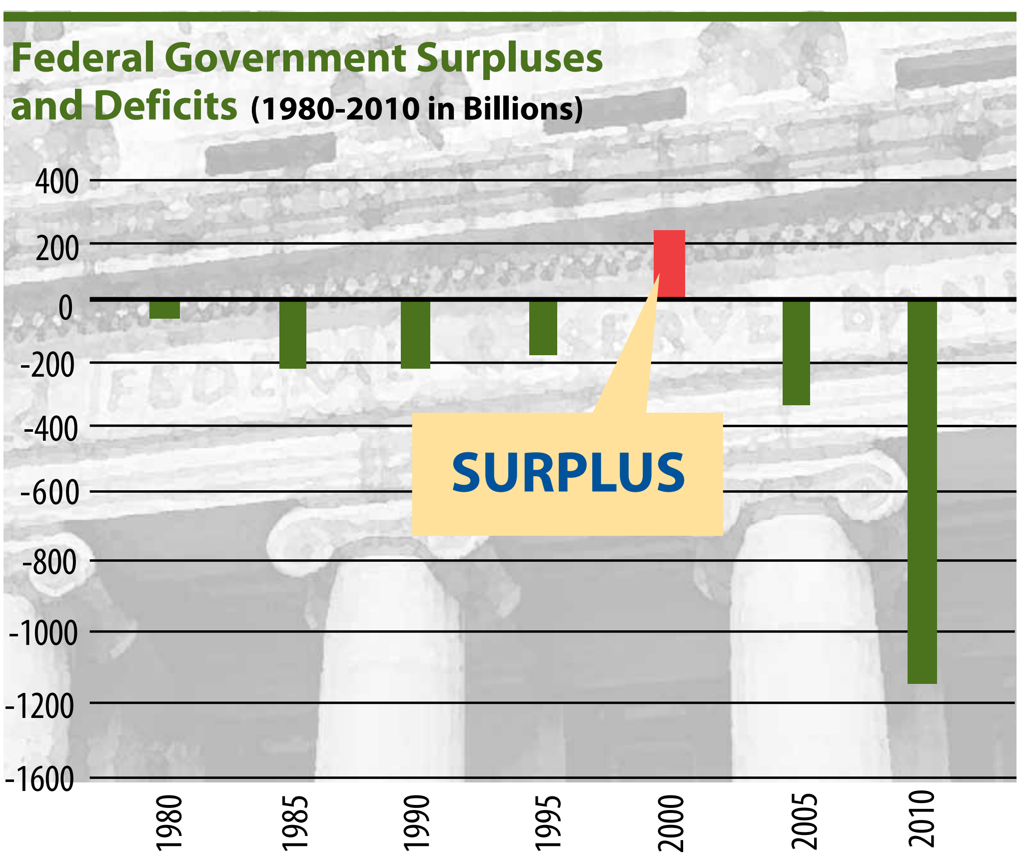
This option would require all spending by the federal government to fall under pay-as-you-go and make it stick. Pay-as-you-go was first enacted in 1990, and in the ensuing decade, the federal deficit shrank until it actually became a surplus (we still had a national debt, but it grew more slowly in that decade).

However, in the late 1990s the government began finding ways around pay-as-you-go, and in 2002 it was allowed to expire completely. It was signed into law again in 2010, but with multiple exemptions that prevented the law from working as it should. A real pay-as-you-go law would mean that no legislation could be approved without a detailed explanation of the means to pay for it.

Riding into the Sunset

Even if we build in requirements that identify where the money is coming from, how do we keep the government from spending money on bad ideas and inefficient programs? One method is through "sunset" requirements, which set expiration dates in the original legislation for a program or an agency. The government must review the expenditure at that point to ensure it deserves to continue.

"The origin of the idea for sunset laws can be traced back to Thomas Jefferson who said 'every law naturally expires every nineteen years,'" wrote Massachusetts State



Data: U.S. Office of Management and Budget

Senator Richard T. Moore in the *MetroWest Daily News* in Framingham, Massachusetts. "Each agency and program needs to review its mission and justify its performance to the taxpayers."

Some states already use the sunset requirement. Texas, in particular, has abolished 58 government agencies or commissions since that state instituted sunset requirements in 1977, and one estimate places the savings since then at nearly $800 million. This is an example that could be emulated in other states and localities, as well as on the national level.

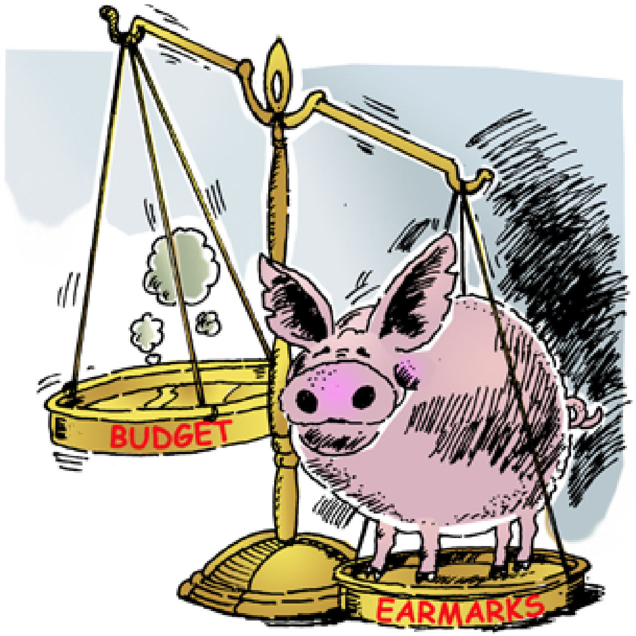
Permanently Ban "Earmarks"

"Earmarking" is the nickname used in Congress for the practice of directing part of a spending bill to the representative's home district or state, typically putting money into a particular project or agency. Most of us just call it "pork." No one knows exactly how much earmarks have cost, but the *Washington Post* estimated that a December 2010 spending bill contained more than 6,000 earmarks totaling $8 billion.

While that's a drop in the bucket of the annual deficit, it indicates the attitude of both members of Congress and taxpayers toward the federal government—that it is an endless, painless source of dollars.

Where do these earmarks begin? Much of the time, they begin with citizens. Through state and local governments and nonprofit groups, we ask our representatives for money for various projects—and we don't ask how they get it for us.

"Part of the inherent problem, of course, is that for so many years as voters we have judged our federal lawmakers largely based on how much pork they can bring home," said an editorial in the Casper, Wyoming, *Star-Tribune*. "But that pork has become increasingly bad for our country's fiscal health."



In early 2011, Congress succeeded in temporarily banning earmarks. That needs to become permanent. Furthermore, the account set up to provide cash for those earmarks, which held billions of dollars, should be abolished.

What We Could Do

Option Two holds that the national debt is out of control because the basic restraining mechanisms of government are broken or nonexistent. Here are some things that this option suggests we could do, along with some of the drawbacks:

- We could pass a balanced-budget amendment to the Constitution.

  But *this would result in immediate and deep cuts in programs in order to bring the budget into balance. We would make it more difficult to operate our government.*

- Legislators can reinstate pay-as-you-go and make it permanent, requiring the government to say how it will pay for any new program or expenditure.

  But *we lose some of our ability to meet unexpected needs or invest in strategic resources. It also would probably lead to extensive layoffs.*

- Budget rules could require a sunset date for programs and agencies, forcing Congress, as well as states and local governments, to review them for effectiveness.

  But *controversial programs, even those that work well, would end up being debated over and over again. Officials will spend more time justifying programs' existence, which means less time doing their jobs.*

- Congress can permanently ban earmarks, which allow legislators to insert into new bills specific items that benefit their own states or districts; this law would also shut down the congressional accounts that pay for them.

  But *many cities and neighborhoods would lose what is sometimes their only source of funding for worthy projects.*

- Public officials at all levels—local, state, and federal—can start by spending only what our government can pay for.

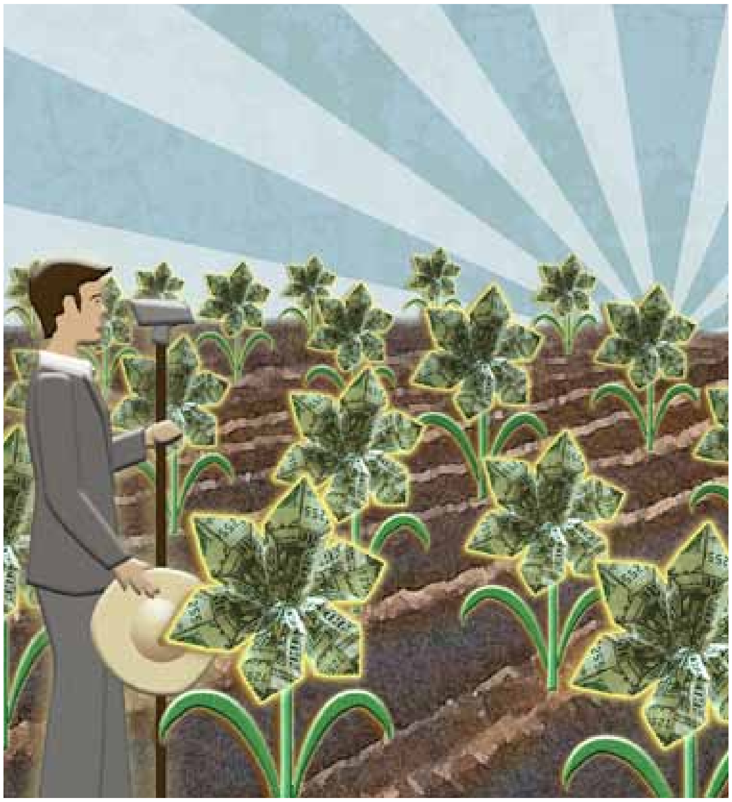
  But *this would make it impossible for our representatives to invest in long-range goals, such as road construction, that could reasonably be financed through debt.*

- Government can shed functions that could be better run privately, so that they pay their own way.

  But *some citizens could lose access to services if efficiency and profits become a higher priority.*

OPTION THREE

We need to encourage economic growth by investing in research, development, infrastructure, and science education. Growing the economy will boost tax revenues, make the debt more manageable, and will be better for the country in the long run. Drastic cost-cutting measures would likely harm the economy as it tries to recover.



>>Invest in Growth First

THE U.S. ECONOMY is the world's largest, by far, with immense resources and potential. Option Three suggests we should not panic over the debt and risk impeding our recovery from the current recession, but rather use our economic power to help control the debt.

Growing the economy—making the pie larger—will make the existing debt smaller relative to GDP and easier to shrink through increased tax revenues. Investing for the future and encouraging entrepreneurship will make us stronger in the long run.

This option may in fact mean some cost up front, but it is critical that we balance deficit reduction against the real needs of our nation for job creation and investment in the future. Targeted spending now can reap significant rewards later.

When reducing the debt, Option Three suggests, we need to place a high priority on economic growth through innovation, physical and digital infrastructure, and education if we want our children to live in a nation that's more financially fit. This is a long-term strategy, since economic growth does not occur overnight, but it is the best one for the future.

"If the economy grew one half of a percentage point faster than forecast each year over the next two decades—no easy feat, to be fair—the country would have to do roughly 40 to 50 percent less deficit-cutting than it now appears," wrote David Leonhardt in the *New York Times*.

Reduce the Corporate Tax Rate

According to a study by PriceWaterhouseCoopers, only five nations have higher effective corporate tax rates than the United States. We should reduce the corporate tax rate to improve the economy. Some estimates have found that $1 trillion would flow back into the economy if the corporate tax rate were reduced to 25 percent.

"Our high corporate tax rate scares away investment in new factories, makes it difficult for U.S. companies to compete in foreign markets, and provides strong incentives for corporations to avoid and evade taxes," wrote Chris Edwards of the Cato Institute.

Lowering the corporate tax rate is not as painful a prospect for the government as it once was. The share of federal revenues from corporate taxes has shrunk from more than 20 percent in the 1960s to less than 10 percent today, the U.S. Treasury reports.

Reducing the corporate tax rate, say people who favor this option, is a straightforward way to invite new investment in jobs and factories in the United States, a fundamental path to growing the economy. It also sends a strong signal that we are serious about attracting and nurturing business.

We also could promote business growth and job creation by suspending or reducing payroll taxes for new businesses for two years. A study by the National Bureau of Economic Research found that new companies were responsible for much of the job creation in our economy.

Encourage Research and Development

Innovation is one of the keys to America's prosperity, yet we are in danger of losing that asset. Option Three would include strong measures to reverse that trend.

In 2009, the Information Technology and Innovation Foundation reported that the United States ranked just sixth among the world's nations in terms of innovation and competitiveness. The foundation looked at indicators like venture capital investment, number of science researchers, and spending on research and education.

Worse, the United States showed no progress on those indicators over the last decade.

This option holds that the innovation, research, and development that will drive economic growth is a critical area for investment. It will accelerate growth and help the United States catch up to the nations that have forged ahead of us in recent years.

One step would be to increase and make permanent the federal tax credit for research and development by U.S. companies. The credit now covers 14 percent of qualified research, but only after a complex formula is applied. If we are serious about encouraging innovation, we should increase the credit to at least 20 percent and simplify its application.

At the same time, U.S. companies can make their own contributions to this effort. In early 2011, it was estimated that American businesses were holding at least $1 trillion in cash reserves. Some of that could easily be plowed into research—which would create new jobs in R&D and other categories—without harming their financial standing.

Get More Young People into Science

"Human capital" is one key to the approach taken by Option Three. We owe our strength and our competitiveness to the brains and hard work of our citizens. The more young people we can entice into science and engineering careers, the better.

We can begin by getting serious about math and science education in grade schools. School boards can require more math and science courses in grades K-12 and make hiring math and science teachers a priority.

That also means higher education has to be accessible and affordable. The rate of increase in four-year college tuition, according to the College Board, exceeded not only the cost of living, but also the increase in medical costs over the last 30 years.

This is an area in which both public and private money can have an impact. Warren Buffett made news in 2010 by persuading some of his fellow billionaires to give most of their wealth away. Creating full-ride scholarships in the STEM fields—science, technology, engineering and mathematics—would have a huge positive impact on young people's lives and on our nation's future.

Every American can contribute to this effort. Parents can urge their children to pursue science and math careers. You can contribute by volunteering at local schools, by donating to organizations that distribute scholarships, or even by setting up a scholarship program.

What We Could Do

Option Three proposes that we reduce the debt by investing more aggressively in growing the economy, which would bring in more revenues and make the debt relatively smaller. Here are some things that this option suggests we could do, along with some of the drawbacks:

- The federal government can grow the economy and spur job creation by direct spending, or stimulus, and through tax policy.

  But *a long-term growth strategy such as this risks economic turmoil by failing to tackle the debt immediately.*

- Congress could reward innovation by increasing the federal research credit for businesses from 14 percent to 20 percent.

  But *spending more money or enlarging tax breaks would produce higher deficits unless other needed programs were cut.*

- Both federal student loan programs and private scholarship funds could encourage more young people to seek science and engineering degrees and make college more affordable.

  But *this could ultimately lead to shortages in other important professions like medicine, and create a surplus of science graduates that may drive down salaries in the field.*

- We can reduce the corporate tax rate.

  But *this would bring less money to the government in the short term. Corporations could put savings in the bank instead of spending them to boost the economy.*

- Congress could reduce or suspend payroll taxes for new businesses for two years to encourage entrepreneurship.

  But *this would increase the current deficit, and new business owners could just pocket the difference.*

- Corporations, which now hold more than $1 trillion in cash reserves, could add workers and spend more on research and development.

  But *companies would have a smaller cushion to fall back on in another downturn and might then have to lay off more employees.*

>>A Nation in Debt

How Can We Pay the Bills?

DEBT BEGINS WITH EACH OF US. Every time we charge a meal or a home entertainment system, or take out a mortgage, we accumulate debt. Sometimes we pay off the debt; sometimes we don't. By mid-2011, Americans held an estimated $13.4 trillion of personal debt.

The federal government owed even more in the summer of 2011—$14.3 trillion. In addition, state and local governments have about $2.8 trillion in outstanding debt.

Too much debt makes it harder for families and individuals to buy a house or a car or pay their bills, and it's no different for the nation. We are putting our national prosperity in jeopardy. If we pile up too much debt, financial markets here and abroad could decide the United States is a bad risk. This would lead to devastating consequences for all of us.

As a country, we continue to spend more than we bring in, and the extent to which we have done so is alarming. This issue book asks: What should we do about the national debt?

OPTION ONE

Agree to Make Sacrifices Now

We need to compromise on our differences and act now to reduce the national debt. If this generation doesn't make needed sacrifices, we're simply passing the burden to the next generation. It's time to face this urgent problem. We need to raise taxes *and* cut spending; neither will get the job done alone.

EXAMPLES OF WHAT MIGHT BE DONE	SOME CONSEQUENCES AND TRADE-OFFS TO CONSIDER
Lawmakers could increase the retirement age for Social Security benefits and raise the taxable maximum for Social Security.	This would compel people to work longer, for less money, and tie up jobs needed for young people entering the workforce.
Each of us, instead of protesting cuts in benefits and programs, can embrace shared sacrifice as a necessary cost of tackling the national debt.	Each of us would have to get by with less assistance. More of us will have to work multiple jobs, postpone college, live with relatives, or make do with one car.
Federal, state, and local governments should increase tax rates across the board, instead of borrowing more money.	This may push the country into another recession. It would reduce the incomes of families and may undermine productivity and slow innovation.
To ensure that everyone contributes at least something to the solution of the problem, the federal government could impose a national sales tax.	Taking more money out of individuals' pockets could hamper our recovery and disproportionately affect those with the least income.
The federal government can reduce or eliminate the tax breaks for mortgage interest, 401(k) contributions, and having children.	This could lower home values and it would remove incentives for home ownership and saving for retirement.
Congress can reduce defense spending, farm subsidies, and other parts of the budget we can't afford anymore.	A reduced defense budget would leave the United States more vulnerable in an increasingly volatile world. Loss of farm subsidies may drive farmers out of business.

OPTION TWO

Strengthen Checks and Balances

We cannot just hope that personal discipline and basic legislative safeguards will control the urge to spend. Citizens willingly accept more benefits than government can afford and leaders are too willing to help us dig this hole. Our top priority should be to make systemic changes to increase fiscal responsibility.

EXAMPLES OF WHAT MIGHT BE DONE	SOME CONSEQUENCES AND TRADE-OFFS TO CONSIDER
We could pass a balanced-budget amendment to the Constitution.	This would result in immediate and deep cuts in programs in order to bring the budget into balance. We would make it more difficult to operate our government.
Legislators can reinstate pay-as-you-go and make it permanent, requiring the government to say how it will pay for any new program or expenditure.	We lose some of our ability to meet unexpected needs or invest in strategic resources. It also probably would lead to extensive layoffs.
Budget rules could require a sunset date for programs and agencies, forcing Congress, as well as states and local governments, to review them for effectiveness.	Controversial programs that work well would end up being debated over and over again. Officials will spend more time justifying programs' existence, which means less time doing their jobs.
Congress can permanently ban earmarks, which allow legislators to insert into new bills specific items that benefit their own districts; this law would also shut down the congressional accounts that pay for them.	Many cities and neighborhoods would lose what is sometimes their only source of funding for worthy projects.
Public officials at all levels—local, state, and federal—can pledge to spend only what our government can pay for.	This would make it impossible for our representatives to invest in long-range goals, such as road construction, that could reasonably be financed through debt.
Government can shed functions that could be better run privately, forcing them to be managed so that they pay their own way.	Some citizens could lose access to services if efficiency and profits become a higher priority.

OPTION THREE

Invest in Growth First

We need to encourage economic growth and invest in research, development, infrastructure, and science education. Growing the economy will boost tax revenues, make the debt more manageable, and will be better for the country in the long run. Drastic cost-cutting measures would likely harm the economy as it tries to recover.

EXAMPLES OF WHAT MIGHT BE DONE	SOME CONSEQUENCES AND TRADE-OFFS TO CONSIDER
The federal government can grow the economy and spur job creation by direct spending, or stimulus, and through tax policy.	A long-term strategy such as this risks economic turmoil by not tackling the debt immediately.
Congress could increase the federal research credit for businesses from 14 percent to 20 percent, rewarding innovation.	Spending more money or enlarging tax breaks would produce higher deficits unless other needed programs were cut.
Both federal student loan programs and private scholarship funds could encourage more young people to seek science and engineering degrees and make college more affordable.	This could ultimately lead to shortages in other important professions like medicine and create a surplus of science graduates, which may drive down salaries in the field.
We can reduce the corporate tax rate.	This would bring less money to the government in the short term. Corporations could put their savings in the bank instead of spending them to boost the economy.
Congress could reduce or suspend payroll taxes for new businesses for two years to encourage entrepreneurship.	This would increase the current deficit, and new business owners could just pocket the difference.
Corporations, which now hold more than $1 trillion in cash reserves, could add workers and spend more on research and development.	Companies would have a smaller cushion to fall back on in another downturn and might have to lay off more employees.