

ADDRESSING THE UNITED STATES DEBT AND DEFICIT

BY

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USAWC STRATEGY RESEARCH PROJECT

ADDRESSING THE UNITED STATES DEBT AND DEFICIT

by

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ABSTRACT

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This paper discusses the strategic significance of dealing effectively with the American debt and deficit, by first describing the background of our current government approach to the economy, then examining the current projections for United States' spending from 2009 through 2019 and examining what the future will bring by reviewing anticipated American demographic changes. The paper continues with a description of the passages of the economic labyrinth and concludes by discussing opportunities to successfully address the challenges that have been brought to Americans by the national deficit and debt. While a number of alternatives are available today to address the problem of deficit financing and the associated debt in a positive manner and thereby strengthen the economy of the United States, this paper concludes with three examples that are predicated on the synergistic benefits associated with small reforms.

ADDRESSING THE UNITED STATES DEBT AND DEFICIT

The United States' economy faced greater challenges at the end of fiscal year 2008 and throughout fiscal year 2009 than at any other time since the Great Depression. Hardly a day went by without the media featuring a news story concerning the United States Government's efforts to stabilize the financial system with a "bailout" for an industry or a stimulus plan for the economy. The United States Government repeatedly provided massive amounts of capital to entire industries, such as the automotive industry, and the Congress passed multiple stimulus packages for infrastructure and for individuals, including those receiving Social Security payments and wage earners. The "bailout" spending and the stimulus spending were efforts to stabilize the United States' fiscal position and avert another Great Depression. The problems which became acute and highly visible in 2008 and 2009 are the consequences of earlier United States Government policies.¹ Particularly for the past decade, government policies have resulted in the exceptionally rapid growth of the national debt.² As the United States fiscal system and economy slowly recover from this debt growth, both our government and our people need to recognize the threat that the national debt and deficit spending pose to both the near term and the long term viability of the American economy and to develop a strategic perspective followed by a realistic plan to address the issue.

Multiple federal government agencies, including the Government Accountability Office (GAO), the Congressional Budget Office (CBO), the Office of Management and Budget (OMB), and the Department of Treasury have reported that the federal government and the country are facing near and long term challenges brought about by

the mounting national debt and deficit spending.³ The Comptroller General of the United States reported to Congress in 2007 that “it seems clear that our nation is on an imprudent and unsustainable long term fiscal path that is getting worse with the passage of time.”⁴ In 2009, the CBO Director, based on analysis of government planning budgets, debt data, and debt analysis, stated to Congress that the United States is on a fiscally “unsustainable” path.⁵ These agencies have reported that the federal government and the American people are facing a series of current critical financial challenges and that the existing deficit and national debt restrict our ability to address these critical challenges. The agencies forecast that, under current law, sometime between 2030 and 2040, mandatory spending (Social Security, Medicare, Medicaid, and interest on the national debt) will exceed total tax revenue. In other words, discretionary spending (e.g., defense, homeland security, education, etc.) will, in totality, be funded through deficits that will grow each year solely to fulfill current requirements of these discretionary programs.⁶ Mr. Richard Berner, a Managing Director and Co-Head of Global Economics at Morgan Stanley, stated in July 2009 that “America’s long-awaited fiscal train wreck is now underway.”⁷

In discussing the strategic significance of dealing effectively with the American debt and deficit, this paper first describes the background of our current government approach to the economy, then discusses the current projections for United States’ spending from 2009 through 2019, and continues by discussing what the future will bring by examining anticipated American demographic changes. This is followed by a description of the passages of the economic labyrinth and concludes by discussing opportunities to successfully address the challenges that have been brought to

Americans by the national deficit and debt. While a number of alternatives are available today to address the problem of deficit financing and the associated debt in a positive manner and thereby strengthen the economy of the United States, this paper concludes with three examples. These examples are predicated on the synergistic benefits associated with small reforms and describe the impacts of utilizing a more progressive Social Security tax system, the impacts of small modifications in Social Security policy that can positively impact both the financial economy and the social economy, and the importance of policies supporting technology development.

As time passes, the United States will have fewer and fewer options and the need for change will, inevitably, become more and more urgent with unexpected potential or actual financial collapses occurring with ever shorter intervening periods. To compound and add urgency to the problem, as time passes, the options that have the potential to provide relief will become less effective.

Background

The CBO reports that the “current recession has been the most severe in the United States since the 1930s.” The CBO continues by stating that the United States Gross Domestic Product (GDP) has contracted by 3.7 percent and employment has been reduced by 6.7 million jobs since December 2007. In its forecast for 2010, the CBO predicts that the GDP will begin to expand and continue to expand in 2011. The CBO predicts, however, that employment will continue to fall through 2010 and will not begin recovering until 2011. CBO acknowledges greater uncertainty with this prognostication than usual for three primary reasons. First, the current financial turmoil is nearly unprecedented. Second, the Government response is unprecedented. Third, the loss of wealth by the American people in their homes and equity holdings is

documented, but the associated adjustment to their savings and spending patterns is uncertain.⁸ Furthermore, the complex and critical relationships of the global economy to the United States' economy add significant uncertainty to economic prognostications because it is unknown how our national economy will respond to the changing economic policies of our worldwide trading partners.

Adding to the uncertainty about current national economic forecasts is the change in the economic philosophy of the United States Government from a new classical approach to a Keynesian approach. The fundamental principle of the new classical economic approach is the belief that a free market, based on unfettered supply and demand in all markets, including labor, will most efficiently guide all markets into the state of balance that is necessary for a stable, growth oriented economy. New classical economists believe that market problems, like unemployment, arise only because of market imperfections (e.g., government intervention, union intervention, etc.) and that the effective solution is the removal of the market imperfections.⁹ As the recession began in 2007, Keynesian economic theory became more popular, and the Government began to use Keynesian theory as the theoretical underpinning for plans developed by the Federal Government to rescue the United States economy from the recession.¹⁰ Keynesian economic theory advocates direct Government involvement in the economy. Keynes theorized that the "private sector was chronically unstable, subject to fluctuations, and supply and demand could well be in balance at an equilibrium point that did not deliver full employment." This periodic instability, caused by private sector, necessitates active governmental policy responses, including monetary policy actions, and economic stimuli to stabilize the economy over the business cycle. Economists

agree that long term economic growth in any country requires a stable economy. Keynes put forth, in *The General Theory of Employment, Interest and Money*, that modern economies suffer persistent lack of demand, causing millions to be unemployed and eventually leading to a depression. Keynes submitted that the solution to the resulting depression is to stimulate the economy through a combined approach of government investment, reduced interest rates, and government investment in infrastructure.¹¹ Keynes proposed that government investment would start a cascade of effects that would result in a stimulated economy providing greater economic activity than the original investment.¹² In other words, the investment in infrastructure by the government injects income into the economy which results in more spending in the general economy by the citizenry, which in turn stimulates more production and investment involving still more income and spending.

Keynes advocates deficit spending only during economic downturns as a short term means to achieve the more stable economy required for economic growth.¹³ Long term government deficits, absent a depression, can destabilize the economy in a number of ways that are best examined by examining the consequences of allowing the deficit to remain at its current level. Stated simply, under our financial system the act of borrowing, including borrowing to finance the deficit, creates money. Rising national debt and the accompanying money creation reduce the real value of domestic capital stock (physical infrastructure and housing) and bank deposits, decrease U.S. ownership in other countries, and increase foreign ownership of assets in the U.S., all of which have destabilizing effects on our economy.¹⁴ Rising debt results in more dollars chasing the same or fewer goods with additional destabilizing effects on our economy. In the

following discussion, “real” is used to mean the purchasing power of money in constant dollars. The CBO estimates a potential reduction of as much as 9% of real GDP by 2030 if no change is made in the level of the annual budget deficits and if current congressional practices are continued. Regardless of what the actual numbers are that appear in the budgets, this reduction in GDP is a reduction in America’s ability to afford its government programs. Inability to continue established programs desired by the people has destabilizing effects on our economy. Realization by the people that their money cannot buy the standard of living they expected it to buy also has destabilizing effects on the economy.¹⁵ By the time our society reaches this point, domestic unrest may have begun or soon will begin and may be growing. Ultimately, the debt will grow to the point where it will stifle the economy and domestic unrest may grow even more. Our country was on this path during the late 1970s. In Keynesian terms a government must, first, cease incurring additional debt and, second, pay the debt it has incurred so that Keynesian theory of deficit spending during economic downturns is available during future economic downturns.

Budget Projections

Traditionally, the United States “devoted only a small fraction of its resources to the activities of the federal government, apart from fighting wars.”¹⁶ This tradition changed during the second half of the 20th century. During this half century, United States Government spending, not including debt payments, averaged 18 percent of Gross Domestic Product GDP.¹⁷ Table 1. shows the current picture of Government spending by providing a comparison of the Congressionally passed FY09 budget, the FY09 budget as modified by President Obama’s proposed bailouts and the OMB

projection for the FY19 budget, all as a percentage of GDP. As shown, Government spending is significantly higher than the historical average of 18 percent.

Category	FY09**	FY09	FY19
Discretionary Programs	9.0	9.0	6.3
Social Security	4.7	4.7	5.0
Medicare	3.0	3.0	3.8
Medicaid	1.8	1.8	2.1
Other Mandatory Programs	2.9	8.6	2.6
Interest	1.0	1.0	3.0
Total Outlay	22.5	28.1	22.7

*U.S. budget totals shown do not equal 100 percent, since the budget is not 100 percent of GDP

**FY09 Budget without including “bailout” spending

Table 1. Budget* by Category as a Percent GDP¹⁸

When the President submitted the revised FY09 budget, total Government revenues (taxes) were anticipated to equal 15.1 percent GDP for FY09 as compared to a total expenditure of 28.1 percent of GDP. This difference equates to an anticipated deficit for FY09 of 12.9 percent GDP. Even without the additional “bailout” spending by the Government, an FY09 deficit of 7.3 percent GDP was expected. The CBO currently projects, based on Congressional changes and actual tax receipts, that the federal budget deficit for FY09 will total \$1.6 trillion or 11.2 percent of GDP. This severe imbalance between revenues and spending is unusual and resulted from direct Government intervention in the economy through “bailout” and stimulus spending; deficit spending in FY08 represented only 3.2 percent of GDP. OMB and the CBO expect

continued elevated deficit spending in FY10 with spending returning to more historically normal levels by FY11.¹⁹

Table 1. also projects the FY19 budget as a percentage of GDP.

Government expenditures in FY19 are projected to be of 22.7 percent of GDP. OMB estimates that total Government revenues will yield only 19.4 percent GDP, or, in other words, a “normal” deficit of 3.3 percent of GDP. As expected, the imbalance between expenditures and revenues is much reduced when compared to FY09, but the accumulated deficit spending and associated debt causes with FY19 interest payments to be nearly triple those of FY09. It is noted that interest payments are government spending that results in no benefit to the population that funded these payments through their taxes.

As previously described, the continuing imbalance between expenditures and revenues and the resulting increase in national debt as a percentage of GDP pose a severe risk to our economic stability. The CBO advised the Congress that our cumulative national debt represented 33 percent of our annual GDP in 2001. The CBO estimates that debt will represent 54 percent of GDP at the close of 2009 and that it will grow to 68 percent of GDP by 2019.²⁰ The CBO continues the forecast by evaluating the long term (beyond the 10-year baseline projection period) and asserts that the budget remains on an unsustainable path. The CBO has specified to the Congress that, in order to keep the debt and associated debt interest payments at their current very high level for the next 25 years, spending must be reduced by 2.1 percent of GDP or revenues must be raised by 2.1 percent of GDP, or some combination of the two, and that balance must be maintained for the 25 year period. Even using this reduction, CBO

predicts that the United States debt will exceed 79 percent of GDP by 2035. If action is not initiated until the next administration (2012), the CBO advises that the requirement to decrease the imbalance between spending and revenue increases to 5.4 percent of GDP for 25 years solely to prevent an increase in current very high deficit and debt levels.²¹

The CBO reported in June 2009 that FY08 expenditures for “Social Security, Medicare, and Medicaid, the major entitlements expenditures, totaled approximately 9 percent of GDP.” CBO continued by stating that “spending for those programs is expected to rise rapidly over the next 10 years, outstripping the growth of GDP. By 2019, such spending is projected to total nearly 12 percent of GDP.” Under long term projections more recently published by CBO, “spending for those programs would continue to rise and could total almost 17 percent of GDP by 2035 if no changes are made to current law.”²² If outlays for entitlements reached that level, federal spending would be well above its historical percentage of GDP. CBO continues by reporting “[c]ontinued large deficits and the resulting increases in federal debt over time will reduce long-term economic growth by lowering national saving and investment relative to what would otherwise occur, causing productivity and wage growth to gradually slow.”²³ Annual deficits and the increase they would cause in the national debt would threaten economic stability unless taxes were increased to contain the deficits. Tax levels that would bring our current budget into some level of sustainable balance would be higher even than the levels the country saw in World War II.²⁴ Federal Reserve Chairman Ben S. Bernanke stated in 2006 that a one-third increase in taxes over the next 25 years would be required with more to follow to meet the budgetary issues.²⁵

Demographic Projections

CBO has advised Congress that growth of expenditures for entitlement programs explains almost all of the projected growth in government spending and that demographic changes in America are driving the growth in entitlement programs.²⁶ From a purely economic perspective, slowing the growth of government spending would generally impose smaller costs to the economy than raising taxes. Reducing government spending on entitlements, however, means reducing quality of life for our seniors who count on entitlements for their well being. We should consider all alternatives before lowering benefits.²⁷

Recent projections from the U.S. Census Bureau verify that our people are growing older and living longer. Chairman Bernanke stated in 2006 that “the coming demographic transition will have a major impact on the federal budget, beginning not so very far in the future and continuing for many decades.”²⁸ In 2030, all members of the baby boom generation will have reached retirement age. In 2030, almost one in five U.S. residents is expected to be 65 or older, while the share of U.S. residents 20 to 64 years is expected to fall to 55 percent. Additionally, the 85 years and older population is expected to more than triple over the next 40 years. As these demographic changes occur, the number of working age persons supporting retired persons will dramatically decrease. In 2008, when the first of the baby boomers began to retire, there were approximately five working-age people for every person aged 65 or older. By 2030, that ratio is expected to fall from five to one to three to one.²⁹

The aging of the population is of concern for two reasons. First, economists assume that a larger number of retirees or children (non-workers) in proportion to the number of workers results in increased costs for (and strain on) the workers, who

support the care of the economically dependent. Second, older adults experience higher rates of chronic diseases than working age adults, and have degraded functional capability which can result in reduced independence. This loss of independence can lead to increases in depression which can result in a spiral effect by increasing chronic illnesses. This synergistic effect is a major contributor to health care costs.³⁰

To understand the size of the problem, remember Chairman Bernanke's assessment that funding entitlement expenditures through tax increases would require at least a one-third increase in federal taxes in the next 25 years. The Chairman further said in 2006 that "financing the projected increase in entitlement spending entirely by reducing outlays in other areas would require that spending for programs other than Medicare and Social Security be cut by about half, relative to GDP, from its current value of 12 percent of GDP today to about 6 percent of GDP by 2030. In today's terms, this action would be equivalent to a budget cut of approximately \$700 billion in non-entitlement spending." The Chairman summed up the problem by saying, "As the population ages, the nation will have to choose among higher taxes, less non-entitlement spending, a reduction in outlays for entitlement programs, a sharply higher budget deficit, or some combination thereof."³¹

The Economic Labyrinth

The preceding reviews of both current and projected United States budget data and demographic projections of future changes clearly show that the United States is on the path to a dismal economic labyrinth which can only be escaped with intelligence, creativity, and effort. This labyrinth has three passages that will be called economic instability, an unsustainable economy, and economic collapse. Economic instability is characterized by a loss of faith among the people in the value of money as evidenced

by significantly increased trades of commodities for commodities and labor for goods and by worsening economic indicators. As instability continues, the expectations and behavior of people and businesses begin to adjust to the economic conditions in which they find themselves. Further into the economic instability passage of the labyrinth, loan applications and guarantees increase as people increase spending and borrowing. More money is moved into the purchase of more and more real estate, commodities, and goods so that purchasers may, in the future, repay the loans with money that is worth less and less. If effective measures to escape the labyrinth are not taken, the economy moves from the economic instability passage to the unsustainable economy passage, and significant business failures, including many in the financial sector, occur. More and more economic indicators move closer to and then reach the danger zone. Faith in money continues to fall and people in all sectors of the economy have significant loss of faith in government's ability to maintain an economic environment that will support the continuation of normal economic activity. The expectations and behavior of people and businesses adjust accordingly, with people becoming more frugal and spending less and with business contracting and thus borrowing less. This passage initially has the appearance of an upward spiral while, in actuality, it begins as a gradual downward slide that becomes a plummet as the conditions that caused it continue. The passage at the bottom of the plummet is economic collapse. Economic collapse is the complete loss on the part of the people of trust and confidence in the government and faith in the economy and a complete loss of value of the currency. There is no rigid line that an economy must cross to move from one passage to another. The movement of an economy through the characteristics of the first two passages is

not a steady progression and is not linear. Any characteristic may appear, worsen, or improve at any time. The status of the economy, on balance, determines where the economy is in relation to a passage. Prior to an economic collapse, an economy that has reached a particular passage may, if conditions improve, return to a previous passage and even return to equilibrium without experiencing all of the characteristics seen when the economy first moved through the passage. After economic collapse, restructuring or rebuilding the economy, such as was done in Germany after World War II, would be expected.

In 2007, the United States had moved into the economic instability passage. By late 2008 the economy had moved into the earliest stages of an unsustainable economy passage, as evidenced by data presented earlier in this paper and massive other records that were released by the agencies and business leaders mentioned in this paper and presented copiously in the media at the time. Massive government intervention in the private sector in both finance and other businesses reversed that progression, and the economy returned to the passage of economic instability. It remains to make that return permanent and move the economy back into equilibrium. An economy that is out of equilibrium will become more unstable as conditions move it further into disequilibrium. While the United States deficit and debt are not the fundamental causes of the current economic instability, they have the potential to cause a much worse and more sustained period of economic distress. In order to have a stable economy, the United States Government must address the debt and deficit issues if the country is to avoid spending extensive time in one or all three passages of the dismal economic labyrinth. Many options are available to the United States

Government to address the deficit and debt issues and this paper will now review some of the available options.

Options

Four options that are called the “simple” solutions are available to leadership to overcome the threat posed to the economy by significantly rising budget deficits and significantly rising national debt. The four “simple” options are to fund the majority of the budget imbalance by doing nothing and increasing the deficit, to increase taxes to correct the major portion of the imbalance, to severely decrease discretionary spending, or to decrease entitlement spending.

The reviews of both current and projected United States budget data and demographic projections of future changes clearly show that the “simple” option of funding the budget imbalance by allowing the deficit and the national debt (as a percentage of GDP) to continue to rise on their current paths is not a viable option. Such a choice would return our economy to the unstable economy passage rather rapidly in economic terms. Continued adherence to this “simple option” would move the economy ever more rapidly toward the second and third passages. This “simple option”, with its inevitable consequence of economic collapse, is obviously not a choice that will be accepted by the people. It is the function of leadership to lead, not to wait and be forced by the people after collapse has occurred.

Increasing taxes to relieve the major portion of the imbalance would require tax rates above the levels of World War II, with economic dislocations at least as great as the dislocations that resulted from the tax levels of that time. World War II was supported by the people, and the people accepted the sacrifice of higher taxes because they supported the war. The people today do not see entitlement spending in the same

way that the people of the World War II era saw that war. No support for such high tax levels is seen and for Congress even to consider passing such tax laws is unlikely.

The third option, severely decrease discretionary spending, would require average cuts of up to 50 percent³² in such funds as those for the Departments of Homeland Security, Defense, Justice, Agriculture, Education, the Federal Bureau of Investigation, the Central Intelligence Agency, and the Federal Aviation Authority to name only a few. It is difficult even to imagine political support for such cuts.

The final “simple” option is to decrease entitlement spending. Under this option, entitlement spending would be capped at a level that met budget goals. The Congress could raise requirements for eligibility for all programs or for selected programs, or the Congress could continue current eligibility requirements, but cut payments either by payment category (for example, Medicare patients might not be eligible for all medical procedures) or across the board so that future entitlement payments would be a percentage of current payments. Effects on the quality of life of those who receive or count on receiving entitlement payments would be severe. The unrest caused by such deep cuts is likely to prevent a level of political support adequate to pass the laws necessary for the cuts.³³

Potential Solutions

This paper has discussed the severe limitations associated with the four “simple” solutions to the problems associated with the deficit and the resulting national debt. Each “simple” solution and all four solutions as a group have been subjected to debate by their supporters and opponents periodically for a number of years. No “simple” solution has been able or is likely to be able to garner the support required to change our current course. Tailored solutions require much greater thought, intelligence,

creativity, and effort than one “simple” solution, but we have the intelligence and creativity to design a series of tailored solutions that will address this critical problem. The question is whether we have the will to utilize a more difficult approach than is available through the “simple” solutions. Three potential Courses of Action (COAs) are described to illustrate the variety of options at our disposal for addressing our current situation. First, modifications to Social Security payroll taxes could be utilized both to provide more revenue and to encourage economic development. Second, Social Security policy could be utilized to change social dynamics in a tightly targeted area. Third, government policy could be utilized to encourage technology revolutions that would create more wealth and generate exponential GDP growth.

Social Security Tax Modification

Modifications can be made to the Social Security tax code so that the United States economy is better supported and the Social Security tax burden is more equitably distributed, while not reducing the benefit paid to American seniors. One example of the effects of modification of Social Security tax policy is the following possible approach: lower the Social Security tax rate from 6.2 percent to 5.35 percent for workers and businesses, but increase the applicable limit from \$106,800 to \$250,000. The effects of this change will be to put more money in the pockets of more than 85 percent of workers in America, while, at the same time, increasing tax revenues.³⁴ The CBO projects that Social Security will raise \$889 billion in tax revenue in FY09.³⁵ An analysis of the proposed modified tax structure yielded tax revenues in excess of \$890 billion (i.e., equivalent tax revenue). This change has two primary benefits: an increase in the money in the hands of most employees, and a decrease in the cost to employers of each employee.

This proposed change would immediately reduce the monthly tax withheld from the earned income of every American worker and lower the overall taxes for all employees earning less than \$123,772 per year by an average in excess of \$430 per year. Additionally, lowering the tax rate lowers the average business expense for employees earning less than \$123,772 by more than \$430 per employee per employer contribution. These dollar changes are small on an individual basis, but more than 99 million Americans who earn less than \$123,772 annually are employed and, in the aggregate, the changes are significant.³⁶ The increase in revenue is made possible by increasing the upper limit of income taxable by Social Security. Under this plan, workers who earn between \$106,800 and \$250,000 will have that amount taxed for the first time, but that amount, like the first \$106,800 of each worker, will be taxed at the lower tax rate. These workers will pay less each month in Social Security taxes, but will pay the tax for additional months of the year.

The extra income in each pay check that would result from lowering the tax rate would be felt in each pay period and would have an immediate impact on the economy by either raising savings and investment or spurring consumption. Either of these two alternatives would be beneficial to the American economy in our current condition and would provide a healthier business climate to support economic expansion. The lower business costs for 85 percent of employees would spur the development of additional jobs at income levels up to the \$123,772 because the lower cost of these workers will encourage businesses to hire more of them.

This progressive use of taxation and reduction in tax withheld along with the increased tax base, will have the synergistic benefit of raising more revenue while

encouraging the creation of a more vibrant economy. In contrast, simply raising tax rates would stifle the economy, reduce employment, and ultimately yield less revenue. An additional synergistic effect is that each additional worker brought into the system will be paying additional Social Security and other taxes.

Elderly Employment

The second COA proposed is the use of tax policy to change social dynamics through the development of a Senior Employment Program. The basic proposal of the program would be to have no change in the administration of Social Security, but to create of a special category for senior employment. Eligibility for the program would require that the applicant be retired from an earlier career, be eligible for Social Security benefits, and have filed for those benefits. This requirement makes no changes to current requirements for eligibility for Social Security benefits. The difference is that seniors in this program would be eligible to work and receive their customary Social Security benefit with no earnings limitation for payment of the Social Security benefit. Currently, the Government penalizes working American seniors by reducing Social Security benefits based on both their age and the amount of income earned.³⁷ Obviously, in real life the current Social Security policy dissuades seniors from continuing to work. This requirement was written at a time when demographics were quite different from what they are now, and working age Americans were experiencing the fastest rates of population growth. Now, Americans 55 and older are experiencing the fastest rates of population growth and are expected to provide nearly 12 million additional potential employees in the next decade. Monthly Labor Review (MLR) reports that by 2018 within this group, “55- to 64-year-olds are expected to add more than 7 million to their 2008 numbers, and 65- to 74-year-olds are projected to increase their

numbers by more than 4 million. The (potential) labor force cohort of those 75 years and older is projected to grow by nearly 800,000.” Similarly, MLR projects that the 2018 workforce percentage of 55- to 64-year-olds will be approximately 17 percent, of 65- to 74-year-olds will be 5.4 percent and of 75-years-and-older will be 1.2 percent of the total labor force. Even with this significant increase in the potential over 55 workforce, MLR projects that less than 75 percent of the available 55- to 64-years-olds who could be in the workforce will be working and that less than 25 percent of the potential 65-year-olds and older who could be in the work force actually will be working.³⁸ This is a huge labor pool that America is underutilizing.

By placing a higher priority on the employment of the elderly, America can mitigate some of the problems associated with an aging society. The benefits of encouraging elderly Americans back into the workforce can be summarized in three points. First, effective utilization of the skills and experience of the elderly helps address anticipated labor shortages brought about by the aging demographics of America. Second, aging demographics puts not only strain on entitlement program expenditures but also strains the discretionary budget expenditures because most unemployed seniors do not contribute substantially to the Federal tax basis. Third, many seniors 65-years-old and older want to work but are afraid to work for fear of losing entitlement benefits.³⁹ Additionally, employed seniors provide not only a greater tax basis but also have reduced Medicare claims due to having other primary insurance, but also are believed to have fewer medical care requirements and thus fewer claims overall for medical care.

Previously in our history, the United States Government has successfully used tax policy, including tax collection and tax disbursement, to socially engineer desired outcomes.⁴⁰ The desirability of such social engineering actions depends on the goals for which they are taken and on the standards of the society in which they are taken. The adoption of this particular COA would be for the purpose of improving the United States budget, providing additional employment for seniors who desire that employment, and providing additional trained workers for businesses who desire those workers. The disadvantage could be that some Social Security recipients would also be receiving possibly significant incomes from work. Of course, these workers would be income tax and Social Security tax payers, also. The program might be criticized as favoring the elderly over people of working age. If necessary, this criticism could be minimized by the rules of the program.

As MLR reports, the United States over the next 10 years will have the slowest growth in modern history of working Americans and also the lowest percentage of employed Americans to all Americans of working age.⁴¹ The full effect of this small change would be dependent on the details of the rules that applied to the Social Security recipients who enrolled in the program. If those rules encouraged participation in the program, this small change would have an astounding impact on the United States' economic position by increasing the United States labor pool and increasing the percentage of working Americans.

Invest in Technology - Drive Revolutions

The third example of alternative methods to pay for the deficit and associated debts is to emulate previous leaps in technological advances, from the development of UNIVAC to an example from the last technology revolution. During the 1970s, 1980s

and even the early 1990s the United States Government invested heavily in computer hardware and software technology along with communication technology development and the creation of the Internet. The government facilitated these technological innovations with direct research funding in such organizations as Department of Defense, Department of Energy, National Aeronautics and Space Administration laboratories, tax incentives for private industry for technology development, and limited bureaucracy to encourage innovation. The result was, as The Atlantic reports, “practically no one foresaw or, indeed, even talked about ten or fifteen years ago: e-commerce—that is, the explosive emergence of the Internet as a major, perhaps eventually the major, worldwide distribution channel for goods, for services, and, surprisingly, for managerial and professional jobs. This has profoundly changed economies, markets, and industry structures. But the impact may be even greater on societies and politics and, above all, on the way we see the world and ourselves in it.”⁴² The result of the information revolution on the United States budget was a budget surplus from 1997 to 2001. This is the only United States budget surplus since 1970.⁴³

There are many types of technology that have the potential to be another information revolution. The applicable questions however are: (1) does the United States Government continue to have the political fortitude and vision to invest in the future, and (2) is the Government willing and able to grasp and take economic advantage of the market developments resulting from the research and development?

In response to the first question the Government has recently changed from a reluctance to invest in research and development to embracing it as a way to improve the economic future. Director John Holden, Office of Science and Technology Policy,

Executive Office of the President, on May 7, 2009 announced an increase in Government research funding for both FY09 and FY10, stating that “the president gets it.” These are the first increases in Government funded research and development after four years of declines.⁴⁴

President Bush, in August, 2001, believed it necessary to greatly curtail the research and development using stem cell technology to create biotechnology. In August 2001 the United States was the world leader in stem cell based biotechnology and, as such, was reaping significant economic benefits. Over the next three years countries around the world took up the stem cell efforts and by 2004 it was thought that the world had surpassed the United States.⁴⁵ In 2009 President Obama reduced the restrictions, but it is yet to be seen whether the United States can regain the advantage it once had.

With respect to the second question, in the early and mid-1990s, General Motors (GM) was the leader in electric car technology and the leader in automotive research and development spending. GM made a business decision to discard engineering and production electric car assets. Additionally, GM curtailed research and development into electric and hybrid cars. GM filed suit against the State of California's requirement for zero emissions (electric) cars. Ultimately GM removed and made unusable all of the electric cars that it had leased for development and testing. GM chose to focus singularly on large vehicles and ignored both the small car market and fuel efficiency improvements. In the 90's, while GM was a market and technological leader in both electric cars and large vehicles,⁴⁶ the Japanese Government and the Toyota Corporation, concerned by GM's technology lead, funded research into electric and

hybrid car technology. This decision led directly to the Toyota Prius and ultimately to Toyota replacing GM as the world's leading car maker. Ten plus years later GM's decision has come back to haunt the American people and their government after the Government, in 2009, made the decision to invest over \$25 billion in the bailout of GM.

The reintroduction of electric/hybrid cars into the marketplace during the 2000s is an example of a paradigm shift. GM and the United States Government failed to recognize the coming paradigm shift, even though they invented the technology and were clear leaders in the business area. The failure to lead the shift by the American automotive industry has, ultimately, greatly impacted the overall United States economy and reduced the potential level of the GDP. It has been said that the economies "that succeed during paradigm shifts are those who can shift to the new paradigm; the ones who fail are those who remain hidebound and fixated on traditional ideas because they have proved successful in the past or because they can see no use for some new idea."⁴⁷ The story of GM, the United States Government, and the electric car certainly supports this statement.

Even today the United States Government continues to subsidize the past to the detriment of the future. This is supported by the fact that insufficient gasoline taxes are collected to maintain the current highway infrastructure.⁴⁸ Another example is the Government-regulated power distribution network. The Government spends limited research and development dollars on an aging network that is in need of significant investment. The Government, however, is committed to a parts replacement policy, not a network improvement policy.⁴⁹

As the CBO Director stated in his testimony, infrastructure investment is a key to our economic success.⁵⁰ Changing our governmental policies to embrace technological innovation may cause some near-term consternation as we partially withdraw from our addictions of the past. As history shows, the initial period of consternation will pass and the economy will grow with the addition of new infrastructure. If, however, we do not heed this lesson of history, we face the alternative that history has documented before - loss of our economic supremacy. Most recently, Great Britain in the 19th century refused to continue the economic revolution that, in many respects, it began. In so doing, the British lost their economic advantage and have never been able to regain it.⁵¹ If we lose our economic engine and economic supremacy, we will also lose our ability to regain that engine and that supremacy and that loss will cause the loss of our ability to pay for our deficits and debts.

Conclusion

The Government must act and address the deficit and associated debt. Our leaders must secure adequate understanding and support of the people for the actions that are taken to address this immense problem by initiating widespread public discussion without exaggeration or demagoguery. Decisions taken and policies implemented without the approval of the people cause problems rather than solve problems. President Bill Clinton has been widely quoted saying that most of the time, the people get it right. Large segments of the population will support a series of elegant solutions if the problem is described in terms to which they can relate.

As described in this paper the deficit and debt are a problem that does not have a simple solution. The solution needs to employ multiple elegant solutions crafted with thought, intelligence, creativity, and effort to reassure the people, to restore confidence

in the competence of our leaders and to encourage economic growth. It is only through economic growth that the United States can become stronger and more vital for the 21st century. The examples of potential solutions provided in this paper show that the answers must begin with strategic decisions and only then move to operational or tactical execution. The government must use all of its tools from tax modification, to encouraging all Americans to work and contribute to the whole, to encouraging the continuation of our supremacy in developing new technologies in its efforts to address the deficit and debt. All of these efforts accomplish the needs of the government to lower the deficit and pay down the debt.

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