
Jeffrey Sachs: De-Mystifying the Budget Debate

Here is what the public should demand of the politicians to keep the budget process honest. The budget plans should be set out in easy-to-understand terms, measuring the key aggregates as a share of the Gross Domestic Product (GDP). Then it's fairly easy to know whether the proposals are phony or real, cruel or humane, reasonable or absurd. By these straightforward standards, both the [Ryan Plan](#) voted by the Republicans last week and the [alternative put forward](#) by President Obama fail the test of reasonableness.

Here are the essential points. The current tax system of the United States (with the Bush-era tax cuts still in place) will collect about 18 percent of GDP in the later years of this decade. Spending needs will be much higher, around 24 percent of GDP. All budget plans must grapple with this basic reality.

Cutting the spending sharply, as proposed by Ryan for example, would mean a brutal squeeze on America's poor (who are already suffering from high unemployment and years of falling incomes). America's competitiveness, already threatened, would weaken further, as our roads, rail, water systems, scientific institutions, and educational quality continue to deteriorate. Obama's plan, alas, would do little more than Ryan's to protect America's competitiveness, despite much White House rhetoric to the contrary.

Let's look at the basic budget arithmetic for the coming years, focusing on best estimates for 2021, a decade from now. Social Security outlays will total around 5.2 percent of GDP. Medicare will total around 3.6 percent of GDP. Medicaid, assuming no drastic cuts in the program, will total around 2.9 percent of GDP. Other mandatory programs for the

poor, such as food stamps, will total around 2.1 percent of GDP. («Mandatory» means that the outlays are established by rules rather than an annual appropriation). In total, these mandatory programs will require around 13.8 percent of GDP.

Next comes the military. Today's defense spending is around 5 percent of GDP, paying for two wars and several expensive and unnecessary weapons systems. Everybody from Ryan to Obama and beyond agrees that defense outlays as a share of GDP must come down, especially as the wars are concluded. Most proposals call for defense spending to decline to 3 percent of GDP or less (down to perhaps 2.5 percent of GDP) a decade from now.

Interest payments on the public debt are another «must spend» category. Currently these payments are quite low, around 1.4 percent of GDP, but the interest payments will rise in the second half of the decade, partly because of a higher debt-GDP ratio and partly because of higher interest rates. Most projections put the interest costs at around 2.7 percent of GDP.

The final category is the civilian «discretionary» spending on public goods and services that cannot be provided efficiently by the private economy alone. A classic case is the spending by the National Institutes of Health on biomedical research, which also spurs considerable investments by pharmaceutical companies in new drug development. The programs are called discretionary because their budgets must be voted each year, unlike the mandatory programs such as Social Security where the outlays are determined by a formula rather than an annual vote. Discretionary spending includes national security (homeland security, diplomacy,

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development assistance); education and job training; science and technology; the justice system; public administration; environmental protection; community development and housing assistance; major infrastructure (highways, dams, levees, flood control, water and sanitation); and other categories.

Discretionary spending averages around 4 percent of GDP each year (slightly higher in a downturn to pay for unemployment-related needs), but the medium-term needs may be bigger given the tremendous backlog of broken-down infrastructure and the urgency of upgrading American science, technology, and labor market skills to compete more effectively with China and other nations. America also faces the historically unprecedented challenge of developing alternative energy sources to reduce America's dependence on fossil fuels and to protect the economy from surging global fossil fuel prices.

A rough guess would put total civilian discretionary spending needs in the coming decade at around 4.5 percent per year, including roughly 0.7 percent for national security; 1 percent of GDP per year to clear the backlog on major infrastructure; 0.9 percent of GDP for education and job training at all levels (including help for youth to attend and complete a Bachelor's degree or a vocational school); at least 0.5 percent of GDP for science and technology (in health, energy, agriculture, nanotechnology, and other areas); around 1 percent combined for community development, housing assistance, and discretionary Veteran's benefits; and around 0.4 percent of GDP for the justice system and public administration.

Now, let's add the categories: 13.8% of GDP for mandatory programs plus 3% of GDP for the military plus 2.7% of GDP for interest payments plus 4.5% of GDP for discretionary civilian spending, for a total of around 24% of GDP. This is a higher number than America's long-term average over the past few decades mainly because the mandatory spending is

higher now than it was in earlier decades. As Americans age and as health care costs have multiplied, the costs of Social Security and Medicare have risen from 1.7% of GDP in 1980 to 5.1% of GDP in 2011.

With spending needs of around 24% of GDP and revenues around 18% of GDP we need to close the funding gap. In the Ryan Plan, taxes would be kept at around 18 percent of GDP, and spending would be cut to 19 percent of GDP. The Ryan plan would do this by slashing programs for the poor such as Medicaid and Food Stamps. Ryan's plan would also slash the discretionary budget to 2.6 percent of GDP. This would be a disaster. There is no way to shoehorn national security, infrastructure, education, science and technology, and other discretionary categories into 2.6 percent of GDP, which would be the lowest level of discretionary spending as a share of GDP in at least 65 years.

The Obama plan is almost equally unrealistic, despite the President's heated rhetoric about investing in America. Obama would have a slightly higher tax collection of around 19 percent of GDP, by allowing the Bush tax cut for rich households (above \$250,000 in income) to expire. He would shield most of the mandatory spending for the poor from Ryan-style cuts. But Obama like Ryan would slash the civilian discretionary budget to around 2.6 percent of GDP, a practical impossibility.

The Congressional Progressive Caucus (CPC) offers a more realistic plan than both Ryan and Obama, by setting taxes at 22 percent of GDP. The CPC plan does this by more aggressively taxing high-income tax earners and by closing corporate loopholes. This is the only budget plan that mobilizes revenues anywhere close to the level needed to meet the budget needs in future years at levels that would protect the poor and protect America's competitiveness.

In several opinion surveys, the public has spoken clearly about what to do: do not balance the budget

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by slashing Medicare, Social Security, or programs for the poor; increase spending on education and infrastructure; and tax the rich and giant corporations, who have made out like bandits (and often have been bandits) in recent years. In short, the public supports the concepts of the CPC budget plan. For the detailed evidence on the public's views, see the [remarkable survey carried in February by the University of Maryland](#).

So far, the White House and the Congress have completely sidelined the public in the budget processes. Numbers and plans are thrown around in order to obscure rather than clarify the choices being made behind closed doors. As the budget process now swings to the Senate, it is high time to re-engage the public with clearly explained proposals, so that that America's political system will again reflect the public's will, rather than the will of the corporate lobbies and the wealthy campaign contributors who huddle with Congress and the White House behind closed doors.

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