



Fiscal I.Q. Quiz

Answers & Explanations

The *Fiscal I.Q. Quiz* includes two different types of questions, which are scored separately:

FISCAL KNOWLEDGE (Your understanding of the facts regarding our nation's financial condition) *20 questions.*

FISCAL WISDOM (Whether your answers about solutions are in line with a consensus of objective budget experts¹) *10 questions.*

Recognizing the Scope of the Problem

1. FISCAL WISDOM: The federal government's projected deficits and mounting debt burdens will eventually threaten America's position in the world and our standard of living at home if they are not addressed.

ANSWER: Agree- Our country's fiscal imbalances represent a clear threat to America's future standing in the world, the strength and competitiveness of our economy over time, our future standard of living, and even our domestic tranquility in the years ahead. For a clear, compelling, and concise picture of our nation's finances, and steps to address them, view the Comeback America Initiative's [Restoring Fiscal Sanity Report](#).

2. FISCAL KNOWLEDGE: The size of the federal government is best measured by the amount of total federal taxes.

ANSWER: False- Measuring the size of the federal government is best done by accounting for how much the federal government spends, not how much it collects in revenue, including taxes. Because in recent years the federal government has consistently brought in less revenue than it spends, calculating the size of government by revenue significantly understates the size of government. According to the non-partisan Congressional Budget Office, in fiscal year 2011, based on spending levels, the size of the federal government was about 24% of the economy (GDP).

3. FISCAL KNOWLEDGE: Improved economic growth alone can solve our nation's long-term fiscal challenges.

ANSWER: False- Even if the economy were to fully recover, it would have to achieve double digit real GDP growth (after inflation) for decades to get us out of our over \$62 trillion financial hole. This level has not occurred in the U.S. in the past 70 years, and it is unrealistic to expect it will in the future.

4. FISCAL KNOWLEDGE: The federal government has grown from about 2% of the economy in the year 1800, to about 24% in 2011, and is projected to approach 40% by 2040.

ANSWER: True- The size of the federal government relative to the size of the U.S. economy has grown enormously since the days of our Founding Fathers. Of course the world, the U.S. position in the world, and the role of government has also changed significantly, but the future path is not sustainable. In 1800, the federal government made up about 2% of the economy versus 24% today. According to the Congressional Budget Office it is projected to be about 37% in 2040. However, if you count state and local government it would be about 50% of the U.S. economy in 2040, without a course correction. This is clearly not sustainable.

5. FISCAL KNOWLEDGE: Allowing significant additional inflation is an appropriate and effective means to reduce our nation's long-term debt burdens.

ANSWER: False- Inflating our way out is unacceptable. Inflation is a hidden tax and arguably the cruelest tax of all. History has taught us that high-levels of inflation and hyperinflation can destroy the fabric of society, decimate savings, and provide no long term benefit to a country that decides to use the printing press instead of logic. It also tends to harm the most vulnerable in our society the greatest. Importantly, the real threat to our fiscal future relates to Medicare and Social Security obligations which grow faster than inflation and faster than the economy, according to the Bureau of Labor Statistics.

6. FISCAL KNOWLEDGE: The total government debt in the United States (federal, state, and local governments combined) measured as a percentage of the economy, is higher than many of the European nations currently facing serious debt challenges.

ANSWER: True- According to the most recent data available from the International Monetary Fund (IMF), published in September 2011, the United States has higher levels of total government debt (federal, state, local combined) as a percentage of the economy (GDP), than many European countries that are experiencing serious debt challenges. Total U.S. government debt was approximately 120% of GDP, higher than estimates for Portugal (110%), Ireland (113%), France (95%), & Spain (76%). Total debt for the U.S. is lower than Italy (131%), and Greece (166%). While the total debt is higher than some of the European countries, the U.S. is certainly helped by the fact that we have the world's largest economy as well as the world's largest reserve currency. However, we are not exempt from the laws of prudent finance, and absent reform, we eventually will experience serious debt challenges similar to the above mentioned European countries. For more information on how the U.S. compares to other countries in terms of Fiscal Responsibility and Sustainability, view the [Sovereign Fiscal Responsibility Index](#), developed in 2011 by Stanford University graduate students in conjunction with the Comeback America Initiative.

7. FISCAL WISDOM: Effectively addressing our structural federal deficits will require both reductions in future projected spending AND increased revenues (compared to the historical average) as a percent of the economy.

ANSWER: Agree- A combination of both spending reductions and revenue increases above the historical average will be required to effectively address our structural deficits. Increasing revenues alone is unrealistic. The recent historical average of federal revenue collected as a percentage of the economy is about 18.4%. In order to increase revenue enough to account for projected increases in spending, taxes would have to rise to levels that would be unattainable both politically and economically. For example, according to the Congressional Budget Office federal spending is projected to be about 37% of the economy in 2040. Meeting that level of spending solely through tax increases would require doubling the amount of federal revenue as a percentage of the economy, compared to historical averages. On the other hand, to achieve fiscal balance through reducing spending alone would require cuts to government programs that are politically unrealistic. For example, if only spending cuts are used to balance the budget, and revenues were kept at their historical level of 18.4%, according the Congressional Budget Office by 2024 there would only be enough revenue to pay for Social Security, mandatory federal health programs (e.g. Medicare and Medicaid) and interest on the debt. All other spending would have to be eliminated, which includes such programs as Defense, Foreign Policy, Justice, Transportation, Education, and Homeland Security.

Government Spending & Social Insurance Programs

8. FISCAL KNOWLEDGE: About 40% of the federal budget is spent on mandatory spending programs, such as Medicare, Medicaid, and Social Security, which are essentially on "auto-pilot" and not subject to the yearly budget decision making of Congress.

ANSWER: False – Actually, the Social Insurance Programs, such as Medicare, Social Security, and Medicaid, as well as other "Mandatory Spending" federal programs, make up more than half—about 55%—of the total federal budget today, according to the Congressional Budget Office. These programs are largely on "auto pilot", meaning that they are budgeted for according to automatic formulas written into law, rather than being subject to an annual budget limit and the annual appropriations process in Congress. As a result, after considering interest, which is also mandatory spending, less than 40% of the federal budget is made up of discretionary spending—which are those items actually decided upon by Congress and the President each year. These discretionary programs include Defense, Foreign Policy, Justice, Education, Transportation, and others that Americans typically associate with the role and functions of government. Discretionary spending programs also include all of the express and enumerated responsibilities of the federal government included in the U.S. Constitution.

9. FISCAL KNOWLEDGE: Most individuals pay more in payroll taxes and Medicare premiums over their lifetime than they end up receiving in Social Security and Medicare benefits.

ANSWER: False- According to the Urban Institute, most people over their lifetime pay less in total payroll taxes and Medicare premiums compared to the amount of benefits they receive from Social Security & Medicare. Individuals pay payroll taxes over their working lives which funds the Social Security trust fund and the Hospital Insurance trust fund for Medicare. Individuals also contribute premiums if they participate in Medicare's voluntary programs Parts B & D. Under reasonable assumptions, on average, people do not contribute enough over their lifetimes to account for the amount of benefits they receive from both Social Security and Medicare combined. However, the difference is much more significant for Medicare than Social Security, in part because a vast majority of Medicare beneficiaries only pay 25% of the cost of their benefit premium, with the remainder being subsidized by the government.

10. FISCAL WISDOM: We can and should solve our nation's longer-term fiscal challenges solely with spending reductions.

ANSWER: Disagree- A combination of both spending reductions and revenue increases above the historical average will be required to effectively address our structural deficits. Increasing revenues alone is unrealistic. The recent historical average of federal revenue collected as a percentage of the economy is about 18.4%. In order to increase revenue enough to account for projected increases in spending, taxes would have to rise to levels that would be unattainable both politically and economically. For example, according to the Congressional Budget Office federal spending is projected to be about 37% of the economy in 2040. Meeting that level of spending solely through tax increases would require doubling the amount of federal revenue as a percentage of the economy, compared to historical averages. On the other hand, to achieve fiscal balance through reducing spending alone would require cuts to government programs that are politically unrealistic. For example, if only spending cuts are used to balance the budget, and revenues were kept at their historical level of 18.4%, according to the Congressional Budget Office by 2024 there would only be enough revenue to pay for Social Security, mandatory federal health programs (e.g. Medicare and Medicaid) and interest on the debt. All other spending would have to be eliminated, which includes such programs as Defense, Foreign Policy, Justice, Transportation, Education, and Homeland Security.

11. FISCAL KNOWLEDGE: Social Security is adding to current federal deficits.

ANSWER: True- The Social Security program is contributing to current federal deficits. Social Security's spending consists mostly of payments for retired workers and their families, but also includes payments for those on disability and certain other survivor's benefits. Social Security has two primary sources of revenue – payroll taxes on workers and employers, and income taxes on Social Security benefits. According to the non-partisan Congressional Budget Office (CBO), and the Social Security Board of Trustees, in 2010, Social Security ran its first primary deficit since 1983. This means its annual outlays for the program exceeded its annual revenues (not including interest credited to the trust funds earned on previous surpluses). Since the total federal budget is calculated on a cash flow basis and because Congress has used Social Security's past surpluses to pay for other parts of the federal budget, Social Security's current cash flow deficit contributes to the overall federal deficit and it is projected to continue to do so for the foreseeable future. In fiscal year 2011, CBO estimated that total program tax

revenue was approximately \$687 billion versus \$733 billion in outlays. Although this \$46 billion deficit is small relative to an overall federal deficit of \$1.3 trillion in fiscal year 2011, it does contribute to it nonetheless. Despite the previously mentioned cash flow deficits, it is estimated that there will be sufficient government bonds in the Trust Fund to pay for full benefits until the year 2036. However, because the redemption of the bonds in the Social Security Trust Fund will require issuance of additional public debt, the impact on the federal budget will be felt a lot sooner. In addition, the earlier structural reforms are made, the more transition time we can have and the less dramatic the changes will have to be for both beneficiaries and taxpayers. For more information on illustrative reforms for Social Security, view the Comeback America Initiative's [Restoring Fiscal Sanity Report](#).

12. FISCAL KNOWLEDGE: Absent reform, Social Security's Disability Insurance Trust Fund will run out of money within the next seven years.

ANSWER: True- According to the 2011 Annual Report of the Social Security Board of Trustees, the Social Security Disability trust fund balance, which pays benefits for the Disability Program, is scheduled to run out of money in 2018, absent any reform. This is different from the Social Security pension program, which is projected to be funded for a longer period of time; however, its trust fund balance is also projected to eventually run out of money, absent reform.

13. FISCAL KNOWLEDGE: Social Security's early and normal retirement eligibility ages take into account past and future (projected) changes in life expectancy.

ANSWER: False- While life expectancy has increased significantly over the past decades, Social Security (and Medicare) does not adequately tie its early and normal retirement ages to past and expected future increases in life expectancy.

14. FISCAL WISDOM: The federal government's healthcare programs are financially sustainable in their present form.

ANSWER: Disagree- Absent additional reform, there is no way the federal government will be able to deliver on all the promises made through its current health programs. Under reasonable assumptions, Medicare alone is underfunded by \$37 trillion, according to the 2011 report of the Social Security & Medicare Trustees. In addition, the independent Medicare Chief Actuary estimates that the Affordable Care Act will cost much more than originally asserted based on reasonable and sustainable assumptions. Healthcare is the single biggest driver of spending increases in the future and must be addressed through substantial reforms. For examples of illustrative healthcare reforms, view the Comeback America Initiative's [Restoring Fiscal Sanity Report](#).

15. FISCAL KNOWLEDGE: As is the case with every other major industrialized country, the U.S. has a limit on how much of the federal budget is allocated to health care programs.

ANSWER: False- The United States is the only major industrialized country in the world that does not have a federal budget limit on how much gets spent on healthcare. Rather, most federal health programs are based on defined levels of benefits and are on auto-pilot, with the amount of money spent increasing every year as the related costs and number of beneficiaries increase.

16. FISCAL KNOWLEDGE: For healthcare programs, the federal government pays medical providers more on the basis of patient health outcomes than on the amount of medical services they perform.

ANSWER: False- Federal healthcare payment systems pay mostly on the basis of the amount and type of services performed, rather than patient outcomes. This system can serve to encourage excess services and, in some cases, provides incentives that are in conflict with the interests both of the patient and the taxpayer.

17. FISCAL KNOWLEDGE: An overwhelming majority of beneficiaries in Medicare's voluntary programs (Parts B & D) only pay for 25% of the cost of their benefits through their monthly premiums.

ANSWER: True- Most Medicare Part B & D beneficiaries only pay about 25% of their benefit premium cost, with the remainder being heavily subsidized by the government. As background, the Medicare program consists of three primary parts - The Part A program provides hospital insurance and is paid for through payroll taxes on both employers and employees. The other parts are voluntary insurance programs that cover physician and outpatient services (Part B) and prescription drugs (Part D). (Part C is the Medicare Advantage program, which allows beneficiaries to select private plans that cover both Part B & D services.) For Parts B & D, an overwhelming amount of the cost of the program is funded through general revenues of the federal government, with only about 25% of premium cost being paid by beneficiaries. The program does have some wealthier retirees that pay a higher amount (and percentage) for their premium; however, according to the Social Security Administration, about 95% of beneficiaries in the Medicare Part B & D voluntary insurance program receive the same high premium subsidy by the federal government, regardless of income or wealth. For example, according to the existing premiums in 2011 set by the Social Security Administration, a married couple making \$150,000 a year in retirement pays the same subsidized premium that a single person making \$20,000 does. Furthermore for most Part B beneficiaries that also receive Social Security, under current law, the beneficiary's premium cannot go up more than their Social Security benefit in a given year. Therefore, the general revenue subsidy can exceed 75 percent for these individual's premiums. Finally, Medicare beneficiaries may incur some out-of-pocket costs for deductibles and co-pays; however, many individuals buy Medigap insurance policies to cover such costs.

Taxes

18. FISCAL KNOWLEDGE: The U.S. has above average levels of taxation as compared to other major industrialized countries (Measured as tax revenue as a percentage of the economy).

ANSWER: False- According to statistics for the Organization for Economic Cooperation and Development (OECD), which compare major industrialized countries, the U.S. has lower than average levels of taxation as a percentage of the economy. In 2009 (most recent year available), the U.S. had total tax revenue (federal, state, and local government combined) of approximately 24% of the U.S. economy (GDP). The average of all other OECD countries was approximately 34% of GDP.

19. FISCAL WISDOM: We can and should solve our nation's longer-term fiscal challenges solely with tax increases.

ANSWER: Disagree- A combination of both spending reductions and revenue increases above the historical average will be required to effectively address our structural deficits. Increasing revenues alone is unrealistic. The recent historical average of federal revenue collected as a percentage of the economy is about 18.4%. In order to increase revenue enough to account for projected increases in spending, taxes would have to rise to levels that would be unattainable both politically and economically. For example, according to the Congressional Budget Office federal spending is projected to be about 37% of the economy in 2040. Meeting that level of spending solely through tax increases would require doubling the amount of federal revenue as a percentage of the economy, compared to historical averages. On the other hand, to achieve fiscal balance through reducing spending alone would require cuts to government programs that are politically unrealistic. For example, if only spending cuts are used to balance the budget, and revenues were kept at their historical level of 18.4%, according to the Congressional Budget Office by 2024 there would only be enough revenue to pay for Social Security, mandatory federal health programs (e.g. Medicare and Medicaid) and interest on the debt. All other spending would have to be eliminated, which includes such programs as Defense, Foreign Policy, Justice, Transportation, Education, and Homeland Security.

20. FISCAL KNOWLEDGE: About half of federal tax filers do not pay any federal income tax.

ANSWER: True- The existence of various tax credits, deductions, exemptions and exclusions results in about half of federal tax filers not paying any federal income tax (data obtained from Tax Policy Center, a non-partisan tax analysis partnership between the Urban Institute and the Brookings Institution). It's important to note that this only relates to income taxes and not payroll taxes. In fact, most Americans pay more in payroll taxes than income taxes. The large percentage of people not paying income taxes is partially the result of the Earned Income Tax Credit, the purpose of which is to effectively provide payroll tax rebates for those at the low end of the income spectrum. These payroll taxes go toward paying for Social Security and Medicare, whereas income taxes are used to pay for the remainder of all other government programs, including Defense, Foreign Policy, Justice, Education and Transportation. Therefore, about half of federal taxpayers contribute nothing to fund this portion of federal spending.

21. FISCAL KNOWLEDGE: On average, the top one percent of federal taxpayers by income pay an effective income tax rate of less than 20 percent.

ANSWER: True- According to data from the Tax Policy Center, a non-partisan tax analysis partnership between the Urban Institute and the Brookings Institution, the average effective income tax rate of the top one percent of federal taxpayers by income is estimated to be less than 20 percent; far below the top individual income tax bracket of 35%. For example, according to data from 2010, the top one percent had an average effective income tax rate of 17.6 percent, with a median effective income rate of 18.8 percent. This is due in large part to the fact that the wealthiest Americans earn most of their income through long-term capital gains, which are taxed at a flat rate of 15%. It's important to note that this only relates to income taxes and not payroll taxes or other taxes.

22. FISCAL KNOWLEDGE: Tax expenditures in the Internal Revenue Code (e.g. deductions, exemptions, credits and exclusions) result in over \$1 trillion in lost federal revenue each year.

ANSWER: True- According to analysis by the Joint Committee on Taxation, it's estimated that the federal government forgoes over \$1 trillion dollars in revenue each year due to various forms of tax expenditures (deductions, credits, exemptions, and exclusions). Some of the most costly of these include the exclusion from taxation of employer-provided health insurance, and the deduction of mortgage interest on owner-occupied residences.

23. FISCAL WISDOM: Comprehensive tax reform that reduces tax expenditures (e.g. deductions, exemptions, credits and exclusions), while at the same time reducing top marginal tax rates, can generate additional revenues above historical levels and should be a key component of any comprehensive deficit reduction strategy.

ANSWER: Agree- Most fiscal experts agree that comprehensive tax reform must be a key component of any deficit reduction strategy. It is possible to reduce marginal tax rates, while at the same time reduce tax preferences in a way that results in higher overall revenue compared to historical averages. Comprehensive tax reform can be done in a way that makes the tax system simpler, fairer, more competitive with other nations, and enforceable. For more information on illustrative tax reforms, view the Comeback America Initiative's [Restoring Fiscal Sanity Report](#).

Defense & General Government Reform

24. FISCAL KNOWLEDGE: The U.S. spends as much on defense as the next highest 15 nations combined (China, United Kingdom, France, Russia, Japan, Saudi Arabia, Germany, India, Italy, Brazil, South Korea, Australia, Canada, Turkey, Israel).

ANSWER: True- According to an analysis by the Stockholm International Peace Research Institute, the United States spends more money on defense than these next highest 15 countries combined. However it should be noted that this estimate measures dollars spent on defense, and what a dollar purchases in the U.S. is much different than what a dollar will purchase in another nation. In addition, some believe that certain countries (e.g. China) may be spending more than reported. Regardless, this comparison is meant to show the sheer size of military spending, not military capabilities. It is clear that the U.S. spends a much higher amount of money on defense compared to other countries.

25. FISCAL WISDOM: We can significantly reduce future defense spending without unduly compromising national security.

ANSWER: Agree – Given that we spend more than the next 15 nations combined on defense, there are certainly ways that we can reduce spending without compromising national security. We can do so by focusing on reducing the inefficient processes, questionable weapon systems acquisitions, current base structures, existing troop levels, excessive benefit levels, and abuse of the disability system, while preserving our commitment to provide reasonable compensation and benefits to our military, their families and to take care of our veterans. For more information on illustrative defense reforms view the Comeback America Initiative's [Restoring Fiscal Sanity Report](#).

26. FISCAL KNOWLEDGE: The federal government is required to conduct a periodic baseline review of all major agencies, spending programs and tax preferences to ensure their appropriateness, effectiveness, affordability and sustainability in the 21st century.

ANSWER: False – Believe it or not, the federal government is not required to conduct a periodic baseline review of all major agencies, spending programs and tax preferences. In order to transform government for the 21st century, this review is essential. As part of the process, all agencies, programs and tax preferences should be subject to basic questions: When and why was it created? Have conditions changed, and have we adapted? How are we measuring success, and are we achieving desired outcomes? Are there multiple programs, and if so, are they working in an integrated manner? Are we using the experience of others (e.g. countries, states) to replicate success and avoid mistakes? Can we afford and sustain it in its present form?

27. FISCAL KNOWLEDGE: Congress has never had rules in place that limited the amounts that could be spent or that prevented them from making further unfunded promises.

ANSWER: False – During the 1990s through 2002, Congress had tough statutory budget controls in place that made a difference in controlling spending and reducing the federal deficit. Congress had certain pay-as-you-go (PAYGO) rules and spending caps in place, which were supported by both President George H.W. Bush and President Bill Clinton. These rules helped create the budget surplus of the late 1990s and early 2000s. After these rules expired in 2002, things spun out of control. For more information on Budget Controls and Process Reforms, view the Comeback America Initiative's [Restoring Fiscal Sanity Report](#).

Personal Commitment

28. FISCAL WISDOM: Elected officials should rescind and reject any pledges to special interest groups that would restrict them from considering comprehensive reform proposals, including pledges that prevent them from reforming social insurance programs (i.e. Medicare, Social Security) or from supporting higher federal revenues.

ANSWER: Agree- The existence of special interest pledges has been a prime contributor to gridlock in Washington. Pledges exist on both sides of the political aisle and ideological divide. They include those that pledge not to raise taxes, and those that pledge not to touch benefits for Social Security and Medicare. We know that both more revenue and less social insurance spending must be part of the solution, therefore pledging not to consider these is irresponsible. All elected officials should rescind and reject any pledges to special interest groups that restrict them from making the tough choices necessary to put our nation's fiscal house in order.

29. FISCAL WISDOM: Elected officials should be willing to make tough choices on social insurance programs, spending and taxes even if it may serve to decrease their chances of being re-elected.

ANSWER: Agree – This is a no brainer. However, today we have too many career politicians who are afraid the people can't handle the truth and accept tough choices. They are wrong. Clearly the decisions that must be made on spending and revenues are tough ones, and not easy politically. But part of the reason for that is because of the misinformation regarding the facts about our nation's finances, the steps that will be necessary to restore fiscal sanity, and the serious adverse consequences if we fail to act. Your decision to take the Fiscal I.Q. Quiz exhibits the type of education that will be necessary in order to get the public fully engaged on the facts, which in turn will increase the willingness of politicians to make the tough choices necessary. You can really help by encouraging others, including your elected representatives and those seeking federal office, to take the Fiscal I.Q. Quiz as well!

30. FISCAL WISDOM: Elected officials should be willing to reach across the political aisle and work for a principled based compromise where all major elements of the federal budget are on the table, even if it's contrary to wishes of their party leadership, in order to enhance fiscal responsibility and ensure sustainability over time.

ANSWER: Agree- Also a no brainer. But politics, partisanship and rigid ideology get in the way of real progress. Politicians must be willing to reach across the political aisle and work for principle-based compromise; otherwise the solutions necessary will not get done until a crisis is at our doorstep. The challenges our fiscal imbalances pose are real, and continued partisanship will threaten our country's standing in the world, the strength and competitiveness of our economy, our future standard of living and even our domestic tranquility over time.

¹ The objective federal budget experts include members the [Comeback America Initiative's Advisory Council](#), as well as the results of various bipartisan deficit reduction commissions, including the National Commission on Fiscal Responsibility and Reform (i.e. "Bowles-Simpson Commission) and the Bipartisan Policy Center Debt Reduction Task Force (i.e. Domenici/Rivlin Task Force).