BIPARTISAN POLICY CENTER

Fiscal Consolidation in the United States

SEPTEMBER 15, 2011

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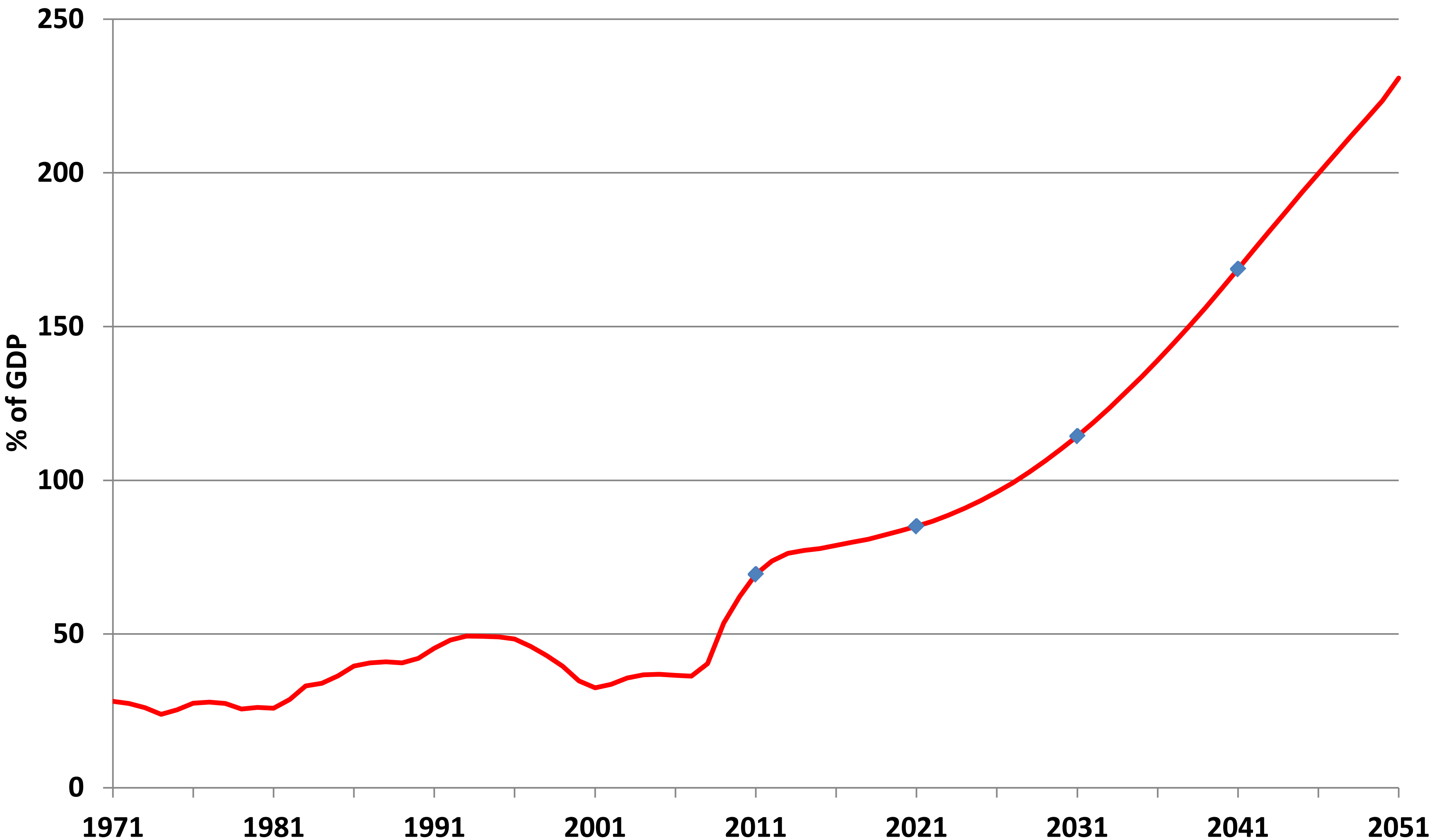
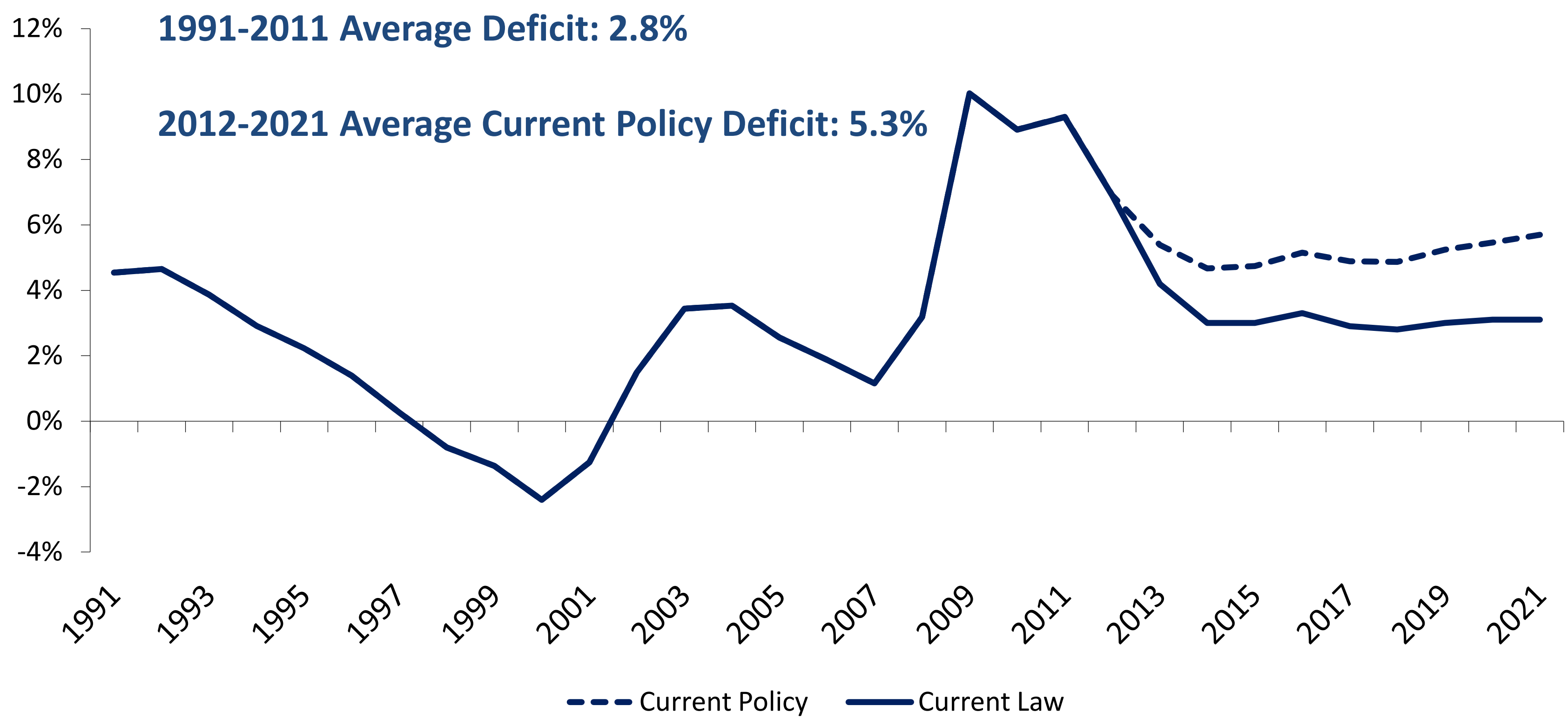
THE PROBLEM

DEBT HELD BY THE PUBLIC



Deficit Projections

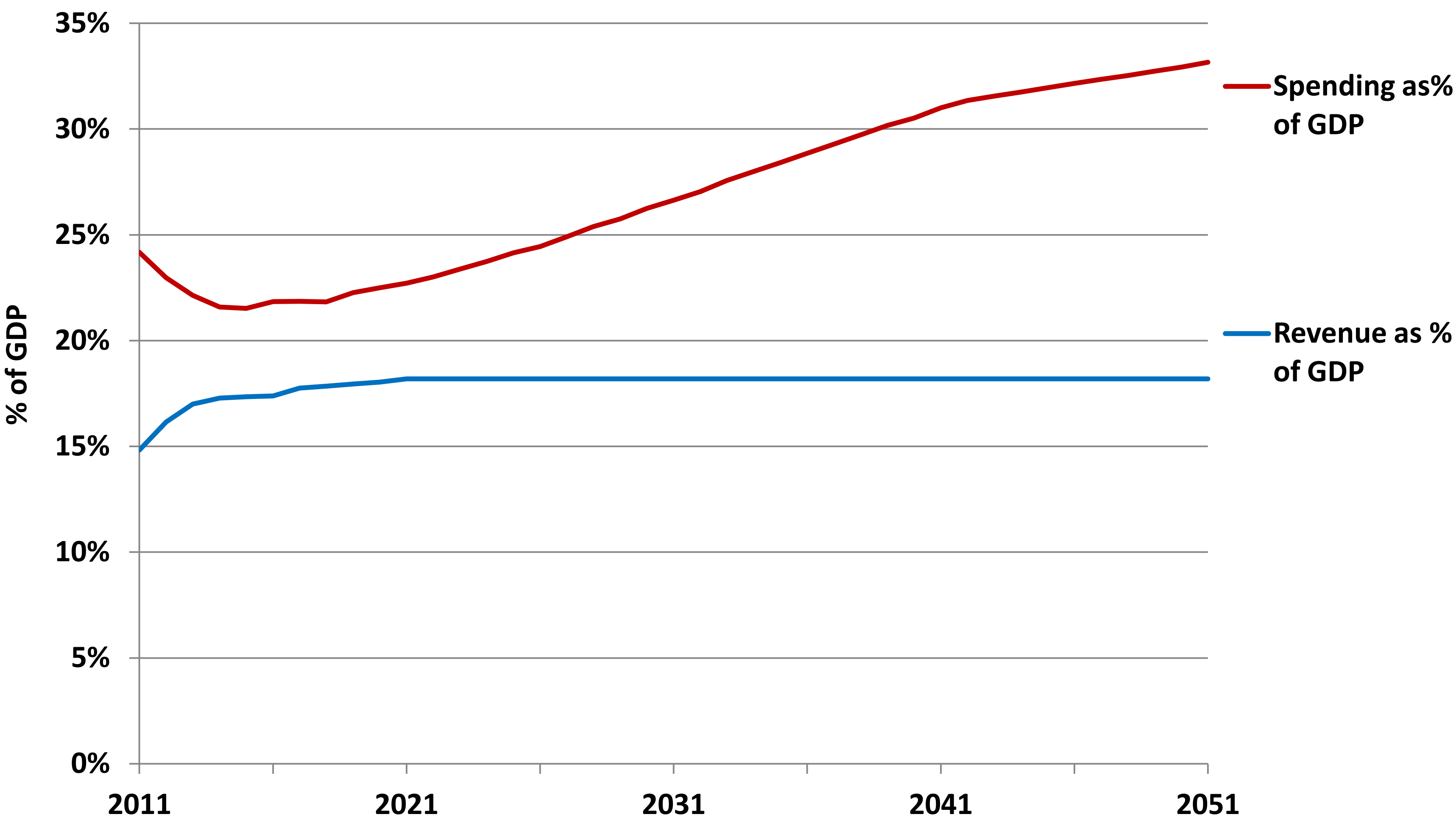
(Percent of GDP)



Source: Committee for a Responsible Federal Budget

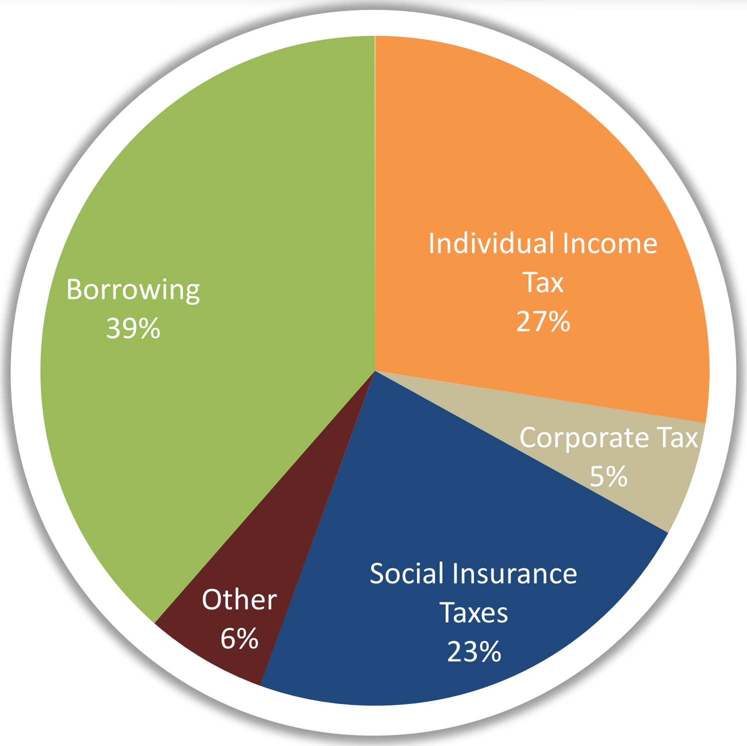
Note: Estimates based on CRFB Realistic Baseline.

SPENDING VS. REVENUE AS % OF GDP

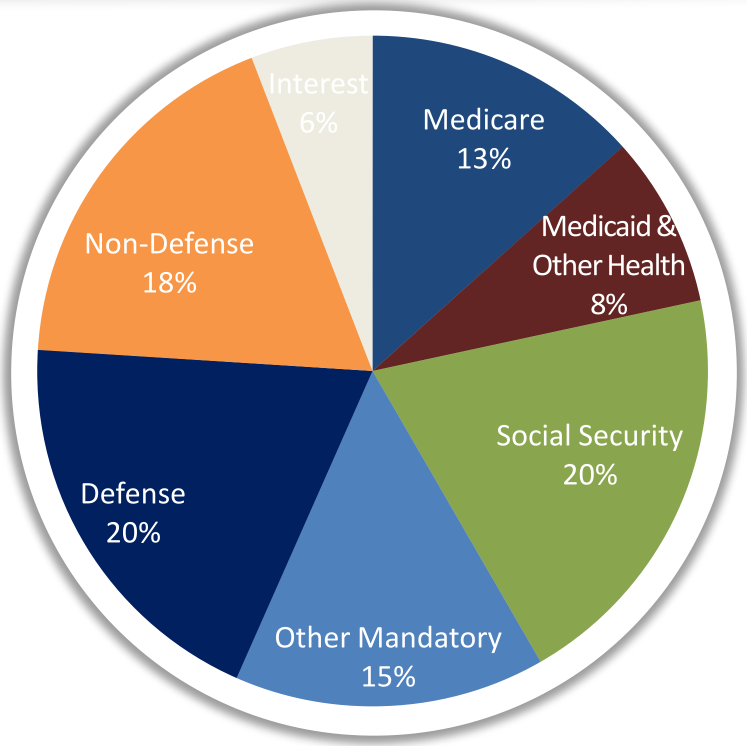


Components of Revenue and Spending

Revenues and Financing	Outlays



2011



Total Revenues = $2.230 Trillion
Total Financing = $3.629 Trillion

Total Outlays = $3.629 Trillion

Source: Committee for a Responsible Federal Budget

Debt Drivers

Short-Term

- Economic Crisis
  (lost revenue and increased spending from automatic stabilizers)
- Economic Response
  (stimulus spending/tax breaks and financial sector rescue policies)
- Tax Cuts
  (in 2001, 2003, and 2010)
- War Spending
  (in Iraq and Afghanistan)

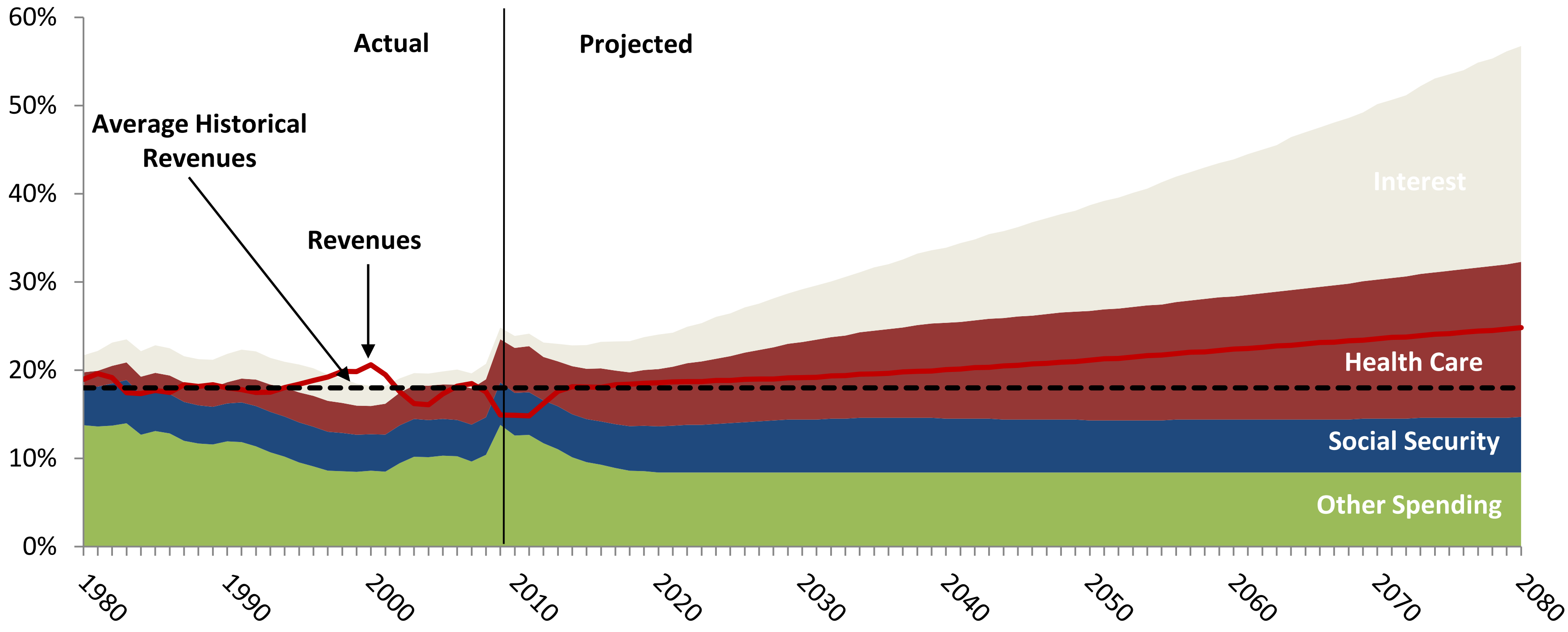
Long-Term

- Rapid Health Care Cost Growth
  (causing Medicare and Medicaid costs to rise)
- Population Aging
  (causing Social Security and Medicare costs to rise, and revenue to fall)
- Growing Interest Costs
  (from continued debt accumulation)
- Insufficient Revenue
  (to meet the costs of funding government)

Source: Committee for a Responsible Federal Budget

Growing Entitlement Spending

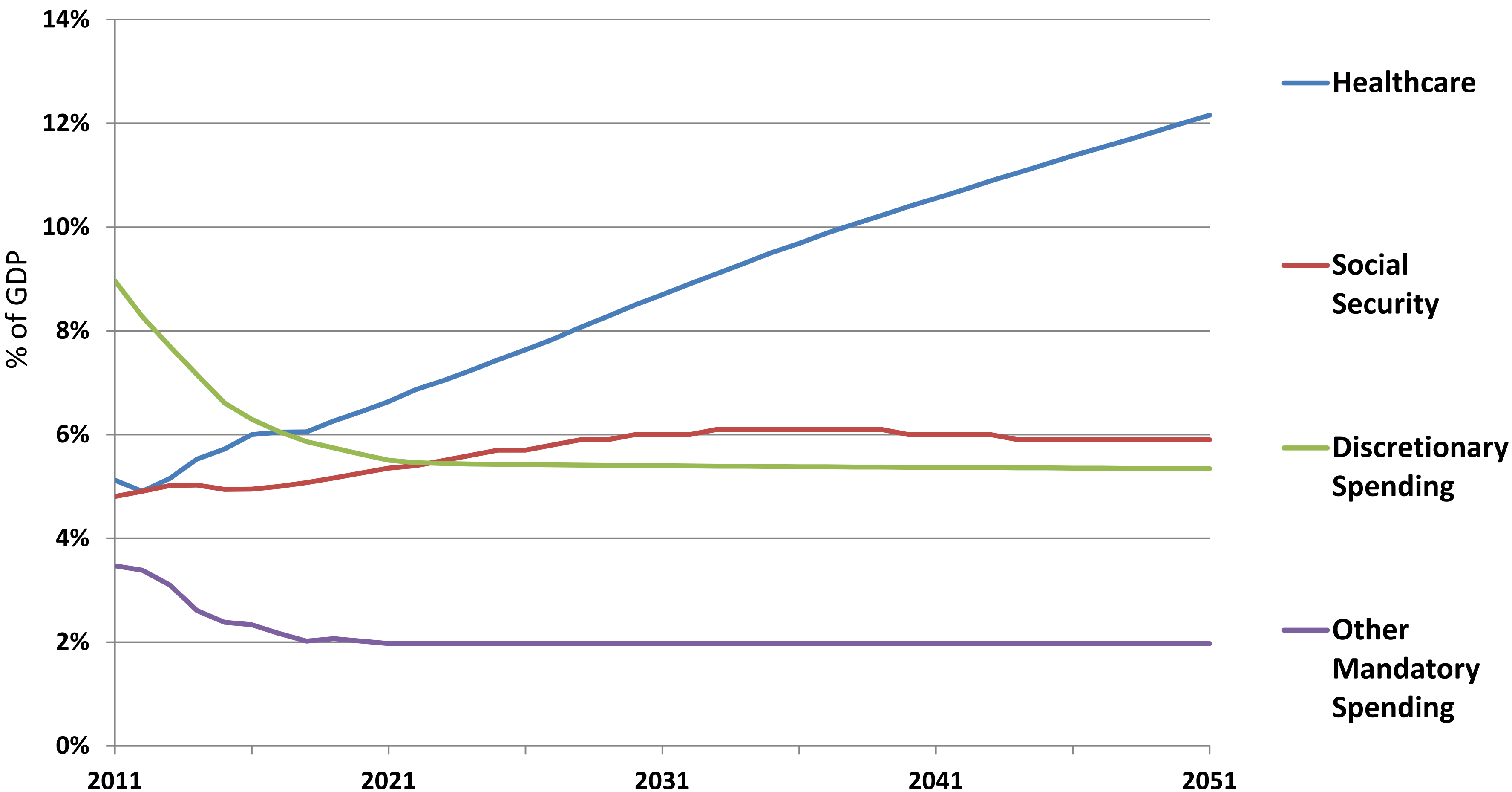
Federal Spending and Revenues (Percent of GDP)



Source: Committee for a Responsible Federal Budget

Note: Estimates based on CRFB Realistic Baseline.

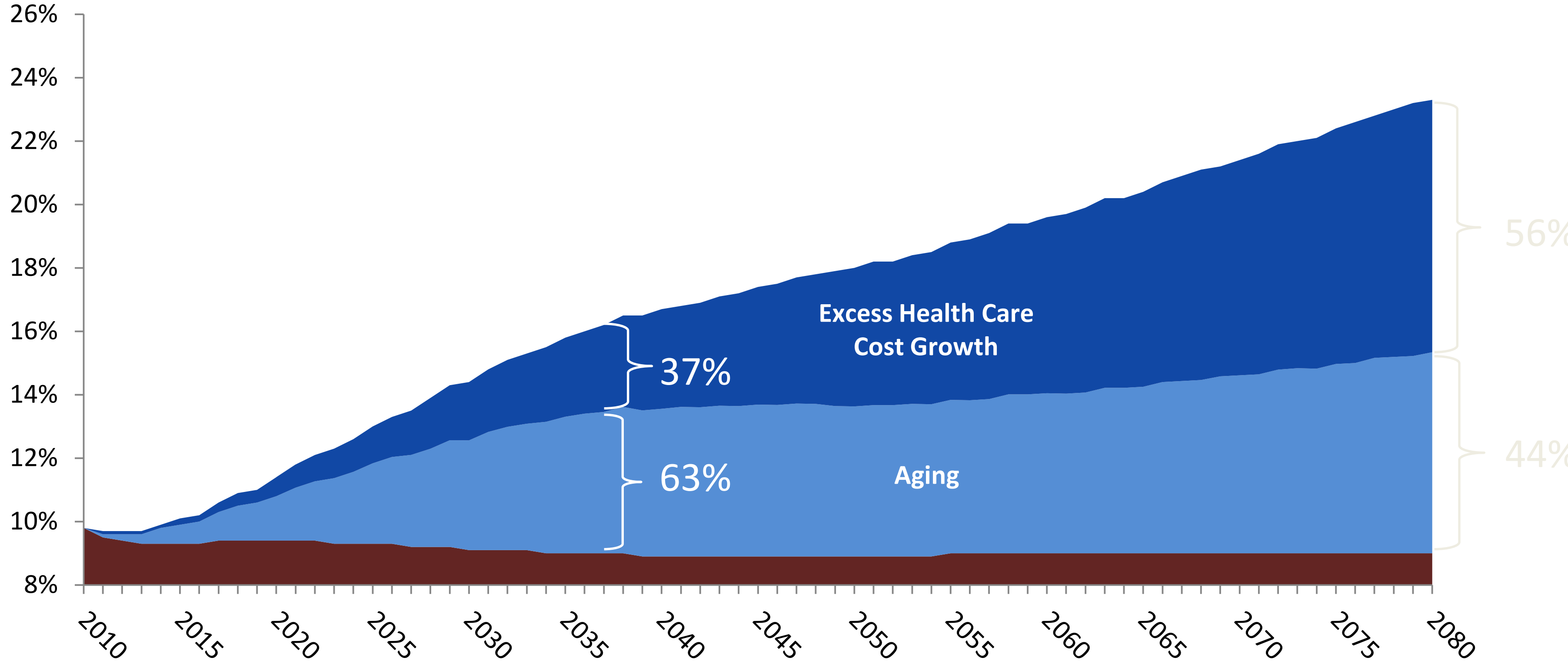
LONG-RUN SPENDING GROWTH BOILS DOWN TO HEALTHCARE



Source: Congressional Budget Office (August 2011)

Why Is Entitlement Spending Growing?

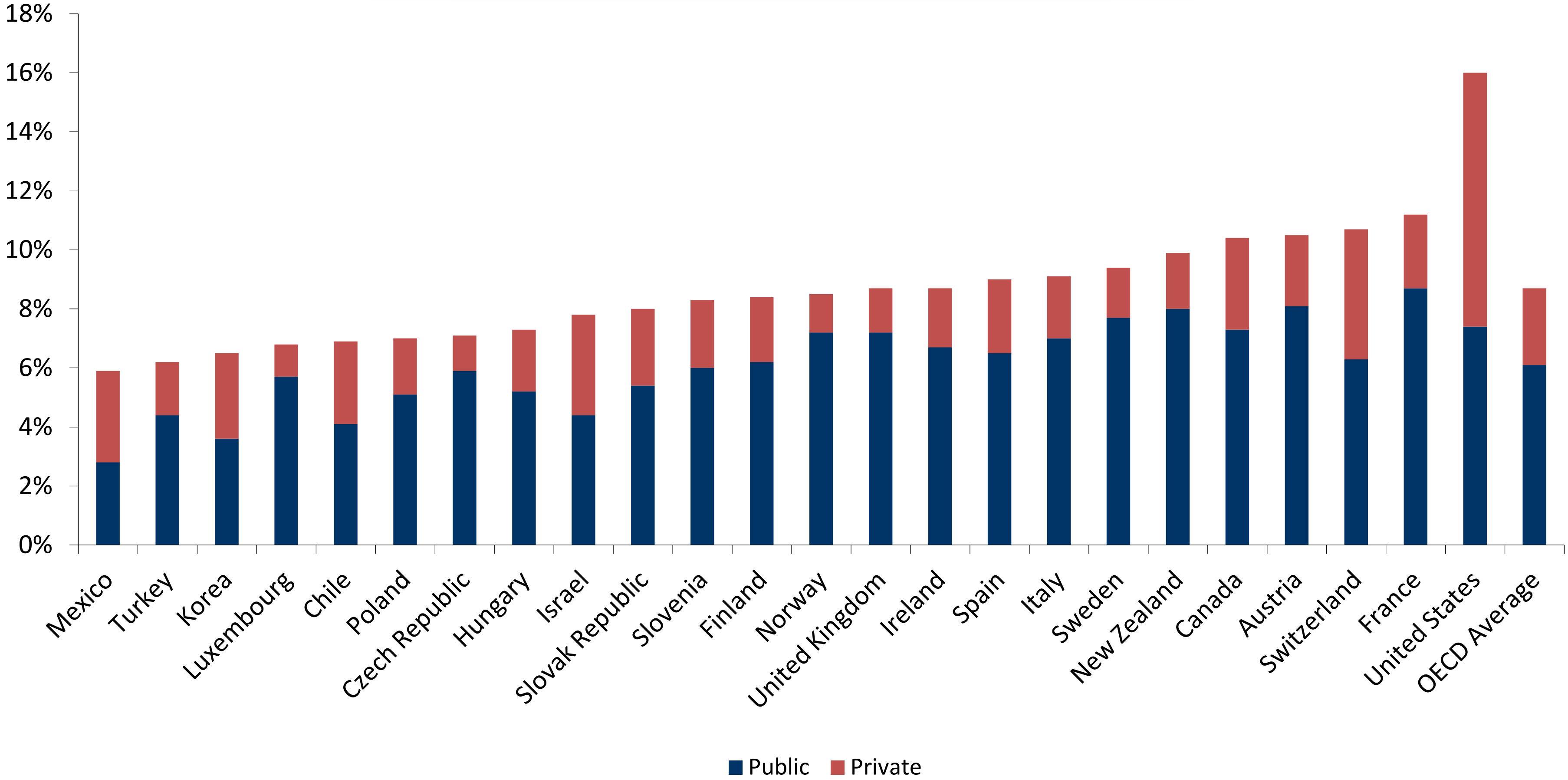
Drivers of Entitlement Spending Growth (Percent of GDP)



Source: Committee for a Responsible Federal Budget , CBO Long-term Budget Outlook, 2010.

Health Care Spending by Country

Percent of GDP (2008)



Source: Committee for a Responsible Federal Budget, 2008 Data from the Organization for Economic Cooperation and Development.

THE SOLUTION

Goal: Return debt/GDP to sustainable ratio within ten years and keep it there

- 60% debt/GDP is a generally accepted metric
- Would require ~ $5 trillion in "savings" over 10 years
- "Savings" measures against policy baseline, not current law

1. Cap discretionary spending

- Security
- Non-Security

2. Tax reform – raise revenue, but pro-growth

- Corporate and individual
- Lower rates, flatter structure
- Broaden base (scrap most deductions and credits – “loopholes”)

3. Reform entitlements

- Medicare and Medicaid → lower growth
- Social Security → return to 75 year solvency

Everyone knows what needs to be done:

POLICY	SIMPSON-BOWLES PLAN	BPC TASK FORCE (DOMENICI-RIVLIN) PLAN	GANG OF SIX
Debt-to-GDP in 2021	**65%**	**57%**	**68%**
Defense and Domestic Discretionary	• Freezes spending for 2012, then cuts back to 2008 levels in 2013, followed by seven years held to half the rate of inflation	• Freezes discretionary spending for five years, then caps growth at GDP	• Impose statutory discretionary spending caps through 2015 • Require Budget Committees to extend discretionary caps and enforcement mechanisms through 2021
Health	• Uses Medicare's purchasing power to increase rebates from pharmaceutical companies • Converts Federal Employee's Health Benefits (FEHB) program from defined benefit to defined contribution (i.e., premium support), with support growing at GDP+1% per beneficiary • Starting in 2020, establishes a global cap on all federal healthcare spending (including Medicare, Medicaid, CHIP, FEHB, and TRICARE) to limit growth to GDP+1%	• Uses Medicare's purchasing power to increase rebates from pharmaceutical companies • Starting in 2018, transforms Medicare to a premium-support model, but maintains traditional Medicare as default option, and annually grows support level at GDP+1% per beneficiary • Medicaid: Limits program growth starting in 2018: One option would end federal matching payments in Medicaid by decoupling the system, while maintaining strong maintenance of effort requirements	• Review total federal health care spending, starting in 2020, with a target of holding growth to GDP+1% per beneficiary, and require action by Congress and the President if exceeded • Spend healthcare dollars more efficiently in order to strengthen Medicare / Medicaid, while maintaining the basic structure of these critical programs

POLICY	SIMPSON-BOWLES PLAN	BPC TASK FORCE (DOMENICI-RIVLIN) PLAN	GANG OF SIX
Social Security	• Proposes 75-year solvency package	• Proposes 75-year solvency package	• Requires Congress to propose a package for 75-year solvency
Other Mandatory Spending	• Reforms farm programs • Reforms military retirement • Reforms civilian retirement • Imposes COLA change across government	• Reforms farm programs • Reforms military retirement • Reforms civilian retirement • Imposes COLA change across government	• Requires Committees to deliver savings in several mandatory savings areas over 10 years
Individual Tax Reform	• Cuts individual income tax rates; creates three brackets of **12%, 22%, and 28%** • Repeals Alternative Minimum Tax (AMT) • Eliminates almost all deductions and credits • Converts charitable, mortgage, and retirement savings deductions into refundable credits • Raises federal gas tax by 15 cents	• Cuts individual income tax rates; creates just two brackets of **15% and 27%** • Repeals Alternative Minimum Tax (AMT) • Eliminates almost all deductions and credits • Converts charitable, mortgage, and retirement savings deductions into refundable credits • Introduces a Debt Reduction Sales Tax of 6.5%	• Cuts individual income tax rates; creates three brackets of **8-12%, 14-22%, and 23-29%** • Repeals Alternative Minimum Tax (AMT) • Additional revenue from tax reform must be applied to either rate reductions or deficit reduction • Reforms, but does not eliminate, tax expenditures for health, charitable giving, home ownership, and retirement
Corporate Tax Reform	• Cuts corporate rate to **28%** • Eliminates almost all deductions and credits • Moves to territorial system	• Cuts corporate rate to **27%** • Eliminates almost all deductions and credits	• Single corporate tax rate between **23 – 29%** • Moves to territorial system

- **Caps discretionary spending for 10 years – "saves" $900 billion**
- **Creates Joint Select Committee on Deficit Reduction**

  ("Super Committee")

  - Will seek $1.2 to 1.5 trillion in additional savings over 10 years
  - Must report by November 23, 2011
  - Congress will conduct "up or down vote" by December 23
- **Total savings of $2.1 to 2.4 trillion**

- **If the Super Committee fails to agree on at least $1.2 trillion in savings (as scored by the Congressional Budget Office), there will be across-the-board cuts beginning in January 2013**
  - 50% in defense spending
  - 50% in non-exempt, non-defense discretionary and entitlements

- **<u>Default case</u> -- If the Super Committee agrees on nothing:**
  - $55 billion annual cut from defense spending
  - $35 billion annual cut from non-exempt, non-defense discretionary spending
  - $20 billion annual cut from Medicare and other non-exempt entitlement programs

- **Requires <u>vote</u> on joint House/Senate resolution proposing Balanced Budget Amendment to the Constitution**
  - Needs 2/3 vote of House and Senate
  - Then sent to States, where it must be ratified by ¾ of States

- **Increased debt ceiling by $2.1 trillion (through early 2013)**