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Reducing the Budget Deficit: The President's Fiscal Commission and Other Initiatives

Updated June 8, 2011

Congressional Research Service
https://crsreports.congress.gov
R41784

CRS REPORT
Prepared for Members and
Committees of Congress

Summary

The federal budget is on an unsustainable path. Though deficit levels are currently elevated, they are expected to fall towards the middle part of the decade as the economic recovery continues. Looking beyond this decade, however, the country's fiscal outlook becomes more bleak as spending on programs like Social Security, Medicare, and Medicaid, and net interest are projected to consume a larger portion of the total federal budget.

Budget policy debates thus far in the 112th Congress have centered on how to achieve meaningful deficit reduction and implementation of a plan to stabilize the federal debt. Various views and opinions exist about how to improve the long-term fiscal outlook, specifically centered around which programs should be prioritized or sacrificed. Delays in taking corrective action will exacerbate the size of the changes that need to be made. At the extreme, if no actions are taken, the United States risks a significant economic crisis and the government may be limited in its ability to address these challenges.

Any choices that are made to address the budgetary imbalances have important economic, social, and generational impacts in the present and the future. In order to undertake any substantive changes to the federal policies and programs, sacrifices to favored programs and increases in taxes will likely be required. The sacrifices made today are essential to minimizing the size of potential programmatic cuts or tax increases, reducing the probability of a future crisis, and ensuring an improved standard of living for future generations.

A number of groups have published reports detailing possible ways that the country can put itself on a more sustainable fiscal path. Though the fiscal reform plans differ, they all have several things in common. They recommend that implementation of their plans largely begin in FY2012, with the goal of stabilizing the debt at 60% of GDP near the end of the decade. Over the longer-term, they all provide plans to reduce this ratio further. Some of the reports focus on specific policy options that are available, while others focus on issues of accountability and transparency in the budget process. Some plans also recommend implementing additional, immediate short-term stimulus that would increase the deficit before calling for deficit reduction. In addition, other groups, including the Senate "Gang of Six" and a new group comprised of Members of Congress and led by Vice President Biden, are formulating additional bipartisan deficit reduction proposals.

President Obama created a bipartisan fiscal commission tasked with putting the nation on a sustainable fiscal path. The commission had two main goals: balancing the budget excluding net interest payments by FY2015 and examining ways to achieve fiscal sustainability over the long run. The Fiscal Commission's final report contained recommendations that would 1) reduce the deficit by a combined $4 trillion by FY2020; 2) lower the budget deficit to 2.3% of GDP by FY2015; 3) reduce tax rates and tax expenditures; 4) cap revenue collection at 21% of GDP; 5) ensure the solvency of Social Security; and 6) reduce the federal debt to 60% of GDP by FY2023 and 40% by FY2035. In order to achieve these savings, the plan includes cuts to both security and non-security discretionary programs, health care cost containment, additional mandatory savings through cutting agriculture subsidies and the civil service retirement system, Social Security reforms, comprehensive tax reform, and budget process changes.

This report discusses why the federal government's fiscal path is unsustainable and provides an overview of proposals of selected groups that have published detailed recommendations on how to return the federal budget to a sustainable course.

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The federal budget is on an unsustainable path as a result of projected federal debt levels that will continue to grow relative to the size of the economy. In recent years, federal debt has increased as a result of elevated budget deficits attributed to the economic downturn and the policies enacted to accelerate economic recovery. Under baseline assumptions, deficit levels are expected to fall towards the middle part of the decade, as the economy recovers, before rising again by the end of the decade. If these baseline assumptions are altered to more closely match actual policy, the deficit shows the same pattern with less improvement in the near term. Beyond this decade, however, the federal government's fiscal outlook becomes bleaker as spending on mandatory programs, such as Social Security, Medicare, and Medicaid, and net interest consume an increasing portion of the total federal budget resulting in very large increases in federal debt.

Various views and opinions exist about how to change the long-term fiscal outlook, specifically concerned with which programs should be prioritized or sacrificed. Because known imbalances already exist between spending and revenue over the long term, delays in taking corrective action will exacerbate the size of changes needed to return to fiscal sustainability, with greater sacrifices facing programs and individuals when the imbalance is addressed. At the extreme, if no action is taken, the United States will likely face a significant economic crisis.

This report provides an explanation of why the federal government's fiscal path is unsustainable, a brief overview of the short- and long-term outlook for the federal budget, and a discussion of the framework and tradeoffs in which to consider proposed policy options to make the budget sustainable. Finally, this report briefly discusses the proposals of selected groups that have published detailed recommendations on how to return the federal budget to a sustainable course.

Federal Budget Outlook

In recent years, the budget deficit, the difference between spending and revenues, has significantly exceeded economic growth. If the budget deficit exceeds economic growth for a sustained period, a variety of problems could result. These include a lower national saving rate, higher interest rates, and higher levels of inflation. Moreover, budget deficits add to the level of national debt, as additional borrowing is needed to finance the gap between spending and revenues.[1] Doing nothing to combat the country's deficit and rising debt levels can lead to more severe problems over the long term, including the potential for the United States government to default on its obligations. As the debt grows, the nation relies on the willingness of investors to buy it. If investors lose confidence in the ability of the United States to bring its fiscal house under control, at some point they would no longer be willing to continue buying debt and financing the budget deficit except at very high interest rates.[2] Consequently, the longer that policymakers wait to improve the fiscal outlook, the larger changes will likely have to be, the

[1] In this report, discussion of federal debt refers to debt held by the public, unless otherwise noted. The other portion of gross (or total) debt is intragovernmental debt, what is owed by one part of the government to another, which has no effect on the economy. For more information, see CRS Report RL30520, *The National Debt: Who Bears Its Burden?*, by Marc Labonte.

[2] On April 18, 2011, Standard & Poor's revised their outlook on the long-term rating of U.S. debt from stable to negative due to "very large budget deficits and rising government indebtedness" and an unclear path to addressing these issues. Though this did not represent a downgrade of the U.S. credit rating, it does provide an indication of how the financial markets view the current U.S. budget outlook. Standard & Poors, "'AAA/A-1+' Rating On United States of America Affirmed; Outlook Revised To Negative", April 18, 2011, available at http://www.standardandpoors.com/ratings/articles/en/us/?assetID=1245302886884&intcmp=239.

greater the risk of a lack of investor confidence, and the more likely the risk of a severe financial crisis.

What is Fiscal Sustainability?

Whether or not the federal budget is fiscally sustainable is generally measured by the annual changes in the ratio of debt held by the public-to-GDP (hereafter referred to as debt-to-GDP ratio). Budget deficits will generally increase the level of total federal debt. If the budget is in surplus, total federal debt will generally fall.[3] Temporary increases in the debt-to-GDP ratio are not necessarily problematic. However, if the debt-to-GDP ratio is persistently rising, it is considered unsustainable. If GDP growth equals or exceeds the annual budget deficit as a percentage of GDP, meaning that the debt-to-GDP ratio would generally remain constant or fall, then the budget is considered sustainable.

The issue of fiscal sustainability has gained prominence due to the significant increases in the debt-to-GDP ratio over the last several years as a result of the recession and financial crisis and the projected increases over the long term. In FY2007, the debt-to-GDP ratio stood at 36.2%. At the end of FY2010, the debt-to-GDP ratio stood at 62.1%, and is projected by the Congressional Budget Office (CBO) to rise to 87.4% by FY2021, under the President's proposed budget.[4] While there is no level of debt-to-GDP that is universally regarded as optimal, some budget reform proposals recommended maintaining the debt-to-GDP ratio at 60% or less going forward.

Two sets of policy issues currently affecting the size of the budget deficit and the federal debt: economic recovery and related policies in the short run and imbalances in retirement and healthcare programs in the long run.

Short-Run Issues

The economy is still recovering from the most recent recession, which lasted from December 2007 to June 2009.[5] During this period, the federal budget deficit rose from 1.2% of GDP in FY2007 to 9.9% in FY2009. The budget deficit remained elevated at 8.9% of GDP in FY2010. Debt held by the public rose from 36.2% of GDP at the end of FY2007 to 62.1% of GDP at the end of FY2010.[6] The budget deficit grew primarily for two reasons: 1) government actions taken to combat the economic downturn; and 2) significantly lower revenue and higher spending levels directly attributable to the economic conditions.

Generally, as debt rises, the portion of the federal budget devoted to interest payments on it also rises, leaving fewer resources to finance other priorities. As federal debt continues to accumulate, interest payments are generally expected to rise especially as the economic recovery continues and interest rates increase. Even if the current level of federal debt were to remain stable, interest payments, or the cost of holding that debt, would still need to be made on the debt that has

[3] The level of "gross" or total federal debt is comprised of debt held by the public (the cumulative amount that the government has borrowed to finance its budget deficits) plus intragovernmental debt (what the government owes to itself). Total debt can rise under a budget surplus if the increase in intragovernmental debt exceeds the level of the surplus.

[4] U.S. Congressional Budget Office, *Preliminary Analysis of the President's Budget for 2012*, March 2011, Table 1, available at http://www.cbo.gov/ftpdocs/121xx/doc12103/2011-03-18-APB-PreliminaryReport.pdf.

[5] National Bureau of Economic Research, "US Business Cycle Expansions and Contractions", available at http://www.nber.org/cycles/cyclesmain.html.

[6] U.S. Congressional Budget Office, *Historical Tables*, Table F-2, available at http://www.cbo.gov/ftpdocs/108xx/doc10871/HistoricalTables.pdf.

already been issued. Even at a stable level of debt, interest payments could still increase if maturing debt is refinanced at higher interest rates.

In the short term, continued economic recovery will lead to decreases in the budget deficit relative to its current level. Revenues will automatically increase as unemployment falls and spending will automatically decrease due to less reliance on federal programs meant to provide assistance during economic downturns. The deficit is not projected to decline enough to stabilize the debt relative to GDP, however. Though many argue that fiscal stimulus and other actions were needed to help the economy recover, accumulated large budget deficits and resulting high debt levels will have an effect for many years.

Long-Run Issues

In the long run, the United States faces several major challenges. Most budget analysts agree that federal spending on healthcare is the largest contributor to the nation's long-term fiscal challenges. This is largely due to projections that the rapid growth in healthcare costs will continue in the future.[7] In addition, benefits owed to future retirees under the Social Security program are growing out of balance with the revenue stream that finances the program.

CBO projects that, under certain assumptions, federal spending on major health programs, Social Security, and net interest payments alone could exceed the revenues collected by the federal government in 2024.[8] This scenario would mean that, without increasing revenues or altering spending patterns, federal outlays other than for these programs would need to be deficit financed. In other words, if policy were simply allowed to continue on its current path after the economy recovers, there could be a significant structural deficit that would be difficult to overcome without programmatic reforms.

In the absence of changes to correct this future imbalance between spending and revenue, there would likely be negative effects on future living standards and the economy and an increased likelihood of a financial crisis. If current policy is maintained and long-run deficits remain high, interest rates on U.S. Treasury bonds would likely rise substantially, both as a result of the higher risk that the Treasury might ultimately default on the debt and as a result of the government's demand for borrowed funds. If the government financed its rising budget deficit by increasing the money supply, inflation and interest rates would also increase significantly. Higher interest rates, in turn, make investment more expensive, causing economic growth to slow and ultimately leading to lower U.S. living standards.[9] CBO estimates that, by 2035, the deficits resulting from current policy would reduce GDP by 15% relative to what it would have been.[10]

Recent Developments

Budget policy debates thus far in the 112th Congress have centered on how to achieve meaningful deficit reduction and implementation of a plan to stabilize the federal debt. On April 5, 2011,

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[7] It is unclear whether the recently enacted health reform legislation will control costs over the long term. See U.S. Government Accountability Office, *The Federal Government's Long-Term Fiscal Outlook*, January 2011, available at http://www.gao.gov/new.items/d11451sp.pdf.

[8] CRS calculations based on U.S. Congressional Budget Office, *The Long Term Budget Outlook*, June 2010, Data Underlying Scenarios and Figures, available at http://www.cbo.gov/ftpdocs/115xx/doc11579/LTBO-2010data.xls.

[9] U.S. Congressional Budget Office, For more information, see CRS Report RL32747, *The Economic Implications of the Long-Term Federal Budget Outlook*, by Marc Labonte.

[10] U.S. Congressional Budget Office, *The Long Term Budget Outlook*, June 2010, p. 19.

Representative Paul Ryan, the Chairman of the House Budget Committee, released a report entitled "The Path to Prosperity: Restoring America's Promise," which provided a plan to stabilize the federal debt.[11] Under the assumptions in Chairman Ryan's plan, the deficit would be reduced by $1,649 billion relative to the CBO current law baseline over the FY2012 and FY2021 period.[12] If all of his proposals are implemented, fiscal sustainability would be achieved by roughly FY2030 with a declining debt-to-GDP ratio thereafter.[13]

Though no formal proposal has been introduced in the Senate, a group of six senators, known as the "Gang of Six", has been working on formulating a bipartisan deficit reduction proposal. This proposal is expected to be released in Spring 2011.

On April 13, 2011, President Obama released a deficit reduction proposal that would include spending cuts and tax reform.[14] The proposal also included a "debt failsafe" trigger that would require a debt-to-GDP ratio that is stabilized by FY2014 and declining thereafter. If this is not achieved, the trigger would automatically initiate across the board spending cuts and reductions in tax expenditures (i.e., broadening the tax base and raising revenue). The proposal also included the creation of a new bipartisan, bicameral group, led by Vice President Biden, to negotiate an agreement on a legislative framework for comprehensive deficit reduction.

Framing the Issues and Evaluating the Tradeoffs

Budgets are a reflection of the nation's priorities and allocate limited resources. To achieve fiscal sustainability, cuts or reductions to favored programs and increases in taxes will likely be required. Spending and tax law changes made in the near-term can reduce the probability of a future crisis and help ensure an improved standard of living for future generations.

Many federal programs help the elderly and the poor. In FY2010, federal spending on Social Security, and the major mandatory federal healthcare programs, including Medicare and Medicaid, accounted for 43% of all federal spending. Spending on income support programs, like unemployment compensation and the Supplemental Nutrition Assistance Program (SNAP), accounted for an additional 12% of all federal spending.[15] Under certain assumptions, spending on federal health programs is expected to exceed total revenue collected by the middle of the century.[16] In the absence of changes made to these and other programs, spending devoted to many national priorities, such as defense, education, the environment, or energy, will either be deficit financed or require significant increases in revenues.

Budgetary choices, particularly centered around the magnitude of changes that would be required to return to fiscal sustainability, have important economic, social, and generational impacts in the present and the future.

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[11] The Path to Prosperity: Restoring America's Promise can be found at http://budget.house.gov/UploadedFiles/PathToProsperityFY2012.pdf.

[12] This is relative to the CBO March 2011 baseline, which is different than the baselines used to measure deficit reduction under other proposals discussed later in this report.

[13] U.S. Congressional Budget Office, *Long-Term Analysis of a Budget Proposal by Chairman Ryan*, Table 1, available at http://www.cbo.gov/ftpdocs/121xx/doc12128/04-05-Ryan_Letter.pdf.

[14] The proposal can be found at http://www.whitehouse.gov/the-press-office/2011/04/13/fact-sheet-presidents-framework-shared-prosperity-and-shared-fiscal-resp.

[15] U.S. Congressional Budget Office, *The Budget and Economic Outlook: An Update*, Aug 2010, Tables 1-2 and 1-4, available at http://www.cbo.gov/ftpdocs/117xx/doc11705/08-18-Update.pdf.

[16] CRS calculations based on U.S. Congressional Budget Office, *The Long Term Budget Outlook*, June 2010, Data Underlying Scenarios and Figures, available at http://www.cbo.gov/ftpdocs/115xx/doc11579/LTBO-2010data.xls.

Social Effects

Certain federal programs are specifically aimed at reducing income inequality. However, because spending on many of these programs, known as mandatory or direct spending, occurs automatically without explicit congressional action, mandatory spending is harder to control on an annual basis. Mandatory spending currently comprises roughly 60% of the federal budget. Because of the nature of mandatory programs, changes in spending levels can vary significantly with the economic cycle as more people come to temporarily rely on certain benefits. Spending on these "automatic stabilizers" is intended to counteract economic downturns by providing benefits, such as unemployment insurance and income support programs, to a greater segment of the population. This additional spending during these periods causes deficits to increase or surpluses to shrink. However, increases in outlays as a result of economic downturns may do more to alleviate the effects of an economic downturn than other types of spending.

Mandatory spending is projected to increase as a share of the total budget over time, mainly due to rising healthcare costs.[17] These programs represent one of the largest burdens to future federal spending and will likely have to be curtailed to meaningfully address these budgetary issues. Cutting these federal benefits by means of curtailing mandatory spending may also result in harm to vulnerable members of society.

Similar to the social effects of spending programs discussed above, tax policy also plays a role in reducing income inequality and affects the deficit. The distribution of the federal tax burden is a perennial topic of concern and debate. Economic theory does not provide an answer as to how the tax burden should be distributed among people with unequal incomes. A consensus seems to have evolved that the federal tax system should be progressive, a goal that, over time, has been achieved.[18]

During times of economic downturn, tax revenues tend to fall. When the economy is performing well, tax collections tend to increase. Given the current concerns with the level of federal debt, evaluating changes to tax policy may be necessary. Economists evaluate the relative merits of tax policies using the concepts of economic efficiency and equity. Tax systems that maximize economic efficiency oftentimes do not have desirable distributional (equity) consequences. Generally speaking, tax revenues can be enhanced by increasing tax rates or by eliminating various exemptions, deductions, and credits available under the current tax code (i.e., broaden the tax base).[19] While making changes to the tax code may be desired to increase revenue collection, it may increase the tax burden on individual societal groups that may be less able to afford it. Others argue that certain changes to the tax code may increase the tax burden on groups that can afford it, but are also the source of economic activity and therefore should not have to bear the burden of a tax increase.

Economic Effects

Budget policy can play a strong role in determining long-run economic circumstances for individuals and the government. Every dollar of income can be either spent or saved to be spent

[17] Mandatory spending includes federal government spending on entitlement programs as well as other budget outlays controlled by laws other than appropriation acts. For more information, see CRS Report RL33074, *Mandatory Spending Since 1962*, by D. Andrew Austin and Mindy R. Levit.

[18] For more information, see CRS Report RL32808, *Overview of the Federal Tax System*, by Molly F. Sherlock and Donald J. Marples.

[19] For more information, see CRS Report R41641, *Reducing the Budget Deficit: Tax Policy Options*, by Molly F. Sherlock.

later. National saving is measured by private saving (the saving of individuals) plus public saving (the budget surpluses or deficits). Because a budget deficit represents negative public saving, it lowers the national saving rate. In order to sustain large budget deficits, the economy requires some combination of higher private saving, lower investment, and higher borrowing from abroad.

A low or negative national saving rate has economic consequences. If private saving is inadequate, the government may be required to fill the gap where an individual did not adequately save for retirement, potentially increasing budgetary imbalances. If public saving is insufficient (i.e., there is a budget deficit), the government will have to sell Treasury securities to domestic and foreign investors to fill the gap. Some economists have argued that borrowing much more from abroad is unrealistic, and the already-heavy U.S. reliance on such borrowing makes the maintenance of a large deficit even less sustainable.[20] However, negative public saving (i.e., budget deficits) is not necessarily a problem if, for example, spending is used to finance national investments.[21] On the other hand, running sustained periods of negative saving, whether in the private or public sector, could harm long-term growth. It is difficult to find the optimal match between saving and investment.[22]

Generally economic theory indicates that higher levels of government borrowing will compete with other potential uses of the same capital, including private investment. If domestic public investment crowds out domestic private investment, fewer resources would be available to grow the capacity of the private sector. Higher levels of borrowing could lead to increases in interest rates, which would increase the costs of borrowing for everyone. An increase in interest rates could reduce investment over time. Diverting productive capital from private investment would reduce total economic output in the long run. If negative government saving leads the federal government to collect more from individuals and businesses, via higher taxes as a percentage of GDP in order to finance higher debt service costs, the government would control more of the country's resources, leaving a lower proportion available to the private individuals and businesses.

Generational Effects

Budget deficits, the resulting debt, and future payments on that debt force future generations to pay for those things that the country is unwilling to pay for now. That is, the burden of the national debt is largely shifted towards future generations. As a result of the national debt and associated interest payments, future generations will likely face a reduction in economic output and lower levels of real income. Generally, economic theory indicates that the reduction of output in the future constitutes the burden of the national debt, which is borne largely by future generations.[23]

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[20] For more information, see CRS Report R40770, *Economic Effects of a Budget Deficit Exceeding $1 Trillion*, by Marc Labonte.

[21] Currently, total federal capital investment is much smaller than the budget deficit. U.S. Office of Management and Budget, *Budget for Fiscal Year 2012, Historical Tables*, Table 9.1, available at http://www.whitehouse.gov/omb/budget/Historicals/.

[22] For more information, see CRS Report RS21480, *Saving Rates in the United States: Calculation and Comparison*, by Craig K. Elwell.

[23] These relationships assume that the economy is functioning at full employment, during which time the economy experiences an increase in aggregate demand due to an increase in government expenditures. This increase in demand results in an increase in real interest rates, which would decrease or crowd out private sector spending. However, if the economy is in a recession, additional government spending that contributes to a budget deficit can occur with little or no crowding out. For more information, see CRS Report RL30520, *The National Debt: Who Bears Its Burden?*, by Marc Labonte.

Other imbalances in government spending can also have effects on future generations. As the retirement of the baby boom generation begins, an increasingly larger portion of the population will be over 65. For programs like Social Security and Medicare, the amount of benefits paid to older Americans will exceed the amount of revenue collected from current workers. The assets held in these programs' trust funds, which presently contain surpluses, will be drained in order to pay benefits. In order to correct this imbalance, future benefits will have to be reduced or other sources of funding will have to be used to pay full benefits. If policymakers wait until trust funds are depleted to alter programs, the costs (whether in the form of higher taxes or lower spending) will be solely borne by future generations.

Work of Fiscal Reform Groups

Many budget analysts are concerned about future levels of federal debt and acknowledge that the current spending and revenue collection cannot continue at current or projected future levels. A number of groups have published reports detailing possible ways that the federal government can put itself on a more sustainable fiscal path. These recommendations are not without the tradeoffs discussed earlier in the report. The longer that the country continues without a plan to stabilize its fiscal future, the more costly reform will be and the more plausible that reforms will be forced, as a result of a severe fiscal crisis, rather than well-planned. None of the recommendations in any plan can proceed without legislative action.

Though the fiscal reform plans discussed here differ, they all have several things in common. They propose that implementation of their recommendations beginning around FY2012, with the goal of stabilizing the debt at 60% of GDP near the end of the decade.[24] Over the longer term, they all propose to reduce this ratio further. In the outyears, the reports agree that the costs of federal healthcare programs and reform of the tax code are some of the major issue areas that needs to be addressed. They also recommend cuts to discretionary programs. Some of the reports focus on specific policy options that are available, while others focus on issues of accountability and transparency in the budget process, featuring recommendations for new budget procedures. Some plans also recommend implementing additional, immediate, short-term stimulus that would increase the deficit before beginning deficit reduction once the economy fully recovers. Taking short-term policy actions, such as enacting additional fiscal stimulus, that would increase the federal debt would reduce income in the longer term unless offsets to reduce future debt levels are also enacted.[25] Ultimately, no matter which policy is put in place, debt stabilization is key to restoring fiscal sustainability over the long term.

This section analyzes five widely discussed proposals from non-partisan groups: (1) President Obama's National Commission on Fiscal Responsibility and Reform, (2) Galston-MacGuineas Plan, (3) Peterson-Pew Commission on Budget Reform, (4) National Research Council and National Academy of Public Administration, and (5) Debt Reduction Task Force.[26] Each discussion contains a brief description of the composition of each of these groups, followed by a

[24] At the end of FY2011, the debt-to-GDP ratio is expected to be 68.9%. By the end of FY2021, the debt-to-GDP ratio is expected to rise to 75.6% under current law. If all of the policies in the President's FY2012 budget proposal were enacted, the debt-to-GDP ratio is projected by CBO to rise to 87.4% by FY2021. U.S. Congressional Budget Office, *An Analysis of the President's Budgetary Proposals for Fiscal Year 2012*, Table 1-1. The Peterson-Pew Commission, whose report is further analyzed later, explains that the 60% debt-to-GDP ratio was chosen because, in their view, it is important for debt levels to be stabilized at this level to reassure credit markets. Another reason for choosing this level, as noted by the Commission, was that it has become a recognized international standard.

[25] U.S. Congressional Budget Office, *Testimony of Douglas W. Elmendorf, Director, The Economic Outlook and Fiscal Policy Choices, before the Committee on the Budget United States Senate*, September 28, 2010, pp. 3-5.

[26] Membership in some of these groups overlaps.

discussion of the main goals of each proposal and recommendations to achieve the targets. **Table 1** provides a summary of these plans by illustrating selected measures of deficit and debt levels if the plans are fully implemented.

Table 1. Overview of Plan Components

(as projected by each group)

	Budget Deficit FY2020 (% of GDP)	Debt Held by the Public FY2020 (% of GDP)
National Commission on Fiscal Responsibility and Reform	1.2%	65.5%
Galston-MacGuineas Plan	0.7%	60.0%
National Research Council and National Academy of Public Administration	1.9%	60.6%
Debt Reduction Task Force	1.5%	60.0%

Source: *The Moment of Truth: Report of the National Commission on Fiscal Responsibility and Reform*, Figures 16 and 17. *The Future is Now: A Balanced Approach to Stabilize the Public Debt and Promote Economic Growth*, pp. 4-5. *Choosing the Nation's Fiscal Future*, Table F-3. *Restoring America's Future*, pp. 21 and 127.

Notes: The Peterson-Pew Commission on Budget Reform was not included in this table because their plan centers around budget process reforms to achieve deficit reduction. The figures provided in this table are based on the scores provided by each organization in their reports. Both the National Research Council and National Academy of Public Administration and the Debt Reduction Task Force plans provide projections beyond FY2020.

The number of groups working on this issue far outnumbers those that are discussed below. At the end of this section, a list of plans not discussed in detail in this report is also provided.

National Commission on Fiscal Responsibility and Reform

As a policy initiative included in his FY2011 budget proposal, President Obama committed to create a bipartisan fiscal commission to be tasked with putting the nation on a sustainable fiscal path. The commission had two main goals: balance the budget excluding net interest payments by FY2015 (also known as primary balance) and examine ways to achieve fiscal sustainability over the long run.[27]

By executive order, President Obama created the 18-member National Commission on Fiscal Responsibility and Reform (Fiscal Commission) on February 18, 2010.[28] The commission's co-

[27] U.S. Office of Management and Budget, *The Budget of the U.S. Government, The Budget for Fiscal Year 2011*, p. 39, available at http://www.whitehouse.gov/omb/budget/Overview/.

[28] President of the United States, *Executive Order 13531—National Commission on Fiscal Responsibility and Reform*, February 18, 2010, available at http://www.whitehouse.gov/the-press-office/executive-order-national-commission-fiscal-responsibility-and-reform. See also http://www.fiscalcommission.gov/. Prior to the creation of the Fiscal Commission by executive order, there were several proposals in the 111th Congress to establish a special commission whose recommendations could have the effect of addressing some, or all, aspects of the federal government's long-term fiscal situation. These proposals would require the commission or task force to submit proposed legislative language for congressional consideration. Each also would create special procedures to encourage expedited consideration of a commission's proposed legislative language, effectively forcing Congress to take action on the recommendations of the commission. However, because no agreement could be reached on the creation of a Congressional commission for this purpose, President Obama created the Fiscal Commission by executive order. For more information, see CRS Report R40986, *Proposals for a Commission to Address the Federal Government's Long-Term Fiscal Situation*, coordinated by Clinton T. Brass, Matthew Eric Glassman, and Jacob R. Straus.

chairs, Erskine Bowles, former chief of staff to President Clinton, and former Senator Alan Simpson, released a draft proposal on November 10, 2010, accompanied by a second document, titled *$200 Billion in Illustrative Savings*, providing more detail on proposed discretionary spending cuts.[29] These proposals were amended and the final report was released on December 1, 2010.[30] On December 3, 2010, the commission voted 11-7 in favor of the recommendations in the final report, fewer than the 14 votes needed for formal approval of the commission's proposal.

The Fiscal Commission's final report, *The Moment of Truth: Report of the National Commission on Fiscal Responsibility and Reform*, contained recommendations that would 1) reduce the deficit by a combined $4 trillion between FY2012 and FY2020; 2) lower the budget deficit to 2.3% of GDP by FY2015; 3) reduce tax rates and tax expenditures to collect more revenue on net; 4) cap revenue at 21% of GDP; 5) ensure the solvency of Social Security; and 6) reduce the federal debt to 60% of GDP by FY2023 and 40% by FY2035. In order to achieve these savings, the proposal included cuts to both security and non-security discretionary programs, health care cost containment, additional mandatory savings through cuts to agriculture subsidies and the civil service retirement system, Social Security reforms, comprehensive tax reform, and budget process changes. Excluding interest savings, spending cuts account for 69% of deficit reduction, while revenue increases account for the remaining 31% over the FY2012-FY2020 period. **Table 2** illustrates the savings achieved under their plan in FY2015 and FY2020.

Table 2. Summary of Fiscal Commission Plan

(deficit reduction; in billions)

	FY2015	FY2020
Savings In:		
Discretionary	$172	$291
Social Security	$19	$54
Health Care	$35	$62
Other Mandatory	$19	$42
Revenue Increases:		
Tax Code	$80	$180
Other Revenue	$18	$43
Net Interest Savings	$33	$199
Total Deficit Reduction	$376	$871
Projected Deficit Under Plan (% of GDP)	2.3%	1.2%

[29] The co-chairs' proposal contained recommendations, which, under their calculations, would lower the deficit in FY2015 to 2.2% of GDP, with cuts beginning in FY2012. The proposal included $200 billion in savings in discretionary spending in FY2015, mandatory savings derived from farm subsidies and military and federal civil service retirement, and a tax reform proposal. To achieve additional savings over the long term, the proposal also included a plan to ensure Social Security solvency for the next 75 years and achieve healthcare related savings. The co-chairs' proposal and related documents can be found at http://www.fiscalcommission.gov/news/cochairs-proposal.

[30] The Fiscal Commission's final report is available at http://www.fiscalcommission.gov/news/moment-truth-report-national-commission-fiscal-responsibility-and-reform.

Source: *The Moment of Truth: Report of the National Commission on Fiscal Responsibility and Reform*, Figures 3 and 17.

The savings shown in **Table 2** are relative to the Commissions "Plausible" baseline, which assumes the following adjustments: (1) a permanent "doc fix" for Medicare physician payments; (2) a permanent extension of the "Bush tax cuts" for single taxpayers with AGI below $200,000 and married taxpayers with AGI below $250,000; (3) an extension of the estate tax at 2009 levels; (4) indexing the AMT for inflation; (5) a level of discretionary spending in the FY2011 President's Budget; and (6) a gradual reduction of spending related to the conflicts in Iraq and Afghanistan. The "Plausible" baseline is similar to an extension of current policy, rather than current law as is depicted in the CBO baseline. If these spending and revenue levels were measured relative to current law rather than current policy, the Fiscal Commission's plan would actually increase the deficit through FY2014 and the debt-to GDP ratio through FY2018.[31] Beyond FY2014 and FY2018, the Fiscal Commission's plan reduces the deficit and debt-to-GDP ratio, respectively, relative to current law.

Discretionary Savings

The Fiscal Commission's report included cutting discretionary spending back to 2008 levels in real terms by 2013, with interim goals over the next two fiscal years to achieve that reduction. Beyond that, the report limited increases to discretionary spending at half of the rate of inflation through 2020. These spending limits would be enforced through the use of discretionary caps, which would require equal cuts, in percentage terms, in both security and non-security discretionary spending. The commission's report also recommended that the President propose annual limits on overseas contingency operations (OCO), which would not count against the general discretionary cap but would have their own limits.[32]

The report also recommended establishing a disaster fund, which would provide budget authority to be used for disasters, with strict parameters for its use. Any unused disaster funds from a fiscal year would be rolled forward to the next fiscal year. Along with this disaster fund, the commission's report included creating a strict definition of an "emergency" so that the designation is used for true emergencies, rather than as a way to circumvent fiscal caps. Finally, though the Fiscal Commission's report provided its own specific recommendations for cutting spending, it also recommended that executive agencies and Congress find additional ways to achieve savings and identify high-value investments.

Mandatory Savings

In addition to the reforms to discretionary spending discussed above, the commission's report included a number of immediate reforms to existing mandatory programs as well as proposals to slow the growth of healthcare costs. Over the longer term, the report recommended setting a target for the total federal budgetary commitment to healthcare. Changes to health-related spending included freezing Medicare physician payments through 2013 and a 1% cut in 2014, followed by a newly developed payment formula for 2015 and beyond, and reforming the long-term care insurance program (CLASS Act). Beyond these reforms, the report also included numerous additional savings proposals from the Medicare and Medicaid programs, medical

[31] Since the Fiscal Commission's plan was released, an updated CBO baseline was released in January 2011. The Commission's plan cannot be directly compared to the new CBO baseline, which reflects legislative changes and updated economic and technical projections since the August 2010 CBO baseline referred to in the Fiscal Commission's report.

[32] The Fiscal Commission's proposal for OCO spending was based on CBO's projections of troop reductions to 60,000 by 2015.

malpractice reform, and transforming the Federal Employees Health Benefits program into a defined contribution premium support plan.

Cuts to other mandatory spending programs were also recommended. The largest savings were derived from reforming federal retirement programs, reducing agriculture subsidies, eliminating some student loan subsidies, and allowing the Pension Benefit Guarantee Corporation the authority to increase premiums. Additional programmatic savings were also provided.

Social Security

One of the major themes of the Fiscal Commission's proposal was to ensure the solvency of Social Security over the next 75 years. In order to accomplish this, the report contained several recommendations to change benefits, increase taxes, increase the retirement age, and expand the size of the contributing population. Proposals to change the benefit structure included modifying the current benefit-formula calculation, creating an enhanced minimum benefit for low-wage workers, increasing benefits for the very old and long-time disabled, and allowing for flexibility in claiming benefits for those who cannot work to the normal retirement age. In order to pay for some of these increases in benefits, the Fiscal Commission's report recommended increasing the taxable maximum on wages and using a more appropriate measure to calculate the cost-of-living adjustment for beneficiaries. The report also recommended increasing the early and normal retirement ages to be more in line with life expectancy. Finally, newly hired state and local workers, currently not eligible for Social Security, would be included in the program.

Tax Reform

On the revenue side of the budget, the Fiscal Commission's report proposed comprehensive tax reform that would reduce individual and corporate tax rates, broaden the tax base, cut tax expenditures, and maintain or increase the progressivity of the tax code. Eliminating all tax expenditures, which would amount to roughly an additional $1 trillion in revenue a year, would allow for deficit reduction and for a reduction of tax rates in all tax brackets. The Fiscal Commission favored the plan that would eliminate most tax expenditures. However, their plan allowed for the option of choosing to keep some additional tax expenditures. This option would still result in lower tax rates, relative to the present rates, though they would be higher than if all tax expenditures were eliminated.

Corporate tax rates would also be reduced and business tax expenditures would be eliminated. Further, the report recommended enacting a competitive territorial corporate tax system where tax is imposed only in the country where business activity occurs and not in the country of ownership. Ultimately, these reforms would stabilize tax collections at 21% of GDP, somewhat higher than the historical average.

Other Reforms

Certain reforms to the budget process and other budget concepts were also recommended. Specifically related to the budget process, the report included establishing a debt stabilization process that would trigger enforcement provisions if the budget was not on track to be in primary balance by 2015 (the Fiscal Commission's target goal) or if the debt-to-GDP ratio was projected to increase in 2015 or thereafter. Further, the report also recommended that the Budget Committees review and reform existing budget concepts, including budget scorekeeping. Finally, the commission's report recommended the implementation of automatic triggers for long-term unemployment benefits under certain economic conditions, rather than ad-hoc legislative extensions.

Galston-MacGuineas Plan

The Committee for a Responsible Federal Budget (CRFB) published a comprehensive report titled *The Future is Now: A Balanced Approach to Stabilize the Public Debt and Promote Economic Growth*, a report co-authored by Bill Galston and Maya MacGuineas in September 2010.[33] Their recommendations for debt stabilization are based on five principles for reform: (1) no major sections of the federal budget should be declared off-limits; (2) certain areas of the budget that encourage growth, like public investment and education, should be targets for spending increases; (3) a strong safety net should remain to protect vulnerable populations; (4) spending transparency should be improved; and (5) the long-term challenges related to demographics and healthcare spending must be acknowledged. The authors posited that the greatest obstacle to debt stabilization was the political environment.

Within this framework, Galston and MacGuineas recommended bringing the debt-to-GDP ratio down to 60% by the end of the decade, with continued work to gradually lower this level over the long term. To do this, they recommended an even split between programmatic reductions and tax increases, with additional savings resulting from lower interest payments. **Table 3** illustrates how these savings would be achieved in FY2020.

Table 3. Summary of Galston-MacGuineas Plan

(savings in FY2020; in billions)

Policy Area	Savings
Defense	$80
Domestic Discretionary	$60
Social Security	$75
Health	$110
Other Spending	$75
Tax Expenditures	$300
Revenues	$100
Interest	$300
Total	**$1,100**
% of Non-Interest Savings from Spending	50%
% of Non-Interest Savings from Tax Expenditures and Revenue	50%

Source: *The Future is Now: A Balanced Plan to Stabilize Public Debt and Promote Economic Growth*, Figure 2.

Notes: Savings are relative to the levels of President Obama's FY2011 Budget (Proposed Policy). Calculations for % of savings from spending, tax expenditures, and revenue exclude interest savings in the denominator.

The savings above were achieved through a variety of discretionary and mandatory spending cuts. Specific discretionary cuts affected defense programs, including reducing or eliminating outdated weapons systems, reforming military compensation and healthcare, contracting process reform, small reductions in research and development funding, and removing some layers of bureaucracy.

[33] Bill Galston and Maya MacGuineas, *The Future is Now: A Balanced Approach to Stabilize the Public Debt and Promote Economic Growth*, available at http://crfb.org/document/future-now-plan-stabilize-public-debt-and-promote-economic-growth. Dr. Galston is a senior fellow, Governance Studies, The Brookings Institution, and Ms. MacGuineas is president, The Committee for a Responsible Federal Budget.

The report also called for a three-year freeze on all domestic discretionary spending, with growth in spending thereafter capped at inflation through FY2020.

Mandatory savings would come from Social Security and health-related cuts. Savings from Social Security included accelerating the currently scheduled increase in the retirement age to 67, with increases in the retirement age thereafter tied to increases in life expectancy. The plan also included an expanded disability program for workers who cannot work to the required eligibility ages; slowing the growth of benefits for medium and high income earners; changing the measure of inflation used to calculate the cost of living increase; including new state and local workers in the system; and establishing mandatory add-on retirement accounts. In terms of health spending, the report recommended reforming the nation's malpractice laws by limiting pain and suffering awards and creating specialized health courts; increased cost sharing of Medicare Part B premiums for higher income seniors; gradually raising the Medicare eligibility age from 65 to 67; expanding the powers of the new Independent Payment Advisory Board; and scaling back the healthcare exchange subsidies.

The report also included recommendations for tax changes and the addition of a carbon tax. The revenues from the carbon tax would replace a portion of the Social Security payroll tax and would also be devoted to deficit reduction. In terms of tax expenditures, the report recommended creating a tax expenditure budget, cutting this type of "spending" by 10%, and capping its growth thereafter. New tax expenditures would be subject to a strict "PAYGO for tax expenditures." Overall, the report suggested that the tax base needed to be broadened, in combination with lower rates, to achieve additional revenue collection that could be used to reduce the deficit.

Beyond publishing the Galston-MacGuineas report, the CRFB has led or assisted in other fiscal stability initiatives. Through their "Let's Get Specific" reports on Social Security, Healthcare, and Tax Expenditures, CFRB has provided a list of specific policies that could be used to for the purposes of deficit reduction in each of these areas.[34] In addition, the CRFB also created a simulator called "Stabilize the Debt!", which allows the public to test their own policy choices that would lower the debt-to-GDP ratio to 60% by FY2018.[35] These tools are being used to inform the public of the magnitude of the fiscal problem that the country faces as well as the types of sacrifices that may be required to achieve fiscal stability.

Peterson-Pew Commission on Budget Reform

The Peterson-Pew Commission on Budget Reform released a comprehensive proposal to achieve fiscal sustainability in November 2010 titled *Getting Back in the Black*.[36] The key component of this proposal was to improve the nation's fiscal position by stabilizing the debt-to-GDP ratio at 60% by FY2018, and gradually reducing the debt as a share of GDP over the long term.[37] Policy changes would be phased in beginning in FY2012. The Peterson-Pew Commission reforms

[34] CRFB "Let's Get Specific" reports are available at http://crfb.org/publications/search?keywords=&document=164&issue=All&project=All.

[35] The debt simulator is available at http://crfb.org/stabilizethedebt/. The results of the policies chosen by the people who had previously submitted their choices to the simulator were aggregated in the Appendix of the Peterson-Pew Commission on Budget Reform, *Getting Back in the Black* (see below).

[36] This report is available at http://budgetreform.org/document/getting-back-black. It was preceded by a report titled *Red Ink Rising: A Call to Action to Stem the Mounting Federal Debt*, available at http://budgetreform.org/document/red-ink-rising. The commission co-chairs were former Representatives Bill Frenzel, Tim Penny, and Charles Stenholm. Commissioners included former Members of Congress, former congressional staff, former directors of OMB and CBO, and former comptrollers general of GAO.

[37] Though the 60% debt-to-GDP target was chosen, the Commission says that their framework would work with any debt-to-GDP ratio target.

focused on changing the budget process and strengthening rules and enforcement mechanisms within Congress to ensure that the benchmarks were met.

First, the commission called on Congress to pass a "Sustainable Debt Act" (SDA), which would set a medium-term debt-to-GDP target along with annual fiscal debt targets in order to facilitate the path to reaching it. The annual targets would have some flexibility to respond to economic conditions and could be waived or adjusted under certain circumstances. However, it was also assumed that if the economy was performing well, the debt would be reduced at a faster rate. Once the medium-term targets were met, the commission recommended setting a new longer-term target that would allow for the continuation of the budgetary framework with programmatic caps and triggers focused on the programs that are driving increases in the federal debt at that time. Over the long term, the commission recommended that the debt-to-GDP ratio be continuously reduced below the 60% level.

To achieve the benchmarks set in the SDA, the commission recommended several changes to the budget process and enforcement mechanisms. In order to adhere to the medium-term target set in the SDA, both the President's budget and the congressional budget resolution would be required to contain policies to achieve the goal. Congress would adopt a multi-year budget resolution that would remain in effect unless changes were required in order to meet SDA targets. Several enforcement mechanisms would also be put in place to help ensure that an annual budget remained on track to hit the SDA debt targets. These mechanisms included an automatic "debt" trigger that would put the budget back on track if enacted legislation fails to meet the act's targets,[38] a strengthened PAYGO process with fewer programmatic exemptions, and the reestablishment of budget caps to cover discretionary spending as well as tax expenditure "spending." Finally, the commission recommended an end to the use of the "emergency" designation to bypass enforcement rules in favor of the creation of an emergency reserve, which could be drawn upon in appropriate situations.

In order to meet goals over the medium and long term, the Peterson-Pew Commission recommended several additional changes to increase transparency and accountability in the budget process. These changes include integrating long-term data into the President's budget and congressional budget documents; imposing annual reporting requirements on progress towards achieving sustainability; incorporating the presentation of tax expenditures into the budget process; and improving budgetary accounting for various other long-term expenditures. To increase accountability, the commission recommended changes to the way that the budget baseline is used in order to more appropriately illustrate the increases in spending levels from one year to the next, and requiring an annual Presidential address to Congress on the status of meeting fiscal targets.

NRC/NAPA Committee on the Fiscal Future of the United States

Choosing the Nation's Fiscal Future, issued in January 2010 by the National Research Council (NRC) and the National Academy of Public Administration (NAPA), details four paths that would bring the federal budget back to a sustainable path.[39] The committee recommended that action on deficit reduction begin around FY2012. Assessing the fiscal sustainability of future federal

[38] If the automatic debt trigger was invoked, adjustments would be capped annually at 1% of GDP and would be evenly divided between tax increases and spending cuts, with as few programmatic exemptions as possible.

[39] This report is available at http://www.ourfiscalfuture.org/. The NRC and NAPA convened a Committee on the Fiscal Future of the United States, co-chaired by John Palmer and Rudolph Penner. Committee members included experts from academia, thinks tanks, and private enterprise.

budgets would be measured by the government's public debt as a percentage of GDP, with the goal of maintaining a 60% ratio within a decade.[40] In order to determine whether or not a proposed budget is successful at putting the country on the path to fiscal sustainability, the committee recommended that the budget be evaluated using the following criteria: Does the budget reduce the deficit in the near future?; Does the budget reduce the federal debt to achieve a sustainable debt-to-GDP ratio?; Does the budget align spending and revenue closely over the long term? When evaluating a proposed federal budget in this context, the committee suggests it is important to also consider whether spending on entitlement programs is being restrained, if resources are being use efficiently and effectively, and if the burdens placed on state and local governments are fully assessed.

The four paths detailed in the report were expected to put the federal budget on a sustainable course. In choosing one of the four paths, the committee acknowledges that it would be necessary to evaluate how the proposed spending and revenue levels fit into the context of what type of government would be most consistent with the values and beliefs of the country. **Table 4** details these four paths to achieving the 60% ratio of debt-to-GDP over the long term, with action to be taken within the next few years to lower the current budget deficit. Achieving fiscal sustainability under any of these options would depend on what combination of changes in spending and revenue policy were chosen.

Table 4. NRC/NAPA Proposals for Four Paths to Achieving Fiscal Sustainability

Plan	Revenue Target	Spending Target	Details
Low	18-19% of GDP	21-22% of GDP	Reductions in federal spending for all federal responsibilities; sharp decreases in the growth rates of health and retirement programs
High	33% of GDP	33% of GDP	Substantial increase in revenue; spending that continues under current policy; eventual reductions in healthcare spending growth
Intermediate 1	25% of GDP	25% of GDP	Lower growth rates for Social Security, Medicare, and Medicaid; new public investments
Intermediate 2	25% of GDP or slightly higher	25% of GDP or slightly higher	Lower growth rates in Social Security, Medicare, and Medicaid but less constrained than Intermediate 1; promises to the elderly are a greater priority than other spending

Source: *Choosing the Nation's Fiscal Future*, pp. 5-6.

These four scenarios achieve the same ultimate goal of long-term sustainability, though they employ different methods of reaching it. The "Low" scenario maintains revenues at historical levels, while restricting federal spending to be more in line with this level of revenues. The "High" scenario combines a substantial increase in revenues with high levels of government spending. The two "Intermediate" scenarios entail levels of spending and revenues fall in between the "Low" and "High" scenarios. The "Intermediate 1" scenario focuses on a greater level of investment spending, which would bring relatively larger benefits to future generations. The "Intermediate 2" scenario necessitates more spending devoted to Medicare, Medicaid and Social

[40] The report did not suggest that the 60% debt-to-GDP ratio is a "magic" number, but rather is a target consistent with appropriate levels of spending and taxation that can be reached through a variety of reasonable policy choices. Ultimately, the target level will have to be determined by elected leadership. NRC and NAPA, *Choosing the Nation's Fiscal Future*, pp. 56-57.

Security. Under each of these scenarios, spending levels represent a major reduction in health programs relative to current policy.[41]

Each of these scenarios depends on lower growth rates in the three major entitlement programs. Since restoring Social Security to long-term solvency is not as large a problem relative to the health programs, options are available without a change to the nature of the program. Regarding Medicare and Medicaid, the report recommended direct spending reductions in the near-term, followed by more fundamental reform of the programs over the longer term. Proposals for reducing spending in the short term included increasing the Medicare payroll tax or Medicare beneficiary cost sharing, or cutting provider reimbursement rates or the federal cost-sharing for Medicaid.[42] Options for altering the healthcare system in the long term, with a focus on improving care quality and health outcomes, included instituting a single-payer health insurance system; a "robust public option" (a government insurance company which would compel healthcare providers to work at rates dictated by the government); a "non-robust public option" (a government insurance company which would not have power to set rates); impose price controls; provide individuals with funds to purchase their own insurance plans; and eliminating group health insurance.[43]

Outside of spending on Social Security, Medicare, and Medicaid, the committee focused on several reforms that could be undertaken on the discretionary side of the budget as well as in other mandatory programs. These options included various levels of spending, from cuts of 20% to increases of 16%.[44] Increases in spending could be achieved, while still reaching fiscal sustainability the report stated, if corresponding cuts in other areas in the budget, revenue increases, or both matched the chosen level of spending in a category.

In addition to these policy changes, the committee also recommended changes in the budget process, which would allow for forward-looking assessments rather than the current process, which focuses heavily on the present. These changes included setting both medium- and long-term fiscal goals and instituting mechanisms that would hold both Congress and the President accountable in meeting goals. Specific reforms included further integrating long-term budget projection data into the formulation of the federal budget; including information on the net present value of future costs for specific programs in the budget;[45] and increasing the use of accrual accounting which would record the net present value of long-term contractual commitments.[46]

[41] Ibid., p. 72.

[42] Ibid., p. 77.

[43] Ibid., pp. 86-91.

[44] These changes in spending are relative to the report's calculated baseline, which is based on the baseline projections of the Congressional Budget Office, with modifications "… to take into account of likely Congressional actions." Ibid., pp. 135-140.

[45] The costs referred to here are also known as "fiscal exposures," a term coined by the Government Accountability Office (GAO), for the long-term costs for budgetary items such as current federal employee pension and health benefits, federal insurance, and operations and maintenance on newly acquired capital assets, along with the costs of Social Security, Medicare, and Medicaid, which are not expressly included in the current year federal budget.

[46] In other government documents such as the *Financial Report of the United States Government*, some of these long-term obligations are recognized as liabilities on the balance sheet of the United States.

The Debt Reduction Task Force

The Debt Reduction Task Force (DRTF) was created by The Bipartisan Policy Center and co-chaired by former Senator Pete Domenici and former OMB and CBO director Alice Rivlin. The report produced as a result of their efforts, titled *Restoring America's Future*, contained a comprehensive path to restore the economy and achieve fiscal sustainability.[47] Recommendations included spending reductions and tax increases to achieve a debt-to-GDP ratio of less than 60% of GDP by FY2020, a balanced primary budget by FY2014, and a strengthened economy.

These results were achieved by incorporating changes to Social Security, controlling healthcare costs, and freezing discretionary spending. Other cuts to mandatory programs were also included. On the revenue side, the plan recommended a simplification of the tax code, lower corporate and individual tax rates, and a debt reduction sales tax. Along with these recommendations, the plan included a one-year payroll tax holiday in calendar year 2011 to help boost the economy and create jobs. This provision would increase the deficit in the short term.[48] The DRTF estimated that the tax holiday would create 2.5 to 7 million new jobs over the next two years.[49]

Table 5 illustrates the how the recommendations in the report achieved debt reduction goals. Roughly half of the debt reduction was achieved through spending cuts, while the other half was achieved through revenue changes.

Table 5. Distribution of DRTF's Changes to Spending and Revenue

(selected fiscal years)

Fiscal Year	Spending Cuts	Tax Expenditures	Other Revenue Increases	Debt-to-GDP Target
2020	54%	38%	9%	60%
2030	50%	37%	13%	52%
2040	52%	35%	13%	52%

Source: *Restoring America's Future*, pp. 15, 127.

Notes: Interest savings are not included.

Along with the changes in the tax code discussed above, the report also recommended raising revenue by capping the tax exclusion of employer provided health benefits. Beginning in 2018, the cap would begin to be phased out entirely over the next 10 years. Specifically relating to Medicare, premiums would be increased gradually with a transition to a "premium support" program beginning in 2018. Under this new structure, the traditional Medicare program would remain in place with increases in premiums linked to increased costs above certain levels. A new program will also be established to allow beneficiaries to purchase coverage on the new health insurance exchanges. Cost-control changes to the Medicaid program would also be instituted,

[47] The task force's report can be found at http://www.bipartisanpolicy.org/projects/debt-initiative/about. The task force comprised 19 members: former public officials representing all levels of government, academics, think tank experts, and representatives of private enterprise.

[48] A one year payroll tax holiday in 2011 was subsequently enacted after the release of the DRFT report in the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (P.L. 111-312), which reduces payroll taxes for employees by 2 percentage points. The DRTF called for full relief from the payroll tax for employers and employees for 2011.

[49] DRTF, *Restoring America's Future*, p. 11.

including changes to the federal-state cost sharing arrangement. Other healthcare cost control measures were also included.

Social Security reforms included combining increased revenue collection with adjustments to benefits. By raising the amount of wages subject to payroll taxes and incorporating newly hired state and local workers into the program, revenues would increase, especially in the near term. On the other side, using a modified cost-of-living adjustment, slightly reducing benefits for higher income beneficiaries, and indexing the benefit formula for increases in life expectancy, overall benefit payments would decline. Minimum benefit levels would also be increased for lower income wage earners. Combined, these changes would make the program solvent for the next 75 years.

Other spending cuts include freezing discretionary spending and, thereafter, capping growth to GDP growth rates. This freeze would be enforced by statutory spending caps and automatic cuts in all programs. Domestic discretionary spending would be subject to this freeze for four years, while defense discretionary spending would be subject to the freeze for five years. Cuts would also be made to certain farm payments and the federal civilian retirement program. Other spending reduction proposals were also included.

Additional revenue would be raised by making various changes to the tax code, with the goals of making it easier to file taxes and removing economic and consumption distortions. Ultimately, the task force said that the changes would create a more progressive tax system. Current individual tax rates would be replaced by a two-tiered tax rate system with rates of 15% and 27%. Corporate rates would decline from 35% to 27%. Most tax expenditures would also be eliminated. Specifically, the mortgage interest and charitable contribution deductions would be replaced by a flat 15% refundable credit for anyone who qualifies and the deduction for state and local taxes would be eliminated. Finally, additional revenue would be raised through a national Debt Reduction Sales Tax (DRST), beginning at 3% in 2012 and increasing to 6.5% in 2013. Primarily for low income earners, the deductions that are eliminated and the DRST would be offset by a higher earned income and child tax credit.

The task force also included proposals to create additional budget enforcement mechanisms and reforms. These included the imposition of statutory spending caps, as mentioned earlier, the strengthening of statutory PAYGO, conversion to biennial budgeting, and enactment of specific long-term budgets for certain programs to be monitored by a new Fiscal Accountability Commission to make sure that that the programs are staying on target.

Other Groups

The proposals described above do not represent a comprehensive list of all the groups or individuals that provided recommendations to stabilize or reduce the federal debt. There are additional reports on how fiscal sustainability can be achieved that were issued by Members of Congress and outside groups.[50] These additional reports include

- Representative Mike Quigley, *Reinventing the Federal Government: The Federal Budge –Part I*, available at http://quigley.house.gov/images/stories/pdf/quigley_reinventing_government_the%20federal%20_budget_part_1.pdf

[50] Some individuals/groups have issued reports targeting reforms to one specific area of the budget. See, for example, a proposal by Alice Rivlin and Paul Ryan titled *A Long Term Plan for Medicare and Medicaid*, available at http://paulryan.house.gov/UploadedFiles/rivlinryan.pdf.

- Representative Paul Ryan, *A Roadmap for America's Future*, available at http://www.roadmap.republicans.budget.house.gov/
- Representative Jan Schakowsky, *Schakowsky Deficit Reduction Plan*, available at http://schakowsky.house.gov/images/stories/1202_Schakowsky_Deficit_Reduction_Plan.pdf
- Brookings-Heritage Fiscal Seminar, *Taking Back Our Fiscal Future*, available at http://www.brookings.edu/~/media/files/rc/papers/2008/04_fiscal_future/04_fiscal_future.pdf
- Campaign for America's Future, *Report and Recommendations of the Citizens' Commission on Jobs, Deficits and America's Economic Future*, available at http://www.ourfuture.org/report/citizenscommission
- Center for American Progress, *A Thousand Cuts: What Reducing the Federal Budget Deficit Through Large Spending Cuts Could Really Look Like*, available at http://www.americanprogress.org/issues/2010/09/thousand_cuts.html
- CATO, *A Plan to Cut Spending and Balance the Federal Budget*, available at http://www.downsizinggovernment.org/balanced-budget-plan
- Demos, The Century Foundation, and the Economic Policy Institute, *Investing in America's Economy: A Budget Blueprint for Economic Recovery and Fiscal Responsibility*, available at http://www.ourfiscalsecurity.org/fiscal-blueprint
- The Heritage Foundation, *How to Cut $343 Billion from the Federal Budget*, available at http://heritage.org/Research/Reports/2010/10/How-to-Cut-343-Billion-from-the-Federal-Budget

In March 2011, CBO issued *Reducing the Deficit: Spending and Revenue Options*, its latest update in a series providing a list of options for altering spending and revenue policies for the purpose of deficit reduction. The report does not make recommendations to Congress on which options it should chose.[51]

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[51] U.S. Congressional Budget Office, *Reducing the Deficit: Spending and Revenue Options*, March 2011, available at http://www.cbo.gov/ftpdocs/120xx/doc12085/03-10-ReducingTheDeficit.pdf. Similar publication published previously can be found at http://www.cbo.gov/publications/bysubject.cfm?cat=2.

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