COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

goBIG

Why the Super Committee Must GO BIG

The U.S. is on an unsustainable fiscal path, and will require significant reforms to avoid a fiscal crisis. Yet, the "Super Committee" is charged with finding only $1.2 to $1.5 trillion of deficit reduction, well below the amount necessary to put the debt on a downward path as a share of the economy.

With $1.5 trillion of deficit reduction, ***debt would grow from 67 percent of GDP today to over 75 percent by 2021 under realistic assumptions.**** By comparison, the Peterson-Pew Commission on Budget Reform has recommended stabilizing the debt at 60 percent of GDP by the end of the decade, and the Bowles-Simpson Fiscal Commission brings the debt down to about 65 percent.

To successfully put the budget and economy on solid ground, the Super Committee should:

Go Big. The Super Committee should double to triple its $1.5 trillion savings target, relative to current policy, in order to put the debt on a downward trajectory.

Go Long. Any serious debt reduction plan must address the long-term drivers of our growing debt by enacted serious and fundamental reforms to Social Security, Medicare, and Medicaid.

Go Smart. The Super Committee should reform the budget to prioritize high value investments over consumption-oriented spending and enact pro-growth tax reform to generate economic growth and additional revenues.

A GO BIG strategy would:

- Stave off further downgrades and help the U.S. regain our AAA rating
- Reassure markets about our ability to repay our creditors
- Increase investment, growth and competitiveness
- Leave fiscal space upfront to help keep the recovery on track
- Restore America's faith in its political system and the ability of lawmakers to put national interest over special interest

* Current policy baseline assumes all 2001/2003/2010 income and estate tax cuts extended, AMT patches, yearly "doc fixes", and war drawdown.

1899 L Street NW • Suite 400 • Washington, DC 20036 • Phone: 202-986-2700 • Fax: 202-986-3696 • www.crfb.org

A GO BIG plan would include:

1. **Sufficiently Large Deficit Reduction:** In order to put the debt on a downward path as a share of the economy, deficit reduction might need to be double or triple the savings, depending on the baseline. Ideally, policymakers would shoot to bring the debt down to 60 percent of GDP by the end of the decade, and it should be no higher than the Fiscal Commission level of 65 percent.

Debt Held by the Public in 2021 under Several Scenarios (Percent of GDP)

Super Committee Savings	Current Law Baseline	Current Policy Baseline Assuming Upper-Income Tax Cuts Expire	Current Policy Baseline Assuming All Tax Cuts Continued
No Savings	66%	78%	81%
$1.5 trillion	60%	71%	75%
$3.0 trillion	53%	65%	69%
$4.5 trillion	47%	59%	63%

Note: Current policy baseline assumes all 2001/2003/2010 income and estate tax cuts extended, AMT patches, yearly "doc fixes", and war drawdown.

2. **Appropriate Phase-In:** Deficit reduction policies should be phased in quickly enough to be credible, but not be so front-loaded as to disrupt a economic recovery.
3. **Health Care Reform:** Medicare and Medicaid are the fastest growing parts of the budget due to population aging and rapid health care cost growth. Any serious deficit reduction plan must not only lower spending for these programs, but work to "bend the health care cost curve" and slow the growth of spending as well.
4. **Social Security Reform:** Social Security is on a path to insolvency. Already, the program is running cash flow deficits requiring additional borrowing from the public to repay what is owed to the trust funds. The solutions for bringing Social Security into balance are well known. Policymakers should aim to achieve "sustainable solvency" where the program is affordable for the next 75 years and eventually brought into cash-flow balance.
5. **Tax Reform:** The current tax code is overly complex, anti-competitive, and distorts economic decision making. We should eliminate or reduce many of the credits, deductions, exemptions and exclusions in the tax code and lower rates, in order to increase revenues and economic growth.
6. **Fiscal Rules:** Policymakers should enforce and reinforce enacted savings through targets, triggers, and other fiscal rules.
7. **Honest Accounting:** Lawmakers should avoid: budget gimmicks, which artificially inflate savings; counting savings from policies already in place (i.e. troop drawdown); excessively backloading savings; or manipulating expiring policies to make their budget path look more sustainable.