Budget Blueprint: Paths to 60%

	7-year savings, 2012 – 2018
Current Law: Debt in 2018 (% GDP)	**$13.5 TRILLION (67%)**
Defense# (lower war costs)	$350 billion
Outdated Programs (eliminate or cut certain discretionary programs)	$25 billion
Agriculture (reduce direct payments to farmers)	$25 billion
Social Security* (raise retirement age, reduce benefits for high earners; enact other changes)	$150 billion
Health Care* (enact deficit-reducing health reform which slows health care cost growth)	$100 billion
Contracting Reform (gradually reduce number of contractors; reform payments)	$100 billion
Other Mandatory Savings (reduce federal benefits, increase user fees; cut certain programs)	$100 billion
Tax Base Broadening (consolidate and cap breaks for housing, health, education & saving)	$250 billion
Superlative CPI* (index government benefits and tax code to alternative measure of inflation)	$200 billion
Deficit Reduction	$1,300 billion
Interest Savings	$200 billion
Debt (% GDP)	$12 TRILLION (60%)

	7-year savings, 2012 – 2018
Today's Policies: Debt in 2018 (% GDP)	**$17 TRILLION (85%)**
Defense (reduce certain weapons systems)	$100 billion
Outdated Programs (eliminate or cut certain discretionary programs)	$100 billion
Discretionary Caps (cap normal discretionary spending growth at inflation)	$900 billion
Agriculture (phase out payments to farmers and other agricultural subsidies)	$100 billion
Social Security* (raise retirement age, reduce benefits for middle-high earners; enact other changes)	$300 billion
Health Care* (enact deficit reducing health reform and cap growth of government health spending)	$400 billion
Contracting Reform (reduce number of contractors and reform payments)	$150 billion
Other Mandatory Savings (reduce federal benefits, increase user fees; cut certain programs)	$200 billion
Tax Base Broadening (consolidate and cap breaks for housing, health, education & saving)	$400 billion
Reduce 2001/2003 Tax Cuts (gradually reduce rate cuts by half)	$250 billion
State & Local Tax Deduction (phase-out deduction to finance AMT patches)	$600 billion
Energy Tax (institute tax on carbon emissions or equivalent cap-and-trade system)	$700 billion
Superlative CPI* (index government benefits and tax code to alternative measure of inflation)	$200 billion
Deficit Reduction	$4,400 billion
Interest Savings	$600 billion
Debt (% GDP)	$12 TRILLION (60%)

Current law assumes greater war costs than does the Commission's baseline
* Certain policies such as changes to Social Security, health care, and indexing will contribute more to the goal of keeping the debt stable as a share of GDP after 2018.

Note: The budget blueprint is an illustration of the types and magnitudes of policies that would be necessary to achieve debt stabilization goal under different scenarios. Both targets and savings estimates are rounded for illustrative purposes. Numbers vary tremendously depending on policy specifics, timing phase-ins, and interactions. In general, reaching our target from a "current law" baseline requires smaller changes, since that baseline assumes policies – such as the allowed expiration of the 2001 and 2003 tax cuts — which would result in lower levels of debt. The Peterson-Pew Commission on Budget Reform does not endorse either of these plans, but rather provides them in order to demonstrate the magnitude of choices which would be necessary to reach our recommended goal.

Sources

The source for most of the options contained in the Budget Blueprint is the Congressional Budget Office's (CBO) Budget Options reports released in December 2008 and August 2009. We specify where an insufficient amount of savings exists from these options.

Scenario 1: Assumes Current Law

Defense: According to CBO's August *Budget and Economic Outlook: An Update*, gradually reducing the number of troops in Iraq and Afghanistan from 210,000 to 75,000 would save nearly $600 billion by 2018. We assume a drawdown would be possible as the Iraq war phases down, although it may not be as large as described above due to new commitments to Afghanistan.

Outdated Programs: CBO's *Budget Options* includes well over $150 billion in options to reduce discretionary spending over 10 years. For example, eliminating the Department of Energy's research on energy-efficiency and renewable energy technologies would save $10 billion over the next decade, eliminating the Department of Transportation's New Starts Transit programs would save almost $15 billion over ten years, and eliminating federal funding for national community service programs could save nearly $8 billion over ten years.

Agriculture: According to OMB, the Administration's proposal to phase out direct payments to high-income farms would save $10 billion over 10 years and their proposal to reform the crop insurance program would save another $5 billion over ten years. Since OMB estimates farm commodity payments, alone, to total nearly $65 billion over the next decade, we assume additional savings can be achieved through reducing these payments.

Social Security: CBO estimates Social Security savings of $111 billion over 10 years for progressive price indexing, or slowing the growth of benefits in a progressive manner, and $92 billion in savings over 10 years from raising the retirement age. Additional savings could come from other smaller changes such as reducing the spousal benefit.

Health Care: CBO's health care *Budget Options* includes over $2 trillion in potential health care savings. Additional savings have been scored from many of the recent health care reform bills. We assume many of these policies would be adopted as part of a health reform bill, but others could be used for debt reduction. Examples for potential health care savings include cutting subsidies to Medicare Advantage, (more than $150 billion over 10 years), raising the age of eligibility for Medicare to 67 (more than $90 billion over 10 years) and reducing Medicare's payment rates across the board in high-spending areas (more than $50 billion in savings over 10 years). To put these numbers in perspective, the government is expected to spend over $6.5 trillion on Medicare and Medicaid alone from 2012 – 2018.

Contracting Reform: In July the White House announced it would begin to implement reforms to the federal contracting system that would save $40 billion a year. We assume these savings would accrue slowly over time as reforms take effect.

Other Mandatory Savings: CBO's regular *Budget Options* includes well over $200 billion in possible savings over 10 years through a variety of mandatory spending cuts, imposition of fees, and changes to certain federal employee benefits. Over $150 billion in additional 10-year savings can be found between the recommendations in the President's Budget and options related to federal employee health benefits in CBO's health care *Budget Options*. For example, replacing private student loan subsidies with direct federal loans could save more than $40 billion over 10 years, and reducing veterans' disability benefits to account for Social Security payments could save $20 billion. For perspective, total mandatory spending, excluding Social Security, Medicare, and Medicaid, is projected to be around $3.5 trillion from 2012 through 2018.

Tax Base Broadening: Revenues lost to tax expenditures represent upwards of $1 trillion a year, according to some estimates; and a number of options exist for reducing the various tax credits, deductions, and exclusions. Limiting the mortgage interest deduction for expensive homes, for example, would raise over $40 billion over 10 years; and converting it to a 15 percent credit would raise almost $390 billion over that same period. Another option might be to change the tax treatment for life insurance for as much as $265 billion in ten-year revenue, or limit the deduction for charitable giving, resulting in as much as $220 billion in revenue over ten years.

Superlative CPI: CBO estimates that using a different measure of CPI for the Social Security COLA would save nearly $110 billion over 10 years, and using it for the tax code would generate just under $90 billion. Additional savings would also accrue due to other federal programs tied to inflation.

Scenario 2: Assumes Commission's Fiscal Baseline

Defense: The Commission's fiscal baseline already assumes a troop drawdown for Iraq and Afghanistan, and that any new costs associated with the wars in Iraq and Afghanistan would be paid for. CBO's *Budget Options* includes over $170 billion in savings options over a 10 year period in addition to this drawdown. Some of the biggest savings could come from cancelling programs such as the Joint Strike Fighter ($37 billion) and Future Combat Systems ($22 billion). To put these proposed cuts in perspective, the government is projected to spend roughly $4.5 trillion on defense between 2012 and 2018.

Outdated Programs: See Outdated Programs above. Additional savings would be necessary, and could come from, for example, eliminating federal grants for wastewater and drinking water, which would save $11 billion over 10 years or increasing fees for aviation security to save almost $20 billion over ten years.

Discretionary Caps: The Commission baseline assumes discretionary growth at the rate of GDP. According to CBO's *August Budget and Economic Outlook: An Update*, assuming discretionary spending growth at the rate of inflation, by itself, would save roughly $1.7 trillion over 10 years, including over $1.3 trillion between 2012 and 2018. To put the savings in perspective, total discretionary spending would be about $10.5 trillion between 2012 and 2018 under the Commission's fiscal baseline.

Agriculture: This option would eliminate most agricultural subsidies. In 2008, CBO estimated that commodities payments, crop insurance, and related programs would cost around $95 billion between 2012 and 2018; the 2008 farm bill changed these spending levels only modestly. In addition to largely eliminating these programs, savings could come from phasing out subsidies to ethanol and other biofuels, ending the market access program, and phasing out certain subsidies administered through the tax code such as the supplemental revenue assistance program, among other options.

Social Security: See Social Security above. Additional savings could be achieved through more aggressive forms of indexing reform, extending the years of work used to calculate benefits, as well as modifying the tax treatment of Social Security benefits.

Health Care: See Health Care above. Additional savings could come from more expansive and aggressive changes to the government health care savings, including a revenue positive reform of the sustainable growth rate for Medicare physician payments and a cap on the growth of overall government health care spending.

Contracting Reform: See Contracting Reform above. Here we assume a faster phase in of the reforms.

Other Mandatory Savings: See Other Mandatory Savings above. Additional spending cuts would be necessary. For example, adoption of a voucher program for federal employee health care could save $40 billion over 10 years, and financing the food safety and inspection service solely through fees would raise almost $10 billion.

Tax Base Broadening: Simply limiting the tax benefit of itemized deductions to 15 percent brings in $1.3 trillion over 10 years according to CBO.

Reduce 2001 and 2003 Tax Cuts: The Commission's fiscal baseline assumes most of the 2001 and 2003 tax cuts would be extended — other than those for families making over $250,000 annually. But, significant savings would be realized if fewer of these cuts were extended. For instance, we estimate from CBO's *Budget Options* that allowing the remaining brackets to revert to halfway between their current and scheduled levels would save nearly $300 billion between 2012 and 2018.

State and Local Tax Deduction: CBO estimates in its *Budget Options* that eliminating this deduction would save more than $860 billion over 10 years. We estimate that approximately $680 billion of this would accrue between 2012 and 2018.

Energy Tax: In its *Budget Options*, CBO estimates that putting a price on "upstream emissions of greenhouse gases" would generate more than $880 billion in the 8 years between 2012 and 2019. We assume this would occur through either a carbon tax or a fully-auctions cap-and-trade system.

Superlative CPI: See Superlative CPI above.