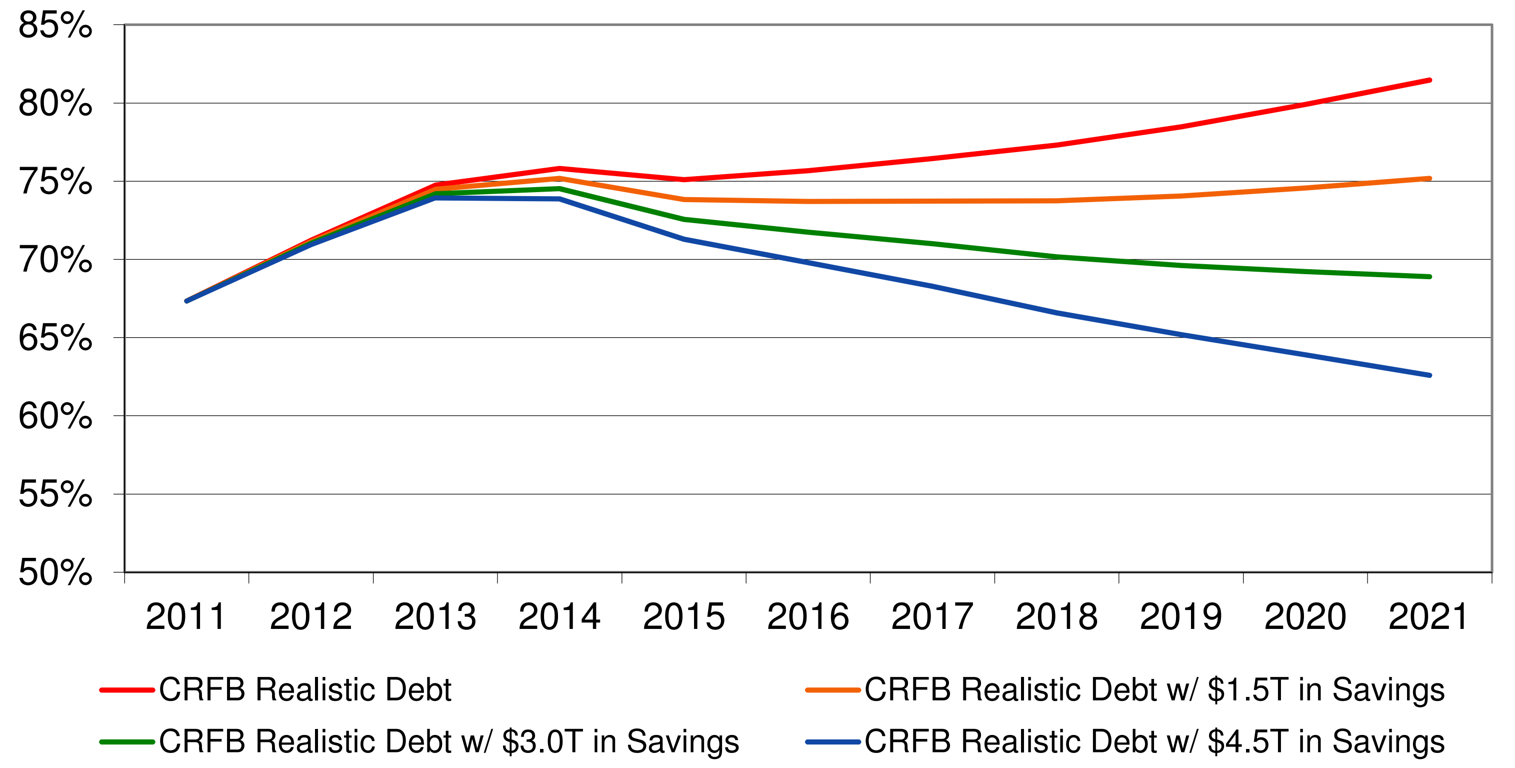
The Case for Going Big

The Committee for a Responsible Federal Budget

THE COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

Debt Projections under Several Scenarios

(Percent of GDP)



Note: CRFB Realistic Baseline assumes all 2001/2003/2010 income and estate taxes are extended, AMT patches, yearly “doc fixes”, and war costs continue to decline.

How Much Do We Need to Save?

In order to stabilize Debt at **65% of the economy** by 2021:

(2012-2021 Savings)

	Current Law Baseline Assuming No Super Committee Savings	Current Policy Baseline Assuming Upper-Income Tax Cuts Expire*	Current Policy Baseline Assuming All Tax Cuts Continued*
Debt in 2021 w/ No Savings (% GDP)	*66%*	*78%*	*81%*
Required Savings to Stabilize Debt at 65%	**$0.3 Trillion**	**$3 Trillion**	**$3.9 Trillion**

*Estimates based on CRFB Realistic Baseline.

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How Much Do We Need to Save? *(cont'd)*

In order to stabilize Debt at **70% of the economy** by 2021:

(2012-2021 Savings. Negative numbers reflect increase in deficits.)

	Current Law Baseline Assuming No Super Committee Savings	Current Policy Baseline Assuming Upper-Income Tax Cuts Expire*	Current Policy Baseline Assuming All Tax Cuts Continued*
Debt in 2021 w/ No Savings (% GDP)	*66%*	*78%*	*81%*
Required Savings to Stabilize Debt at 70%	**-$0.9 Trillion**	**$1.8 Trillion**	**$2.7 Trillion**

*Estimates based on CRFB Realistic Baseline.

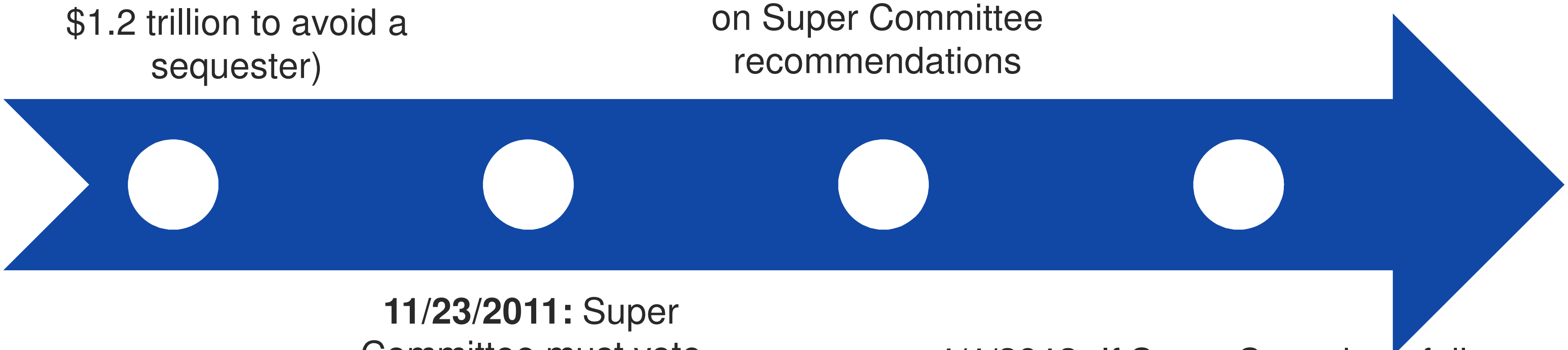
How Much Do We Need to Save? *(cont'd)*

So even if lawmakers were to stabilize debt at 70% of the economy in 2021—a level higher than the internationally recognized threshold of 60%—they would have to enact **at least $2.7 trillion** in savings beyond the $920 billion enacted in the Budget Control Act, compared to realistic assumptions of future debt.

That calls for a **Go Big approach** to debt reduction.

What Will the Super Committee Do?

8/1/2011: Super Committee created; tasked with finding $1.5 trillion in deficit reduction (at least $1.2 trillion to avoid a sequester)



11/23/2011: Super Committee must vote on final recommendations

12/23/2011: Congress must take action by then on Super Committee recommendations

1/1/2013: If Super Committee fails or Congress enacts less than $1.2 trillion in savings, automatic sequester goes into effect to produce total of $1.2 trillion in savings. If no savings enacted, sequester would cut: $454 billion from defense, $294 from non-defense discretionary, $201 from mandatory and $169 in interest

Note: Estimates of cuts from the sequester from the Congressional Budget Office.

"Go Small": Lots of Pain for Little Gain

- A smaller package would offer some improvement to our fiscal situation, but it would **not offer the benefits** of a declining debt path

- The public would see a package of tough choices *and* a debt burden that continues to grow. In essence, it would deliver **political pain with not so much gain**

- Would leave in place considerable **policy uncertainty**, affecting businesses and markets

- A smaller package and an **incremental approach** to debt reduction would not offer the political tradeoffs necessary to solve our fiscal challenges

What Could "Go Small" Look Like?

Possible Policy Changes	Savings
Government-Wide	$250 billion from chained CPI
Discretionary	$100-200 billion from modestly slower growth in BCA caps
Health Care	Negligible savings
Other Mandatory	$150-250 billion from farm subsidies, federal civilian and military retirement and benefits, Fannie and Freddie, and others
Social Security	Negligible savings
Revenues	Negligible savings
Net Interest	$100 billion
Total	**$600-800 billion**

- Without addressing **health care reforms or revenues**, it will be very difficult to reach the $1.2 trillion mandate
- And even then, there is **no guarantee** that significant savings in other areas of the budget could be agreed on

Adding Serious Entitlement Reforms and Revenues Pushes You into "Go Big"

- Democrats will only agree to serious **entitlement reforms** if there are **revenues**

- Republicans will only agree to **revenues** in the context of **comprehensive tax reform**

- Democrats will only agree to a comprehensive tax reform that replaces the Bush tax cuts **if it raises at least the $800 billion** they would get if President Obama vetoes extension of upper income tax cuts

- Republicans will not agree to revenues anywhere near that amount **without health savings** that go beyond the $320 billion proposed by the President

What Could "Go Really Big" Look Like?

Including serious entitlement reforms and revenues pushes the overall savings well above the $1.2 trillion mandate

Possible Policy Changes	$600 - $800 Billion Plan	$3 Trillion Plan	$4 Trillion Plan
Government-Wide	$250 billion	$250 billion	$250 billion
Discretionary	$100- 200 billion	$300 billion	$400 billion
Health Care	Negligible savings	$650 billion	$900 billion
Other Mandatory	$150 - $250 billion	$350 billion	$350 billion
Social Security	Negligible savings	$150 billion	$300 billion
Revenues	Negligible savings	$850 billion	$1.2 trillion
Net Interest	$100 billion	$450 billion	$600 billion
Total	**$600 - $800 billion**	**$3 trillion**	**$4 trillion**

Note: $4 trillion plan is a more ambitious version of the types of reforms in the $2.8 trillion plan.

Advantages of "Go Big"

- **Debt stabilized and falling** as a share of the economy later in the decade, and all the benefits associated with declining debt burden:
  - **Less "crowding out"** of private sector investment
  - **Stronger confidence** in businesses and markets
  - **Greater certainty and stability**
  - **Stronger economy** over the long-term
  - **Lower interest payments** and increased fiscal space
  - **Intergenerational equity**
  - **Reduced or eliminated risk of fiscal crisis**

Advantages of "Go Big" *(cont'd)*

- **Increased chances of Super Committee success** in recommending at least $1.2 trillion in savings:
  - **Political trade offs** necessary to address entitlement growth and revenues
  - **Shared sacrifice** in Go Big approach
  - **Realize the gains of debt reduction** by stabilizing and reducing the debt, and not just making difficult decisions that solve only part of the problem
- **Restore America's faith** in the political system

"Go Big": Shared Sacrifice

- **Expanding the size and scope** of a package can promote a sense of shared sacrifice on behalf of the American public and key interest groups, making it more likely that they would accept changes if everyone was contributing to the solution.

- An incremental approach would allow advocates for parts of the budget to argue that they are bearing an unfair burden. A Go Big approach which achieves savings in all parts of the budget neutralizes that argument.

- In a recent *Washington Post* op-ed, Fiscal Commission co-chairs Erskine Bowles and Alan Simpson highlighted this lesson from the Fiscal Commission deliberations:

> *"The more comprehensive we made it, the easier our job became. The tougher our proposal, the more people came aboard. Commission members were willing to take on their sacred cows and fight special interests — but only if they saw others doing the same and if what they were voting for solved the country's problems."*

The Time for Action Is Now

Looking to the Super Committee…

A **Go Big approach** to deficit reduction is what the country needs to put debt on a stable and declining path and to restore confidence in the U.S. economy and political system.

But a **Go Big approach** can also improve the Super Committee's chances of achieving at least $1.2 trillion in debt reduction.