COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

goBIG



# Going Big Means Don't Stop Until You Get Enough
## November 16, 2011

The Committee for a Responsible Federal Budget – along with many other lawmakers, business leaders, former government officials, and policy experts – has called on the Joint Select Committee on Deficit Reduction ("Super Committee") to go beyond its current mandate of finding $1.5 trillion in savings to recommend two to three times as much in order to stabilize the federal debt and reduce it as a share of the economy.

The benefits of a large plan are numerous for both economic and political reasons. Economically, a stable and declining debt path offers a stronger economy down the road, improved business and market certainty, and the reduced risk of a fiscal crisis. Politically, a larger plan can actually improve the chances of the Super Committee succeeding by offering the tradeoffs that are necessary for a deal, a sense of shared sacrifice among constituencies, the chance to show that Washington can still govern, and the political upside of success.

While we urge the Super Committee to Go Big, we recognize they may not be able to agree on all the details of a comprehensive plan before the November 23 deadline. This, however, should not be an excuse to settle for a smaller, less comprehensive plan. If the Super Committee only agrees to a small plan or needs more time to work out the technical details of a larger plan, it is likely to require either extending the deadline for the Super Committee or using a *two-stage* process.[1] A credible process must:

- Go Big: Achieve savings large enough to stabilize and reduce the debt as a share of the economy;
- Include a large and meaningful down payment;
- Include a detailed framework for the second stage;
- Put in place an expedited process to achieve additional savings within the next three to six months, with fast-track status;
- Allow for the consideration of other plans if larger plan is not adopted;
- Establish a credible enforcement mechanism to ensure the required savings are achieved.

[1] Technically, this would be a three-stage process given the first round of about $900 billion in discretionary savings enacted in the Budget Control Act, but we will refer to it as a two-stage process from where lawmakers stand today.

**Go Big: Achieve savings large enough to stabilize and reduce the debt as a share of the economy.** A two-stage approach should be used to enact a Go Big plan with total savings large enough to reassure businesses, credit markets, and the American people that the country's spending and tax policies will not keep the country on the road to ever-increasing debt and economic uncertainty. The Super Committee needs to target cumulative savings of at least $4 trillion to instill confidence that debt will be on a downward path.

**Include a large and meaningful downpayment.** The Committee should not recommend a two-stage process in lieu of specific policy changes. A two-stage process must include an initial down payment with at least $1.2 trillion in savings over ten years which can be enacted quickly to fulfill the Committee's current mandate and prove that lawmakers are committed to making serious reforms. (Enacted quickly does not necessarily mean savings materialize in the early years, but rather, the policies are enacted now but phased-in as appropriate to deal with other economic considerations.)

There are many budget reforms where consensus already exists – including on additional discretionary savings, other mandatory reforms, and some amount of health and revenue savings – to help lawmakers achieve a credible downpayment. These upfront, specific savings are necessary to meet the Super Committee's mandate and—in conjunction with plans for further savings—to reassure credit markets.

**Include a detailed framework for the second stage.** A second stage must ensure that lawmakers secure enough savings to stabilize the debt. Depending on the specifics, this is likely to require a full $4 trillion in total savings – minimum – from all areas of the budget, especially on entitlement and tax reforms, to put debt on a downward path.

The Super Committee could either decide to extend its deadline, appoint another committee to find the next tranche of savings, or give standing committees explicit savings targets and directives to give lawmakers time to work out the more complicated details of reforms to, for instance, Social Security, health care programs, and the tax code.

Any framework should be as detailed as possible, providing instructions about the levels of savings to come from each area of the budget. Additionally, directives could include other details the Super Committee agrees to, such as certain distributional goals, specific tax rates for tax reform, a permanent solution to the Sustainable Growth Rate as part of health reforms, and specific approaches for Social Security reform – much like the Senate's Gang of Six proposal.

**Put in place an expedited process to achieve savings within the next three to six months.** The second tranche of savings should include an aggressive deadline for further savings to be implemented; it should not be an excuse to try to tuck these issues away and punt until after the election.

The U.S. faces serious economic and fiscal challenges that debt reduction can help solve, and lawmakers cannot afford to casually take a year off to come back to the issue. The country no longer has the luxury of time, and particularly given the turmoil in Europe, the sooner we have a comprehensive plan in place, the more reassuring it will be. Furthermore, elections tend to take more issues off the table than they put on. A condensed timeframe for additional savings to be enacted by next summer would improve the chances that savings are put in place by capitalizing on the continued focus of business and the American public on the issue of debt reduction.

Given past experience on debt reduction and that the country currently faces a dire fiscal outlook, there is no guarantee lawmakers will address this issue within the normal legislative process. Therefore, the Super Committee should put in place an expedited process including limits on content, amendments, and time for debate to help ensure lawmakers vote on debt reduction measures. These limits could help the package receive a clean up or down vote, but could also allow for lawmakers to correct any mistakes or make changes to gain additional support. If a second stage includes recommendations from congressional committees, the entire package of recommendations should be bundled together and considered as a whole to highlight the necessary trade-offs for an agreement.

**Allow for the consideration of other plans if a larger plan is not adopted.** If the second stage fails to yield the second tranche of a larger plan, lawmakers should be permitted to introduce and vote on alternate plans that would accomplish the goal of stabilizing the debt. As the Gang of Six recommended, any plan that surpassed a certain threshold of bipartisan support could be offered and voted on. This would provide an opportunity for more bipartisan proposals to be considered if the Super Committee or committees of jurisdiction were unable to come up with sufficient savings.

**Enforce that the savings materialize.** To make a two-stage process credible, a strong enforcement mechanism needs to be in place to ensure savings materialize, either by lawmakers acting proactively or by a predetermined process for generating savings going into effect. More importantly, the best enforcement is a strong public commitment from lawmakers to follow through on savings and reject efforts to turn the process off or dismantle the enforcement mechanism. No procedural mechanism can substitute for the political will to address the rising debt. However, there are several different options lawmakers could choose from in order to ensure directives given in the second-stage are enforced, but here are several possibilities that could be utilized individually or in combination:

- Trigger or enhanced sequestration measures if savings are not met;
- Default policy, such as implementation of a limit on tax expenditures, takes effect if tax reform achieving required savings is not enacted;
- Limit ability to extend current policies with fiscal impact through strengthened PAYGO enforcement, such as a supermajority to waive PAYGO, or eliminate some of the exemptions for current policy extensions if savings are not met;[2]
- Automatic extension of only the tax cuts protected in statutory PAYGO if savings targets are not met, with supermajority requirement to extend other tax cuts not protected in statutory PAYGO if tax reform meting targets is not met;
- Eliminate exemption in statutory PAYGO for an SGR fix and require supermajority vote to pass a fix that is not fully offset if entitlement savings are not met;
- Make some entitlement and/or tax reforms enacted in the down payment contingent on completion of a second-stage.

Lawmakers must also put in place credible enforcement mechanisms to make sure that any agreed-upon savings remain in place over the decade and that debt remains on a downward path. The Peterson-Pew Commission recommended annual debt caps to ensure that lawmakers meet the ultimate goal of stabilizing and reducing debt as a share of the economy. If the debt exceeded the caps in any one year, automatic savings would go into effect.

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Our clear preference is to agree on a large, comprehensive plan as part of the Super Committee's original timeline. Many of the policy ideas have already been developed and scored, and the timing challenges are more about coming to political agreement than about developing the technical details.

However, if the Super Committee falls short of this, a two-stage approach could continue the momentum building for a bipartisan, comprehensive solution on debt reduction into next year by capitalizing on the fast-track status of the Super Committee and the current national focus on debt reduction. Using a two-stage process to implement a comprehensive plan would both maximize the prospects for reaching agreement on at least $1.2 in savings immediately and putting in place a process to stabilize and reduce the debt as a percentage of GDP. It would also give the committees of jurisdiction, who have expertise on relevant policy areas, the time to work through

[2] Current statutory PAYGO allows for a continuation of all the tax cuts except for upper-income earners, AMT patches, an SGR fix, and anything else designated as "emergency" legislation. Making it more difficult to waive PAYGO rules and/or eliminating some of these exemptions help generate savings.

the policy issues involved in a thoughtful manner and would increase buy-in for the final legislative process by giving more members an opportunity for input through the committee process.

**Fig. 1: Illustrative Two-Stage Process**