A Bipartisan Path Forward to Securing America's Future

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The United States faces two big risks to its economic prosperity, but both are avoidable. In the near-term, a still fragile recovery is struggling to take hold. Over the medium and long-term, our debt is projected to continue growing faster than the economy. It is simply on an unsustainable path.

The recently-passed American Taxpayer Relief Act (ATRA) helped prevent a new recession by averting part of the fiscal cliff, but it left in place the abrupt, mindless, and across-the-board spending cuts of the sequester. More importantly, it failed to effectively and comprehensively deal with our burgeoning national debt. The combination of the Budget Control Act (BCA) and ATRA produced as much as $2.7 trillion of deficit reduction by some estimates. But this deficit reduction is far from sufficient to put the debt on a downward path as a share of the economy this decade, and the savings will do little to alter our debt's long-term trajectory.

Given these facts, it is clear that further reforms will be necessary to keep this country's debt on a sustainable path while also avoiding the sequester. Although additional deficit reduction need not be enacted all at once in a single package, it should be enacted promptly; the longer we wait the fewer options we will have and the less time we will be able to give individuals and businesses to prepare and adjust.

There is no perfect solution to our fiscal problems. However, we believe strongly and sincerely that an agreement on a comprehensive plan to bring our debt under control is possible if both sides are able to put their sacred cows on the table in the spirit of principled compromise. We understand that there will be disagreements among policymakers and experts about the exact approach and specific policies necessary to achieve deficit reduction, and we welcome their commentary. In our view, a reasonable debt reduction plan should at least do the following:

Promote, Don't Disrupt, Economic Growth. The United States must pursue a growth agenda. As the economy recovers, one of the best ways to promote economic growth is to bring our debt under control, which will both encourage private investment and mitigate the risk of a fiscal crisis. However, sharp austerity could have the opposite effect by tempering the still fragile economic recovery. In order to protect the recovery, the sequester should be avoided and deficit reduction should be phased in gradually. At the same time, tax and spending reforms should be designed to strengthen current economic conditions, promote work, encourage innovation, improve productivity, and bolster investment in our future.

Put the Debt on a Clear Downward Path Relative to the Economy. Debt held by the public currently stands at 73 percent of GDP, about twice the historical average. We need to gradually reduce our debt relative to our economy. To be credible for the long-term, we believe that the *debt must be brought to below 70 percent of GDP* by early next decade, and kept on a downward trajectory thereafter.

Protect the Disadvantaged. We must ensure that our nation has a robust, affordable, fair, and sustainable safety net. Benefits should be focused on those who need them the most, and low-income programs should not be cut simply for the sake of deficit reduction. Broad-based entitlement reforms should either include protections for vulnerable populations or be coupled with changes designed to strengthen the safety net for those who rely on it the most.

Reform the Tax Code in a Progressive and Pro-Growth Manner. The current tax code is complicated, confusing, costly, anti-growth, anti-competitive, unfair, and riddled with well over $1 trillion of tax expenditures – which really are just spending by another name. Tax reform must reduce the size and number of tax expenditures to reduce the budget deficit *and* lower marginal tax rates for individuals and corporations. At the same time, tax reforms must maintain or improve the progressivity in the tax code and promote economic growth. Tax reform will make the tax code more efficient, effective, and globally competitive.

Get Serious About Population Aging. America is getting older, and the aging of the population represents a significant driver of our growing debt. We need to modernize our tax and entitlement programs to account for this demographic shift and encourage work and savings.

Bend the Health Care Cost Curve. Our nation must seek to control its rapidly-growing health care spending while enhancing quality and value. Policymakers should reform federal health spending and tax preferences in order to reduce waste, improve incentives, and deliver care more effectively and efficiently to achieve significant savings in the near-term and control the growth of spending over the long-term. In the long-term, these reforms should be backed up by a cap on the budgetary commitment to health care, limiting per capita growth close to the growth of the economy.

Cut Spending We Cannot Afford – No Exceptions. We must cut spending and encourage efficiencies in defense, non-defense, and mandatory spending programs, as well as in the tax code.

Replace Dumb Cuts with Smart Reforms. The mindless, across-the-board cuts from sequestration would reduce the deficit, but represent the wrong approach to budgeting. These cuts should be replaced with targeted reforms that focus on the drivers of the debt while eliminating redundant, wasteful, ineffective, or unwarranted federal spending while preserving high-value investments.

Focus on the Long-Term. Looking only to the next decade would be a tragic misstep given the long-term trajectory of the debt. Structural improvements must be enacted to truly tackle the growth of debt over the long-term. Reforms must make Social Security sustainably solvent and limit the per capita growth of all federal health obligations close to the growth of the economy.

Protect the Full Faith and Credit of the U.S. Government. The political fights over the past two years about raising the debt limit have harmed market confidence in our government and created noticeable uncertainty. At the same time, debt cannot continue to grow faster than the economy without risking a fiscal crisis. Once policymakers enact a comprehensive deficit reduction plan that keeps the debt on a clear downward trajectory – and continues to do so – they should index the debt limit in order to avoid the need for future political fights over raising it.

Make America Better Off Tomorrow Than It Is Today. It is our generation of Republicans and Democrats that has created this fiscal problem, and it is our generation's responsibility to clean it up. We cannot be the first generation to leave our nation worse off than we found it. Our country's economic and national security depends on putting our fiscal house in order.

The problem is real, the solutions are painful, and there is no easy way out. What we are calling for is by no means perfect, but it could serve as a mark for real bipartisan negotiations on a plan to reduce the deficit and grow the economy. It is time for our country to put this ultra-partisanship aside and pull together, not apart. We must do it for our grandchildren; we must do it for ourselves; we must do it for our country.

A Four-Step Process

Instead of enacting a comprehensive debt reduction plan, policymakers thus far opted to pursue fiscal reforms in steps. The first two steps have been accomplished through various continuing resolutions, the Budget Control Act of 2011, and the American Taxpayer Relief Act enacted in January 2013. We propose two more steps – a "Step 3" focused on additional cuts and reforms and a "Step 4" focused on securing our long-term debt trajectory. The outline below is not meant as a revision to the original Fiscal Commission plan, but rather builds upon where elected leaders were in their negotiations last year.

In "Step 3," we call for an additional **$2.4 trillion** of deficit reduction over the next ten years. Roughly one quarter of those savings should come from health care reforms and another quarter from tax reform. The remaining savings should come from a combination of mandatory spending cuts, stronger discretionary caps, cross-cutting changes such as adopting the chained CPI for inflation-indexed provisions in the budget, and lower interest payments. This $2.4 trillion should exclude savings from policies such as the war drawdown. Savings would total $1.9 trillion from current law and $4.4 trillion relative CBO's Alternative Fiscal Scenario.

In "Step 4", we call for a parallel process to make Social Security sustainably solvent, bring transportation spending and revenues in line, and make further reforms in health care programs if necessary to limit cost growth to about the growth rate of the economy.

Four Steps to Deficit Reduction (2014-2023)

Step 1: Reduce Defense and Non-Defense Discretionary Spending (~$1.85 trillion)

- Enact immediate reductions in discretionary spending levels (Oct 2010-Apr 2011)
- Impose ten-year caps to reduce and limit the growth of discretionary spending (Aug 2011)

Step 2: Increase Revenue Collection and Enact Minor Additional Spending Cuts (~$850 billion)

- Allow the upper-income tax cuts to expire, generally for income above $450,000 (Jan 2013)
- Make minor reductions in discretionary caps and Medicare provider payments (Jan 2013)

Step 3: Enact Serious Tax and Entitlement Reforms and Cut Additional Spending (~$2.4 trillion)

- Reduce Medicare and Medicaid spending by improving provider and beneficiary incentives throughout the health care system, reducing provider payments, reforming cost-sharing, increasing premiums for higher earners, adjusting benefits to account for population aging, reducing drug costs, and getting better value for our health care dollars (Feb-Dec 2013)
- Enact comprehensive, pro-growth tax reform that eliminates or scales back most tax expenditures, with a portion of savings from tax expenditures dedicated to deficit reduction and the additional savings used to reduce rates and simplify the tax code (Feb-Dec 2013)
- Strengthen limits on discretionary spending (Feb-Dec 2013)
- Reduce non-health mandatory spending by reforming farm subsidies, modernizing civilian and military health and retirement programs, imposing various user fees, reforming higher education spending, and making other changes (Feb-Dec 2013)
- Adopt chained CPI for indexing and achieve savings from program integrity (Feb-Dec 2013)

Step 4: Make Social Security and Highway Funding Solvent and Medicare Sustainable

- Require reforms on a separate track to make Social Security sustainably solvent (2013)
- Require a highway bill to bring transportation spending and revenues in line (2014)
- Require additional reforms of federal health care programs if necessary to limit the growth of the per beneficiary federal health commitment to close to GDP growth (2018)