

A Bipartisan Path Forward to Securing America's Future

Our country's economic prosperity depends on putting our fiscal house in order. Despite the savings lawmakers have already enacted, the debt remains on an upward path as a share of the economy. Given that lawmakers have so far opted for pursuing deficit reduction in steps, we propose two more steps of fiscal reforms to put the debt on a clear downward path as a share of the economy. Additional deficit reduction 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. Serious fiscal reforms would bolster long-term economic growth while also protecting the economy in the short term by replacing mindless and across-the-board sequestration cuts with targeted reforms and by slowly phasing in savings.

In our view, a comprehensive deficit reduction plan should bring the debt below 70 percent of GDP by early next decade and keep it on a downward trajectory thereafter. A reasonable plan should also at least do the following:

- *Promote growth while protecting the economic recovery*
- *Protect the safety net for the most vulnerable in society*
- *Reduce tax expenditures and lower rates in a progressive and pro-growth manner*
- *Modernize entitlements for an aging population*
- *Control rapidly-growing health care spending while enhancing quality and value*
- *Replace the sequester with responsible cuts to unnecessary spending we cannot afford*
- *Make Social Security solvent and limit the per capita growth of all federal health obligations*
- *Protect the full faith and credit of the US Government by indexing the debt limit*
- *Make America better off tomorrow than it is today*

The first two steps of deficit reduction have been accomplished through various continuing resolutions, the Budget Control Act of 2011, and the recent American Taxpayer Relief Act. We propose two more steps – a “Step 3” focused on entitlement reforms, tax reform, and additional spending cuts and “Step 4” focused on securing our long-term debt trajectory. This proposal builds upon the discussions between President Obama and Speaker Boehner with additional deficit reduction necessary to put the debt on a declining path as a share of the economy.

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 indexing provision in the federal budget, and lower interest payments. In “Step 4”, we call for a parallel process to make Social Security sustainably solvent and make further reforms in health care if necessary to limit cost growth to about the rate of the economy.

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. We understand that there will be disagreements among policymakers and experts about the exact approaches to achieve deficit reduction, and we welcome their commentary.