A Bipartisan Path Forward to Securing America's Future

Questions and Answers

Why are you putting this forward now? What is your long term objective putting this proposal forward?

We are putting this proposal forward to show that a grand bargain is still possible. A comprehensive plan to put this country on a fiscally sustainable path will require political courage on both sides, but the negotiations last year show that an agreement is possible without anyone having to give up on core principles. This plan can serve as a mark for those discussions moving forward.

In the coming weeks we will see proposals that reflect the "ideal" solution from each party's perspective that will highlight the differences between the parties. We wanted to put this forward now to show that the differences aren't as extreme as the rhetoric may suggest and that there is a path to reach a principled compromise if both parties in Congress and the President are willing to come back to the table.

Why are you only releasing principles and a framework ahead of a complete proposal specific policy proposals?

We will be putting forward a specific plan laying out in great detail what needs to be done in the coming weeks, but wanted to provide time for policymakers and experts to provide feedback on this framework and offer input and suggestions about policies to achieve the goals we have set out.

We have never claimed a monopoly on good ideas, and would like to hear from others both on and off the Hill. We are interested in working with anyone who is serious about making the tough choices to necessary to put together a comprehensive, detailed plan that will put the budget on fiscally sustainable path. Alice Rivlin and Pete Domenici, in particular, have put forward a great plan and are working with the Bipartisan Policy Center on some innovative health care ideas..

Can you give us any of the specifics you will be offering as part of the detailed plan?

We are calling for $2.4 trillion in new savings in the first step, with roughly a quarter each from tax reform and health reform and the remaining savings from a combination of mandatory and discretionary spending cuts, cross-cutting reforms like the chained CPI, and interest spending reductions.

On the health side, we're calling for reductions in provider payments, reforms to cost-sharing rules, increases in premiums for higher earners, savings from lower drug costs, and adjustments to account for an aging population. Most importantly, we will be focused on the type of costbending reforms that realign incentives so that quality – no quantity – drives health care decision making.

On the tax side, want to empower leaders in Congress to put forward real tax reform which lowers rates and reduces deficits by cutting spending in the tax code. Our current tax code is a mess; we have an opportunity here to unleash tremendous pent up growth.

The remaining spending cuts are going to come from changes such as reducing farm subsidies, reforming higher education funding, modernizing military and civilian health and retirement benefits, increasing various user fees and strengthening the caps on defense and non-defense spending.

We also are going to be calling for chained CPI, applied government wide with protections for low income beneficiaries, and major efforts to reduce fraud and abuse throughout government.

How is the proposal you are putting forward today different than the original Simpson-Bowles plan?

This proposal is **not** based on the original Fiscal Commission report and is not meant to be a revision or a "2.0." Instead, we started with the parameters being discussed in the negotiations between President Obama and Speaker Boehner last December and made changes to make the plan large enough to garner the amount of savings necessary to put the debt on a downward path. Most importantly, it is meant to show what is possible in the current political environment that could still put the country on a fiscally sustainable path.

That said, this proposal does reflect several of the key principles and elements of the original Simpson-Bowles plan – a comprehensive approach large enough to put the debt on a declining path as a share of the economy that includes fundamentally reforming the tax code, cutting spending throughout the budget, reforming entitlement programs, phasing in savings gradually to avoid harming the economic recovery and protecting vulnerable populations. It reflects our effort to identify where we believe a bipartisan agreement could be reached on a plan large enough to stabilize and reduce the debt as a share of the economy.

As an example, the remaining savings from tax reform in the President's last proposal would be about 30% of the total and in the Speaker's last offer would be about 20%. So we split the difference and have one-fourth of the savings come from tax reform. We know this plan goes further than either side wants – it's more health care than the Democrats would like and more revenue than Republicans support. But in our view it is the *minimum size necessary* to put the debt on a clear downward path.

You are calling for an additional $2.4 trillion in savings over the next ten years, far more than the $1.5 trillion that the President and others are saying is necessary.

$1.5 trillion just doesn't get the job done. As a technical matter, it would be projected to hold the debt at current levels (73 percent of GDP) by 2023, and as a practical matter it would certainly represent progress. But if you look at the numbers, shooting for $1.5 trillion means you have *no margin for error* if the economy grows slower, no wiggle room in case politicians are fiscally irresponsible in the future, and no flexibility in case of a war, recession or natural disaster. Most importantly, there is almost no way that $1.5 trillion this decade will be enough to keep the debt under control next decade.

To ensure the debt was on the right path, we need to, *at the minimum,* get the debt below 70 percent of GDP by early next decade. That means **$2.4 trillion of deficit reduction**. This would be enough to prevent against modest changes in the projections, help us get a running start to deal with the long-term debt, hold interest payments at bay and promote economic growth. Note that this $2.4 trillion is in place of not instead of the sequester; and it doesn't count polices already in effect such as the troop drawdown abroad.

The proposal you are putting forward would result in total savings of $5 trillion over ten years, compared to the $4 trillion you said was necessary when the report was issued.

Our focus is not on achieving a specific dollar amount of savings but rather beginning to reduce the debt as a percentage of GDP. When we put the commission plan together we recommended $4 trillion of savings through 2020 to get the debt and deficits to levels we thought stood the best chance of making our budget and economy sustainable. As time has passed and the debt has increased, the equivalent savings today is more like $6 or $7 trillion – including what has already been enacted.

The framework we are putting forward here is more modest – closer to $5 trillion, including what's been enacted, in addition to long-term reforms. The framework we are suggesting is not the *ideal* framework or the *best* framework or the *right* framework for making us sustainable again. It is the *minimum* that policymakers must do.

Are there any new provisions or changes from the original Simpson-Bowles plan? Are there any elements or provisions in the original Simpson-Bowles plan that you are dropping or moving away from in order to get more support?

This isn't a revision of the original Simpson-Bowles plan, but we did learn a lot about what is politically feasible from that report. This proposal will certainly differ on a lot of the details from Simpson-Bowles. It was also have a greater focus on population aging and on structural health reforms to bend the cost-curve. And on top of that, it will put more of a focus on specific protections and enhancements for the most vulnerable population.

We have been working through a lot of ideas, but many will change when we put together a specific plan and incorporate all of the new ideas that have been put forward over the last two years. Since the original Fiscal Commission report was released in 2010, many improvements and alternatives to recommended policies have been suggested.

With such a polarized Congress, what do you hope will come of this proposal?

The failure to reach agreement on a long-term plan to put the country back on a fiscally sustainable path during negotiations leading up to the "fiscal cliff" was a tremendous missed opportunity and an indictment of the fiscal brinksmanship in Washington. We hope that putting forward this plan will help to restart the conversation about a long-term solution to our fiscal challenges.

How do you think your proposal will be received by the right? Left?

This plan begins where the President and the Speaker left off. It does not move to right or to the left. It moves the discussion forward, building on all of the hard work and negotiations over the last two years, and puts the idea of a comprehensive solution back on the table.

We expect this proposal to be harshly criticized by the extremes of both parties, but the point of this plan is to push both sides to go beyond their comfort zone in order to reach a principled compromise with enough savings to bring the debt under control. It will be criticized by the right for raising revenues and by the left for cutting entitlements. But in our experience we have found that most members of Congress, and most of their constituents, are willing to accept tough choices and compromises in areas important to them if they see everyone else doing the same.

Republicans have said that the fiscal cliff deal resolved the issue of revenues and that the focus needs to be on entitlement reforms with no additional increases in revenue. Why do you call for increased revenues in your proposal?

Speaker Boehner's *opening* offer had more revenue than what we ultimately enacted on a bipartisan basis on New Years. We agree that the primary focus needs to be on entitlement reforms, and our proposal recommends aggressive entitlement reforms along with additional spending cuts. But we do not believe it will be possible to achieve the amount of savings necessary to put the debt on a downward path entirely on the spending side without jeopardizing our goals of protecting vulnerable populations and preserving funding for key investments.

Including additional revenues will also be necessary to reach bipartisan agreement on a plan to reform entitlements, and it represents the best chance for comprehensive tax reform. We have no interest in raising tax rates again; we want to lower them. There is so much wasteful spending in the tax code that there is room to lower those rates and reduce the deficit at the same time.

Why isn't your plan 50/50 spending to revenues?

Even the Democratic President isn't at 50/50 in light of the revenue raised from the American Taxpayer Relief Act. Just last week the White House reiterated their offer of $900 billion in cuts for $600 billion in revenue. More fundamentally, we have a spending problem – and more specifically an entitlement growth problem. Revenue needs to be part of the solution, and indeed we are calling for a substantial amount of revenues. But we can't tax our way out of an aging population or growing health costs. We need to make some tough choices in order to ensure that our entitlement programs are sustainable over the long-term.

Would you support breaking the package up further and enacting individual components of it separately, such as enacting individual reforms of Medicare or reductions in tax expenditures on their own?

If it takes Congress and the President 3 steps or 4 steps or 10 steps, so be it. We'll take the reductions and reforms anyway we can get them. However, it has been our observation that getting agreement on the tough parts of entitlement and tax reform will require a sense of shared sacrifice that will be difficult to achieve outside of a comprehensive approach.

Why do you say $2.7 trillion of deficit reduction has been enacted already?

Because we are counting from 2010 when we were writing our fiscal commission report. We understand that there are a lot of different ways to count enacted savings, but none of change the amount of future savings we need. We need $2.4 trillion to get the debt on a clear downward path and below 70 percent by early next decade.

What does your baseline assume to get to $2.4 trillion?

We use a current policy baseline just like the one used by the Committee for a Responsible Federal Budget (CRFB), the Center on Budget and Policy Priorities (CBPP), and the Bipartisan Policy Center (BPC) – which was also the type of baseline President Obama and Speaker Boehner were using in their negotiations.

Our baseline assumes that the wars drawdown as planned and also assume that policymakers cancel the sequestration and continue to enact "Doc Fixes." Against CBO's normal current law baseline, our framework would save about $1.9 trillion. Against their Alternative Fiscal Scenario it would save $4.4 trillion.

What economic assumptions do you make?

We use the CBO economic assumptions, which assume annual GDP growth of about 4.2 percent and real GDP growth of about 2.2 percent by early next decade. We've tested our plan against modestly slower GDP growth and found $2.4 trillion would still be sufficient to put the debt on a clear downward path.

That said, we *believe* enacting something like our framework – which gradually reduces the deficit, protects high-value spending, encourages work and investment, and fundamentally reforms the tax code – would result in much better economic growth. Based on Congressional Budget Office research, it appears the deficit reduction component alone could increase the size of the economy by about one percent a decade from now. We don't rely on the potential improvements in economic growth and resulting benefits for the federal budget in our plan.