Numerous committees have formed to suggest ways of restoring fiscal stability. Some come from the political right or left, but the most interesting include members who span the ideological spectrum. The most important is the president’s National Commission on Fiscal Responsibility and Reform (NCFRR 2010). The president appointed six members drawn from both political parties, and Democratic and Republican congressional leaders each appointed six elected members—three from the House and three from the Senate. The commission’s rules stated that Congress had to consider its recommendations if at least 14 commission members supported them. That ensured that at least two elected members from each party had to be on board before the Congress would be forced to act.

Few budget watchers thought the commission had any chance of success, especially after congressional leaders appointed some members from the extremest of their parties. But commission members and their staffs worked diligently in a collegial fashion. They finally recommended radical revenue-raising tax reform, a 15-cent increase in the gas tax, comprehensive Social Security reform, options to restrain growth in federal spending on health care, and severe caps on defense and nondefense discretionary spending.

Only 11 members ultimately voted for the commission report, but the fact that it got more than majority support was a notable achievement. Moreover, support spanned the ideological spectrum from Senator Tom Coburn (R, OK), one of the most conservative members of the Senate, to Senator Richard Durbin (D, IL), a solid liberal. Although the Republican Party has adamantly opposed tax increases, three Republican senators voted for a plan that contained significant new revenues. The commission claimed that by 2020, roughly 70 percent of its deficit reduction would come from slowing noninterest spending growth and 30 percent from revenue increases. I In the United States faces a dire budget problem (CBO 2010a, Committee on the Fiscal Future 2010). It could cause a financial crisis similar to those afflicting Greece and Ireland. The fiscal problem is largely the result of the aging of the population and soaring health costs. Social Security and health spending on major programs constitute half of total spending in a normal year. Both are projected to grow faster than tax revenues, but health costs present by far the greater problem.

Social Security and health spending on major programs constitute half of total spending in a normal year. Both are projected to grow faster than tax revenues, but health costs present by far the greater problem.
long run, the commission held spending to 21 percent of gross domestic product (GDP), a severe limit given the costs of an aging population and even more expensive health care.

A private bipartisan committee called the Debt Reduction Task Force (DRTF) and led by former Senator Pete Domenici (R-NM) and Alice Rivlin, President Clinton’s director of the Office of Management and Budget, also recommends radical tax reform, enforceable limits on Medicare and Medicaid cost growth, Social Security reform, and a stringent approach to discretionary spending (DRTF 2010). However, their deficit reductions relied more heavily on tax increases than did the president’s commission. The task force recommended a new value-added tax (VAT) to supplement the existing tax system.

So far none of the committees has received enthusiastic support from elected officials. The president has been tepid in his support of his own commission, looking favorably only on their tax reform suggestions. Speaker Pelosi dubbed an earlier version of the commission report “unacceptable,” and as this is written, Speaker Boehner praised the commission for drawing attention to the budget problem but said nothing about their proposed solutions. Nevertheless, the output of the president’s commission and various bipartisan proposals is extremely valuable. They offer a rich variety of policy options, and that will be useful when we finally act on our budget problems. The fact that radical tax reform appears in more than one report makes an option that appeared earlier—never- before in this century—is worth emphasizing briefly. Perhaps most important, the experience of the president’s commission and the DRTF shows there are policy packages that can get bipartisan support even in an intensely partisan era.

Health Policy

The presidential commission report identifies health care as a “true single largest fiscal challenge over the long run” and offers recommendations for both the near and long term to reduce the growth of such spending and “slow the growth of health care costs more broadly” (NCBR 2010, 36). The principal concerns for the near term are to offset the deficit costs of fixing Medicare’s flawed sustainable growth-account payment formula for physicians and to reform or repeal the financially unsound Community Living Assistance Services and Support (CLASS) Act, recently enacted in the health reform Affordable Care Act (ACA).4 To this end, the report recommends numerous specific health-spending changes estimated to yield nearly $4.00 billion in savings from 2012 to 2020. The ACA contained many provisions aimed at reducing Medicare and Medicaid costs, so much of the long-hanging deficit (saving) fruit from these programs is now off the table. Still, four commission recommendations affecting these programs account for the lion’s share of total near-term savings: expanding cost sharing in Medicare (along with instituting a cap), increasing pharmaceutical companies’ rebates for prescription drugs for Medicare beneficiaries, reducing Medicare’s subsidy to teaching hospitals for graduate medical education, and restrict- ing states’ ability to artificially inflate reported spending on Medicare to increase their federal match. Variants of the first two recommendations are also included in the DRTF report. For the long term, the president’s com- mission’s report recommends “a process for reviewing total federal health care spending [including the exchange subsidies under the ACA and the cost of the tax exclusion for health insurance] … with the target of holding growth to GDP plus 1 percent and requiring action by the president and Congress if the growth exceeds [it]” (46). This is an incredibly ambitious goal, but a necessary one to eventually constrain total federal spending to the report’s recommended 21 percent of GDP. The report acknowledges that more substantial structural reforms to the health care system than the ACA are required to address this target, unless the latter prove far more success- ful in slowing federal health care spending than the Congressional Budget Office (CBO) and the Medicare actuary project. But rather than recommend any particular reforms, the report tersely identifies—without context or comment—a grab bag of wide-ranging policy options suggested by commission members.

Many experts believe establishing some sort of fixed budget for at least the major compo- nents of federal spending on health care may eventually be necessary to keep it anywhere near the presidential commission target. The DRTF plan moves in this direction by recommending, as the main pillars of a coherent long-term strategy, the adoption of three presidential commission members’ bolder suggestions for restraining long-term growth of federal health care costs. First, its recommended phaseout of the health reform Affordable Care Act (ACA).

Many aspects of the DRTF plans long-term strategy are worthi e, chief among which is the extent its elements—on top of the reforms already set in motion by the ACA—actually would slow the underlying growth of systems-wide per capita health care costs. Unless sys- temwide growth slows commensurately with that of per capita costs for Medicare and Medicaid, it would be difficult, if not impossi- ble, to achieve the desired savings without unduly undermining beneficiaries access to quality health care. But the DRTF plan at least advances a concrete, coherent, and plausible approach to the single largest fiscal challenge over the long run.5

Social Security

The presidential commission’s plan for Social Security is designed to eliminate the program’s 75-year deficit and put it on a sustainable path through both increasing revenues and reducing costs over time relative to those cur- rently scheduled.Absent any such changes, the pending large increase in the number of beneficiaries relative to workers will soon result in rapidly growing cash flow deficits for the Social Security trust fund and the draw- down of its reserves until depleted in 2037—at which time an across-the-board benefit cut for current and future beneficiaries of at least 24 percent would be required. Five commission recommendations would improve Social Security’s financial outlook.

1. Modify the benefit formula to slow the growth of future benefits. The wage- adjusted benefit levels of new retirees, those with very low covered earnings histories, would decline in a progressive manner relative to those of comparable recipients today. But the modifications would be phased in slowly from 2017 to 2050 and would ensure that all future benefi- ciates continue to receive higher inflation- adjusted benefits than earlier generations.

2. Index the normal retirement age (NRA) and the early eligibility age (EEA) to life expectancy. This provision is intended to maintain a constant ratio of years in retire- ment to years in adulthood as longevity increases. It would raise the NRA (now scheduled to be 67 in 2027 and thereafter) to 68 in about 2050 and 69 in about 2075, with the EEA (currently 62) moving in tandem to 65 and 64.6

3. Increase the wages subject to the Social Security payroll tax. In the early 1980s, tax- able wages under the cap—currently $106,800 and indexed to the average growth of covered wages—were 90 percent of all wages. Since then, wages below the cap have grown more slowly than those above, and thus barely 62 percent of all wages will be subject to the payroll tax by 2050. This pro- vision would gradually increase the cap to the 90 percent mark by 2020.

4. Substitute the chained consumer price index (CPI), a more accurate measure of inflation, for the current version of the CPI used to calculate annual cost-of-living adjustments to Social Security benefits.7

5. Phase in coverage of the one-quarter of the state and local workforce currently outside Social Security. Four other recommendations would modify Social Security, at modest or no cost, to better support the most vulnerable recipients and to introduce new flexibilities and protections in conjunction with an indexed retirement age.

1. A new special minimum benefit would provide full-career workers (with 30 or more years of covered earnings) with a benefit no less than 125 percent of the federal poverty level starting in 2017 (and indexed to wages thereafter), with a proportionately lower benefit for workers with 20 to 29 years of covered earnings.

2. A benefit enhancement for the long-lived and the long-time disabled, who are at risk of outliving their own retirement resources, would bump up their benefit levels 20 years after initial eligibility by 5 percent of the average benefit level.

3. A new option for retirement claiming, permitting collection of up to half of ben-efits as early as 62 with the applicable actu- arial reduction and the other half at a later age, would provide a smoother transition for those interested in phased retirement or for households in which one member has retired and the other continues to work.

4. An early retirement hardship exemption for those who may not qualify for disabi- lity benefits but are physically unable to work beyond the current EEA. The pro- posal would allow them to continue to claim benefits at age 62, as the EEA and NRA increase, without any additional actuarial reductions.

The presidential commission plan relies more heavily—and more so over time—on benefit-cost reductions than on revenue increases to ensure Social Security’s long-run solvency (table 1). More than three-fifths of the improvement in the program’s finances over the next 75 years is due to provisions directly affecting benefit levels, by the 75th year this ratio will rise to about 80 percent. As a result, most new retirees would experience benefit reductions (relative to currently scheduled benefits for comparable workers) of increasing amounts over time, ranging by more than a factor of 3 from the middle of the lifetime earnings quintile to 19 percent for the top quintile (NCBRF 2010, figure 15). Those with lower lifetime covered earnings would be well protected by other plan provi- sions, with the lowest earners actually receiving a benefit more than one-third higher than the benefit of the new special minimum. So con- cern about the plan’s benefit reductions would likely focus on future beneficiaries in the broad middle of the lifetime earnings distri- bution, as well as those with more limited

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II URBAN INSTITUTE

Commissions Tackle the Deficit

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A private bipartisan commission called the Debt Reduction Task Force (DRFT) and headed by former Senator Pete Domenici (R-NM) and Alice Rivlin, President Clinton’s
director of the Office of Management and Budget, also recommends radical tax reform, enforceable limits on Medicare and Medicaid
cost growth, Social Security reform, and a stringent approach to discretionary spending (DRFT 2010). However, their deficit reduc-
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supplement the existing tax system.1

So far none of the committees has received enthusiastic support from elected officials. The president has been tepid in his support of his
own commission, looking favorably only on some of the president’s commission report “unacceptable,” and as this is written, Speaker Boehner praised the commission for
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The report acknowledges that more substantial structural reforms to the health care system that altered the tax code and the tax treatment of health insurance5 would be required to hit this target, unless the latter prove far more suc-
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mending, as the main pillars of a coherent long-
term strategy, the adoption of three presidential commission members’ bold suggestions for restraining long-term growth of federal health care costs. First, its recommended phaseout of the tax exclusion for health insurance would totally eliminate this huge tax expenditure as well as foster more cost-conscious choices by those purchasing private health insurance. Second, it would convert Medicare into a “pre-
mium support” system, essentially providing beneficiaries with a voucher whose value grows over time at the rate of per capita GDP growth plus 1 percent to use toward either the costs of traditional fee-for-service Medicare or a com-
peting private plan offered on a newly created Medicare exchange. This change would not constrain the growth of Medicare spending, but it
would put Medicare on a level well below current pro-
jections, and also dampen underlying health care cost increases by making beneficiaries who remain in traditional Medicare more cost
conscious. They will be forced to pay additional premiums if Medicare costs per beneficiary rise faster than the value of the voucher.) The pro-
posal would also foster competition among plans on the exchange, leading them to manage quality care delivery in a more cost-efficient manner. Finally, the DRFT plan calls for chang-
ing the incentives inherent in current complex financial arrangements between the federal and private worlds. To achieve significantly slowed growth of Medicare costs and limit the fed-
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Many of the DRFT plan’s long-term strategy are worthwhile, chief among which is the extent its elements—on top of the reforms
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Social Security

The presidential commission’s plan for Social Security is designed to eliminate the program’s 75-year deficit and put it on a sustainable path
through various ways. First, its recommended phaseout of the Social Security trust fund and the draw-
down of its reserves until depleted in 2037—at which time an across-the-board benefit cut for current and future beneficiaries of at least 21 percent would be required. Five commission recommendations would improve Social Security’s financial outlook.

1. Modify the benefit formula to slow the growth of future benefits. The wage-
adjusted benefit levels of new retirees, except those with very low covered earnings histories, would decline in a progressive manner relative to those of older recipients today. But the modifications would be phased in slowly from 2017 to 2050 and would ensure that all future bene-
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The presidential commission plan relies heavily—and more so over time—on benefit-cost reductions than on revenue increases to ensure Social Security’s long-run solvency (table 1). More than three-fifths of the improvement in the program’s finances over the next 75 years is due to provisions directly affecting benefit levels, by the 75th year this ratio would rise to 90 percent. But in the long run, the result, more new retirees would experience benefit reductions (relative to currently scheduled benefits for comparable workers) of increasing amounts over time, ranging by middle earner from an average of 9 percent for the middle earnings quintile to 19 percent for the top quintile (NCFRR 2010, figure 15). These lower lifetime covered earnings would be well protected by other plan provi-
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II URBAN INSTITUTE

Committees Tackle the Deficit

Brief #32-TackleDeficit_Rd2_Layout 1 27/11/16 11:13 PM Page 3

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Committees Tackle the Deficit

Table 1. Existing Shortfall Closed by Commission's Social Security Reform Provisions (%)

<table>
<thead>
<tr>
<th></th>
<th>Over 75 years</th>
<th>In 75th year</th>
</tr>
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<tbody>
<tr>
<td>Reduce future benefits in a progressive manner through a change in the benefit formula</td>
<td>45</td>
<td>51</td>
</tr>
<tr>
<td>Index the NRA and the EEA to longevity and include a hardship exemption</td>
<td>10</td>
<td>30</td>
</tr>
<tr>
<td>Increase the taxable maximum to cover 90% of earnings</td>
<td>35</td>
<td>22</td>
</tr>
<tr>
<td>Apply an improved CPI to cost-of-living adjustments in benefits</td>
<td>26</td>
<td>17</td>
</tr>
<tr>
<td>Cover all newly hired state and local workers</td>
<td>8</td>
<td>D</td>
</tr>
<tr>
<td>Create new special minimum benefit</td>
<td>-6</td>
<td>-6</td>
</tr>
<tr>
<td>Enhance benefits for the long-lived and the long-term disabled</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>TOTAL</td>
<td>112</td>
<td>102</td>
</tr>
<tr>
<td>Shortfall as a percent of taxable payroll</td>
<td>1.92</td>
<td>4.13</td>
</tr>
</tbody>
</table>

*Source: Board of Trustees (2011). NCERF (2011).*  
EEA = early eligibility age  
NRA = normal retirement age

life-time earnings due to long absences from the labor force. Both groups are likely to remain highly dependent upon Social Security to maintain their retirement standard of living, while also facing out-of-pocket health care costs (including Medicare premiums) growing faster than their inflation-adjusted benefits. Nonetheless, they would likely be much better off in the long run than if program savings were not restored and budget deficits spiraled out of control.

The DRTF’s plan for Social Security provides an interesting contrast, since it entails provisions similar to those of the president’s commission, plus several others. But its progressive benefit-formula reduction affects only high lifetime earners and yields far less savings, while its supplementary provisions provide additional revenue of a bit more than 1 percent of taxable payroll—principally by phasing out

The income and payroll tax exclusions for employer-sponsored health insurance: As a consequence, the DRTF plan relies more exclusively on reduced costs and increased revenues over time and results in more moderate benefit reductions.9 However, the presidential commission’s plan is designed to ensure Social Security’s solvency as a stand-alone program; the report indicates that any additional tax-fund revenue resulting from tax reform “will provide flexibility to moderate the changes in benefits or taxation recommended by the commission” (NCERF 2010, 14). Thus, were the tax exclusion for health insurance phased out, the consequent fiscal flexibility could soften the impact of benefit reductions on future beneficiaries of most concern.

Another interesting point of contrast between the two plans is the different means by which they adjust the future retiree benefits to increase in life expectancy. Under the DRTF plan, both the EEA and the NRA would remain the same as under current law, while the formula for calculating initial benefits would be indexed to achieve the same result, as would indexing the NRA. This could be a politically palatable approach to indexing longevity, since it still allows retirees to claim benefits at age 65—albeit with a larger actuarial reduction than under current law. It also eliminates the need for the commission’s hardship exemption from the higher EEA, which would be difficult to implement in practice. However, the signal that younger generations need to work longer in order to adequately provide for retirement would be lost.9

Finally, we note that neither plan includes any form of individual account, a cornerstone of President Bush's proposed reform of Social Security. The economy tanking and the recent stock market collapse have reduced the appeal of individual accounts, but they still appear in some form in William Galton and Maya MacGuine's budget reform plans (2010). House Budget Committee Chairman Paul Ryan’s road map (2011), and the plan put forward by the conservative Americans for Tax Reform (2010).

Discretionary Spending

The presidential commission’s Social Security reforms are phased in slowly and its major health program savings are not achieved until after 2020. As a result, the commission has to set discretionary program cuts to significantly reduce the deficit in the medium term without large tax increases. They propose caps on discretionary spending that would cut 2015 spending levels by $58 billion in nominal terms compared to spending in 2009 and by about 10 percent in real terms.30 By 2020, real discretionary spending would be about 18 percent below 2009 levels. After 2020, discretionary cuts sharply reduce to grow with the CPI. Although 2009 spending was somewhat inflated by the stimulus program, the recom-mended cuts are severe given that the demand for public services will grow with the population. Discretionary spending cuts account for over 45 percent of the deficit reduction proposed for 2013 relative to the commission’s baseline, while revenue increases account for about 25 percent and associated interest savings for 9 percent. The remaining small amount comes from the early effects of Social Security and health reform and from reforms to other mandatory spending programs. The commission’s caps are enforced by points of order and by automatic spending cuts if the points of order are not upheld.30

In suggesting approaches to getting under the cap, the commission does not identify specific program cuts or eliminations in the body of their report. Instead, the commission takes the indirect approach of advocating a three-year civil service pay freeze, a reduction in the civil service, a reduction of travel and vehicle expenses, and symbolic cuts in congressional and White House budgets. Such savings amount to over $31 billion for 2012–2015.30 That compares to the $751 billion in savings necessary to get under the 2015 cap. On its web site, the commission provides options for saving $100 billion in defense and the same amount in nondefense programs. Most of the defense options require specific and major wholesale weapons systems, such as the V-22 Osprey aircraft. The nondefense list contains a number of program cuts, such as eliminating the Overseas Private Investment Corporation or the Peace Corps but also lists options whose effects are harder to determine such as creating a cut-and-invest committee that would have a goal of saving $11 billion. Both the president’s commission and the DRTF suggest more public investment. However, large increases in investment spending would have to be offset by reductions in current spending to stay under the discretionary spending caps.

The commission’s severe spending caps obviously yield fewer budget cuts if they avoid naming explicit program cuts and using the programs’ constitutions. But the commission’s indirect cuts are hard to evaluate. Clearly, some civil servants are overpaid (and some underpaid), but it is important to ask what a pay freeze will do to the quantity and quality of civil servants who are recruited. Similarly, the commission’s reductions of the civil service and their travel expenses are probably warranted in some agencies, but they may be more dubious for those charged with enforcing disqualifying claim dismissals or enforcing tax laws. Moreover, reducing staff by attrition, as the commission recommends, may not be the most efficient approach.

The DRTF follows a similar strategy for controlling discretionary spending, but the implied cuts from baseline levels are much less severe. They advocate a four-year nominal freeze of nondefense discretionary spending for 2012 to 2015. After that, the programs are allowed to grow with the economy. That compares to the real, absolute cuts advocated by the president’s commission. For defense, the DRTF advocates a five-year freeze and growth with the economy thereafter. Like the president’s commission, the task force seems reluctant to recommend specific program cuts, but lists many illustrative examples. There is much overlap between their list and the commission’s.

Other Mandatory Programs

The president’s commission suggests reforms in mandatory programs other than health and Social Security, such as civil service retirement, retirement programs and agricultural subsidies. Additional deficit reductions are suggested for the student loan program and the Pension Benefit Guaranty Corporation. The report includes proposals for increasing various fees and charges for goods and services sold by govern-ment agencies. Many of these same recommendations can be found in the DRTF report.

Tax Policy

It is almost impossible to imagine a compos-site solution to the long-run budget prob-lem that does not involve revenue increases, and it is almost certain that a compromise will be necessary. No party is sufficiently dominant to impose a solution on its own. All experts agree that one of the least desir-able ways of raising revenues is to raise the tax rates in our current highly inefficient and inequitable individual and corporate income tax systems. That leaves two options. Our income tax systems can be radically reformed to raise revenues more equitably and effi-ciently with lower marginal tax rates, or revenues can be raised using some other tax. The president’s commission and the DRTF suggest both options in different proportions. The National Academies committee suggested radical tax reform as one revenue-raising option, and other committees recommend less dramatic tax reforms.

Radical tax reform involves eliminating or greatly reducing the value of the many deduc-tions, credits, special rates, and income exclu-sions that riddle our individual and corporate income tax system. These are known as tax expenditures and the president’s commission estimates their current annual value at $1.2 trillion. The proceeds from reducing the value of tax expenditures can be divided into two por-tions. One can be used for increasing revenues while the other is applied to reducing mar-ginal tax rates. The tax system then becomes fairer, because those in a position to easily use tax expenditures see their advantage reduced or eliminated. The system becomes more efficient because incentives are improved as the reform reduces the amount taxed from each extra dollar earned from work or received from savings. Moreover, choices are less often distorted by tax provisions that favor one form of economic activity over others. The president’s commission recommends applying $80 billion of the proceeds from tax reform to deficit reduction in 2015 and $180 billion in 2020. Its analysis is particularly use-ful, because the president’s commission recom-mends both options in different proportions. However, the commission suggests reforms in mandatory programs other than health and Social Security, such as civil service retirement, retirement programs and agricultural subsidies. Additional deficit reductions are suggested for the student loan program and the Pension Benefit Guaranty Corporation. The report includes proposals for increasing various fees and charges for goods and services sold by government agencies. Many of these same recommendations can be found in the DRTF report.

Tax Policy

It is almost impossible to imagine a compromise solution to the long-run budget problem that does not involve revenue increases, and it is almost certain that a compromise will be necessary. No party is sufficiently dominant to impose a solution on its own. All experts agree that one of the least desir-able ways of raising revenues is to raise the tax rates in our current highly inefficient and inequitable individual and corporate income tax systems. That leaves two options. Our income tax systems can be radically reformed to raise revenues more equitably and effi-ciently with lower marginal tax rates, or revenues can be raised using some other tax. The president’s commission and the DRTF suggest both options in different proportions. The National Academies committee suggested radical tax reform as one revenue-raising option, and other committees recommend less dramatic tax reforms.

Radical tax reform involves eliminating or greatly reducing the value of the many deduct-i-

lifetime earnings due to long absences from the labor force. Both groups are likely to remain highly dependent upon Social Security to maintain their preretirement standard of living, while also facing out-of-pocket health care costs (including Medicare premiums) growing faster than their inflation-adjusted benefits. Nonetheless, they would likely be much better off in the long run than if program solvency were not restored and budget deficits spiraled out of control.

The DRTF’s plan for Social Security provides an interesting contrast, since it entails a change in the benefit formula that does not involve revenue increases, and it is almost certain that a compromise will be necessary. No party is sufficiently dominant to impose a solution on its own. All agree that one of the least desirable ways of raising revenues is to raise the tax rates in our current highly inefficient and inequitable individual and corporate income tax systems. That leaves two options. Our income tax systems can be radically reformed to raise revenues more equitably and efficiently with lower marginal tax rates, or revenues can be raised using some other tax. The president’s commission and the DRTF both suggest options in different proportions. The National Academies committee suggested radical tax reform as one revenue-raising option, and other committees recommend less dramatic tax reforms.

Radical tax reform involves eliminating or greatly reducing the value of the many deductions, credits, special rules, and income exclusions that riddle our individual and corporate income tax system. These are known as tax expenditures and the president’s commission estimates their current annual value at $1 trillion. The proceeds from reducing the value of tax expenditures can be divided into two portions. One can be used for increasing revenues while the other is applied to reducing marginal tax rates. The tax system then becomes fairer, because those in a position to easily use tax expenditures see their advantage reduced.

Another interesting point of contrast is the different means by which the commission recommends increasing revenues. While the president’s commission focuses on raising revenues more equitably and efficiently with lower marginal tax rates, the DRTF’s emphasis is on reducing the federal deficit. The commission recommends a variety of options, including options that would be offset by reductions in current spending to stay under the statutory spending caps. The commission’s severe spending cuts should be viewed as a starting point if they avoid naming explicit program cuts and arousing the programs’ constituencies. But the commission’s indirect cuts are hard to evaluate. Clearly, some civil servants are overpaid (and some underpaid), but it is important to ask what a pay freeze will do to the quantity and quality of civil servants who are recruited and retained. Similarly, the commission’s reductions of the civil service and their travel expenses are probably warranted in some agencies, but they may be more dubious for those charged with evaluating disability claims or enforcing tax laws. Moreover, reducing staff by attrition, as the commission recommends, may not be the most efficient approach.

The DRTF follows a similar strategy for controlling discretionary spending, but the implied cuts from baseline levels are much less severe. They advocate a four-year nominal freeze of nondefense discretionary spending for 2012 to 2015. After that, the programs are allowed to grow with the economy. That compares to the real, absolute cuts advocated by the president’s commission. For defense, the DRTF advocates a five-year freeze and growth with the economy thereafter. Like the president’s commission, the task force seems reluctant to recommend specific program cuts, but lists four illustrative examples. There is much overlap between their list and the commission’s.

The president’s commission suggests reforms in mandatory programs other than Health and Social Security, such as civil service retiree programs and agricultural subsidies. Additional deficit reductions are suggested for the student loan program and the Pension Benefit Guaranty Corporation. The report includes proposals for increasing various fees and charges for goods and services sold by government agencies. Many of these same recommendations can be found in the DRTF report.

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The president’s commission recommends applying $70 billion of the proceeds from tax reform to deficit reduction in 2015 and $780 billion in 2020. Its analysis is particularly useful in determining if tax reform reduces the amount owed from each extra dollar earned from work or received from savings. Moreover, choices are less often distorted by tax provisions that favor one form of economic activity over others.

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Notes

The authors are grateful to Richard Johnson and James Kaminski for their comments and to the John D. and Catherine T. MacArthur Foundation for financial support.

1. Dividing deficit reduction between spending reductions and revenue increases is somewhat arbitrary because it depends on what an analyst assumes the deficit to be for a starting point. The commission created its own baseline. It is very similar to the Congressional Budget Office’s alternative policy baseline. If they had chosen a baseline with higher spending, the estimated proportion of deficit reduction from spending cuts would have been higher.

2. An earlier committee convened by the National Academy of Sciences and Public Administration (Committee on the Fiscal Future of the United States 2010) put forward radical tax reform as one of its revenue-raising options and also discussed a VAT, but only in combination with similar policy options, the urgency of our budget problem and the need for bold and controversial policy changes to address it can no longer be denied.

3. Although there is much discussion of the need for sacrifices to fix the budget problem, it is important to remember that fixing the problem also will bring huge benefits. If the problem is left so festering and the United States is engorged by a fiscal crisis, the entire population will feel intense pain (Burman et al. 2010; CBO 2010b). Even if a crisis is a long way off, large deficits will be draining away national saving in the intertemporal and slowly eroding the capital stock on which future generations will depend.


5. The commission included, under the report’s recommended approach to tax reform, an adjustment for any changes made to the exclusion. The commission’s revenue estimates are based on a top rate of 35 percent and a percentile rate of 19 percent rather than the 55 and 32 percent that will prevail through 2012.

References


Jam es K am inski for their com m ents and to the budget outlook is rightly growing. There is no need for sacrifices to fix the budget problem, and second, showing that very large policy changes will be necessary to solve it. Among the changes they describe are Social Security and health policy reforms and a radical makeover of our personal and corporate income tax systems. Such policy reforms are highly sensitive politically—so much so that they are often regarded as being implausible. The presidential commission and the DRTF have brought the discussion of radical reforms into the mainstream and voted an all-out attack on a variety of sacred cows. In doing so, they have built upon and reinforced the work of previous committees, such as that sponsored by the National Academies. With so many groups raising the same issues and discussing similar policy options, the urgency of our budget problem and the need for bold and controversial policy changes to address it can no longer be denied.

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For a discussion of why reducing federal spending on health care in the nation’s greatest fiscal challenge and of the problems with the Medicare sustainable growth-rate payment formula, see chapter 1 of Committee on the Fiscal Future of the United States (2010). For a discussion of the fiscal impact of the ACA and the CLASS Act, see Palmer and Penner (2011).

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required to raise the targeted amount of reve-
ues. For example, if every single tax expendi-
ture is eliminated, the top marginal individ-
ual rate can be lowered to 23 percent and the
corporate rate from 35 to 20 percent. If the
current income tax credits and the child
cred are retained because they are of partic-
ular value to the poor, the top individual rate
can be raised to 24 percent. The commit-
tee provides an illustrative tax plan that reas-
motently increases tax expenditures, such as
the charitable and mortgage interest deduc-
tions, but limits their value. Under this
variant, the top rate falls only to 28 percent.
In the commission plan, capital gains are
taxed at the same rate as ordinary income and
capital gains are taxed the same as ordinary
income. While this is necessary, it may not be
sufficient. Using a new tax as in the DRTF
plan will also be a hard sell.

Conclusion

Concern over the nation’s deteriorating budget outlook is rightly growing. There is no better evidence than the proliferation of com-
mittees offering diagnoses and solutions from
t曳的 segments of the ideological spectrum. The
credibility of the two prominent committees are the presidential com-
mision and the DRTF. Both consist of highly respected individuals from both parties rep-
dering different ideological perspectives. The
two groups collectively agree on the nature of our budget problem but disagree significantly
on the cure, with the DRTF relying far more
on tax cuts and less on spending cuts than the president’s commission. Nevertheless,
both agree on the need for radical tax reform, and
their options for slowing spending over-
all considerably.

Both committees have made an enormous
contribution to the national debate by, first, clearly describing the sources of the deficit
problem, and, second, showing that very large
policy changes will be necessary to solve it.
Among the changes they describe are Social
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of our budget problem and the need for bold
and controversial policy changes to address it
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Although there is much discussion of the
need for sacrifices to fix the budget problem,
it is important to remember that fixing the
problem also will bring huge benefits. If the
problem is left to fester and the United States is ensnared by a fiscal crisis, the entire popu-
lation will feel intense pain (Burman et al.,
2010; CBO 2010). Even if a crisis is a long way
off, large deficits will be draining away national saving in the interim and slowly
eroding our capacity for future spending.

The population will suffer much less from
reforms that slow the growth of social
benefits and raise tax revenues.

Unfortunately, the proposals of various
committees have not been greeted with much
enthusiasm by the president or members of
Congress. But it is certain that the budget
problem will have to be fixed eventually.
When that day comes, policymakers will have
thoughtful policy responses available as the
result of the hard work of these committees.

We hope that the policy debate is eventu-
ally provoked by a deliberate process rather
than by being forced upon us by a fiscal crisis. •

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of the House, December 5, 2010: http://john-
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5. The commission includes, under the report’s
recommended approach to tax reform, an adjust-
ment for any changes made to the exclusion.
6. The chain index would also be used for other
individually spending programs and to index
individual income tax brackets. For a discussion
of index to the Social Security benefits, see
Penner (2010).

7. These are broad averages. A 65-year-old
woman in the median lifetime earnings would
experience a benefit reduction of 75 percent
in 2030 and 15 percent in 2080, and benefit
reductions for many high lifetime earners
be far larger than 15 percent by mid-century
(Goss 2010, table 4).

8. The DRTF plan’s benefit reductions are also
more moderate because it eliminates only 98 per-
cent of the 75th-year shortfall, whereas the com-
mision’s plan would eliminate this shortfall.

9. Additional income tax revenue generated
by their working longer would also be lost.

10. Author’s calculation based on CBO’s most
recent forecast of the GDP deflator. The CBO
August forecast is slightly different than the
forecast underlying the commission’s baseline.

11. Sixty votes are required to waive a point of ord-
er in the Senate. In the House only a simple
majority is necessary, but it must be done using
a separate, nonamendable vote.

12. There are other earning as well, such as
eliminating earmarks ($1.5 billion).

13. When the commission reported, the top rate
was scheduled to rise to 39.6 percent in 2011.
The increase has since been postponed to 2015.
The commission’s revenue estimates are based
on a top rate of 39.6 percent and a percentile rate
of 26 percent rather than the 39 and 33 percent
that will prevail through 2012.

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Numerous committees have formed to suggest ways of restoring fiscal stability. Some come from the political right or left, but the most interesting include members who span the ideological spectrum. The most important is the president’s National Commission on Fiscal Responsibility and Reform (NCFRR 2010). The president appointed six members drawn from both political parties, and Democratic and Republican congressional leaders each appointed six elected members—three from the House and three from the Senate. The commission’s rules stated that Congress had to consider its recommendations if at least 14 commission members supported them. That ensured that at least two elected members from each party had to be on board before the Congress would be forced to act.

Few budget watchers thought the commission had any chance of success, especially after congressional leaders appointed some members from the extremes of their parties. But commission members and their staffs worked diligently in a collegial fashion. They finally recommended radical revenue-raising tax reform, a 15-cent increase in the gas tax, comprehensive Social Security reform, options to restrain growth in federal spending on health care, and severe caps on defense and nondefense discretionary spending.

Only 11 members ultimately voted for the commission report, but the fact that it got more than majority support was a notable achievement. Moreover, support spanned the ideological spectrum from Senator Tom Coburn (R, OK), one of the most conservative members of the Senate, to Senator Richard Durbin (D, IL), a solid liberal. Although the Republican Party has adamantly opposed tax increases, three Republican senators voted for a plan that contained significant new revenues.

The commission claimed that by 2020, roughly 70 percent of its deficit reduction would come from slowing noninterest spending growth and 30 percent from revenue increases. In the

Social Security and health spending on major programs constitute half of total spending in a normal year. Both are projected to grow faster than tax revenues, but health costs present by far the greater problem.