Domenici-Rivlin 2.0, the Fiscal Cliff & a Framework to Bridge Them

DOMENICI-RIVLIN DEBT REDUCTION TASK FORCE

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1) Domenici-Rivlin 2.0

2) Framework for a “Grand Bargain”
   a. Potential Down Payment
Domenici-Rivlin 2.0: An Updated Plan
## Action to Address the Drivers of U.S. Debt

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<th>MAJOR DEBT DRIVER</th>
<th>STATUS</th>
<th>NOTES</th>
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<td>Discretionary Spending</td>
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<td>Accomplished</td>
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<td>Economic Growth Measures</td>
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<td>Some progress</td>
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<td>Health Care Cost Containment</td>
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<td>Social Security Sustainability</td>
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<td>Tax Reform</td>
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DISCRETIONARY SPENDING HAS ALREADY BEEN RESTRAINED

Budget Control Act Caps Achieved a Similar Level of Domestic and Defense Discretionary Cuts to Domenici-Rivlin

Note: Each line in the graph depicts the sum of domestic and defense discretionary budget authority (including war costs) as a percentage of GDP.

Source: Congressional Budget Office, BPC estimates
Health Care Spending

Social Security

Discretionary Spending (Defense and Non-Defense)

Other Mandatory Programs
(e.g., federal pensions, unemployment compensation)

Sources: Congressional Budget Office’s Alternative Fiscal Scenario (August 2012), additionally assuming that troops overseas decline to 45,000 by 2015; Bipartisan Policy Center extrapolations
REVENUE UNDER CURRENT POLICIES SIMPLY WILL NOT BE ENOUGH

Revenues Averaged 20% of GDP When the Budget Was Balanced…

Source: Congressional Budget Office alternative fiscal scenario (August 2012)

 Watts: Congressional Policy Office alternative fiscal scenario (August 2012)

...and that Was Before the Baby Boomers Arrived

Average


19.9% 19.8% 20.6% 19.5% (projected)

18.0%

Source: Congressional Budget Office alternative fiscal scenario (August 2012)

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• Expedite the economic recovery by replacing the payroll tax holiday with a one-time **income tax rebate** for 2013

• **Reform the tax code** to generate more revenue from a more efficient, pro-growth system

• Implement structural reform to bend the health cost curve and **ensure that health care entitlements are sustainable**

• Achieve **long term solvency for Social Security**
DEBT DROPS DRAMATICALLY UNDER DOMENICI-RIVLIN 2.0

Note: Unlike current law, the Bipartisan Policy Center’s Plausible Baseline assumes that the 2001, 2003, 2009, and 2010 tax cuts are extended, the Alternative Minimum Tax is indexed to inflation, Medicare’s physician payment rates are maintained at 2012 levels (the “Doc Fix”), the looming sequester from the Budget Control Act of 2011 is lifted, troops stationed overseas decline to 45,000 by 2015, and health care spending grows at rates detailed in the Congressional Budget Office’s Alternative Fiscal Scenario.

Sources: Congressional Budget Office (August 2012) and Bipartisan Policy Center projections
NET INTEREST PAYMENTS DROP DRAMATICALLY UNDER BIPARTISAN PLAN

Sources: Congressional Budget Office (August 2012) and Bipartisan Policy Center projections

Note: Unlike current law, the Bipartisan Policy Center’s Plausible Baseline assumes that the 2001, 2003, 2009, and 2010 tax cuts are extended, the AMT is indexed to inflation, Medicare’s physician payment rates are maintained at 2012 levels (the “doc fix”), the looming sequester from the Budget Control Act of 2011 is lifted, troops stationed overseas decline to 45,000 by 2015, and health care spending grows at rates detailed in CBO’s Alternative Fiscal Scenario.

Sources: Congressional Budget Office (August 2012) and Bipartisan Policy Center projections
DOMENICI-RIVLIN 2.0 BENDS THE MEDICARE COST CURVE

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BREAKDOWN OF SAVINGS IN DOMENICI-RIVLIN 2.0 (INCLUDING ALREADY ENACTED SAVINGS)

<table>
<thead>
<tr>
<th>Category</th>
<th>Savings (Billions)</th>
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<tbody>
<tr>
<td>Revenue</td>
<td>$1,500</td>
</tr>
<tr>
<td>Health Care</td>
<td>$1,000</td>
</tr>
<tr>
<td>Discretionary</td>
<td>$1,400</td>
</tr>
<tr>
<td>Other Mandatory</td>
<td>$600</td>
</tr>
</tbody>
</table>

**Budget Savings Through 2022**

- Revenue: $1,500 (31% of Savings)
- Health Care: $1,000 (21% of Savings)
- Discretionary: $1,400 (29% of Savings)
- Other Mandatory: $600 (13% of Savings)

**Total Savings**: $4.8 Trillion

**Note**: Savings are calculated against BPC’s Plausible Baseline. Unlike current law, the BPC’s Plausible Baseline assumes that the 2001, 2003, 2009, and 2010 tax cuts are extended, the Alternative Minimum Tax is indexed to inflation, Medicare’s physician payment rates are maintained at 2012 levels (the “Doc Fix”), the looming sequester from the Budget Control Act of 2011 is lifted, troops stationed overseas decline to 45,000 by 2015, and health care spending grows at rates detailed in the Congressional Budget Office’s Alternative Fiscal Scenario.

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Sources: Congressional Budget Office (August 2012), Bipartisan Policy Center estimates

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A Framework:
From Fiscal Cliff to Grand Bargain
• With just weeks before the fiscal cliff hits, no chance of fundamental entitlement and tax reform (e.g., Domenici-Rivlin 2.0) being enacted this year

• Can’t just have a “memorandum of understanding” and work out details later – must pass legislation to change the current law

• Need a bridge to avoid the cliff, demonstrate a commitment to solving the problem, and set the stage for a big deal next year on drivers of debt

The Solution: “Framework for a Grand Bargain”
Eliminate threat of the fiscal cliff by extending tax cuts, turning off sequester, patching AMT, extending the “Doc Fix,” etc.

Replace it with:

- An expedited congressional procedure – “Accelerated Regular Order” – to achieve deficit reduction, including fundamental tax and entitlement reform, in the 113th Congress without many of the traditional barriers (e.g., the filibuster)

- A down-payment package with tangible savings that serves as a stepping stone to the grand bargain

- A realistic backstop that serves as an enforcement mechanism to facilitate action
• Demonstrates a commitment to larger changes next year

• Facilitates short-term growth (with an income tax rebate) and phases in deficit reduction

• Balances reductions to entitlement spending with increases in revenue

• Avoids further cuts to discretionary spending, which includes nearly all public investment monies and has already been cut significantly