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CBPP STATEMENT

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STATEMENT BY ROBERT GREENSTEIN, EXECUTIVE DIRECTOR AND JAMES HORNEY, DIRECTOR OF FEDERAL FISCAL POLICY, ON THE FINAL REPORT FROM THE CO-CHAIRS OF THE DEFICIT COMMISSION

The new deficit reduction plan that the co-chairs of the President's Commission on Fiscal Responsibility and Reform — former Clinton White House Chief of Staff Erskine Bowles and former Republican Senator Alan Simpson — presented today to commission members contains a number of relatively modest changes to the plan they proposed last month. Like that plan, the new version includes various useful recommendations that would contribute significantly to deficit reduction. But, as a package, the plan falls well short of a balanced approach to deficit reduction, as their earlier plan also did.[i]

The new proposal remains heavily skewed toward deep program cuts. Such cuts account for 77.5 percent of the proposed policy savings in 2012 through 2015, with revenue increases accounting for less than a quarter of the savings. Budget cuts account for 69 percent of the savings through 2020.[ii] A more balanced approach would come closer to an even split.

Because program cuts shoulder such a large share of the burden, the plan contains overly deep and problematic budget cuts (as well as meritorious ones). A 50-50 split between cuts in programs and increases in revenues could have addressed these problems.

The plan also relies on reductions in scheduled Social Security benefits for most of the changes it proposes to ensure the program's long-term solvency. Those benefit cuts outweigh the proposed revenue increases by 2 to 1 over 75 years — and by 4 to 1 in the 75th year.[iii] This does not represent a balanced approach to Social Security reform.

Bowles and Simpson's failure to improve the fundamental imbalance in their earlier plan is particularly disappointing because another bipartisan commission — convened by the Bipartisan Policy Center and co-chaired by former Clinton Office of Management and Budget Director Alice Rivlin and former Republican Senate Budget Committee Chairman Pete Domenici — released a plan that was much more balanced than the initial Bowles-Simpson plan.[iv] Fully half of the savings that that panel proposed come from revenue increases — both for the Rivlin-Domenici plan as a whole and for its Social Security component. This shows that it is possible to achieve bipartisan support for a serious deficit reduction plan that has a reasonable balance between program cuts and revenue increases. It is unfortunate that Bowles and Simpson did not take the Rivlin-Domenici plan as more of a guide to improving their initial proposal.

(more)

While Bowles and Simpson's changes to their original plan improve it in some ways, they make the plan still more problematic in others. The initial plan called for reductions in non-security discretionary programs sufficiently large that they raised question as to whether the funding for this part of the budget would be adequate to meet critical national needs in the decade ahead. Instead of moderating those reductions in the new plan — and moving toward the more reasonable levels of discretionary cuts in the Rivlin-Domenici plan, which still called for quite substantial reductions in this area — Bowles and Simpson *increased* the cuts in discretionary funding by more than $200 billion in 2012 through 2020, with significantly deeper cuts starting in 2013.

Under the new plan, funding for all non-security programs (those other than defense, international affairs, veterans programs, and homeland security) would have to be cut by 14 percent in 2013 and 22 percent by 2020, compared to the level that Congress appropriated for 2010, adjusted for inflation. Policymakers will not be able to reduce real funding for discretionary programs by more than one-fifth by 2020, when national needs will be no smaller than they are in 2010 and the U.S. population will be significantly larger, without sharply affecting important programs that millions of Americans rely on.

At the same time that Bowles and Simpson increased the cuts in non-security discretionary programs, they *scaled back* the savings they had proposed in farm programs by more than half, which represents a step backward from their initial proposal.

Deficit reduction is badly needed so that, within a reasonable period of time, the debt can be stabilized. But policymakers need to achieve deficit reduction in a balanced and equitable manner. Bowles and Simpson have performed a valuable service in educating policymakers and the public about the need for tough medicine to tackle this problem, and for putting specific proposals on the table rather than empty rhetoric (and rather than hiding behind budget *process* changes instead of offering specific spending and tax changes). Unfortunately, their product remains seriously flawed.

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[i] See James Horney, Paul N. Van de Water, and Robert Greenstein, "Bowles-Simpson Plan Commendably Puts Everything on the Table But Has Major Deficiencies Because It Lacks an Appropriate Balance Between Program Cuts and Revenue Increases," Center on Budget and Policy Priorities, November 16, 2010.

[ii] These calculations do not include reductions in interest costs, which result from both the proposed changes in spending and the proposed changes in revenues. They also do not include savings from the plan's Social Security proposals, which are not included in the deficit reduction amounts shown in Figure 3 in the Bowles-Simpson document. The report states that Social Security should be reformed for its own sake, not for deficit reduction. Including the effects of the Social Security proposals would not significantly affect the calculations.

[iii] In calculating the balance between benefit cuts and tax increases, we exclude the proposal to expand Social Security coverage to newly hired employees of state and local governments, which affects revenues and benefits roughly equally in the long run. Including the coverage proposal, provisions that directly affect benefit levels account for about 63 percent of the improvement in Social Security's 75-year actuarial balance and 82 percent of the improvement in the 75th year. See Stephen C. Goss, Chief Actuary, Social Security Administration, Letter to Erskine Bowles and Alan Simpson, December 1, 2010.

[iv] See James Horney, Paul N. Van de Water, and Robert Greenstein, "Rivlin-Domenici Deficit Reduction Plan Is Superior to Bowles-Simpson in Most Areas," Center on Budget and Policy Priorities, November 30, 2010.