The Campaign to Fix the Debt
Fixing the Debt through the Budget Conference Committee

As the budget conference committee works to reconcile differences between the House and Senate budget resolutions passed earlier this year, Fix the Debt urges them to use this opportunity to improve our long-term fiscal situation. While any final report from the conference committee cannot solve all of our fiscal problems, it could represent a critical first step in enacting a budget agreement by putting forward a bipartisan framework for fiscal reforms and a process for enactment of that framework.

Fix the Debt urges that the committee report do the following:

Puts the debt on a downward path as a share of the economy
- Debt as a share of the economy is currently higher than any time since the immediate aftermath of World War II, and twice its historical average.
- Currently at 73 percent of GDP, debt is projected to fall slightly through 2018 but then exceed the size of the economy by 2035 and double it by the 2060s.
- The minimum mark of sustainability is debt growing more slowly than GDP.
- Despite major differences, *all* budget resolutions proposed this year – including those passed by both houses but also from the Congressional Progressive Caucus and Republic Study Committee – put the debt on a declining path relative to the economy. The conference agreement should do the same.

Fully offsets any changes to the sequester cuts with permanent savings
- Policymakers can use the budget conference to decide the fate of the current sequestration cuts and the additional $20 billion of cuts scheduled to occur mid-January in order to allow the appropriations process to move forward.
- Replacing the mindless, abrupt, and temporary sequester cuts – which cost $105 billion annually – with targeted permanent reforms can help short- and long-term economic growth and improve the long-term fiscal outlook.
- Any reducing of sequestration ***must be fully offset*** to avoid adding to our debt over the medium term and undermining the country's fiscal credibility.

Includes an expedited process for tax and spending reforms
- Since the budget resolution cannot formally enact policy changes, a budget agreement should include an expedited process for further savings – especially from fundamental tax and health reform.
- Reconciliation instructions within the budget resolution would set deficit reduction targets for the committees of jurisdiction and establish an expedited process to enact their recommendation; alternatively, policymakers could agree to pass another expedited process outside the budget resolution.
- Both the House and Senate budget resolutions included reconciliation instructions. A concurrent budget resolution could include instructions to allow for tax reform, Medicare reform, and substantial additional deficit reduction.

Put the Debt on a Downward Path as a Share of the Economy

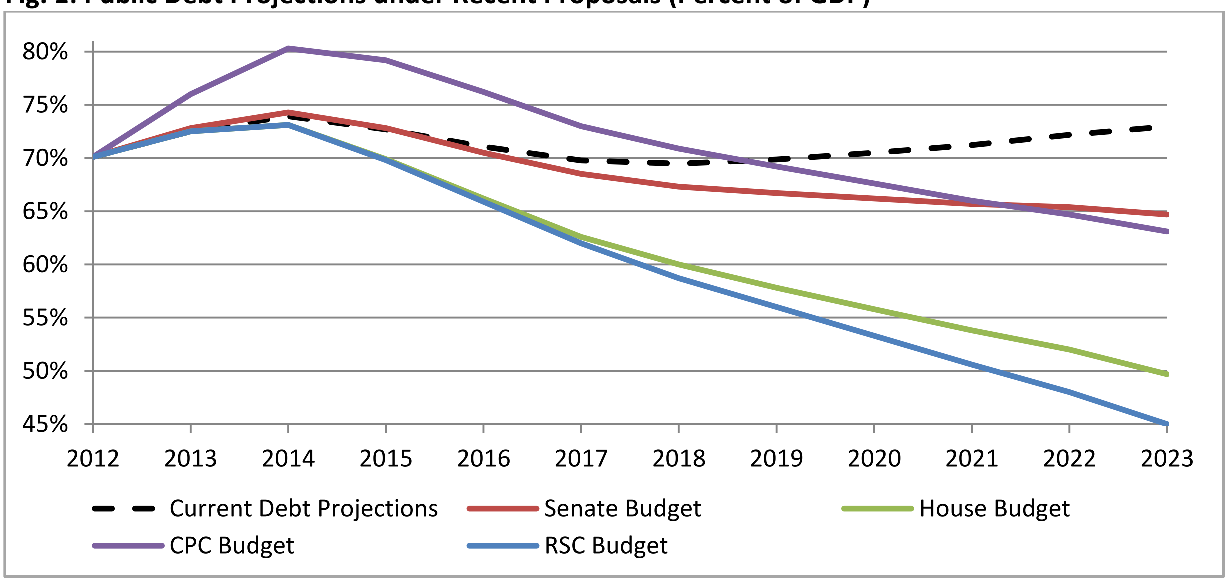
At nearly 73 percent of GDP, debt as a share of the economy is currently about twice its historical average and the highest it has been since the immediate aftermath of World War II. In normal times, the consequences of high levels of debt include slower economic growth, higher interest rates, less fiscal flexibility to deal with crises or other unforeseen needs, greater intergenerational inequity, and a higher risk of fiscal crisis.

The threats associated with high levels of debt are especially worrisome if debt levels are on rising path. Progress as a result of the economic recovery and recently-enacted deficit reduction is expected to temporarily stabilize debt levels, but in only a few years they are likely to begin growing again. Under current projections, debt levels will exceed the size of the economy by 2035, double the size of the economy in the 2060s, and triple it in the 2080s. Such growth would be unsustainable.

Although lawmakers cannot and should not attempt to reduce debt levels to their historical averages *overnight*, ***they should put the debt on a gradual and sustained downward path by the end of the decade***. Achieving this goal will require significant deficit reduction from policies which grow over time as the population ages, the Baby Boomers retire, and health care costs continue to grow.[1]

Despite significant policy differences between the various budget proposals this spring, all would meet the challenge of putting the debt on a declining path relative to the economy. This is true not only of the House and Senate budgets, but also of the budget proposals from the Congressional Progressive Caucus, the House Republican Study Committee, and others – underlying the extent to which there is bipartisan agreement about doing substantially more to control future deficits. ***The conference committee should maintain this commitment to debt reduction in the concurrent budget resolution.***

Fig. 1: Public Debt Projections under Recent Proposals (Percent of GDP)



Note: Projections reflect nominal debt projections taken from the budget proposals but updated to reflect changes in May to CBO's baseline projections and new GDP projections from August 2013. Current debt projections reflect the CRFB Realistic Baseline.

[1] The Committee for a Responsible Budget finds that relative to their baseline an additional $2.2 trillion of deficit reduction would be needed to put the debt on a clear and robust downward path relative to the economy. For more discussion on the minimum savings needed, see CRFB, "Our Debt Problems Are Still Far from Solved." May 15, 2013. http://crfb.org/document/report-our-debt-problems-are-still-far-solved.

Fully Offsets Any Changes to the Sequester Cuts with Permanent Savings

Lawmakers have suggested that the budget resolution will be an opportunity to agree on replacing a portion of the ongoing sequester. Most of the sequester, which was triggered upon the failure of the so-called "Super Committee" back in 2011, is already in place under the current "continuing resolution," and an additional $20 billion of sequester cuts is scheduled to occur on the defense side in mid-January.

Paring back the cuts from the sequester and giving the appropriators guidance as they allocate funds is sensible, ***but any reduction in sequestration <u>must be fully offset elsewhere</u> to avoid adding to the debt.***

The sequester cuts are mindless, abrupt, and anti-growth in the short term; and they are focused on the wrong part of the budget in the long run. There are questions in regards to their political sustainability, and even if they could be maintained through 2021, they are scheduled to end in that year – meaning they offer no long-term deficit reduction.

Replacing sequestration with targeted, pro-growth, and *permanent* deficit reduction offers a potential win-win. Such a trade could reduce near-term austerity while also reducing long-term deficits. For example, paying for two thirds of the sequester over four years with the chained CPI would reverse more than **$150 billion** of cuts over the next three years, but ultimately reduce the debt by about **$2 trillion** by 2035. This type of swap could facilitate short- and long-term economic growth while also improving the sustainability of growing entitlement programs.

Repealing sequestration without replacing it with, at a minimum, equivalent savings elsewhere in the budget would be highly irresponsible; adding to budget deficits and bringing into question whether policymakers can even keep the deficit reduction promises they have already made.

Ideally, policymakers would offset 150 percent of the costs of sequester to match the original $1.5 trillion goal of the Super Committee – over the same time period, the sequester is set to save only $1 trillion.[2] But any reduction in the sequester should at the very least fully replace these temporary savings with more targeted and permanent deficit reduction.

If possible, policymakers should seek a permanent replacement of the sequester, which, would require at least $940 billion of offsetting savings through 2023. Replacing the sequester for a shorter time period would be cheaper – for example replacing one year in full would require about $105 billion in offsets. In any case, policymakers could leave some of the discretionary cuts in the sequester in place and allow the appropriators to better allocate the sequester retained cuts by eliminating wasteful, duplicative, and low-priority spending in the discretionary budget.

Fig. 2 Outlay Cost of Repealing the Sequester from 2014-2023, Excluding Interest (billions)

	One-Third Repeal	Two-Thirds Repeal	Full Repeal
One Year	$35 billion	$70 billion	$105 billion
Two Years	$70 billion	$140 billion	$210 billion
Five Years	$175 billion	$350 billion	$525 billion
Ten Years*	$315 billion	$625 billion	$940 billion

*Estimates based on CBO convention, which assumes 2021 post-sequester discretionary levels continue – adjusted for inflation – through and 2023

[2] See http://crfb.org/blogs/super-committee-savings-target-was-150-sequestration

Include an Expedited Process for Tax and Spending Reforms

Although budget resolutions cannot directly make changes to mandatory spending programs or the tax code, they can issue special instructions, known as reconciliation instructions, to specific committees to produce legislation meeting certain spending and revenue targets. Alternatively, lawmakers could agree to pass a separate legislative package which includes a new expedited process for fiscal reforms.

Conferees should include reconciliation instructions in the concurrent budget resolution or agree to pass other expedited procedures to allow for enactment of deficit-reducing health reform, tax reform, and other adjustments. This will help secure passage of difficult tax and entitlement changes, and keep the process of trying to improve the long-term fiscal situation moving beyond the budget conference and what could be accomplished in a one- or two-year sequester replacement bill. By agreeing to a fast track process, lawmakers could provide for expedited consideration of any recommendations, allow passage by a simple majority in both chambers of Congress (meaning only 51 votes required in the Senate rather than the 60 votes needed to prevent a filibuster), and limit the extent to which lawmakers can amend any proposals. Such a process could also lay out specific dates by which lawmakers have to present legislation meeting the savings targets.

The most obvious and direct expedited process would be to include reconciliation instructions in a concurrent budget resolution. These instructions could set deficit reduction targets for a number of committees based on what could be agreed by budget conferees; the most important being the committees with jurisdiction over tax and health reform. If conferees are unable to agree on specific targets, instructions could provide a savings *floor* (could be as low as $1 billion) and give the committees the opportunity to negotiate the size of deficit reduction legislation to comply with the instructions.

Although a budget resolution cannot require specific policies be enacted or set requirements for their composition, it can set deficit reduction targets and include non-binding policy statements about how and where the savings could be achieved. While reconciliation has its advantages as a process for deficit reduction, it also has limitations. Reconciliation cannot make changes affecting Social Security, and in the Senate is limited further the by the application of the Byrd rule, which allows any Senator to challenge any part of a reconciliation bill that does not result in a change in mandatory spending or revenue. This can sometimes make complex policy changes difficult to accomplish if rule challenges are upheld and certain provisions within the reconciliation bill are therefore struck.

Instead of reconciliation, lawmakers could enact an alternative expedited process outside the budget resolution. The process could offer instructions to existing committees, and include more specifics than allowed under reconciliation. Alternatively, lawmakers could create a separate commission or committee (made up of sitting members of Congress, outside experts or both) to propose ideas.

These processes could allow for privileged consideration of recommendations, and also include soft or hard enforcement mechanisms ranging from new points of order, to allowing a bipartisan group of Members to submit their own proposal, to enacting across-the-board cuts. Lawmakers could even design a “blunt reform” enforcement to automatically enact relatively simple but practical policy changes in the absence of more careful reform. Importantly, any of these processes outside of reconciliation would require Congress to pass and the President to sign a new piece of legislation in advance of any final reform package.

The budget resolution presents an opportunity to facilitate both tax and spending reforms. Lawmakers should not let this opportunity slip by.