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

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.
This provision is intended to In the early president’s commission and the DRTF shows offerings recommendations for both the near and long to be implausible worthy of discussion. Nevertheless, the output of the president’s commission and various committees 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 to be implausible worthy of discussion. Perhaps most important, the experience of the president’s commission and the DRRT shows there are policy packages that can get bipartisan support even in an intensely partisan era.

Health Policy

The presidential commission report identifies one report makes an option that appeared earlier to be implausible worthy of discussion. Perhaps most important, the experience of the president’s commission and the DRRT shows there are policy packages that can get bipartisan support even in an intensely partisan era.

Many aspects of the DRTF plans long-term strategy are worthy, 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 systems-wide 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 DRRT plan moves at least advances a concrete, coherent, and plausible approach to the “single largest fiscal challenge across the long run.”

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 by increasing revenues and reducing costs over time relative to those currently scheduled. Avoid 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 22 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, with those with very low covered earnings with a benefit no less than 215 percent of the federal poverty level starting in 2020 (and indexed to wages thereafter), for workers at age 62 with the applicable actuarial 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.

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 tan- dem to 65 and 64.

3. Increase the wages subject to the Social Security payroll tax. In the early 1980s, taxable wages under the cap—currently $106,800 and indexed to the average growth of covered wages—were 30 percent of all wages. Since then, wages below the cap have grown more slowly than those above it, such that barely 62 percent of all wages will be subject to the payroll tax by 2050. This pro- posal would gradually increase the cap to 90 percent by 2050.

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.

5. Phase in leadership 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. 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 2027 and would ensure that all future benefi- ciates continue to receive higher inflation-adjusted benefits than earlier generations.

2. 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 2027 and would ensure that all future benefi- ciates continue to receive higher inflation-adjusted benefits than earlier generations.

3. 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 2027 and would ensure that all future benefi- ciates continue to receive higher inflation-adjusted benefits than earlier generations.

4. 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 2027 and would ensure that all future benefi- ciates continue to receive higher inflation-adjusted benefits than earlier generations.

5. 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 2027 and would ensure that all future benefi- ciates continue to receive higher inflation-adjusted benefits than earlier generations.

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.

6. 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 2027 and would ensure that all future benefi- ciates continue to receive higher inflation-adjusted benefits than earlier generations.

7. 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 2027 and would ensure that all future benefi- ciates continue to receive higher inflation-adjusted benefits than earlier generations.
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 commission called the Debt Reduction Task Force (DRTF) 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 (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.3 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.3 Nevertheless, the output of the president’s commission and various bipartisan and bicameral efforts 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 suggests that the subject is no longer an embarrassment to be implausible worthy of discussion. Perhaps most important, the experience of the president’s commission and the DRTF shows that there are policy packages that can get bipartisan support even in an intensely partisan era.

Policy Options

The presidential commission report identifies three major options that appeared earlier in the Social Security Modernization (SSM) report of 2001 and the president’s commission report. First, it recommends a phased-in benefit reduction and the other half at a later date (table 1). A new option for retirement claiming would result in rapidly growing cash flow deficits for the Social Security trust fund and the drawdown of its reserves until depleted in 2037— at which time an across-the-board benefit cut for current and future beneficiaries of at least 23 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 wageadjusted benefit levels of new retirees, except those with very low covered earnings, with a benefit no less than 132 percent of the federal poverty level starting in 2017 (and indexed to wages thereafter), would be phased in gradually over time, starting in 2017 and ending in 2026.

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 retirement to years in adult life 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 2057, with the EEA (currently 62) moving in tandem to 63 and 64.

3. Increase the wages subject to the Social Security payroll tax. In the early 1980s, taxable 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 it, so that barely 82 percent of all wages will be subject to the payroll tax by 2020. This proposal 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.6

5. Phase in 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 increased retirement age.
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 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 provisions similar to those of the president’s commission, plus several others. But its progressive benefit-formula reduction affects only lifetime earnings 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 essentially 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 proposal; the DRTF’s plan 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 2015.10 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 civil service retiree benefits or taxation recommended by the

The president’s commission suggests reforms in mandatory programs other than health and Social Security, such as civil service retiree benefits or taxation recommended by 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.

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

<table>
<thead>
<tr>
<th>Over 75 years</th>
<th>In 75th year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce future benefits in a progressive manner through a change in the benefit formula</td>
<td>45</td>
</tr>
<tr>
<td>Index the NRA and the EEA to longevity and include a hardship exemption</td>
<td>10</td>
</tr>
<tr>
<td>Increase the taxable maximum to cover 90% of earnings</td>
<td>35</td>
</tr>
<tr>
<td>Apply an improved CPI to cost-of-living adjustments in benefits</td>
<td>26</td>
</tr>
<tr>
<td>Cover all newly hired state and local workers</td>
<td>8</td>
</tr>
<tr>
<td>Create new special minimum benefit</td>
<td>-8</td>
</tr>
<tr>
<td>Enhance benefits for the long lived and the long disabled</td>
<td>0</td>
</tr>
<tr>
<td>Add new option for early, partial benefit claiming</td>
<td>n.a.</td>
</tr>
<tr>
<td>TOTAL</td>
<td>112</td>
</tr>
<tr>
<td>Shortfall as a percent of taxable payroll</td>
<td>1.92</td>
</tr>
</tbody>
</table>

Sources: Board of Trustees (2011), NCERF (2011), n.a. = not applicable, CPI = consumer price index, EEA = early eligibility age, NRA = normal retirement age.
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 sovereignty 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 heavily 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 trust fund revenue resulting from tax reform "will provide flexibility to moderate the changes in benefits or taxation recommended by the commission" (NCBR 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.

As a result, the president's commission has to list discretionary programs in a significantly reduced form; many would be eliminated. The system becomes more efficient 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 drastically reducing the value of the many deductions, credits, special rates, 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 $1.3 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 thus 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 useful because it avoids naming explicit program cuts and instead allows society to determine the program cuts that it desires. Decisions about the size of the deficit reduce the amount needed from each dollar as an incentive to work or save. The plan provides for a five-year freeze and growth with the economy thereafter. The president's commission, the task force seems reluctant to recommend specific program cuts, but lists numerous illustrative examples. There is much overlap between their list and the commission's recommendations.

The president's commission suggests reforms in mandatory programs other than health and Social Security, such as civil service 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.

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

<table>
<thead>
<tr>
<th>Provision</th>
<th>75th year</th>
<th>2025</th>
<th>2035</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce future benefits in a progressive manner through a change in the benefit formula</td>
<td>45</td>
<td>51</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>
<td>30</td>
</tr>
<tr>
<td>Increase the taxable maximum to cover 90% of earnings</td>
<td>35</td>
<td>22</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>
<td>17</td>
</tr>
<tr>
<td>Cover all newly hired state and local workers</td>
<td>8</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Create new special minimum benefits</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Enhance benefits for the long-lived and the long disabled</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Add new options for early, partial benefit claiming</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>112</td>
<td>102</td>
<td>102</td>
</tr>
<tr>
<td><strong>Shortfall as a percent of taxable payroll</strong></td>
<td>1.92</td>
<td>4.12</td>
<td>4.12</td>
</tr>
</tbody>
</table>

Source: Board of Trustees (2010), NCCR (2010).

EEA = early eligibility age; NRA = normal retirement age.
required to raise the targeted amount of revenues. For example, if every single tax expenditure is eliminated, the top marginal individual rate can be lowered to 23 percent, and the top corporate rate from 35 to 20 percent. If the earned income tax credit and the child credit are retained because they are of particular value to the poor, the top individual rate has to be raised to 24 percent. The commission provides an ilustrative tax plan that retains potentially sensitive tax expenditures, such as the charitable and mortgage interest deductions, 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 15 cents per gallon is added to the gas tax. The tax reform proposed by the DRTF is more complicated but follows the same philosophy. Most tax expenditures are eliminated, but a few politically sensitive deductions are retained. As in the president’s commission plan, tax expenditures are modified to reduce the revenue loss. The tax treatment of lower-income groups is simplified as are the many provisions related to retirement and other savings. Capital gains are taxed the same as ordinary income. The top tax rate is lowered to 25 percent.

The most important difference between the president’s commission plan and the DRTF plan is that it lowers the 6.7 percent VAT, doubled a deficit reduction sales tax, that raises over $3 trillion cumulatively through 2050. As a result, the DRTF plan relies considerably more on revenue increases to solve the deficit problem than does the president’s commission. Both plans use the chained CPI as the cost-of-living index for the presidential commission and the DRTF. Both consist of highly respected individuals from both parties representing different ideological perspectives. The two groups completely agree on the nature of the problem and the urgency of addressing it.

Conclusion

Concern over the nation’s deteriorating budget outlook is rightly growing. There is no better evidence than the proliferation of commissions offering diagnoses and solutions from all segments of the ideological spectrum. The president’s commission and the DRTF both provide creative and pragmatic solutions to the national saving in the interim and slowly moving forward in the future, increasing revenue growth. Tax reform is extremely difficult politically, because many will perceive themselves to be losers—those who now rely on the tax expenditures to reduce their tax burdens—

Notes

The authors are grateful to Richard Johnson and James Kaminisk 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 Academies of Science and Public Administration (Commission 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 an unrelated tax system.


4. For a discussion of why reducing federal spending on health care in the nation’s greatest fiscal challenge and of the policies with which it can be addressed, see chapter 15 of the DRTF’s report (Commission 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 (2010).

5. The commission includes, under the report’s recommended approach to tax reform, an adjustment for any changes made to the exclusion.

6. The chain index would also be used for individual spending programs and to index individual income tax brackets. For a discussion of the index to measure Social Security benefits, see Penner (2010).

7. These are broad averages. A 65-year-old new retiree at the median lifetime earnings would experience a benefit reduction of 15 percent in 2050 and 15 percent in 2080, and benefit reductions for many high lifetime earners would be far larger than 15 percent by mid-century (Goss 2010, table 2).

8. The DRTF’s plan’s benefit reductions are also more moderate because it eliminates only 88 percent of the 77-year-old shortfall, whereas the commission’s plan nearly eliminates 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 order in the Senate. In the House only a simple majority is necessary, but it must be done using a special resolution.

12. There are other saving accounts as well, such as eliminating earmarks ($1 billion).

13. When the commission reported, the top rate was scheduled to rise to 39.6 percent in 2012. 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 period rate of 35 percent rather than the 35 and 39 percent that will prevail through 2012.

References


Gale, Stephen C., Chief Actuary, Social Security Administration. 2009. “Blacks, Browns, and Blue Hair: Lessons from the president or members of Congress. If the problem is left to fester and the United States laps considerably. It is impossible to state how large the problem is, and benefit reductions for many high lifetime earners would be far larger than 15 percent by mid-century (Goss 2010, table 2).

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Sixty votes are required to waive a point of order in the Senate. In the House only a simple majority is necessary, but it must be done using a special resolution, nonamendable vote.

There are other saving accounts as well, such as eliminating earmarks ($1 billion).

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required to raise the targeted amount of revenues. For example, if every single tax expenditure is eliminated, the top marginal individual rate can be lowered to 23 percent and the top corporate rate from 35 to 20 percent. If the earned income tax credit and the child credit are retained because they are of particular value to the poor, the top individual rate has to be raised to 24 percent. The commission provides an illustrative tax plan that retains politically sensitive tax expenditures, such as the charitable and mortgage interest deductions, 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 15 percent VaT, dubbed a deficit reduction sales tax, that would be sufficient. Using a new tax as in the DRTF plan would also be a hard sell. 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.

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9. The DRTF plan’s benefit reductions are also more moderate because it eliminates only 98 percent of the 75-year-old shortfall, whereas the commission’s plan fully eliminates this shortfall.

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

11. 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.

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

13. There are other earnings as well, such as eliminating earmarks ($1 billion).

14. When the commission reported, the top rate was scheduled to rise to 36.5 percent in 2011. The increase has since been postponed to 2013. The commission’s revenue estimates are based on a top rate of 36.5 percent and a permanent rate of 25 percent rather than the 25 and 23 percent that will prevail through 2012.

References


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 (NFCFR 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.