

# Budget Control Act Contained Budget for 2012 and 2013

## SEC. 106. SENATE BUDGET ENFORCEMENT.

(a) IN GENERAL.—

(1) For the purpose of enforcing the Congressional Budget Act of 1974 through April 15, 2012, including section 300 of that Act, and enforcing budgetary points of order in prior concurrent resolutions on the budget, the allocations, aggregates, and levels set in subsection (b)(1) shall apply in the Senate in the same manner as for a concurrent resolution on the budget for fiscal year 2012 with appropriate budgetary levels for fiscal years 2011 and 2013 through 2021.

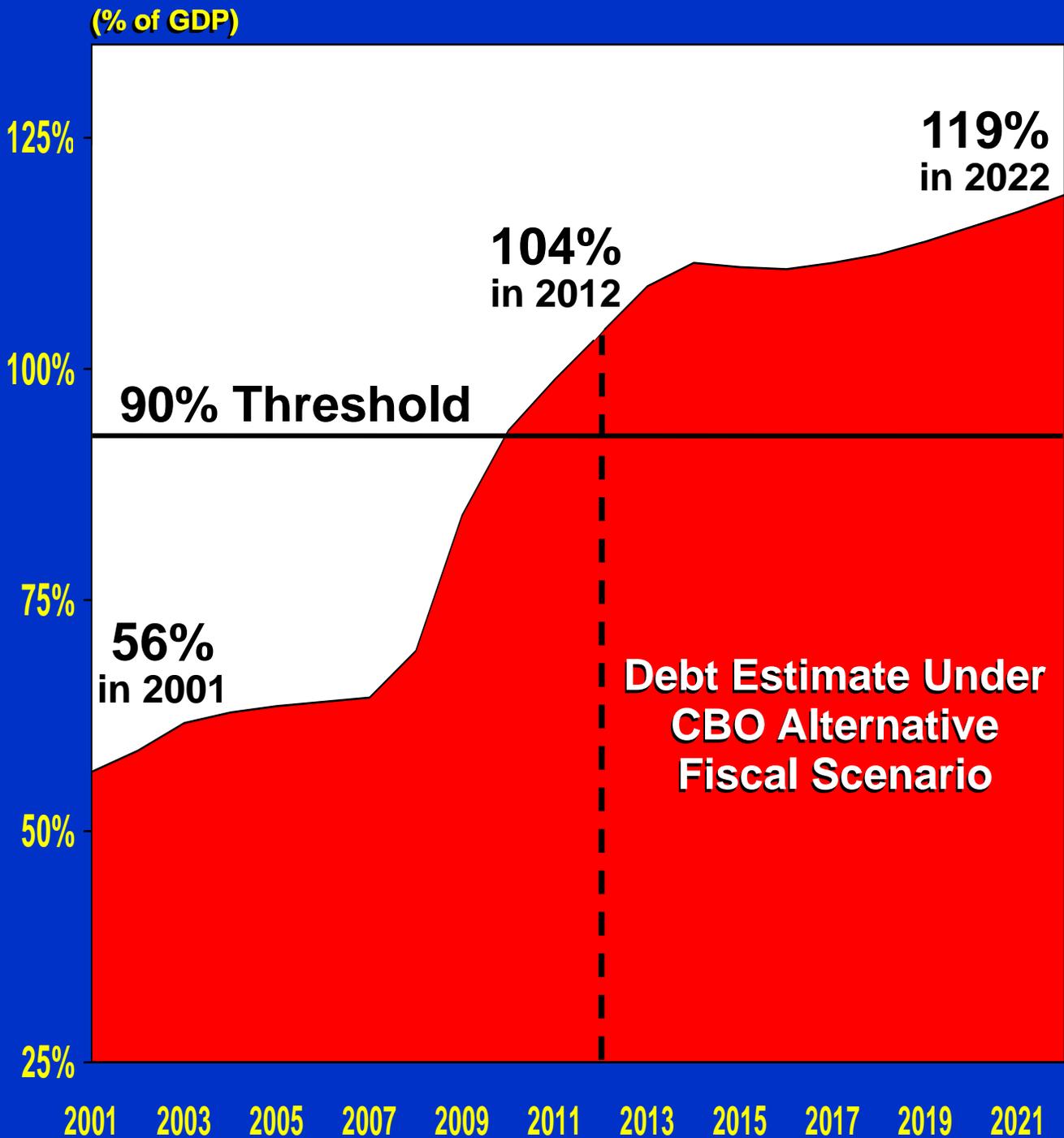
(2) For the purpose of enforcing the Congressional Budget Act of 1974 after April 15, 2012, including section 300 of that Act, and enforcing budgetary points of order in prior concurrent resolutions on the budget, the allocations, aggregates, and levels set in subsection (b)(2) shall apply in the Senate in the same manner as for a concurrent resolution on the budget for fiscal year 2013 with appropriate budgetary levels for fiscal years 2012 and 2014 through 2022.

# U.S. Borrowing Almost 40 Cents of Every Dollar It Spends

**BORROWED**



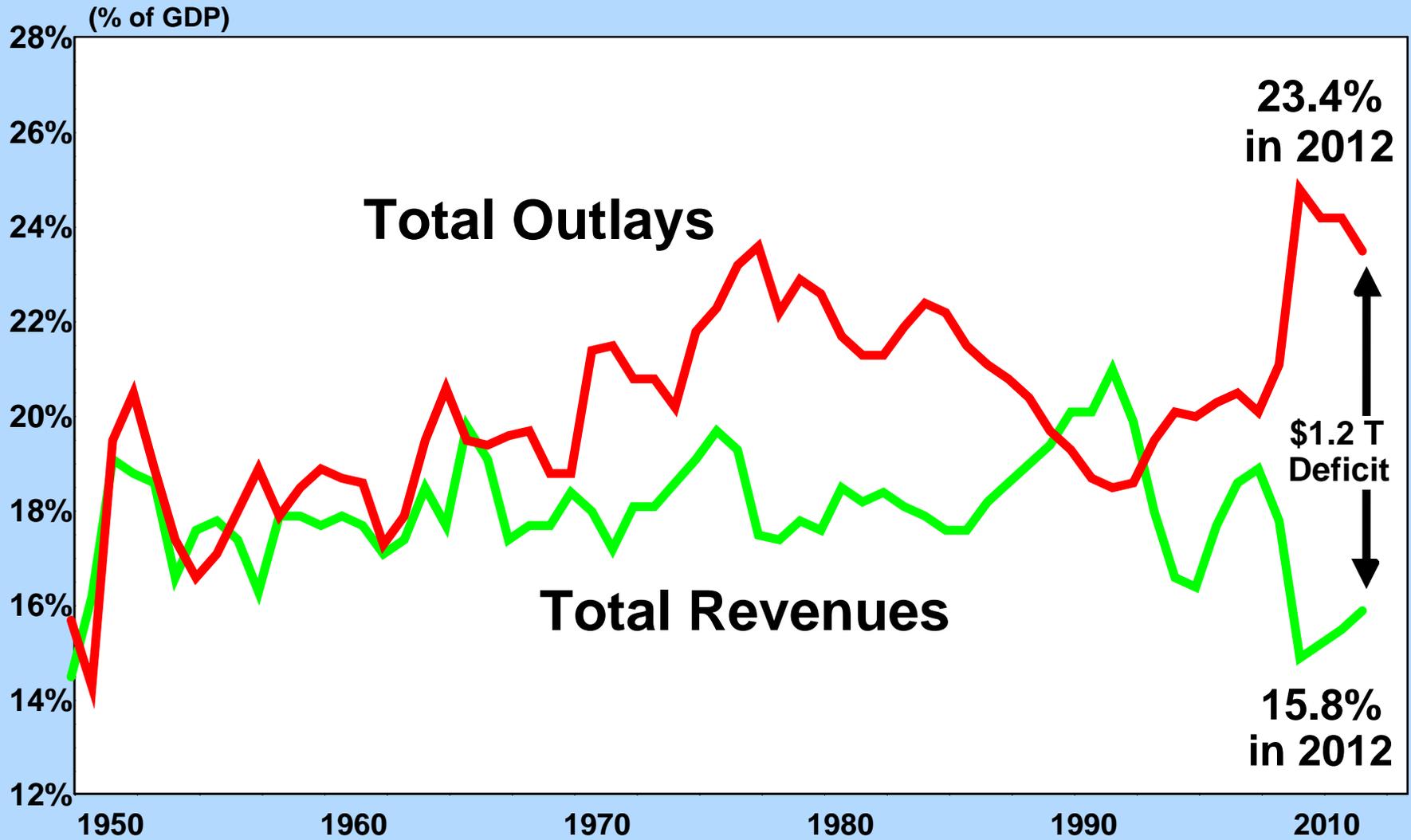
# Gross Debt as % of GDP Under CBO Alternative Fiscal Scenario



Sources: CBO and SBC

Note: CBO's March 2012 baseline, adjusted to reflect its alternative fiscal scenario: extension of 2001 and 2003 tax cuts, tax extenders, AMT reform, SGR reform, and reversal of automatic spending reductions required by Budget Control Act.

# Spending and Revenues



Sources: OMB, CBO

Note: 2012 estimate from CBO's March 2012 baseline.

# Public Supports Balanced Deficit Reduction Approach

**QUESTION:** What is the best way to reduce the federal budget deficit?

<b>ANSWER:</b>	Cut major programs	17%
	Increase taxes	8%
	Combination of both	62%

Source: Pew Research Center, November 9-14, 2011



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# THE NATIONAL COMMISSION ON FISCAL RESPONSIBILITY AND REFORM

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The Moment of Truth

DECEMBER 2010



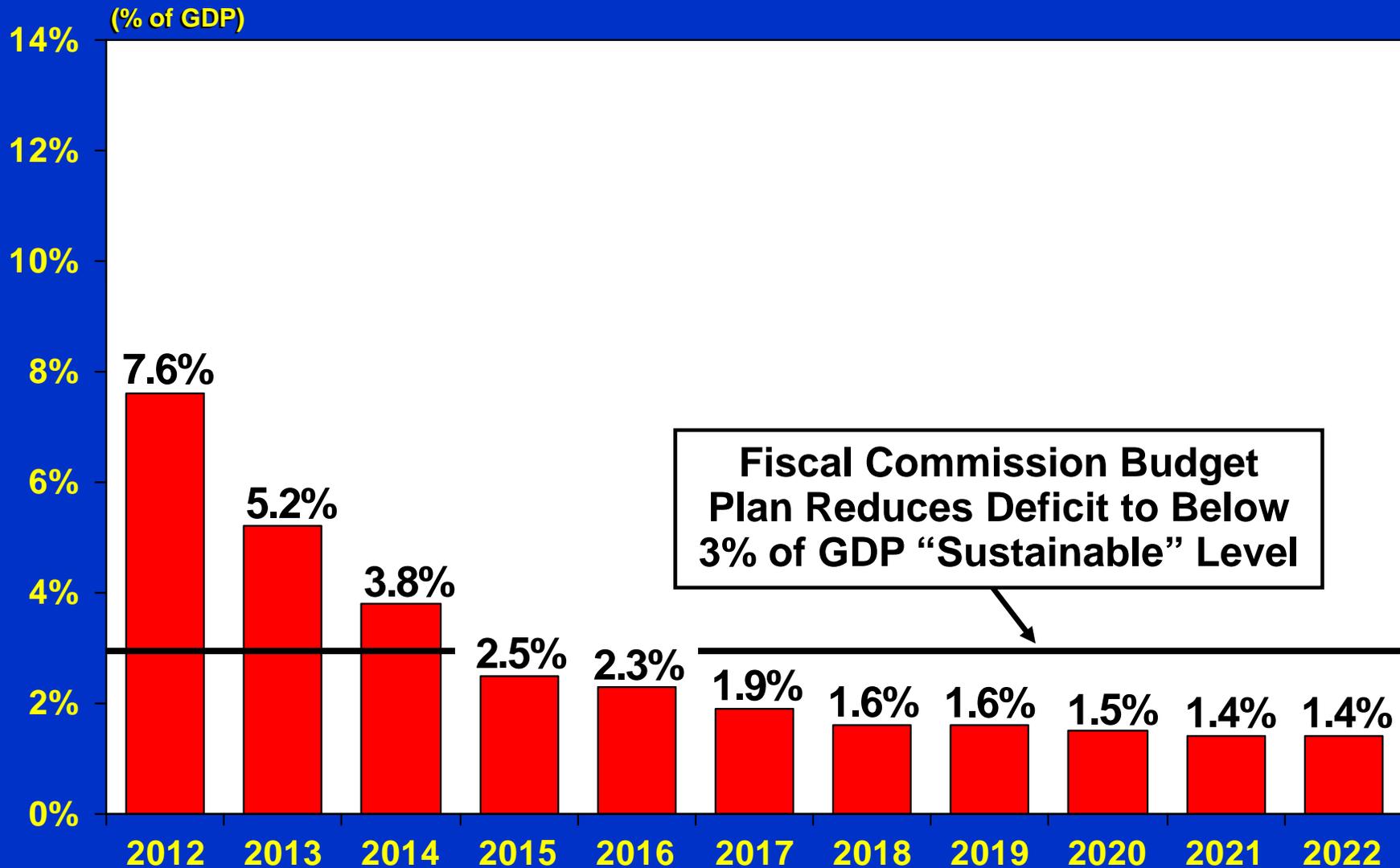
# **Fiscal Commission Guiding Principles and Values**

- **Patriotic duty to make America better**
- **Don't disrupt economic recovery**
- **Cut and invest to promote economic growth / keep America competitive**
- **Protect the truly disadvantaged**
- **Cut spending we cannot afford – no exceptions**
- **Demand productivity and effectiveness from Washington**
- **Reform and simplify tax code**
- **Don't make promises we can't keep**
- **Problem is real; solution will be painful**
- **Keep America sound over long run**

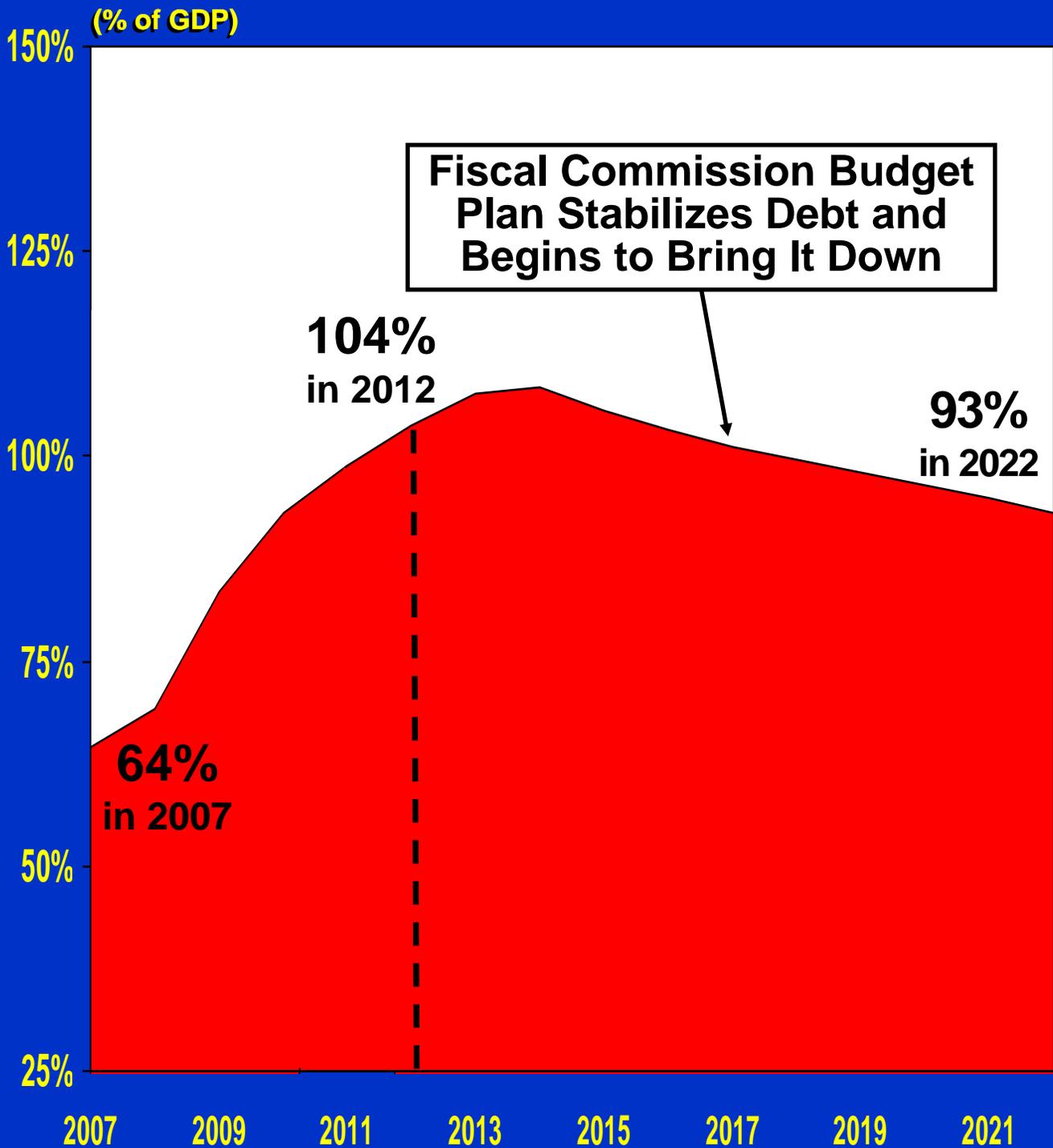
# Overview of Fiscal Commission Budget Plan

- **\$5.4 T in deficit reduction over 10 years, including savings already enacted**
- **Lowers deficit from 7.6% of GDP in 2012 to 2.5% in 2015 and 1.4% in 2022**
- **Stabilizes gross debt by 2015 and lowers it to 93% of GDP by 2022**
- **Reduces overall spending to 21.9% of GDP by 2022; discretionary spending to 4.8% of GDP by 2022**
- **Builds on health reform with additional health savings; fully offsets “Doc fix”**
- **Calls for Social Security reform that ensures 75-year sustainable solvency; savings only to extend solvency, not for deficit reduction**
- **Includes fundamental tax reform – makes tax code simpler, fairer, and more efficient, while raising more revenue**

# Deficit as Percent of GDP Under Fiscal Commission Budget Plan



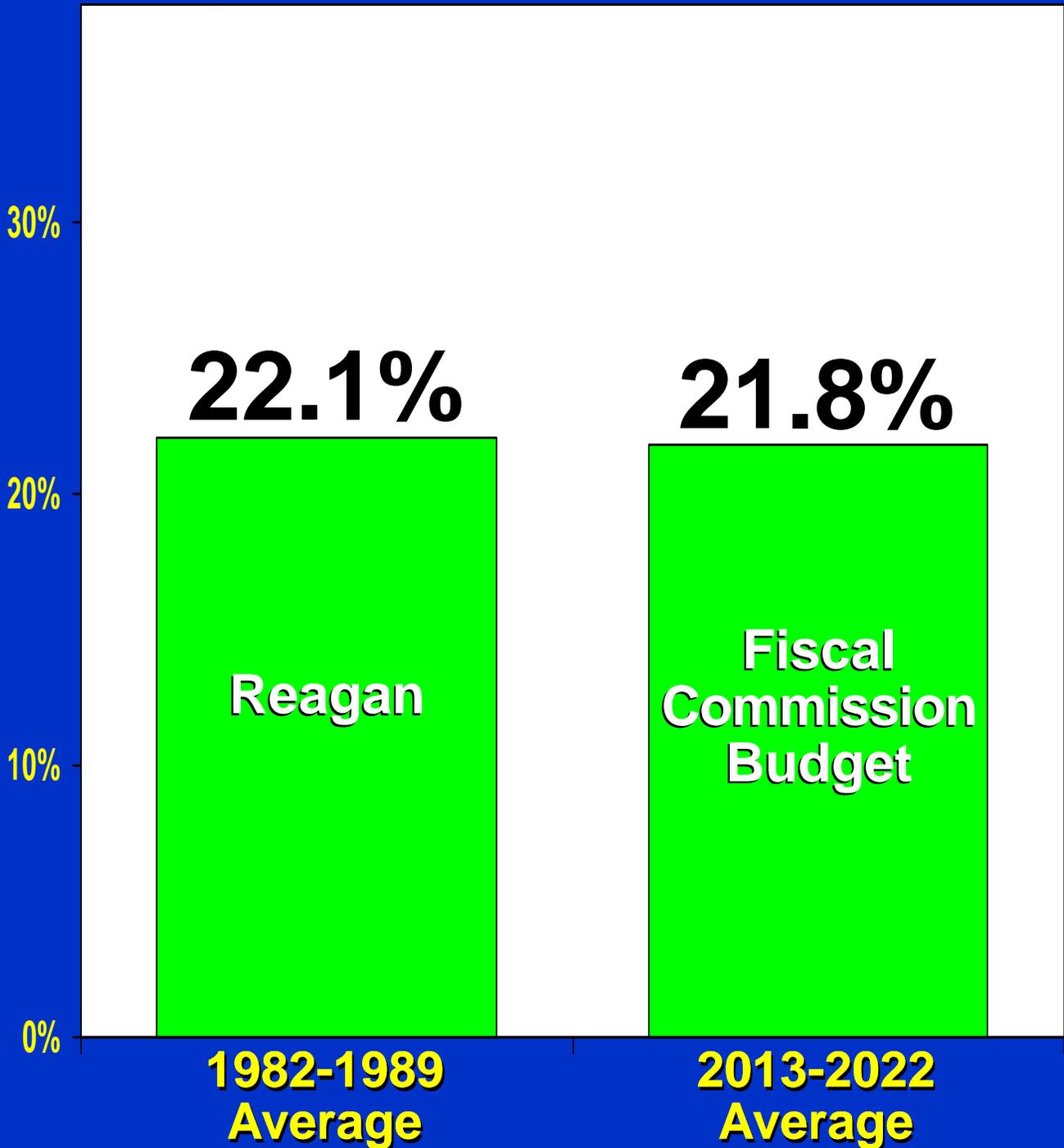
# Gross Debt as % of GDP Under Fiscal Commission Budget Plan



Source: OMB, SBC

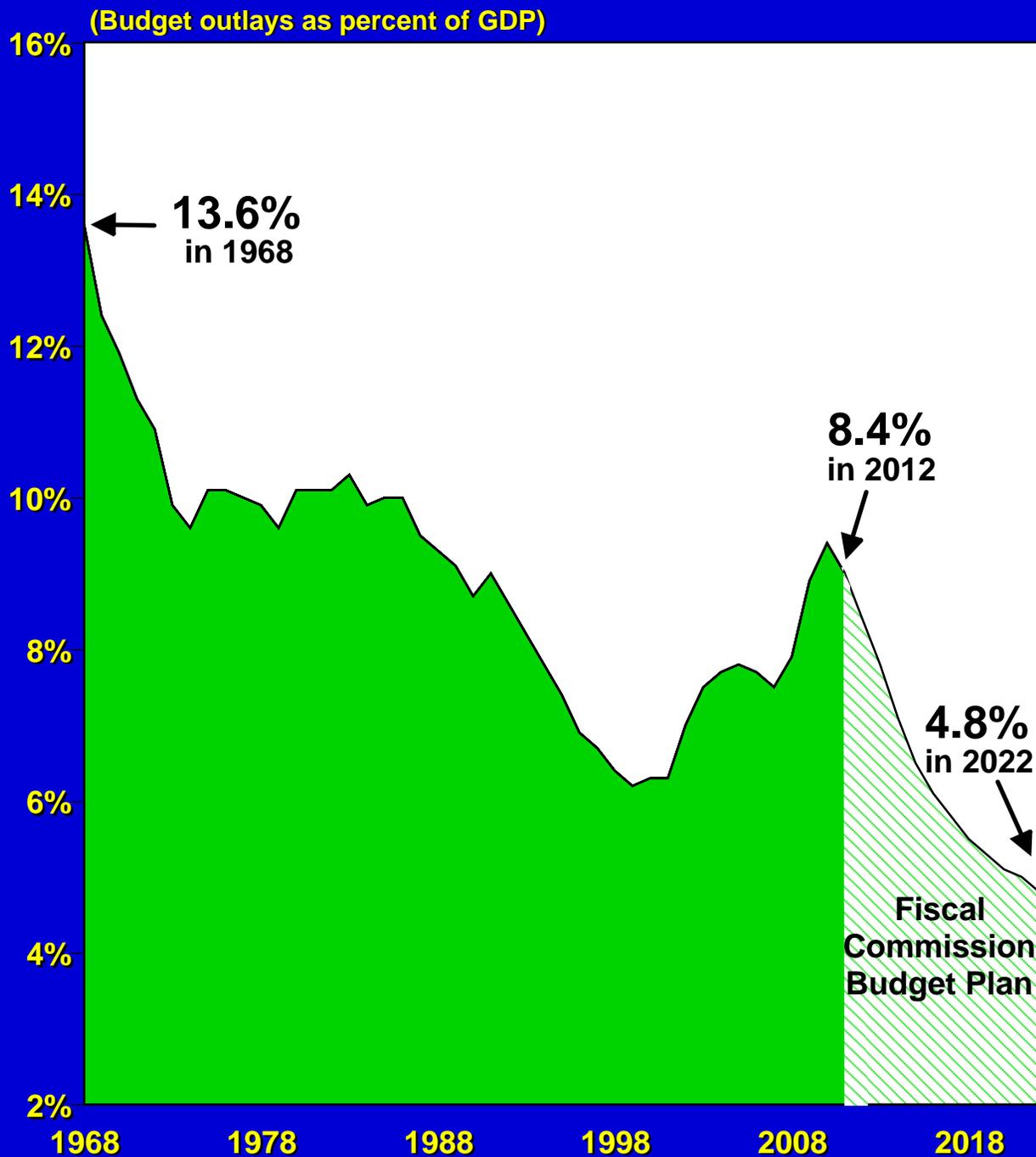
# Reagan vs. Fiscal Commission Budget Plan Spending Comparison

(% of GDP)

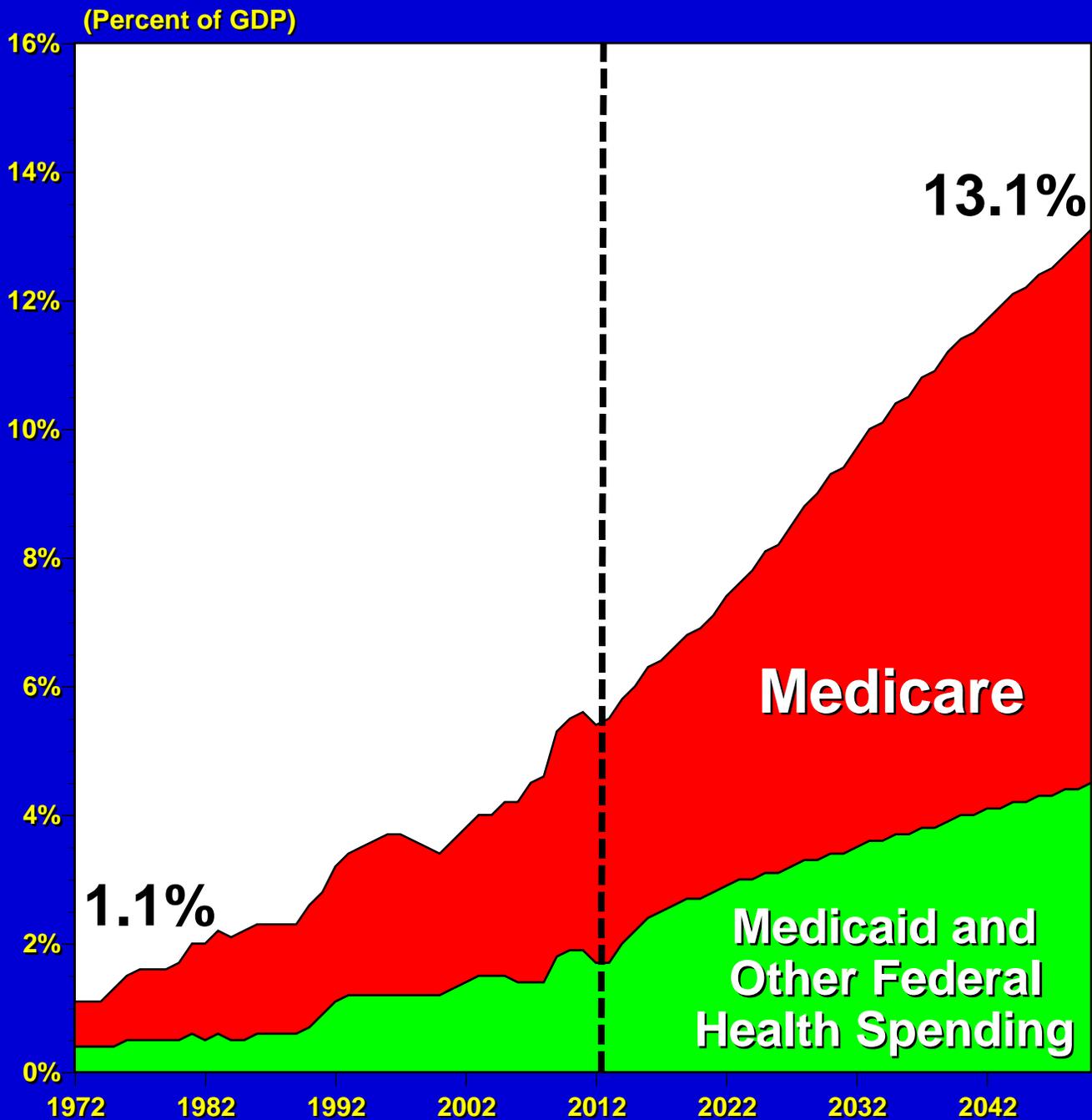


Source: OMB, SBC

# Fiscal Commission Budget Plan Drops Discretionary Spending to Historic Low



# Medicare, Medicaid, and Other Federal Health Spending as % of GDP 1972 - 2050



Source: CBO

Note: 2012-2050 data from CBO Long-Term Budget Outlook, June 2011. CBO alternative fiscal scenario; reflects gross spending on Medicare, Medicaid, CHIP, and outlays for health insurance subsidies through exchanges.

# Health Care Provisions in Fiscal Commission Budget Plan

- Does not re-open health reform debate
- Provides option to phase out tax exclusion for health care
- Fully offsets cost of “Doc fix”
- Savings proposals
  - Medicare beneficiary cost-sharing
  - Payments to health care providers
  - Eliminate state gaming of Medicaid tax
  - Medicaid drug rebate for “duals” in Medicare

**The Congressional Budget Act of 1974 prohibits inclusion of Social Security in deficit totals of a budget resolution.**

# **Social Security Policy Statement in Fiscal Commission Budget Plan**

## **Calls for Social Security reform that:**

- **Reforms Social Security to make it solvent, not for deficit reduction**
- **Restores 75-year solvency and puts it on stable path beyond 75 years**
- **Strengthens safety net**
  - **enhanced minimum benefit for low-wage workers**
  - **bump up in benefits for oldest seniors and long-time disabled**
  - **hardship exemption for those unable to work past 62**
- **Gradually increases maximum level of wages taxed for Social Security**
- **Raises retirement age, but only very gradually – reaching 69 by 2075**

# The Need for Tax Reform

- Tax code out-of-date, inefficient, hurting U.S. global competitiveness
- Complexity imposes significant burden on individuals and businesses
- Expiring provisions create uncertainty and confusion
- Hemorrhaging revenue to tax gap, tax havens, abusive shelters
- Need to restore fairness – current system contributing to growing income inequality
- Long-term fiscal imbalance must be addressed – revenue must be part of solution

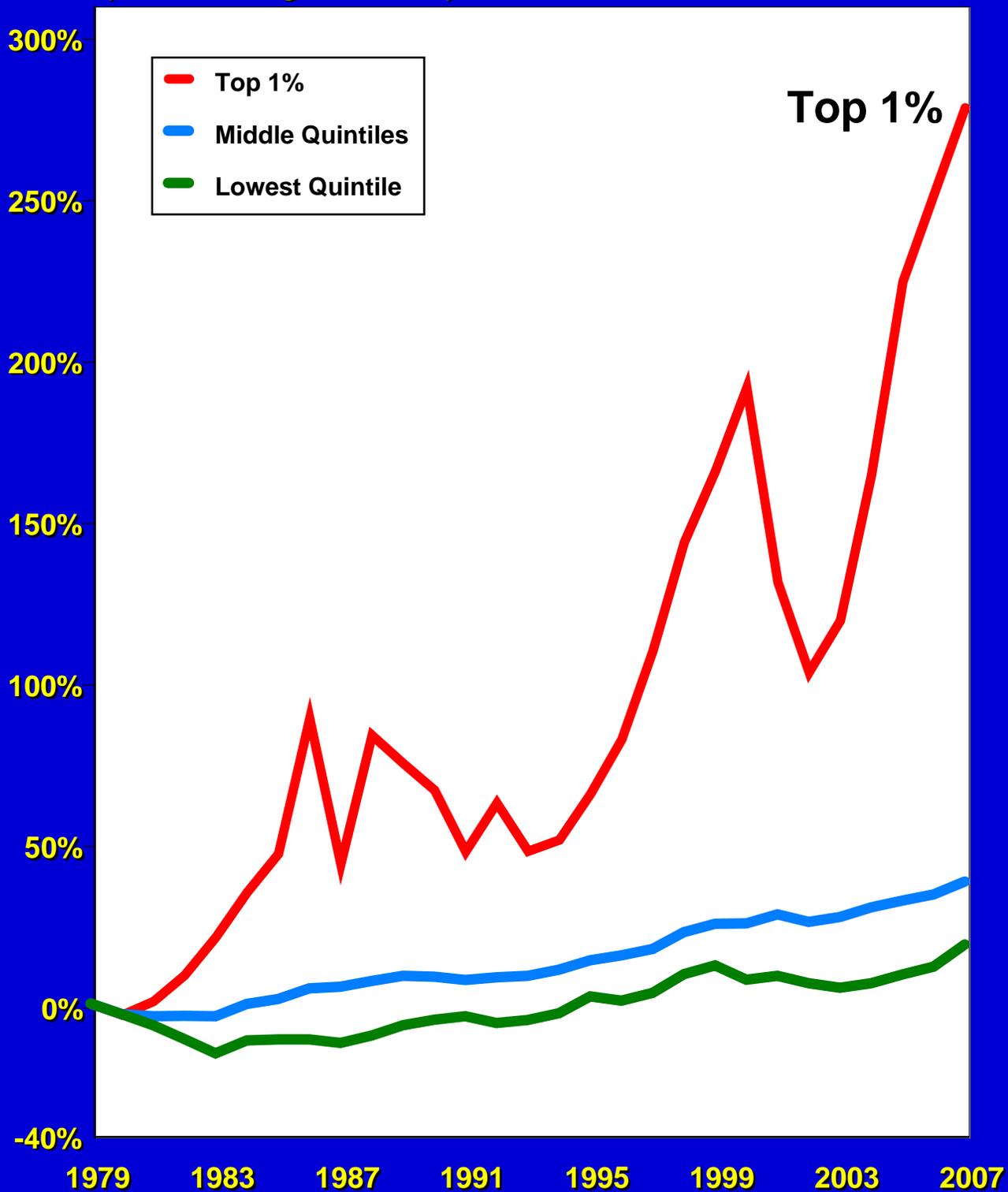
# **CBO Director Elmendorf on Economic Benefit of Tax Reform**

**“I think analysts would widely agree that reform of the tax code that broadened the base and brought down rates would be a positive force for economic growth, both in the short term and over a longer period.”**

**– Congressional Budget Office Director Doug Elmendorf  
Testimony before Senate Budget Committee  
February 2, 2012**

# Income Disparity Growing

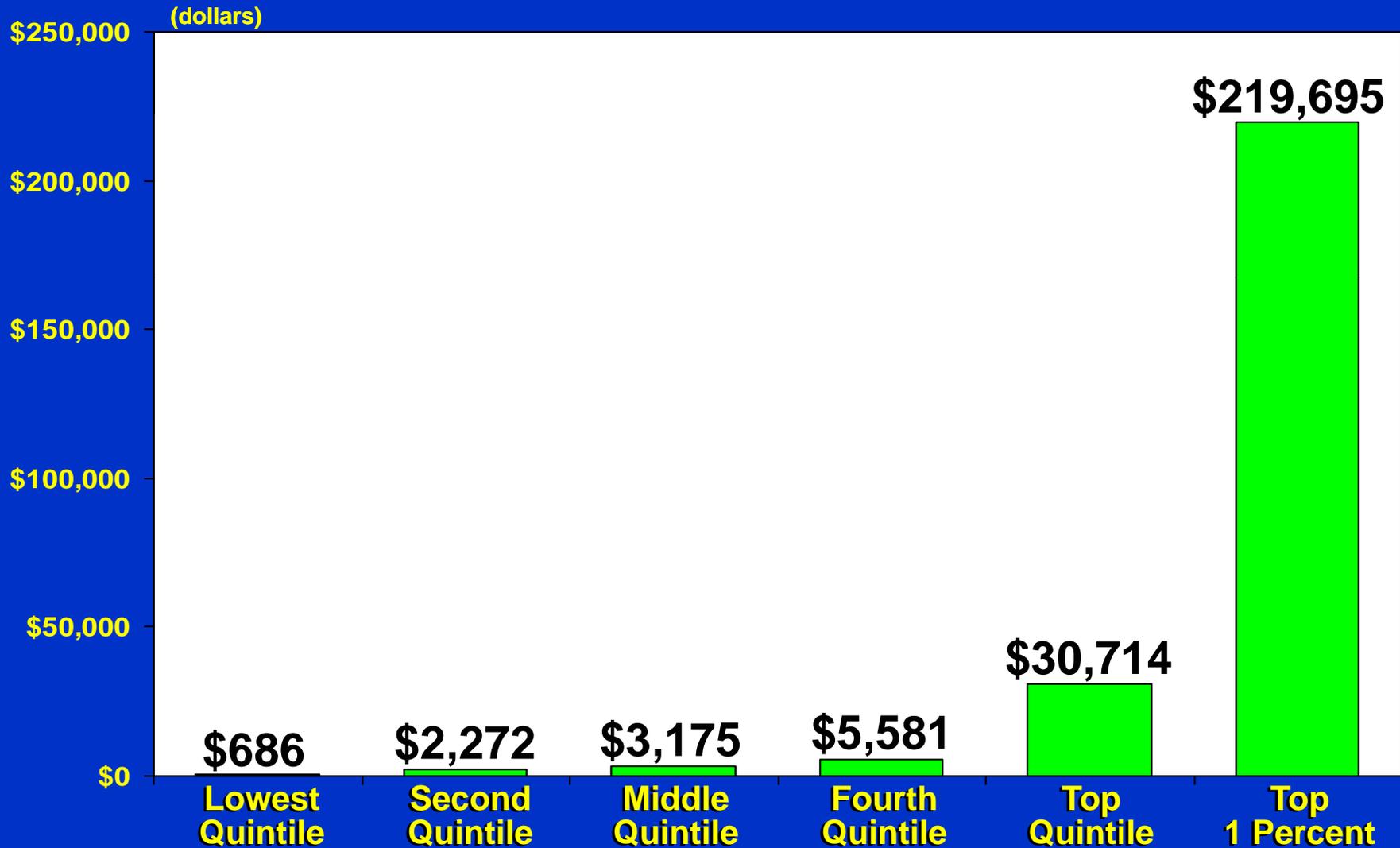
(Percent change from 1979)



Source: CBO

Note: After-tax household income. Middle Quintiles represent 21st to 80th percentiles.

# Increase in After-Tax Income from Tax Expenditures



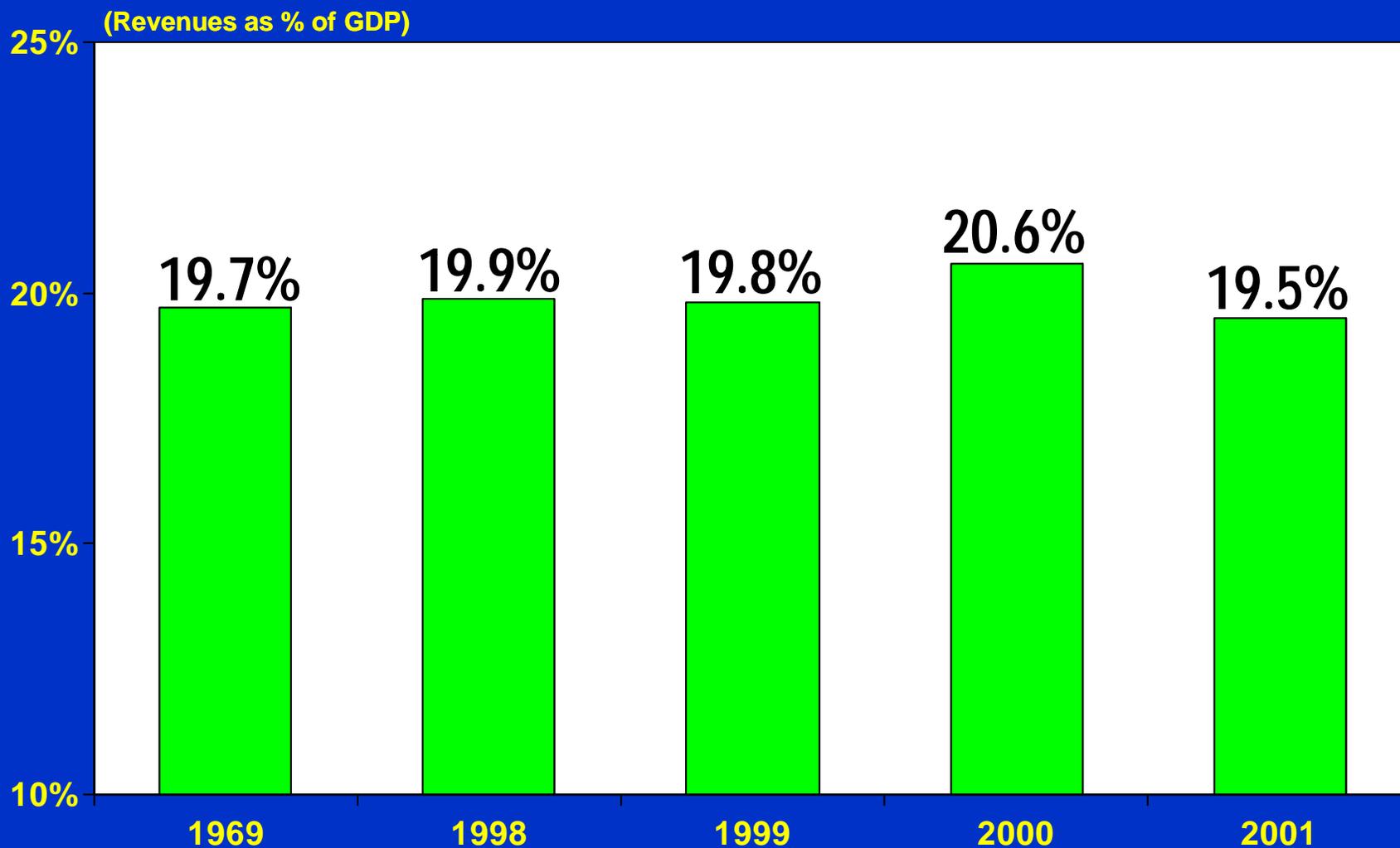
Source: Tax Policy Center  
Note: Reflects 2011.

# **Economist Feldstein on Need to Reduce Tax Expenditures**

**“Cutting tax expenditures is really the best way to reduce government spending.... [E]liminating tax expenditures does not increase marginal tax rates or reduce the reward for saving, investment or risk-taking. It would also increase overall economic efficiency by removing incentives that distort private spending decisions. And eliminating or consolidating the large number of overlapping tax-based subsidies would also greatly simplify tax filing. In short, cutting tax expenditures is not at all like other ways of raising revenue.”**

**– Martin Feldstein  
Professor of Economics at Harvard University  
Chairman of Council of Economic Advisers under President Reagan  
“The ‘Tax Expenditure’ Solution for Our National Debt,”  
*Wall Street Journal*  
July 20, 2010**

# Last Five Times Budget in Surplus, Revenues Near 20% of GDP

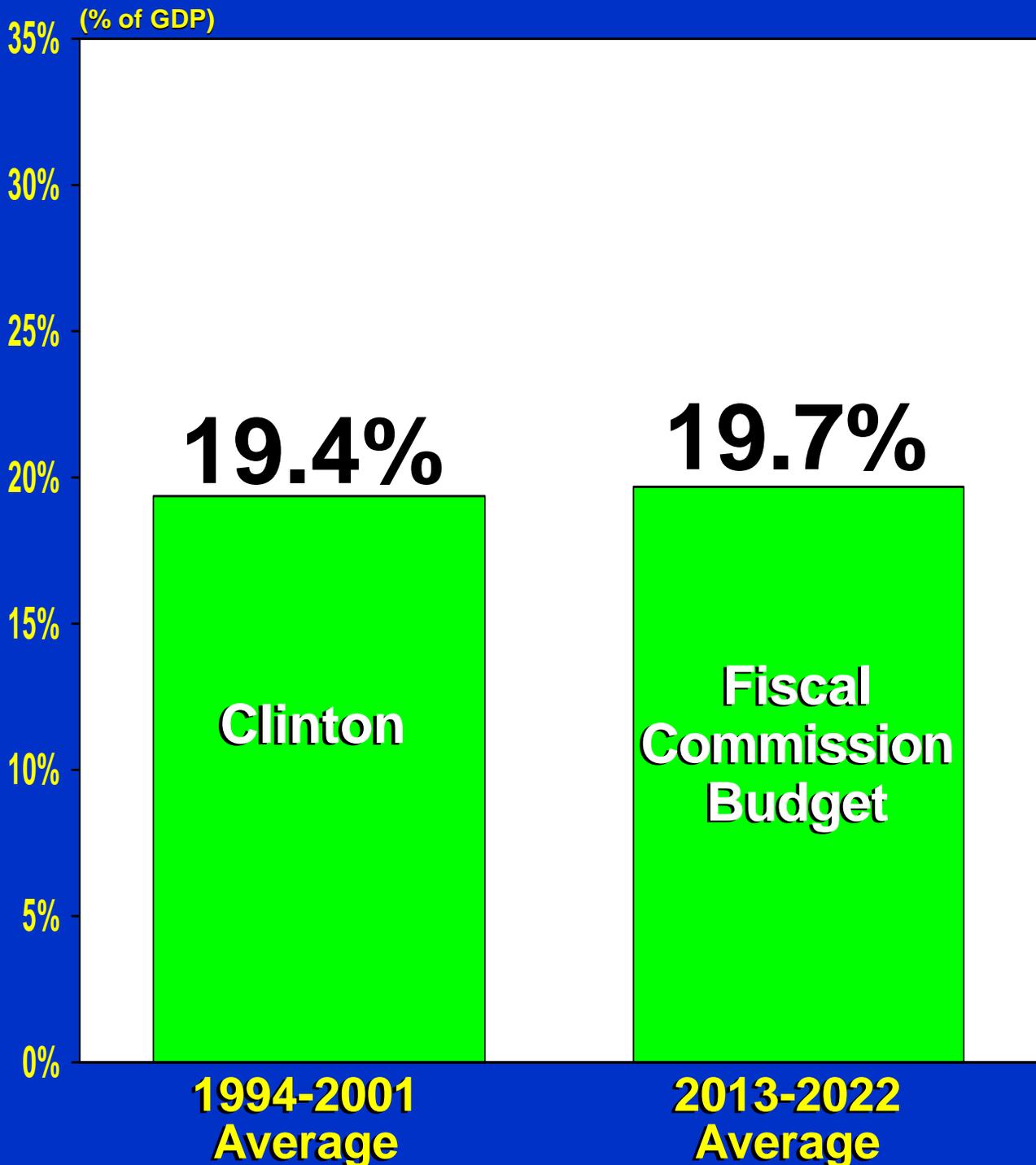


Source: OMB

# Tax Reform in Fiscal Commission Budget Plan

- Eliminates or scales back tax expenditures, and *lowers* rates
- Promotes economic growth and improves America's global competitiveness
- Makes tax code more progressive
- “Illustrative” tax reform plan:
  - Three rates for individuals - 12%, 22%, 28%; corporate rate of 28%
  - Capital gains / dividends taxed as ordinary income
  - Reforms mortgage interest and charitable deductions
  - Preserves Child Tax Credit and EITC
  - Repeals AMT
- Revenues grow to 20.5% of GDP by 2022

# Clinton vs. Fiscal Commission Budget Plan Revenue Comparison



Source: OMB, SBC

# Fiscal Commission Budget Plan Revenues

**Relative to:**

**Alternative Baseline      \$2.4 T**

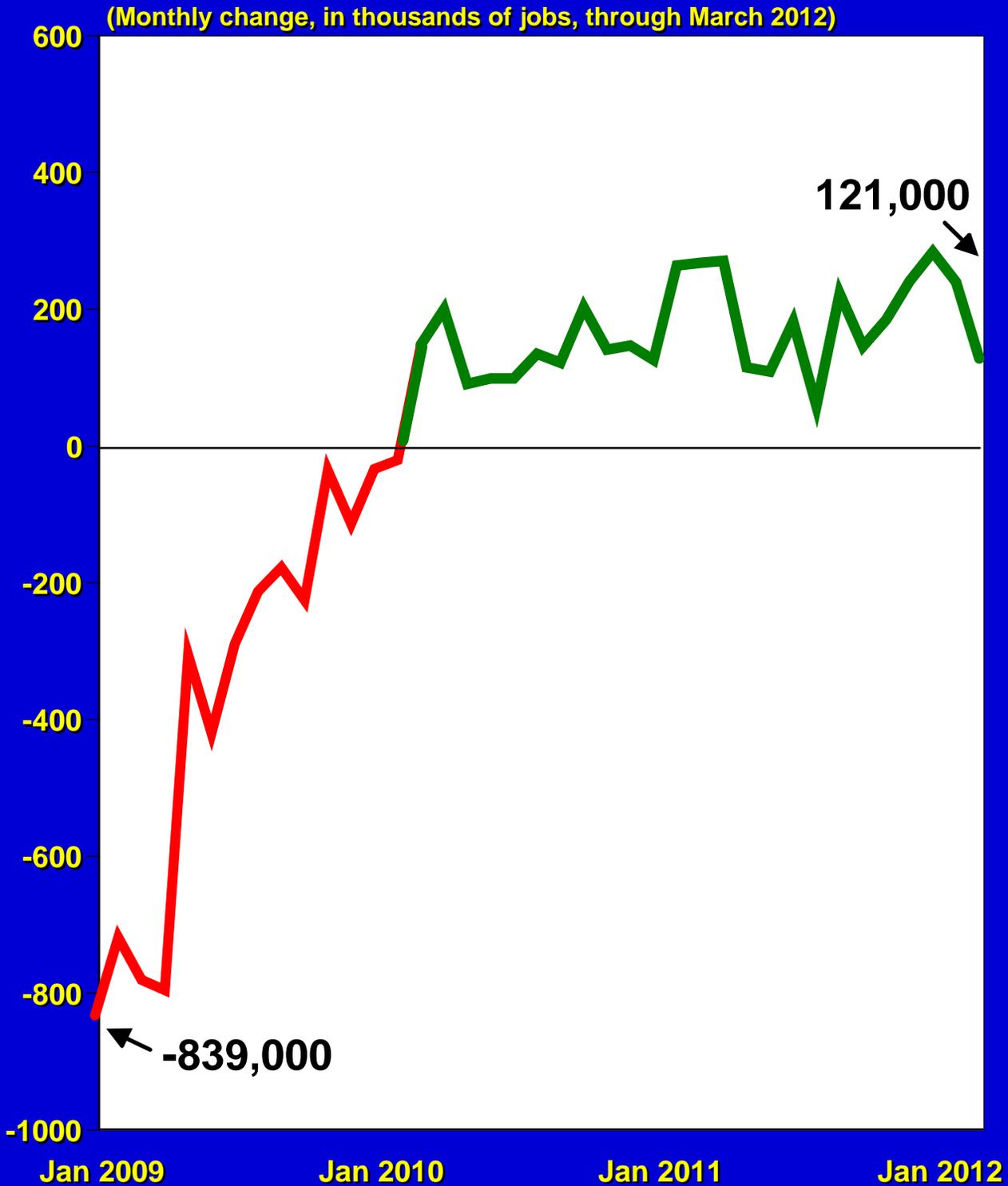
**Current Law                      -\$1.8 T**

# Process Changes in Fiscal Commission Budget Plan

- Discretionary spending caps through 2022 enforced by 60-vote point of order and sequester
- Firewalls between Security and Non-Security through 2015
- Separate cap for war funding with annual limits proposed by President
- More rigorous emergency designation procedure and annual budgeting for disasters
- Failsafe to pressure Congress to maintain stable debt / GDP ratio starting in 2015
- More accurate inflation adjustments for indexed programs (chained CPI)
- Process to ensure more reliable and timely extended UI benefits

Note: Security funding includes DOD, International, DHS, VA, DoE's atomic weapons activities, and Intelligence Community Management Account.

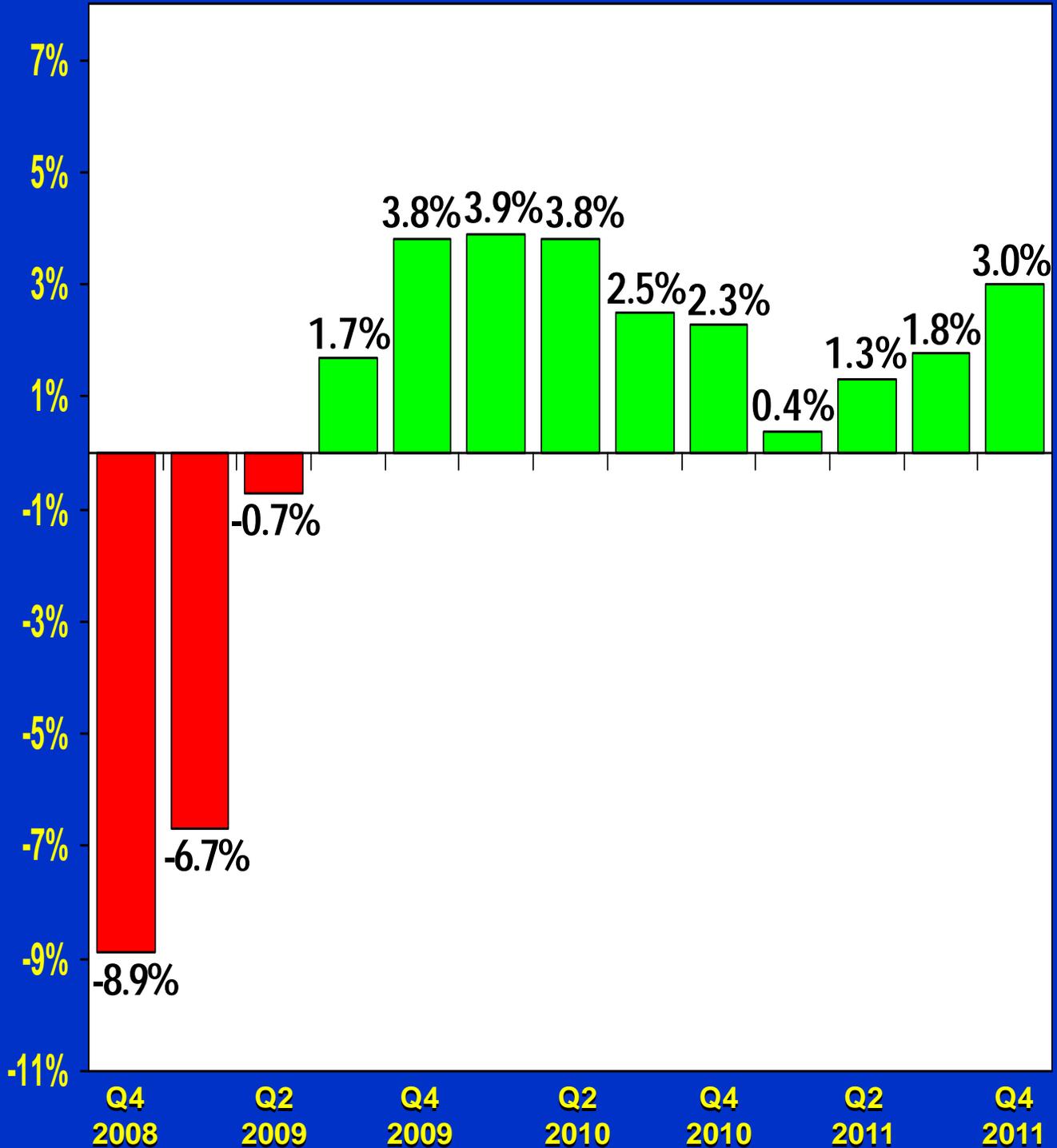
# Private-Sector Jobs Picture



Sources: Bureau of Labor Statistics, U.S. Department of Labor

# Economic Performance

(Percent growth of real GDP, annualized rate)



Source: Bureau of Economic Analysis, U.S. Department of Commerce