Center on Budget and Policy Priorities

820 First Street NE, Suite 510
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

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LATEST DEMOCRATIC OFFER INCLUDES FURTHER COMPROMISE, MATCHES OVERALL NUMBERS OF TOOMEY PROPOSAL; REPUBLICANS REJECT IT

Key Difference Has Big Impact on Fiscal Responsibility

By James R. Horney and Robert Greenstein

Democratic members of the Joint Select Committee on Deficit Reduction (called by some the Supercommittee) submitted an offer last Friday in response to a plan put forward earlier in the week by Senator Pat Toomey and other Joint Committee Republicans.

Various media institutions reported today that this latest Democratic proposal would increase revenues by $400 billion over the next 10 years — much less than in previous Democratic proposals — matching the $400 billion increase said to be in the Toomey plan. ($100 billion of Toomey's $400 billion in added revenues was due to "dynamic scoring" that is not traditionally scored as real, while the Democratic plan envisions $400 billion in revenue increases as scored by the Joint Committee on Taxation. Toomey also counted $100 billion in unspecified increases in fees, premiums, and the like as a revenue increase on top of the $400 billion he otherwise counted in this area, although such amounts are counted by the Congressional Budget Office and the Office of Management and Budget as spending cuts and would be recorded on the spending side of the budget.)

The Democratic proposal also contains the same amount of specified cuts in Medicare and Medicaid ($275 billion) as the Toomey plan lists.[1] And the Democratic proposal and the Toomey plan contain the same reduction in total program spending — $875 billion. (The Democratic plan calls for somewhat less in mandatory spending cuts outside of Medicare and Medicaid than the Toomey plan and somewhat more in discretionary spending cuts.) Including interest savings, both plans call for policies that they say would reduce the deficit by about $1.5 trillion over the next ten years.

When one adds in the $900 billion in spending cuts from the discretionary spending caps enacted in August as part of the Budget Control Act, the deficit reduction under both plans would total close to $2.6 trillion. In both plans, this nearly $2.6 trillion in savings includes *more than $5 in spending cuts for each $1 increase in revenues*, measured from a current-policy baseline that assumes the Bush tax cuts will be extended. By comparison, the bipartisan Bowles-Simpson and Gang of Six plans each had $1 in increased revenues for each $1 in spending cuts, relative to the same baseline. (The ratios cited

[1] Toomey's proposed $100 billion in unspecified increases in fees and premiums could include increases in Medicare premiums that would represent additional cuts in Medicare spending.

here for the various plans do not count interest savings as a spending cut; if one did count interest savings in that way, the ratios of spending cuts to tax increases would be still higher.)

This is rather stunning. To try to secure an agreement, Democrats on the Joint Committee offered a plan that moved significantly toward the Republicans and a considerable way *beyond* the bipartisan Bowles-Simpson and Gang of Six plans, which conservative senators like Tom Coburn and Mike Crapo had embraced. Yet Republicans have summarily rejected the latest, rather conservative Democratic offer. Why?

The answer lies primarily in the principal difference between the Toomey plan and the Democratic offer: the Toomey plan would permanently set tax rates *below* those set by the 2001 and 2003 tax cuts, effectively locking in the Bush tax cuts for high-income taxpayers (as well as other taxpayers) and taking them off the table for future deficit reduction. In addition, by requiring several trillion dollars in tax-expenditure savings in order to pay for these reduced tax rates, the Toomey plan would use up most or all of the achievable tax expenditure savings and effectively take tax expenditures off the table for future deficit reduction, as well.

By contrast, the Democratic offer would set the Bush tax cuts to the side, neither extending nor ending them and leaving their disposition for another day. And, by securing $400 billion from tax expenditures now rather than *several trillion* dollars as the Toomey plan would require, it would allow future Congresses to consider further savings here in the future rounds of deficit reduction that our fiscal situation will necessitate.

(Another difference between the two plans regards the Medicare eligibility age. While the Toomey and Democratic plans contain similar levels of Medicare savings, Toomey would raise the Medicare eligibility age from 65 to 67, while the Democratic plan does not do so. We believe the Democrats made the right call on this, especially in the absence of any assurance that the Affordable Care Act will be allowed to take effect and provide a place for 65- and 66-year-olds to obtain coverage if the Medicare age is raised to 67.)

The bottom line is that the two plans had essentially the same overall revenue increase number, spending reduction number, and deficit reduction number — yet they differed greatly in terms of fiscal responsibility. Since both plans would achieve only $1.5 trillion in deficit reduction, several trillion dollars more in deficit reduction will be required in the years ahead. Effectively taking the tax code off the table for the sizable further deficit reduction that the nation will need, as the Toomey plan would do, would hinder fiscal responsibility, rather than advance it.