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Commentary: A Look at the New Simpson-Bowles Plan

by Robert Greenstein and Joel Friedman

The new deficit-reduction plan that Alan Simpson and Erskine Bowles issued this week calls for \$2.4 trillion of additional deficit reduction over the next ten years (through 2023), with roughly \$2.1 trillion in policy changes and about \$300 billion in resulting interest savings.¹ Of the policy savings, about \$700 billion would come from higher revenues — a combination of tax reform and applying the “chained CPI” to the indexing of the tax code — while \$1.4 trillion would come from program cuts. Thus, the budget cuts would be about twice as large as the revenue increases.

These policy changes would come on top of the deficit reduction that policymakers have enacted over the last two-plus years, which has relied much more heavily on program cuts than revenue increases. When coupled with those enacted measures — most notably the 2011 Budget Control Act (BCA) and the recent “fiscal cliff” deal — the new Simpson-Bowles plan would result in total spending cuts of nearly \$3 trillion and revenue increases of about \$1.4 trillion over the ten years from 2014 through 2023.

To their credit, Simpson and Bowles have made it a core principle from the outset that deficit reduction should *not* increase poverty or harm the disadvantaged. They indicated this week that when they release the programmatic details of their new plan in a few weeks, it will include some measures to support this goal that weren’t part of their original December 2010 plan (which they issued as co-chairs of President Obama’s fiscal commission). The material they released this week also states: “Broad-based entitlement reforms should either include protections for vulnerable populations or be coupled with changes designed to strengthen the safety net for those who rely on it the most.” This principle deserves widespread support.

We await the policy details that will fill out their new plan. But, we do so with serious concerns. Compared to the original Simpson-Bowles plan, the new plan shrinks the revenue contribution to deficit reduction in half, while enlarging the cuts in health-care programs.

Over the 2014-2023 period, their original plan would have achieved 55 percent of its policy savings from program cuts and 45 percent from revenue increases, a ratio of 1.2 to 1. The ratio

¹ Erskine Bowles and Alan Simpson, “A Bipartisan Path Forward to Securing America’s Future,” February 19, 2013, <http://momentoftruthproject.org/publications/bipartisan-path-forward-securing-americas-future>.

under their new plan (taking into account the spending cuts and tax increases enacted since Simpson and Bowles issued their original plan) would be substantially higher.

Bowles told the *Washington Post's* Ezra Klein that he and Simpson lowered the revenue contribution in their new plan so that, when combined with the revenue enacted in the “fiscal cliff” bill, it wouldn’t exceed the pared-back revenue level in President Obama’s last offer to House Speaker John Boehner on December 17, before their talks collapsed.² But, as Klein noted in his interview with Bowles, the new plan pairs the final Obama revenue offer with a level of spending cuts that exceeds what Speaker Boehner sought in his final offer.

Possible Effects of Plan’s Cuts Raise Concerns

It seems unlikely that the plan’s \$1.4 trillion in additional budget cuts could be achieved without increasing poverty or the number of people without health insurance, and without weakening investments in education, infrastructure, and basic research that are important to future economic growth.

The plan appears to call for roughly \$400 billion over ten years in cuts in discretionary (that is, non-entitlement) programs on top of the large cuts that the BCA already requires. At least half of these new cuts are likely to be in *non-defense* discretionary (NDD) programs. The caps on funding for discretionary programs that the BCA imposes will already shrink NDD spending by 2017 to its lowest share of GDP on record, with data going back to 1962, and NDD spending will shrink further after that.

One-quarter of NDD funding is for programs targeted on low-income Americans, including Title I education for low-income students, Head Start, Pell Grants, low-income housing assistance and programs to avert homelessness, and the WIC nutrition program. NDD also funds basic scientific research and other investments that hold promise to increase productivity and hence future economic growth. Former Office of Management and Budget and Congressional Budget Office Director Alice Rivlin and former Senate Budget Committee Chairman Pete Domenici have warned that policymakers shouldn’t cut discretionary funding below the BCA levels. We are concerned about the impacts of the new Simpson-Bowles proposal in this area.

The plan’s \$600 billion in health care cuts — \$200 billion more than in the President’s last offer to Speaker Boehner and about \$100 billion more than in the original Simpson-Bowles plan — also raise significant concerns.

We will be particularly concerned if the new plan includes measures that would effectively shift Medicaid costs to states by altering Medicaid’s federal-state financing arrangements. In light of the Supreme Court decision making health reform’s Medicaid expansion a state option, such cost shifts would likely prompt more states to turn down the expansion, leaving millions more low-income Americans uninsured. The United States remains the only Western nation where large numbers of people living in poverty go without health insurance because they can’t afford it; in our view,

² Ezra Klein, “Erskine Bowles: ‘Being far out front of the president on revenues wasn’t something I wanted to do again,’” *Wonkblog*, February 19, 2013, <http://www.washingtonpost.com/blogs/wonkblog/wp/2013/02/19/erskine-bowles-being-far-out-front-of-the-president-on-revenues-wasnt-something-i-wanted-to-do-again/>.

policymakers should eschew any measures that would lead more states to leave these people uninsured.

The material that Simpson and Bowles released this week also suggests that their plan will call for raising the Medicare eligibility age to 67. This raises the question of what would happen to 65- and 66-year-olds (1) whose incomes are *below* the poverty line (so they wouldn't qualify for tax credits to help them buy private coverage through the new health insurance exchanges that will begin operating next year) but are *above* their state's current Medicaid income limit, and (2) who live in states that turn down health reform's Medicaid expansion. Would these people end up uninsured? Raising the Medicare age also would raise total U.S. health care costs, according to the Kaiser Family Foundation, since the cost increases for individuals, employers, and states would exceed the federal savings.³

Setting a High Deficit-Reduction Target While Limiting Revenues Causes Problems

The features of the plan that generate the concerns described above stem largely from two apparent decisions by Simpson and Bowles: (1) that the revenue contribution must be no higher than in the President's last offer to Speaker Boehner; but (2) the total amount of new deficit reduction must be \$2.4 trillion — more than under either Obama's or Boehner's final offer, when the savings from the subsequent "fiscal cliff" bill are netted out. Because all of the savings needed to fill the resulting gap must come from cuts in programs, the total amount of cuts grows larger than in Boehner's final offer.

In our view, either the revenue contribution should be significantly higher than in the new Simpson-Bowles plan or the target for the amount of deficit reduction being sought now should be lower.

Simpson and Bowles note that policymakers would need to achieve \$2.4 trillion in deficit reduction to shrink the national debt to less than 70 percent of gross domestic product (GDP) by the end of the decade. As a recent CBPP analysis found, *\$1.5 trillion* in deficit reduction would stabilize the debt as a share of GDP over the coming decade at about its current level of *73 percent* of GDP.⁴ The larger amount of deficit reduction would be desirable *if* policymakers can secure it through sound, balanced policies that do not impede the economic recovery or jeopardize future productivity growth by providing inadequate resources for areas like education, infrastructure, and basic research; do not increase poverty and inequality or the number of people who are uninsured; and do not sacrifice health-care quality or raise overall U.S. health care costs. We are concerned that the new Simpson-Bowles plan, with its large additional cuts in NDD and health care programs, will not meet these tests.

³ See Paul N. Van de Water, "Raising Medicare's Eligibility Age Would Increase Overall Health Spending and Shift Costs to Seniors, States, and Employers," Center on Budget and Policy Priorities, August 23, 2011, <http://www.cbpp.org/cms/?fa=view&id=3564>; Tricia Neuman, Juliette Cubanski, and others, "Raising the Age of Medicare Eligibility: A Fresh Look Following the Implementation of Health Reform," Kaiser Family Foundation, July 2011, <http://www.kff.org/medicare/8169.cfm>.

⁴ Richard Kogan, Robert Greenstein, and Joel Friedman, "\$1.5 Trillion in Deficit Savings Would Stabilize the Debt Over the Coming Decade," Center on Budget and Policy Priorities, February 11, 2013, <http://www.cbpp.org/cms/index.cfm?fa=view&id=3900>.

Stabilizing the debt-to-GDP ratio over the decade is crucial. But it's important to note that there is no magic to Simpson's and Bowles', or any other lower, debt-to-GDP ratio target; there is no economic evidence that a specific debt-to-GDP ratio — or that putting the debt-to-GDP ratio on a declining path this decade — is required to ensure a healthy economy. Any specific ratio target is essentially an arbitrary one, as the International Monetary Fund has noted.⁵

In his interview with Ezra Klein, Bowles commented, "I've never seen any kind of long-range plan that held a lot of water 20 years out. So I think if we're smart we'll go back and revisit this on a regular basis and make the adjustments we need to make." We agree. We favor policymakers enacting as large a plan as they can achieve now that meets the basic criteria outlined above, with the proviso that it must at least stabilize the debt over the coming decade — rather than setting a \$2.4 trillion target while limiting revenues to the amount reflected in President Obama's December 17 offer. We would pursue this course knowing, as Bowles' comment indicates, that policymakers would need to revisit and adjust these decisions as the years pass and would need to subsequently provide further savings — especially as we learn more about how to contain health-care cost growth without sacrificing access to needed care or health-care quality.

A \$1.5 trillion deficit-reduction package split equally between higher revenues and budget cuts would stabilize the debt at 73 percent of GDP for the latter half of the decade and, in combination with the spending and tax measures already enacted, would generate a ratio of program cuts to revenue increases of 1.7 to 1. That would be more heavily weighted toward budget cuts than the original Simpson-Bowles plan. This amount of deficit reduction would represent a significant achievement, as it would take a crucial next step toward addressing our long-term budget problems while giving policymakers more time to find effective ways to slow health-care costs.

Alan Simpson and Erskine Bowles should be applauded for continuing to seek a solution to our fiscal-policy impasse and for continuing to put forward the key principle that deficit reduction should not harm the disadvantaged. We look forward to seeing the important details of their new plan. But we remain quite concerned that if policymakers adopt a framework that calls for \$2.4 trillion in deficit reduction but includes just \$700 billion in revenue increases as part of it, the principle that Simpson and Bowles espouse of protecting the vulnerable and avoiding increases in poverty will be very hard to uphold in practice.

⁵ The European Union and the International Monetary Fund adopted a 60 percent debt-to-GDP ratio as a target some years ago. The IMF staff has indicated, however, that this target is essentially arbitrary, as a specific debt-to-GDP target isn't supported by economic evidence. In addition, while such a target may have been a reasonable one before the Great Recession pushed up debt levels substantially in most advanced countries, it would not necessarily be an appropriate target for debt over the next ten years, given the severity of the downturn and continued economic weakness.