Comeback America Initiative (CAI)
July 20, 2011
Restoring Fiscal Sanity Report: Executive Summary of the Illustrative Fiscal Frameworks

Preemptive (Prudent) Framework

Deficits and Debt:

- Would balance the primary budget (federal spending excluding interest) by 2014 through 2035 and beyond.
- Would reduce public debt/GDP to about 63 percent of GDP in 2021 and declining, versus about 76 percent of GDP and increasing rapidly under CBO's current law baseline, and to about 52 percent and declining in 2035, versus about 91 percent and rising under the baseline.

Budgeting Controls and Total Spending:

- Would impose tough budget controls, including PAYGO rules with no exemptions, discretionary spending caps that apply to all such categories of spending, and annual public debt/GDP targets with automatic (fail safe) enforcement mechanisms that are heavily weighted to spending cuts versus temporary revenue increases. (e.g., 3:1 weighting, excluding interest)
- Would provide an additional $500 billion in targeted key infrastructure and other investments in fiscal 2012-2013.
- Would impose an annual budget cap on all major spending categories except Social Security and interest on federal debt.

Reactive (Crisis Management) Framework

Deficits and Debt:

- Would balance the total budget by 2015 and for most years thereafter.
- Would reduce public debt/GDP to about 51 percent of GDP in 2021 and declining rapidly, versus about 77 percent of GDP and increasing rapidly under CBO's current law baseline, and to about 28 percent and declining in 2035 versus about 91 percent and rising under the baseline. Nominal public debt would be less in 2023 than in 2015 and essentially stable.

Budgeting Controls and Total Spending:

- Would impose tough budget controls, including PAYGO rules with no exemptions, lower discretionary spending caps that apply to all such categories of spending, and annual public debt/GDP targets with automatic enforcement mechanisms along the lines of the Preemptive Framework.
- Would eliminate any additional key infrastructure and other investments in 2012-2013 that are included under the Preemptive Framework.
- Would generally impose lower annual budget caps than the Preemptive Framework on all major spending categories except Social Security and interest on federal debt.

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Preemptive (Prudent) Framework

- Would consolidate all current “other mandatory spending” and “other discretionary spending” into one major “other spending” category to provide more budget flexibility.

- Would reduce total federal spending to 21.8 percent of GDP in 2021, from 23.9 percent under CBO’s current law baseline, and to 23.2 percent of GDP and stable in 2035, from 28.3 percent and rising under the baseline.

Reactive (Crisis Management) Framework

- Would consolidate all current “other mandatory spending” and “other discretionary spending” into one major “other spending” category, to provide more budget flexibility.

- Would reduce total federal spending to 20.1 percent of GDP in 2021, from 23.9 percent under CBO’s current law baseline, and to 21.8 percent of GDP and leveling in 2035 from 28.3 percent and rising under the baseline.

Preemptive (Prudent) Framework

Social Security:

- Would make Social Security solvent, sustainable and secure indefinitely through a number of reforms that, other than an adjustment in the cost-of-living index and taxable wage base cap, would only apply to persons under age 55. The reforms would include strengthening benefits for low wage workers who work a full career and persons over 85, somewhat reducing replacement rates for middle and upper income workers, modifying the cost-of-living index, raising the normal and early retirement eligibility ages by two years over 30 years and 14 years, respectively, addressing disability program abuse and certain program inequities, eliminating payroll taxes for persons who work past their normal retirement age, increasing the taxable wage base cap to $150,000 by 2018 (indexed thereafter as under current law), if necessary, and creating a supplemental savings account.

Reactive (Crisis Management) Framework

Social Security:

- Would make Social Security solvent, sustainable and secure indefinitely by implementing the reforms under the Preemptive Framework with adjustments. Specifically, only individuals 60 and over would be largely unaffected, the normal and early retirement eligibility ages would be increased three years and implemented over fewer years, and any increase in the taxable wage base cap to $150,000 would occur in 2014.

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Preemptive (Prudent) Framework

Health Care:

- Would repeal the CLASS Act, reform the Patient Protection Act of 2010, reduce direct and indirect subsidies for health care and raise the Medicare eligibility age to 67 over 14 years, move to universal coverage for preventative/wellness and catastrophic care starting in 2015 and fully phased-in by 2020, and engage in a number of additional health care related reforms.

Defense:

- Would engage in a range of defense transformation activities, such as: reducing forces in Southwest Asia to 45,000 by the end of 2014, revising program planning and budget execution, reducing Defense Department overhead by at least 25 percent, reforming acquisition and contracting practices, reducing bases and overseas presence, modernizing the force structure, reforming the acquisition and contracting practices, and rationalizing compensation and benefit programs without compromising national security. Would also provide a floor budget allocation of three percent of GDP for Defense.

Reactive (Crisis Management) Framework

Health Care:

- Would repeal the Patient Protection Act of 2010 and the Medicare Modernization Act of 2003, accelerate reduction of direct and indirect subsidies for health care and the increase in the Medicare eligibility age to 67 over 9 years, delay implementation of universal coverage for preventative/wellness and catastrophic care until 2020, with full phase-in by 2025, and engage in a number of additional health care related reforms.

Defense:

- Would reduce defense and other security spending more rapidly, and accelerate defense transformation and the reduction of forces in Southwest Asia by two years as compared to the Preemptive Framework, while still maintaining our national security. Would retain a floor budget allocation of three percent of GDP for Defense.

Preemptive (Prudent) Framework

Other Spending:

- Would cut and constrain "other spending" relating to a broad range of federal programs and activities, rationalize related organizations and programs, eliminate program duplication, ensure reasonable investments, focus on results, and revise financing approaches, while maintaining a sound social safety net.

Reactive (Crisis Management) Framework

Other Spending:

- Would cut and constrain "other spending" to a greater extent than under the Preemptive Framework, while maintaining basic investments and an adequate social safety net.

Preemptive (Prudent) Framework

Taxes/Revenues:

- Would not extend the Bush/Obama tax cuts, but would transform the current tax system to make it simpler, fairer, and more competitive, while generating adequate revenues to achieve reasonable and sustainable public debt/GDP levels in the future. Major illustrative reforms would include a dramatic broadening of the tax base and reducing top marginal tax rates for both individuals and corporations to no more than 25 percent. For example, the exclusion for employer paid health care coverage would be capped in 2018 and phased out over the following 10 years. Other major reforms would include allowing corporations to deduct dividends paid to shareholders, incorporating a consumption tax (e.g., VAT) of no more than five percent either as a basic element of tax reform or as a standby element, if needed, and reforming the estate tax. Additional revenues would be generated through a new oil security ad valorem fee, sale of selected federal rights and properties, and revisions to oil, gas and other mineral extraction contracts.

- Would follow a current law revenue path while capping federal revenue at 21.5 percent of GDP versus a projected 23.3 percent of GDP and rising in 2035 under current law.

Reactive (Crisis Management) Framework

Taxes/Revenues:

- Would repeal the Tax Relief, Unemployment, Insurance Reauthorization and Job Creation Act of 2010 at the end of calendar 2011 and transform the current tax system to make it simpler, fairer, and more competitive, while generating adequate revenues to achieve reasonable and sustainable debt/GDP levels over an accelerated period. The general nature of comprehensive tax reform would be the same as under the Preemptive Framework with some accelerations and other adjustments. For example, the exclusion for employer paid health care coverage would end in 2018.

- Would generally follow a current law revenue path while capping federal revenue at 21.5 percent of GDP versus a projected 23.3 percent of GDP and rising in 2035 under current law. However, would also impose a temporary deficit reduction revenue increase of .7 percent of GDP in 2012 and 2013, in order to ensure achieving a balanced budget by 2015 and accelerate reduction in the public debt/GDP ratio.

Preemptive (Prudent) Framework

Other Reforms:

- Would include a number of additional reforms such as biennial budgeting and appropriation processes, government-wide planning/performance management, surface transportation/energy reform, selected privatization efforts, and creation of a standing Transparency and Transformation Task Force. Would encourage pursuit of one or more Constitutional amendments (e.g., balanced budget, debt/GDP limit, revenue/GDP limit, line item veto).

Reactive (Crisis Management) Framework

Other Reforms:

- Would include a number of additional reforms such as biennial budgeting and appropriation processes, government-wide planning/performance management, surface transportation/energy reform, selected privatization efforts, and creation of a standing Transparency and Transformation Task Force. May also require pursuit on one or more Constitutional Amendments (e.g. balanced budget, debt/GDP limit, line item veto)