BOWLES-SIMPSON: LESS THAN MEETS THE EYE

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The "Bowles-Simpson proposal" has become a kind of short-hand in Washington for what a balanced, bipartisan deficit-reduction deal could look like. But that conventional wisdom is wrong. When given a closer look, the plan is anything but balanced. While the co-Chairs' plan includes some positive elements that we should keep on the table, on the whole, the Bowles-Simpson plan puts too much of the burden for deficit reduction on the backs of the middle-class and those who aspire to it. For all the talk of "shared sacrifice," it is those Americans who have already been sacrificing for years who would pay.

The goal of our fiscal policy must be to maintain a strong nation with a robust middle class – a place where every individual has an opportunity to succeed and have their basic needs met. We should be evaluating any deficit reduction proposal on the following measures:

- Does it create American jobs, strengthen the economy, and build the middle class?
- Does it protect seniors, the disabled, low-income families, and children?
- Does it build the infrastructure and educate the workforce that businesses need to succeed?
- Does it support a national security policy tailored to 21st-century threats?
- Does it ask the wealthiest Americans and profitable corporations to contribute their fair share?

As detailed in this report, Bowles-Simpson fails to achieve too many of those goals.

The good news is that there is a better way. A responsible plan will invest in jobs, infrastructure, education, and research and development in order to strengthen our economy and generate growth. It will protect Medicare and Medicaid and build on Obamacare to bring down the cost of health care overall, not simply slash federal health spending. It will ask more from those who can afford to pay more – raising the top tax rates on the wealthy and ending tax subsidies for big oil and rich corporations that are shipping jobs and profits overseas. It will eliminate wasteful military spending and focus on modern threats. And it will strengthen Social Security, a program in which it is entirely possible – and relatively easy – to achieve long-term solvency without cutting benefits. Such proposals are not out of reach; I have proposed a concrete plan and the Congressional Progressive Caucus's Budget for All also shows a progressive way to achieve fiscal responsibility.

Finally, Bowles-Simpson gets more credit as a "plan" than it should. Although there are many specific recommendations, other major decisions have been kicked back to Congress. The co-Chairs' plan places arbitrary caps on federal revenue, discretionary spending, and health care spending without a discussion of why those caps are appropriate or whether they accommodate national priorities – and the way to reach those caps is, for the most part, handed back to Congress.

The American people are looking for a more balanced approach. We've done it before – just over a decade ago substantial surpluses led the Congressional Budget Office to declare the fiscal outlook "bright." We can do it again. We need to look beyond Bowles-Simpson for policies that will fix our fiscal problems in a way that upholds the truly American notion of leaving each generation better off than the one that came before it.

ANALYSIS

SOCIAL SECURITY	
✗	**Raises the retirement age.** Raises the Social Security retirement age for full benefits from 67 to 69 years. Life expectancy has been rising but not across-the-board and low-income women have actually faced a declining life expectancy over the last 25 years.[1]
✗	**Cuts benefits for current retirees.** Adopts a new cost-of-living index (the chained-CPI) that would reduce benefits for current beneficiaries as well as future beneficiaries.
✗	**Reduces benefits by up to 35%.** All policy changes taken together would reduce average annual Social Security benefits for middle-income workers (average annual lifetime earnings of between $43,000 and $69,000) by up to 35 percent.[2]
✗	**Most savings come from benefit cuts.** Over 75 years, the ratio of spending cuts to revenue increases is 2:1, and in the 75th year, the ratio is 4:1.[3]
HEALTH CARE	
✗	**Limits federal health care spending without regard to national needs.** Starting in 2020, federal health care spending is capped at GDP plus 1%. Capping federal health care spending without bringing down health care costs across-the-board will merely shift the burden to patients, employers, and providers.
✗	**Makes seniors and people with disabilities pay more.** Cuts Medicare by shifting $110 billion in costs to seniors and people with disabilities.
✗	**Undermines employer-sponsored health insurance.** Includes tax reform that places a cap on tax benefits for employer-sponsored health insurance or eliminates the tax exclusion altogether.
TAXES	
✗	**Caps revenues without regard to the need to fund national priorities.** Revenues reach 21% of GDP in 2022 and are then capped at that level. If the goal is to achieve fiscal responsibility, our policies on revenues need to be more realistic. Revenues capped at 21% would not even pay for spending during the Reagan Administration, during which spending was above 22%.[4]
✗	**Lowers top tax rates.** Proposes a top rate for individual and corporate income tax between 23 and 29 percent and mandates that the top rate be no higher than 29%, even lower than the top rate of 35% under the Bush tax cuts. The proposal suggests "broadening the base" and "sharply reduc[ing] rates." What that means is that individuals who do not pay federal income taxes or have a low tax burden

[1] National Committee to Preserve Social Security and Medicare, *Analysis of the Fiscal Commission Chairmen's Report (Bowles-Simpson)*, November 2011.
[2] Social Security Administration (SSA), letter from Stephen C. Goss, Chief Actuary, to Erskine Bowles and Alan Simpson, Analysis of Final Plan, December 1, 2010, p. 17.
[3] Ruffin, Kathy A. and Paul N. Van de Water, "Bowles-Simpson Social Security Proposal Not a Good Starting Point for Reforms," Economic Policy Institute, February 17, 2011, p. 1.
[4] "Statement on the President's Fiscal Commission Plan," Citizens for Tax Justice, December 2, 2010.

	under the current system would owe federal income taxes, or would owe more in taxes. The money saved would be used largely to lower rates for everyone, including the wealthy.
✗	**Potential savings from tax expenditures are unrealistic and could be harmful.** A Congressional Research Service analysis suggests that a realistic scenario of eliminating tax expenditures would raise just $100 to $150 billion, which would only allow rates to be lowered by one or two percentage points.[5] Further, eliminating tax benefits for employer-sponsored health insurance, the Earned Income Tax Credit, and the child tax credit could hurt low-income and middle-class families more than a lower rate could help them.
✗	**U.S.-based corporations will never have to pay taxes on profits earned overseas.** Adopts a territorial tax system, under which corporations do not have to pay taxes on profits from subsidiaries in foreign countries, rewarding companies that offshore jobs.
SPENDING CUTS	
✗	**Includes spending caps requiring draconian cuts that would jeopardize everything from education and food safety to medical research and job training.** The proposal includes savings of $1.6 trillion from discretionary spending. Non-security discretionary would be cut 14% in 2013 and 22% in 2020.
✗	**Cuts are disproportionately on non-security spending.** Security spending (including nuclear weapons, homeland security, international affairs, and veterans) makes up two-thirds of the budget, while non-security spending (including education, housing, law enforcement, research, public health, and poverty reduction) is just one-third, but the plan would require an equal level of cuts from both.
✗	**Makes military personnel bear the burden.** Proposes cuts to military health and retirement benefits. Illustrative savings document also includes a three-year pay freeze on non-combat military pay.
✗	**Makes federal employees bear the burden.** Cuts the federal workforce by 10 percent (200,000) through attrition. Includes a three-year pay freeze for federal employees and Department of Defense civilian employees.
OVERALL	
✗	**Limits federal spending without regard to an aging population or other national needs.** Caps federal spending at 21% of GDP in 2035.
✗	**Limits ability for Congress to respond rapidly to emergencies.** Invites gridlock by creating a process under which exceeding the spending cap would require 60 votes in the Senate, even for emergency spending.
✗	**Does not prioritize immediate job creation.** Only includes a single recommendation for boosting the economy immediately – a one-year payroll tax cut. Has no recommendations for direct job creation or for further assistance to state and local governments to prevent layoffs.

[5] Gravelle, Jane G. and Thomas L. Hungerford, "The Challenge of Individual Income Tax Reform: An Economic Analysis of Tax Base Broadening," Congressional Research Service, March 22, 2012.

	Does not sufficiently account for the time needed for economic recovery. The plan nominally acknowledges the still-weak economy and, when finalized in December 2010, did not schedule any spending cuts until fiscal year 2013 (beginning October 1, 2012). However, it freezes spending at the beginning of fiscal year 2012, and, despite requests from Commissioners, does not include a proposed trigger, which would link spending cuts to meeting positive economic targets.
IS IT A PLAN IF IT DOESN'T HAVE SPECIFICS?	
	Except for a few specifics, leaves major decisions about how to meet the health care cap up to Congress. Over the short-term, the proposal recommends changes ranging from shifting $110 billion in costs to seniors and people with disabilities in Medicare to eliminating provider carve-outs from the Independent Payment Advisory Board (IPAB). But for the long-term, it caps federal health spending at GDP plus 1% and then lets Congress decide, making reference to ideas that range from a public option to enacting premium support in Medicare and block-granting Medicaid long-term care services.
	Specifics of tax reform up to committees but mandates certain potentially harmful targets must be met. The proposal includes an illustrative tax plan that would change some important tax benefits for middle class families, including limiting the tax exclusion for employer-sponsored health insurance and the benefits for retirement contributions. However, the illustrative plan is not a specific recommendation, so Congress could make changes that are even more harmful. The only specific is that rates must be lowered and the top rate must be between 23 and 29 percent, but no higher than 29%.
	Sets spending caps but specifics are left to Congress. The proposal lays out substantial cuts to discretionary spending and recommends cuts to enact immediately that would cut $50 billion in 2015. Separately, those immediate cuts are combined with others to create a list of $200 billion in "illustrative savings" for defense and non-defense discretionary spending. Illustrative cuts range from eliminating certain defense weapons systems to merging programs and agencies, and from increasing medical co-payments for certain veterans to cutting funding for National Parks and the Smithsonian and recommending that those institutions start charging fees. The list represents "more than enough" in options, but Congress would need to enact a majority of the policies to reach the target of $172 billion in discretionary saving in 2015.
IDEAS WORTH CONSIDERING	
	Substantial savings from defense spending. Proposes cuts to unnecessary weapons systems, outdated technologies, and other wasteful military spending.
	Acknowledges that revenues must be part of deficit reduction.
	Acknowledges that spending through the tax code should be subject to scrutiny and as much evaluation as ordinary spending. Tax expenditures include not only the mortgage interest deduction and the benefit for employer-based health insurance, but also tax subsidies for oil companies and loopholes that benefit profitable corporations that ship jobs overseas. The latter should be

	subject to just as much oversight as any other spending by the federal government.
✓	**Acknowledges that Social Security has nothing to do with the deficit.** (Although, as detailed above, the proposal still would cut benefits.)
✓	**Raises the Social Security wage cap.** Increases wage cap to cover 90 percent of wages by 2050. Under this modest increase, the taxable maximum would be $190,000 in 2020 instead of $168,000 under current law.
✓	**Lowers Medicare Part D drug costs for dual eligibles (seniors and persons with disabilities who qualify for both Medicare and Medicaid).** Those individuals, now covered under Medicare Part D, had previously received greater drug rebates under Medicaid. Lowering their drug costs back to Medicaid levels would save federal taxpayers $7 billion in 2015 and $49 billion through 2020.