THE GANG OF SIX BUDGET EFFORT
PROBLEMS, QUESTIONS AND THE POTENTIAL FOR PROMISING REFORMS

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Earlier today, a group of U.S. Senators ("Gang of Six") released "A Bipartisan Plan to Reduce Our Nation's Deficits." The plan is not a budget. It is a set of talking points and graphs that outlines an ambitious proposal that has serious flaws but also the potential for worthwhile budget and tax reforms. The following analysis examines these problems, raises questions about the lack of detail in the plan, and notes the areas where there is potential to make progress on spending restraint and tax reform.

Of note, in response to release of the Gang of Six plan, House Budget Committee Chairman Paul Ryan issued the following statement:

> **"The proposal put forward by a group of seven senators today is a useful addition to the budget debate. I share the frustration that these senators appear to have with the U.S. Senate's inability to pass a budget in over 800 days. While the proposal lacks detail in many respects, it includes some reforms that could help put our country on a sounder fiscal footing. Most importantly, it reflects a bipartisan recognition that lower tax rates are essential to help spur economic growth. Unfortunately, it increases revenues while failing to seriously address exploding federal spending on health care, which is the primary driver of our debt. There are also serious concerns that the proposal's substance on spending falls far short of what is needed to achieve the savings it claims. Nevertheless, this effort serves as a sign that we can work together on a bipartisan basis to make a serious down payment now to avert the debt-fueled economic crisis before us."**

Problems

Heavy Reliance on Revenues. The plan claims to increase revenues by $1.2 trillion relative to a "plausible baseline." It also claims to provide $1.5 trillion in tax relief relative to the CBO March baseline. The CBO baseline assumes the expiration of tax relief, resulting in a $3.5 trillion revenue increase. As a result, the plan appears to include a $2 trillion revenue increase relative to a current policy baseline. If the $800 billion in tax increases from the new health care law are included, the plan appears to increase revenues by $2.8 trillion, without addressing unsustainable health care spending that is driving our debt problems.

Elusive Spending Restraint. It is unclear how much the plan achieves in spending savings. Based on released documents, it appears to primarily rely on cuts in the defense budget through $886 billion in reductions from the President's budget for "security programs."[1]

Lack of Entitlement Reform. The plan does not address the $1.4 trillion in spending expansions in the new health care law. The health care law increases eligibility for the Medicaid program by one-third and creates a brand new health care entitlement. It does not appear to include reforms to the Medicare program. While it appears to pursue Social Security reform, it could end up creating barriers to enactment of these reforms.

Questions

Unspecified Savings Relative to What? The plan is described as savings relative to a "baseline." The plan appears to use three different baselines for showing savings: 1) CBO's current law March baseline; 2) an undefined modification to that baseline (what it calls a "plausible baseline"); and 3) the Fiscal Commission's baseline. It does not provide annual spending and revenue totals by category, relying instead on savings relative to three different baselines. So, it is unclear what exactly the spending and tax proposals are.

Where Does the Revenue Come From? It sets a tall order for tax reform with what appear to be conflicting assumptions: 1) raise $1.2 trillion in revenue; 2) repeal the alternative minimum tax at a cost of $1.7 trillion; 3) lower tax rates to encourage economic growth (top rate of no higher than 29%); 4) do not eliminate tax expenditures for health care, charitable giving, homeownership, retirement, and low-income workers and families (the largest of the tax expenditures); 5) raise $133 billion in revenue by 2021 for the highway trust fund without raising gasoline taxes.

Where Do Health Care Savings Come From? It claims $117 billion in additional federal health care savings over 10 years by assuming that health care spending per capita grows no faster than economic growth (GDP) plus one percent. The new health care law already requires the Independent Payment Advisory Board (IPAB) to cut Medicare spending growth per beneficiary to achieve this growth rate starting in 2020. CBO currently projects that Medicare spending will stay within that growth rate through 2021.[2] Therefore, it is unclear how the savings are derived.

Also, if there are savings to be achieved, there is no enforcement mechanism for achieving them since the plan would "require action by Congress and the President" to limit growth to these levels. Current law requires the President to submit a plan and Congress to enact legislation to make additional savings in Medicare that the President and Congress have ignored.

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[1] In the security category the Gang of Six reduced the security category by $886 billion. Department of Defense (DOD) spending comprises approximately 85% of the security category. The Gang of Six also proposes a firewall that requires this $886 billion is cut from security spending.

[2] In his April 13th budget framework, the President has proposed to require the IPAB to reduce per beneficiary growth to GDP plus 0.5% of GDP beginning in 2018.

Where are the Missing Mandatory Savings? The plan lists $516 billion in mandatory savings for Committees to achieve (including program integrity savings and savings from modifying the CPI), but then claims $641 billion in mandatory savings, leaving $125 billion in missing savings.

Pathway or Roadblocks to Social Security Reform? While the plan seems to be a well-intentioned effort to move Social Security reform forward, it sets out procedures that could derail both Social Security reform and additional spending savings called for in the plan. First, it does not allow a Social Security reform bill to proceed until the Senate has gotten 60 votes to pass additional deficit reduction. Second, it blocks the additional deficit reduction bill if the Senate does not get 60 votes to pass the Social Security bill.

Potential for Promising Reforms

Tax Reform. It acknowledges the need for tax reform, proposes a top rate of not more than 29% and as low as 23%. It calls for the reduction of the top corporate tax rate to at least 29% and as low as 23%. It recognizes the current tax code's complexity and high marginal tax rates hinders economic and job growth. It calls for the tax code to be reformed to move to a territorial system. It calls for any unanticipated additional revenues from economic growth to be used to lower tax rates or deficit reduction, and not used for higher spending. While a laudable proposal, it appears to have no mechanism to ensure this result. To achieve this objective would require, at a minimum, a cap on total spending and ideally a cap on revenues as well.

Spending Caps. It proposes to reinstate statutory caps on discretionary spending. It also sets out a budget reconciliation process for committees to achieve mandatory spending savings and if those savings are not achieved, it calls for across-the-board spending reductions.

Threshold for Waivers of Spending Limits. It increases the number of votes necessary to waive the budget from three-fifths to two-thirds in the Senate and appears to provide a new requirement that the House gain two-thirds margin to waive spending limits.

Other Positive Signs:

- It repeals the CLASS Act, a misguided proposal included in the new health care law.
- It calls for medical malpractice reform.
- It calls for reforming the current process for "emergency spending" (though the reforms are unspecified).