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Adding Teeth to the Debt Ceiling Increase July 27, 2011

As debt ceiling negotiations enter the final stages, lawmakers must focus on the overarching goals of stabilizing and then reducing our debt and enacting strong enforcement mechanisms to ensure debt targets are hit.

Proposals from Speaker of the House John Boehner and Senate Majority Leader Harry Reid have rightly called for down payments on future debt reduction in tandem with a debt ceiling increase and a special process to achieve additional savings over the next several months. (For more on the similarities and differences, see <http://crfb.org/blogs/comparing-reid-and-boehner-proposals>.) However, there is much room for improvement.

Though some details remain unclear, the savings from these proposals would almost surely not be sufficient to put the debt on a declining path relative to the economy. Lawmakers should strengthen both the debt reduction goals and the enforcement of those goals in order to create a *credible* process that has the best chance of controlling the growth of future debt.

Setting Strong Targets

An updated version of the Boehner proposal shows that it would enact \$741 billion in discretionary savings and \$20 billion in mandatory savings, plus \$156 billion in interest savings, and at least an additional \$1.6 trillion assuming recommendations from a special committee are enacted.

The Reid proposal would enact \$717 billion in discretionary savings and \$41 billion in mandatory savings, plus \$190 billion in interest savings, and additional savings to reduce the “deficit to 3 percent or less of GDP”—the plan is silent on when—assuming recommendations from a special committee are enacted. CRFB objects to Reid’s use of savings from the war drawdown in his savings total since it takes credit for policies already in place and, therefore, does nothing to help stabilize the debt.

The discretionary caps under both proposals could be strengthened to include a 67-vote threshold in the Senate to waive the caps, as was proposed by the Gang of Six.

The Committee for a Responsible Federal Budget would prefer a stronger fiscal goal. In the past, we have recommended that lawmakers institute a debt-to-GDP target of **60 percent by the end of the decade**. The very minimum goal of any debt plan should be to stabilize the debt and put debt on a declining path by the end of the decade, as the National Commission on Fiscal Responsibility and Reform recommended. Currently, the Gang of Six’s plan in the Senate is the only recent bipartisan and fleshed-out proposal that would achieve that goal, stabilizing the debt by 2014 and reducing debt to about 70 percent of GDP by 2021. Whatever lawmakers enact should strive to at least do the same.

Fig. 1: Savings under the Fiscal Commission Plan from Various Baselines

	2012-2020
Savings vs. Current Law	\$1,400 billion
Savings vs. Plausible Baseline*	\$4,050 billion
Savings vs. Current Policy^	\$4,850 billion

Source: Moment of Truth project, Committee for a Responsible Federal Budget.

Note: Numbers rounded to nearest \$25 billion.

*Plausible baseline assumes middle-income tax cuts extended, AMT patches, annual doc fixes, and war drawdown.

^Current policy baseline assumes all tax cuts extended, AMT patches, annual doc fixes, and war drawdown.

How the Current Proposals Would Enforce Savings

After the initial \$900 billion increase in the debt ceiling in tandem with the discretionary caps, Boehner’s proposal would require lawmakers to enact at least \$1.6 trillion in savings from recommendations of the joint committee, under an expedited process, in order to authorize a second \$1.6 trillion increase in the debt ceiling. This second debt limit increase would be subject to a vote of disapproval (subject then to a presidential veto)—presumably if lawmakers wish to achieve even greater savings or disagree with raising the limit.

Reid’s proposal would give the joint committee the goal of reducing the deficit to 3 percent of GDP without saying when that goal would be achieved. It is also unclear whether the committee could achieve that goal by remaining silent on items such as the AMT, Medicare’s Sustainable Growth Rate, and by taking credit for the additional revenues and spending reductions assumed in the baseline, even though Congress would still need to deal with those issues. The Reid proposal provides an expedited process for an up or down vote on legislation reported by the joint committee by the end of this year (as does the Boehner proposal) but includes no consequences if Congress

fails to enact the required savings and does not even guarantee a vote on additional deficit reduction if the committee fails to report legislation achieving the goals.

How to Strengthen Them

Here are the Committee for a Responsible Federal Budget's recommendations for triggers to ensure the promised savings are realized:

1. **Lift the debt ceiling further once the savings have been enacted.** As we have noted before (<http://crfb.org/document/understanding-debt-limit>) the debt ceiling has been used as an effective lever in the past to require lawmakers to enact debt reduction legislation. We support the Boehner proposal to lift the debt ceiling in two stages.
2. **Automatic across-the-board spending or spending and tax expenditure cuts.** An automatic sequester on all spending or on spending and tax expenditures would take place if the plan to meet the savings is not adopted.
3. **A freeze on any new policies that increase the deficit.** With the expiration of the tax cuts and the AMT approaching at the end of 2012 and yearly doc fixes set to continue, preventing the enactment of any new deficit-increasing policies could help force lawmakers to achieve additional debt reduction.
4. **"Skin in the game."** Triggers should require that both sides want to avoid them kicking in. A trigger that includes the expiration of the upper-income tax cuts along with the repeal of the individual mandate from the health reform law would provide a model for such a trigger.
5. **Guarantee a vote on other bipartisan plans if savings not enacted.** The Reid proposal would already allow the consideration of other bipartisan plans by the special committee—though a vote on other plans is not guaranteed if the committee were to fail to reach an agreement. Any proposals would be strengthened by allowing the consideration of other bipartisan proposals, such as the Gang of Six, that meet a certain threshold if the special committee fails to achieve the required savings. A similar mechanism was put forward in the enforcement process within the Gang to Six plan. CRFB supports this approach.

We are encouraged by the Reid and Boehner proposals to raise the debt ceiling while also putting in place the beginnings of comprehensive fiscal plans. The proposals could be strengthened to include increased savings and stronger enforcement mechanisms to ensure that savings actually materialize.