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Peterson-Pew Debt Targets and Trigger Central to President's Proposal
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In announcing his new budget framework, President Obama called for a *debt failsafe* "to hold Washington—and to hold me—accountable and make sure that the debt burden continues to decline." The debt failsafe, or trigger, would kick in with spending and tax expenditure cuts if by 2014 debt as a share of GDP were not projected to be declining by the end of the decade. A number of programs including Social Security, Medicare, and low-income programs would be exempted.

Debt targets and triggers are the central recommendations of **The Peterson-Pew Commission on Budget Reform**. Details of how these would work are in the Commission's two recent volumes, ***Red Ink Rising*** and ***Getting Back in the Black***.

Under the Peterson-Pew Commission's proposal:

- Congress and the President would enact annual fiscal targets charting a glide path to stabilizing the debt as a share of the economy.
- Congress and the President would be held responsible for enacting a multi-year budget plan that met the annual savings requirements needed to meet the targets.
- If the targets were not met in a year, broad-based spending cuts and revenue increases would be triggered.

We believe this debt failsafe framework should be structured to be consistent with at least the level of savings achieved in the Bowles-Simpson Fiscal Commission's plan, which reduces the debt to about 65 percent of GDP by the end of the budget window, and significantly further thereafter. While the budget resolution by Chairman Paul Ryan in the House meets these savings levels, the framework the President laid out falls far short of that amount.

"While targets and triggers will never replace real policy choices, we believe they can both nudge lawmakers to act and cement a deal to keep things on track," said Steve Redburn, project director for the Peterson-Pew Commission. "Triggers work best when they are not used; when instead, policymakers act to avoid them by agreeing on the necessary policy changes."

The specifics laid out by the President of how the proposed debt failsafe would work assume that it would not kick in until 2014 and would strive for the debt to be shrinking as a share of GDP only by the end of the decade.

We recommend strengthening this idea in a number of ways:

1. Start immediately – We believe a comprehensive, multi-year budget deal should be put in place this year. This is particularly important to reassure credit markets and rating agencies that the Untied States has a credible plan to return the budget to a sustainable path. Annual targets and triggers should thus also be put in place immediately, and should apply starting in FY 2012 if the debt and savings targets are not met. Even if deficit reduction is phased in gradually to allow for a more robust recovery, there is no reason to delay enacting a plan or enforcement mechanism.

2. Include multi-year targets and an ongoing failsafe – Though it is not fully clear, it appears that the President's trigger would activate only once – in 2014 if projections showed average deficits of over 2.8 percent of GDP (or an increasing debt path) in the latter half of the decade. Yet, it is useful to have annual debt and savings targets to ensure that there is a reasonable glide path for bringing the debt back down to sustainable levels and that all the savings are not unrealistically back-loaded. It is also useful for a failsafe with a trigger to remain as an ongoing enforcement tool, in order to avoid relying on rosy projections or diverging from debt reduction.

3. Apply trigger to a very broad base of all spending and include revenues – If Congress fails to put in place a plan to meet the agreed upon savings and debt targets, automatic spending and tax expenditure cuts should apply to all programs, with as few exemptions as possible. Some past sequesters have failed, in part, because they have called for a small number of programs to take deep cuts, instead of the reverse. The Administration's proposal rightly looks at "spending in the tax code" (tax expenditures) as well as ordinary spending, but they weaken their failsafe by exempting Social Security and Medicare benefits and means-tested programs. We suggest a broader trigger that looks at both sides of the budget, and reflects the 2:1 spending to tax expenditure cut ratio proposed by the Bowles-Simpson Fiscal Commission.

4. Achieve at least as much savings as the Fiscal Commission – Finally, the framework the President laid out falls significantly short of the level of savings proposed by the Fiscal Commission, which we see as a floor on what we should strive for. We believe a fiscal plan should have savings of at least $4 trillion over this decade.

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It is encouraging that the President has embraced the idea of debt targets and a trigger. In its current form, however, his proposal is short on detail, and not bold enough. Delaying this process until 2014 should not be an option. We must start immediately by putting the framework in statute now, and identifying targets and the annual savings needed to hit those targets starting with the FY 2012 budget.

We believe that some sort of automatic, fiscal straitjacket will be helpful in getting Congress and the White House to address the nation's fiscal problems. Explicit annual targets as proposed by the Peterson-Pew Commission can both guide policymakers towards the ultimate goal of a lower level of debt and hold leaders accountable to the public for meeting those benchmarks.

In the end, however, only policy changes will dig us out of the fiscal hole we are in.

For the complete Peterson-Pew Commission report and more information, please visit www.budgetreform.org.