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Three Pillars of Reform for the Super Committee

Alison Acosta Fraser, Patrick Louis Knudsen, and Mackenzie Eaglen

As the "super committee," created by the contentious Budget Control Act (BCA), grapples with its mandate to find $1.5 trillion in deficit reduction savings, many are urging it to "go big." And no wonder. Since July 31, the eve of the BCA's enactment, the federal government has continued to hemorrhage debt to the point that debt held by the public has increased by $371 billion since then. By November 23, the super committee's reporting deadline, debt held by the public will have increased by approximately $490 billion. Every day the nation is racking up $2.2 billion in new debt. Congress must get serious about the nation's spending and debt crisis now.

Budgets are about setting priorities. Sadly, there is not enough emphasis on this point emanating from the super committee. Instead it seems to be cobbling together a collection of disparate good and bad policies, desperately trying to arrive at its $1.5 trillion target. The super committee must set priorities and make bold decisions to solve Washington's spending and debt crisis, preserve its ability to protect the nation, and assist a return to a strong, vibrant economy—without raising taxes.

How Large Is the Challenge? The federal budget is in crisis. At $1.3 trillion, the deficit for fiscal year (FY) 2011 was the third consecutive year of deficits exceeding $1 trillion. These deficits are larger than the largest deficit during World War II when adjusted for inflation. Even under President Obama's February budget, which includes many unrealistic assumptions and budget gimmicks, the deficit would never fall below about $750 billion. From there, the President's proposed deficits would rise back into the trillion-dollar range by the end of the decade.

These unprecedented and chronic deficits are driving government debt to unsustainable levels. The President's budget would increase debt held by the public to nearly 90 percent of gross domestic product (GDP) by 2021. That, too, is a post–World War II record.

Federal spending reached $3.6 trillion in FY 2011, another all-time record. When adjusted for inflation, it is more than three times the peak level of spending during World War II ($1.17 trillion in constant 2011 dollars). But federal spending is projected to rise even more dramatically in the future: Under the President's February budget, spending is supposed to reach $5.7 trillion by 2021, with a cumulative deficit of $7.2 trillion.

This is the crisis that Congress must address. Yet under the BCA, even assuming that the first round of scheduled cuts all occur, spending would be only $840 billion less over the next decade. When considering that the past three years' deficits totaled $4

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trillion, the BCA's reductions are laughably small. The super committee's charge to find an additional $1.5 trillion in deficit reduction is likewise deplorably inadequate.

As bad as it is, the next decade is the least of the nation's budget woes; those that follow are far worse. Driven by entitlement programs—Social Security, Medicare, and Medicaid—total federal spending will explode from 24 percent of GDP in 2011 to nearly 35 percent by 2035 while the debt held by the public is projected to reach a staggering 185 percent of GDP. By mid-century, these three programs alone would devour total tax revenues, crowding out other vital priorities such as national defense.

Three Pillars of Reform. Given the nation's gloomy budget scenarios, it is both urgent and imperative that Congress set the right course for solving the budget crisis. But details matter. If the super committee arrives at a rag-tag assortment of desperate deficit reduction policies simply to meet an arbitrary target, the committee could do more harm than good. To prevent perpetuating the current misguided policies that have exacerbated the budget crisis, the super committee should use the following three pillars to guide their work.

1. ***Fully Fund National Defense.*** It is paramount that the super committee fully fund defense. The U.S. military faces a readiness crisis. After a decade of constant combat and ever-increasing disaster relief and homeland defense missions, readiness among all U.S. military services—National Guard and reserves included—has been dangerously lowered. Symptoms include delayed, shortened, and less diverse training; plugging personnel and equipment shortfalls in deploying units with resources from others; reduced maintenance for worn-out equipment; and shortened rest time before redeploying overseas.

   Additional cuts would only exacerbate this tenuous situation in dramatic ways. Across the military, longstanding readiness problems are worsening; breakdowns are happening more frequently. For example, Navy maintenance funding will be cut by almost 20 percent this year. Even this relatively small reduction could render a Navy with 250–280 ships today capable of keeping only 60 ships at sea. Barely half of all Air Force units are fully mission-capable, and this will get worse if there are more budget cuts.

   Because defense has no clear baseline, some deny there have been any cuts at all. But serious efforts to reduce military spending began in April 2009, when President Obama and Congress canceled (or delayed) the purchase of more than 50 major equipment programs on everything from missile defense to fifth-generation fighters. The defense reduction efforts continued in April 2010, when then-Secretary Robert Gates announced an initiative to save roughly $101 billion over five years. Next up was the White House budget office telling the Pentagon to cut another $78 billion as part of its 2012–2016 defense budget. The recently passed 2011 defense budget was not spared the axe, either, coming in roughly $20 billion below the President's request.

   Today, the military is absorbing additional cuts set forth by the BCA and confronting the specter of many more over the next 10 years. Congress is barreling down the tracks with versions of the 2012 defense spending bills that cut the President's already inadequate funding proposal. Major plans and programs of the armed forces are at risk. The Senate's version of the 2012 defense appropriations bill provides only $513 billion for the base defense budget. This is nearly $26 billion less than President Obama's requested level.

   Using President Obama's pending 2012 budget request as a baseline, the additional defense budget cuts going forward are in the neighborhood of $460 billion, not $350 billion as claimed by the White House. Using the President's second defense budget request in FY 2011 as a baseline, the total defense cuts relative to what the Pentagon said it needed then and planned to spend now, the military has already absorbed roughly $754 billion in spending reductions.

   No matter what baseline is used, additional cuts to military spending and programs will severely affect the military's already deteriorating readiness. Ever more defense cuts will require genuine mission tradeoffs. Unfortunately, the most likely outcome is that the military will continue to do everything the nation asks—only with fewer people and rusting resources. The super committee should not risk this vital role of the federal government with additional unwise defense cuts. Providing for America's national defense is the first duty of the federal government. The super committee should ensure full funding for America's armed forces.

2. ***Transform Entitlement Programs.*** The super committee must tackle entitlement spending, the biggest driver of deficits in the future. While spending should be the focus, the character of the reforms is at least as important as the magnitude. Real reforms must alter the fundamental structure of entitlements, improving both the financing and the prospects of economic security for the nation's seniors and younger generations.

   But looking solely at policies to reduce spending or the deficit would be sorely misguided. Many policies being discussed are ineffective or even harmful. For example, continued cuts to Medicare and Medicaid providers—from physicians to diagnostic services—could deliver significant savings but would leave patients and the health care market far worse off. Instead, Medicare should first focus subsidies on those who need them the most through changes to today's structure. Ultimately it should be transformed from an unsustainable, open-ended, defined-benefit program to a premium-support program that allows retirees to select health plans in a competitive market that best suit their needs. Such an approach would spur better quality at a lower price.

   Medicaid for low-income Americans should similarly be converted to a program that provides direct support to families for purchasing private health insurance so they can buy, own, and keep the plan of their choice—independent of their place of work—and gives states greater latitude to serve the most vulnerable in society.

   Like Medicare, Social Security benefits should be targeted to those who need them the most. The program should gradually be transformed from an income-replacement system to a flat benefit that protects seniors from poverty, as originally intended, and assures a decent retirement income.

   The super committee must begin these kinds of bold changes not only to ensure that entitlement programs are affordable but also to vastly improve them.

3. ***Do Not Raise Taxes.*** There are many calls for tax hikes (though they are often couched as "additional revenues") as a part of a so-called balanced deficit reduction package. Do not be fooled. The very notion that deficit reduction must be a mix of spending cuts and tax increases is a kind of fiscal moral equivalency that fundamentally misstates the problem. Taxes are low today at around 15 percent of GDP (versus the 18.4 percent historical average), but this is the continued fallout from the global recession and the myriad of bad policies that have occurred since, plus some temporary tax cuts. The government's deficits and debt are a problem of excess spending. Consider these facts:

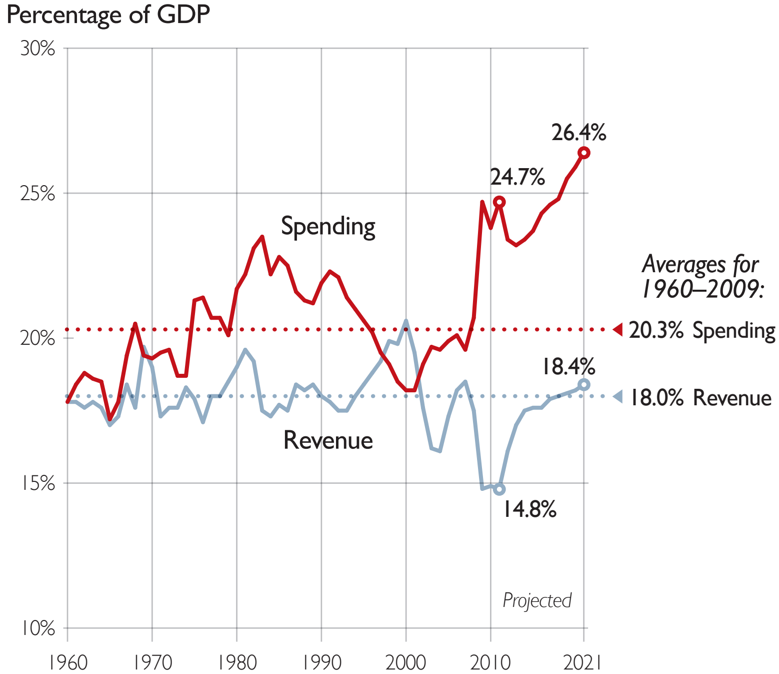
   - By 2021, tax revenues will exceed their historical average of 18.4 percent of GDP—even if the Bush-era tax policies are made permanent;
   - Spending in 2021 will reach 26.4 percent of GDP—higher than the historical average of 20 percent; and
   - After 2021, spending will explode, reaching nearly 35 percent of GDP by 2035, fueled largely by entitlement spending.

   Hiking taxes would exacerbate the nation's economic challenges, and with unemployment stubbornly above 9 percent and not expected to improve any time soon, it would be especially misguided. Even talking about hiking taxes chills economic activity.

   As for the budgetary impact of tax hikes, unless entitlements are fundamentally overhauled, their unbridled spending growth would drive taxes ever higher. So solutions that rely on taxes now will mean even higher taxes in the future.

Runaway Spending, Not Inadequate Tax Revenue, Is Responsible for Future Deficits

The main driver behind long-term deficits is government spending—not low revenues. While revenue will surpass its historical average of 18.0 percent of GDP by 2021, spending will shoot past its historical average of 20.3 percent, reaching 26.4 percent in the same year.



Source: Heritage Foundation calculations using Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2011–2021*, January 2011, at *http://www.cbo.gov/ftpdocs/120xx/doc12039/01-26_FY2011Outlook.pdf* (November 3, 2011).

Chart 1 • WM 3405 heritage.org

Lastly, if tax hikes do end up as part of any package, it is inconceivable that Congress would reserve this revenue to "pay for" deficit reduction. Instead, the rich history of Congresses past tells us that these tax hikes would be used for new spending. There is no greater testament to this kind of behavior then Obamacare, with its 18 new tax hikes that over 10 years raise $500 billion in additional revenue to pay for $1.39 trillion in new spending.

Only by taming runaway spending can Congress truly reduce deficits, reduce the size and scope of government, and move toward fiscal balance. Raising taxes is not a necessity but a choice—a bad choice that the super committee should resoundingly reject.

The Risk of a Bad Deal. The BCA is a deeply flawed structure that could end up weakening the country's defense posture while throwing together an incoherent set of spending cuts and tax hikes under the illusion of reform. It could easily create a bad deal that is worse than no deal at all. The only way the super committee can redeem the process is by adopting a bold set of policies that preserve the nation's security, apply real structural reforms to the government's major entitlement programs, and reject higher taxes.

The Heritage Foundation has set forth such a path in *Saving the American Dream.*[1] If this sounds like a high standard, compare it to the magnitude of the government's spending and deficit crisis. Inadequate responses would only push the inevitable day of reckoning down the road and make it that much worse.

*—**Alison Acosta Fraser** is Director of, and **Patrick Louis Knudsen** is the Grover M. Hermann Fellow in Federal Budgetary Affairs in, the Thomas A. Roe Institute for Economic Policy Studies, and **Mackenzie Eaglen** is Research Fellow for National Security in the Douglas and Sarah Allison Center for Foreign Policy Studies, a division of the Kathryn and Shelby Cullom Davis Institute for International Studies, at The Heritage Foundation.*

1. Stuart M. Butler, Alison Acosta Fraser, and William W. Beach, eds., *Saving the American Dream: The Heritage Plan to Fix the Debt, Cut Spending, and Restore Prosperity*, The Heritage Foundation, 2011, at *http://savingthedream.org/about-the-plan/plan-details/*.