



Updated: July 28, 2011

Republican Debt Plan Threatens the Nation's Financial Security

Changes to the Republican Proposal on Wednesday

On Tuesday the Congressional Budget Office (CBO) scored the Republican debt plan with savings that were less than its \$900 billion short-term increase in the debt limit. Because Republicans had vowed to cut spending by at least as much as the debt limit was increased, they modified the proposal on Wednesday, and CBO now scores it with \$917 billion in savings. Savings in 2012 increase from just \$1 billion to over \$20 billion. Republicans rushed the substitute to the Rules Committee with plans to bring it to the floor today.

The revised bill is substantially the same as the original. The increase in scored savings is the result of a largely technical issue that lowers the outlays associated with the bill's proposed discretionary caps. Other changes to the bill, which do not affect the scoring, include adding an additional point of order to enforce the discretionary caps and providing more time for Congress to consider a resolution of disapproval in response to a Presidential certification of the need for a debt ceiling increase.

Overview of the Republican Plan

House Republicans are pursuing a debt plan that makes the wrong choices for America. It threatens the country's fiscal stability by raising the debt ceiling for only several months and by linking the short-term increase to cuts and caps in discretionary spending. It then links the longer term increase to enactment of more than \$1.6 trillion in deficit reduction.¹ As Republicans have insisted, their plan would reduce the deficit solely with deep spending cuts, with not a dime coming from closing even a single special interest tax break or corporate tax loophole. That puts Medicare, Social Security, and education funding in the budget cross hairs. Republicans are also proposing a measure that would effectively enshrine the Republican budget plan in the Constitution.

¹ The bill calls for \$1.8 trillion in savings, but the second increase is contingent on saving more than \$1.6 trillion.

With this unbalanced plan, Republicans are jeopardizing the nation's financial stability and economic recovery. If their demands are not met, they will refuse to raise the debt ceiling, thereby preventing the government from paying its bills and forcing the government to default on its obligations. By requiring two separate increases in the debt ceiling, Republicans are choosing to place the country in a precarious position.

Democrats would make different choices. We know that meeting the government's obligations is not optional; American families know they cannot choose to stop paying their bills.

Democrats are pushing for a balanced approach to reducing the deficit that combines targeted spending cuts and ending tax breaks for special interests and the very wealthy once the economy has recovered.

Republican Spending Cuts Threaten Jobs Now and Security in the Future

- **Republican Plan to End Medicare Guarantee will Increase Health Care Costs**

The various Republican plans to reduce federal spending have at their core the proposal to end the Medicare guarantee and shift rising health care costs to seniors. The House budget resolution would replace the Medicare guarantee with a voucher for the purchase of private health insurance. The voucher's value would keep pace only with regular inflation, even though health care costs will almost certainly grow at a higher rate. At the same time, the Republican plan would substantially increase the total cost of providing health care to seniors, because private plans on average are more expensive than Medicare. As a result of these two factors, seniors would face higher premiums, eroding coverage, or both.

A Congressional Budget Office [analysis](#) shows that a 65-year-old in 2022 would face more than \$6,000 in additional costs under the Republican plan, and that figure would grow over time. By 2030, a typical 65-year-old would expect to pay 68 percent of his or her total health costs under the Republican plan, which works out to more than double what he or she would pay under current law. There is no evidence that seniors will be able to keep their costs down without skimping on necessary medical care. Congress created Medicare in the first place because the private market failed for seniors and disabled workers, given their health risks. About half of Medicare beneficiaries have three or more chronic conditions – this is not a population that private insurers seek out.

- **Republican Discretionary Cuts Total \$0.7 Trillion**

The plan would cut discretionary spending by a total of \$0.7 trillion over ten years.² Together with the other changes in the bill and related savings from reduced interest expenses, the cuts

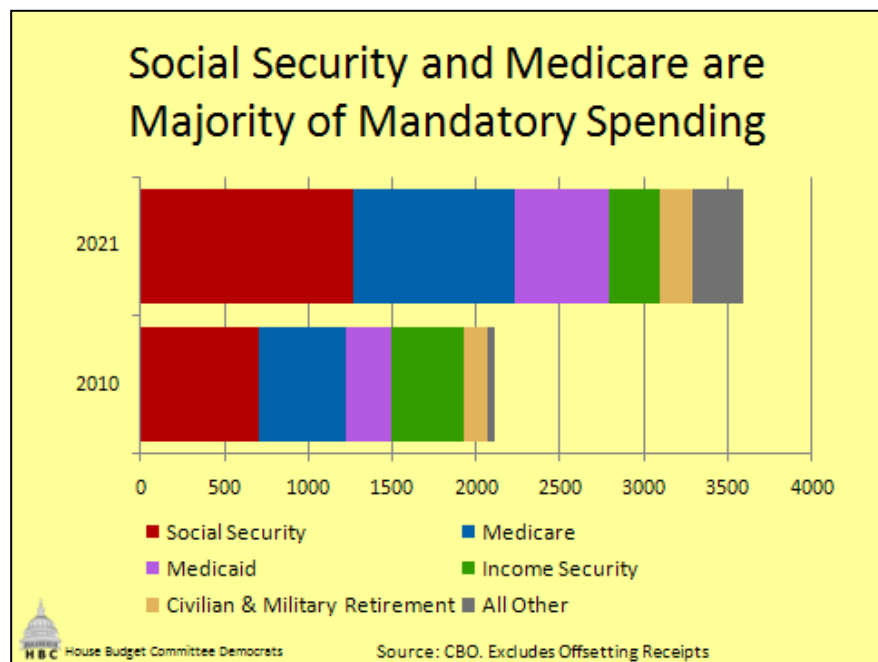
² These savings are relative to CBO's March baseline adjusted to reflect enactment of 2011 appropriations. Measured against CBO's January baseline the savings are \$0.9 trillion.

result in overall savings of \$0.9 trillion. In exchange, Republicans would increase the debt ceiling by \$0.9 trillion, which is only enough to carry the government for the next several months.

Democrats agree that we need to reduce spending as part of the effort to get our fiscal house in order. Democrats support well-targeted cuts that take effect only after the economy has recovered.

- **Large Mandatory Spending Cuts will Jeopardize Social Security Benefits**

The proposal requires Congress to find additional savings of \$1.8 trillion, a huge cut that will jeopardize Social Security benefits since Republicans have vowed not to raise revenues. Social Security represents 20 percent of all federal spending, making it unrealistic to think such a large cut in mandatory spending would not affect Social Security benefits. As shown in the chart, Social



Security and Medicare already comprise the majority of mandatory spending, and costs will rise as baby-boomers retire in greater numbers over the next ten years.

Revenues Are a Part of Every Bipartisan Deficit Reduction Plan

The proposal contains no revenue increases. The proposal's authors seem to believe that the national interest is better served by cutting education, national investment, and benefits to the elderly and veterans while sparing tax breaks for special interests and millionaires.

By contrast, every bipartisan proposal – including the Fiscal Commission plan, the Bipartisan Policy Center plan, the Gang of Six plan, and the framework under which the President and the Speaker were negotiating until the Speaker pulled out of the talks – offered revenue increases as part of a balanced approach to deficit reduction. And the American people have consistently supported deficit reduction deals that contain revenue increases along with spending cuts.

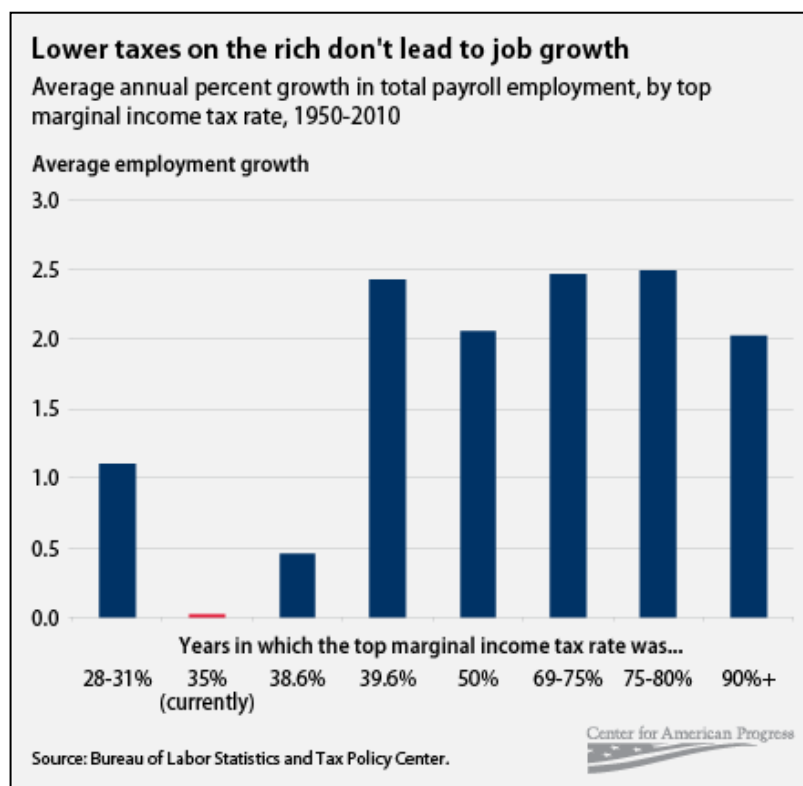
Can/Should the Budget Deficit Be Reduced with Spending Cuts Alone or Should There Be Some Increase in Taxes?

Poll	Date	Some/All Taxes	Spending Cuts Alone
Quinnipiac	7-14	67	25
Gallup	7-13	73	20
Washington Post/ABC News	6-9	61	37
Bloomberg	5-13	64	33
Ipsos/Reuters	5-12	61	27
Gallup	4-29	76	20
USC/LA Times (California only)	4-25	62	33
New York Times/CBS News	4-22	66	19
Washington Post/ABC News	4-20	62	36
Washington Post/ABC News	3-15	67	31
Washington Post/ABC News	12-12	62	36
Average		65	29

Source: Bruce Bartlett, [Capital Gains and Games blog](#), July 14, 2011.

Revenues Are at Historic Lows

Federal revenues are at a sixty-year low. Top individual tax rates today are five percentage points lower than under President Clinton and nearly a third of what they were under President Kennedy. Yet the economy grew faster and added far more jobs under these Presidents than under the tax policies of the past decade. In fact, the economy under President Clinton averaged 3.9 percent real growth and added 20.8 million private-sector jobs while the economy under President Bush grew just 2.1 percent and lost 650,000 private-sector jobs on net. The historical record [clearly shows](#) that no meaningful correlation exists between modest swings in tax rates on the wealthy and job creation. Businesses make the decision to invest, expand,



and hire based on economic conditions and consumer appetites, not primarily on top tax rates. Moreover, taxes as a share of the economy are much lower in the U.S. than in other developed countries; tax rates on investment are at historical lows; and U.S. corporate taxes as a share of the economy have steadily declined, among [other tax trends](#) – all while the amount of individual and corporate tax breaks has doubled in inflation-adjusted terms over the last thirty years.

Yet, Republicans stand firm against any reduction in tax breaks, even for special interests and the very richest Americans. They are willing to risk a catastrophic debt default over raising revenues by one dime in order to reduce the deficit.

Incremental Increases in Debt Ceiling Threaten American Economy and World Markets

The plan imperils the country's fiscal situation and the economy by requiring both a short-term and a long-term increase in the debt ceiling, even though the major credit agencies have warned that this could risk downgrading our credit outlook and lead to higher interest costs for all Americans. The Republican plan will therefore generate continued uncertainty and instability in the economy. The American people do not want to play Russian roulette with our economy in six months.

Constitutional Amendment Would Lock in Republican Fiscal Agenda

Republicans have introduced various Constitutional amendment proposals designed to enshrine the Republican budget philosophy in the Constitution, and this bill requires the House and Senate to take a vote on one of them between October 1 and December 31. The proposals amend the Constitution to require Congress to balance the budget each year by limiting spending to no more than revenues and to no more than a certain low percentage of the country's economic output, or Gross Domestic Product (GDP). They would also give preference to cutting Medicare and Medicaid over ending special interest tax breaks by requiring a super-majority to close any tax loopholes but allowing spending cuts to pass with a simple majority vote. Finally, these Constitutional amendment proposals would impose new procedural hurdles to raising the debt ceiling and require the President to submit a balanced budget each year.

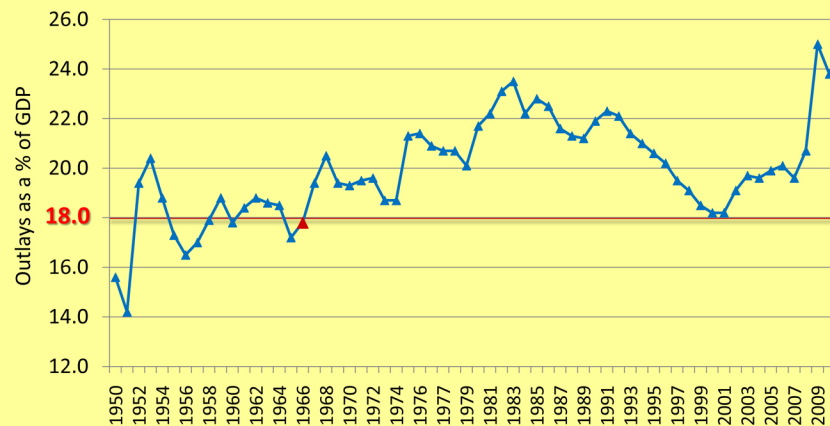
The specific limits in H.J.Res. 1, which the House Judiciary Committee reported, would have devastating effects on Social Security, Medicare, and other benefits and services. The amendment limits outlays to no more than 18 percent of GDP. Outlays have exceeded 18 percent of GDP every year since 1966. With the growing number of baby-boomers who are retiring and becoming eligible for Medicare and Social Security, the 18 percent outlay cap will

guarantee deep cuts to those programs. H.J.Res. 1 also requires a two-thirds majority vote to raise revenues, making it that much harder to ever close a tax loophole.

Both tying outlays to a fixed and specified percentage of GDP – particularly at an 18 percent rate – as well as limiting outlays to the level of revenue impose arbitrary limits on government actions to

respond to an economic slowdown or recession, when GDP declines. Cutting spending during a recession could make the recession worse by increasing the number of unemployed, decreasing business investment, and withholding services needed to jump-start the economy.

Republican Constitutional Amendment Limits Spending to Level Not Achieved Since 1966



H B C House Budget Committee Democrats

Source: OMB Historical Tables

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Conclusion

After walking away three different times from bipartisan negotiations for a long-term deficit reduction solution, this new Republican plan harms our economy and our nation's working families. Republicans are demanding policy concessions before they will raise the debt ceiling – an action needed to make good on commitments the country has already made. Failure to convince credit agencies that our government intends to honor its obligations will have profound effects on Americans now and in the future. The Republican plan to raise the debt ceiling in two stages, and to erect hurdles in the way, is not a balanced approach and makes the wrong choices for America.