



BIPARTISAN POLICY CENTER

# Domenici-Rivlin 2.0, the Fiscal Cliff & a Framework to Bridge Them

DOMENICI-RIVLIN DEBT REDUCTION TASK FORCE

[WWW.BIPARTISANPOLICY.ORG](http://WWW.BIPARTISANPOLICY.ORG)

## 1) Domenici-Rivlin 2.0

## 2) Framework for a “Grand Bargain”

### a. Potential Down Payment



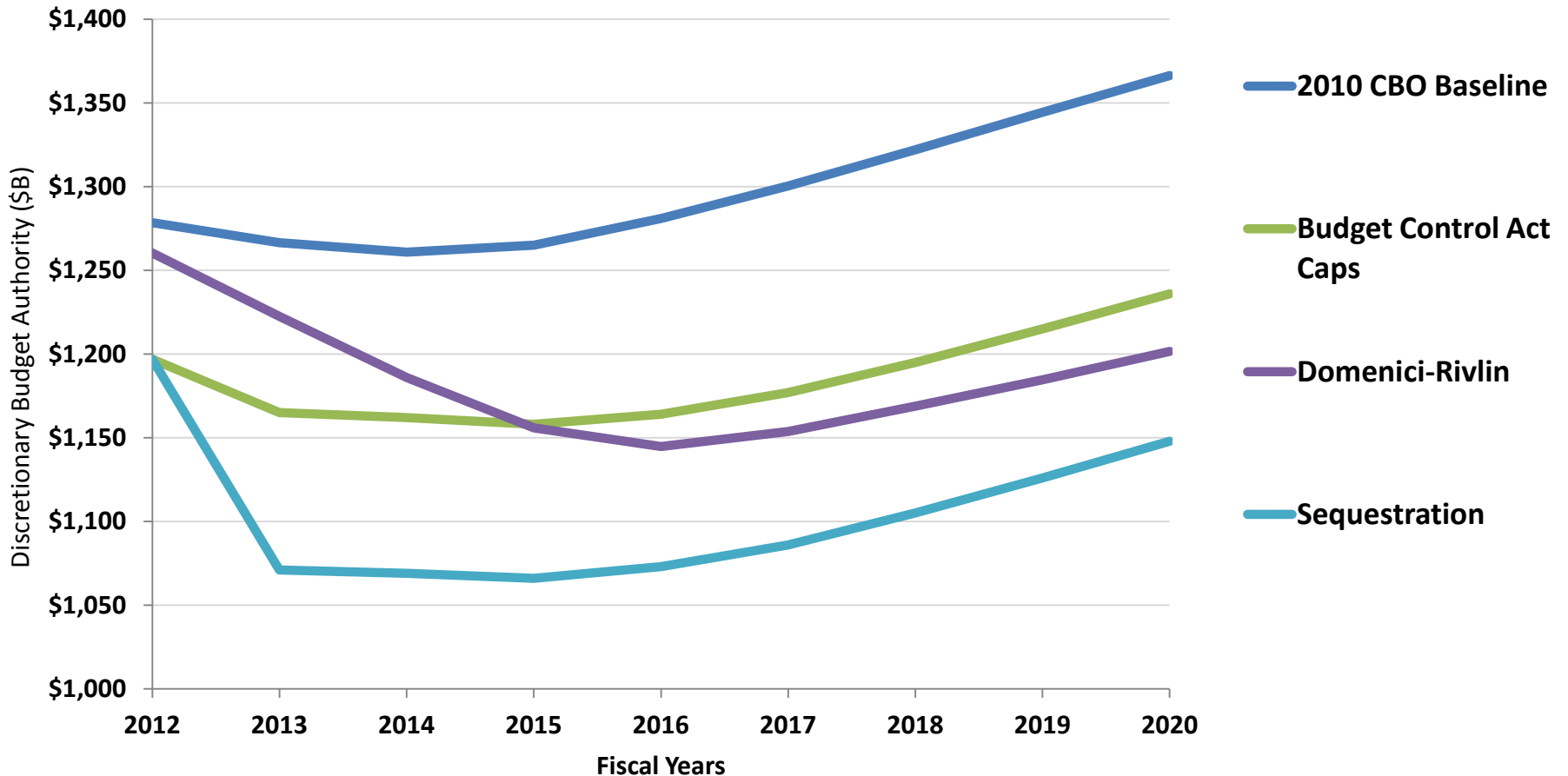
BIPARTISAN POLICY CENTER

# Domenici-Rivlin 2.0: An Updated Plan

## Action to Address the Drivers of U.S. Debt

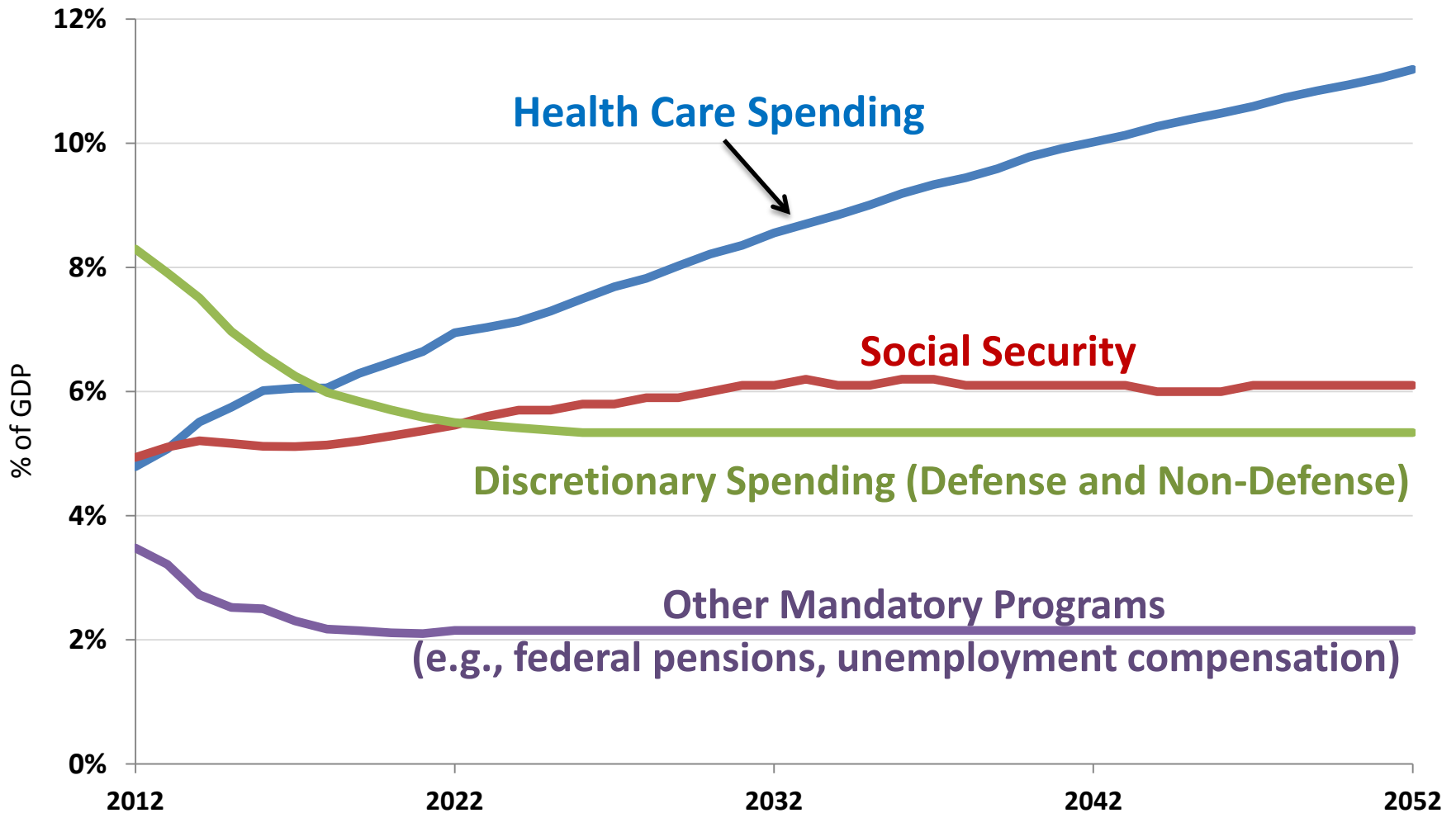
MAJOR DEBT DRIVER	STATUS	NOTES
Discretionary Spending	<input checked="" type="checkbox"/>	Accomplished
Economic Growth Measures	<input type="checkbox"/>	Some progress
Health Care Cost Containment	<input type="checkbox"/>	
Social Security Sustainability	<input type="checkbox"/>	
Tax Reform	<input type="checkbox"/>	

## BCA Caps Achieved Similar Level of Cuts to Domenici-Rivlin

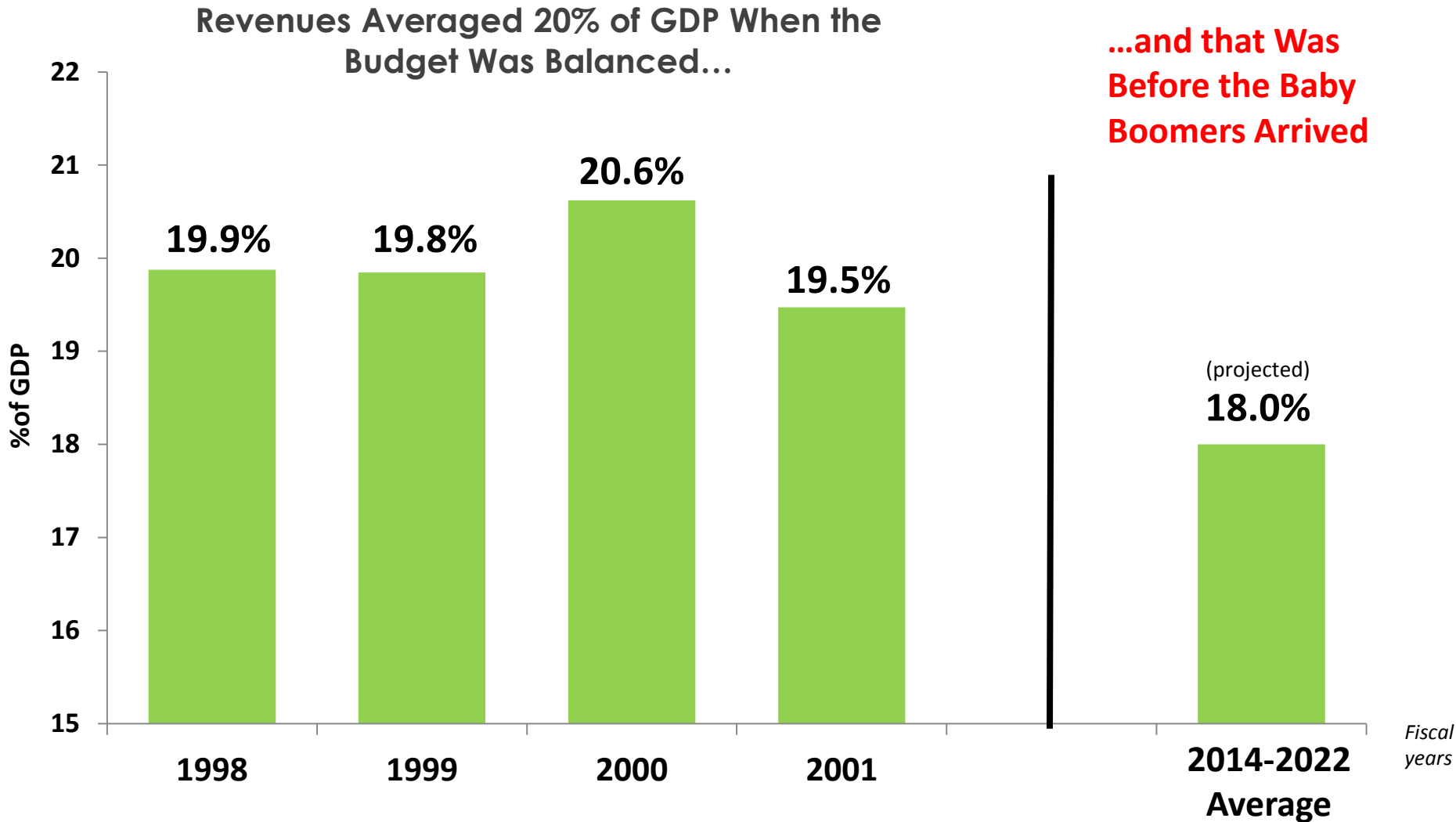


Note: Total discretionary budget authority (depicted above) includes funding for overseas combat operations, which has declined since 2011 and is scheduled to decline further over the coming years.

Source: Congressional Budget Office, BPC estimates



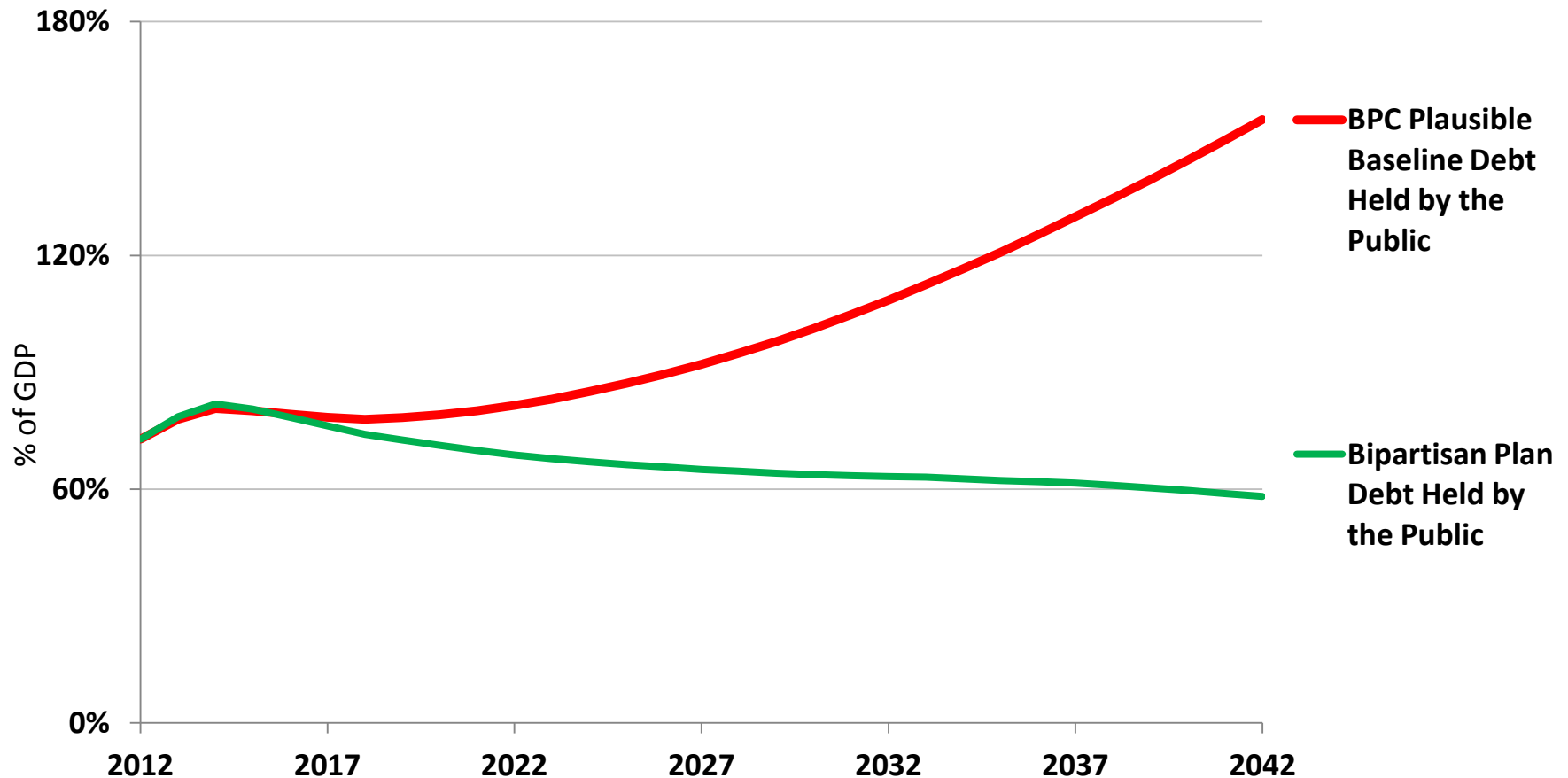
Sources: Congressional Budget Office's Alternative Fiscal Scenario (August 2012), additionally assuming that troops overseas decline to 45,000 by 2015; Bipartisan Policy Center extrapolations



Source: Congressional Budget Office alternative fiscal scenario (August 2012)

- Expedite the economic recovery by replacing the payroll tax holiday with a one-time **income tax rebate** for 2013
- **Reform the tax code** to generate more revenue from a more efficient, pro-growth system
- Implement structural reform to bend the health cost curve and **ensure that health care entitlements are sustainable**
- Achieve **long term solvency for Social Security**

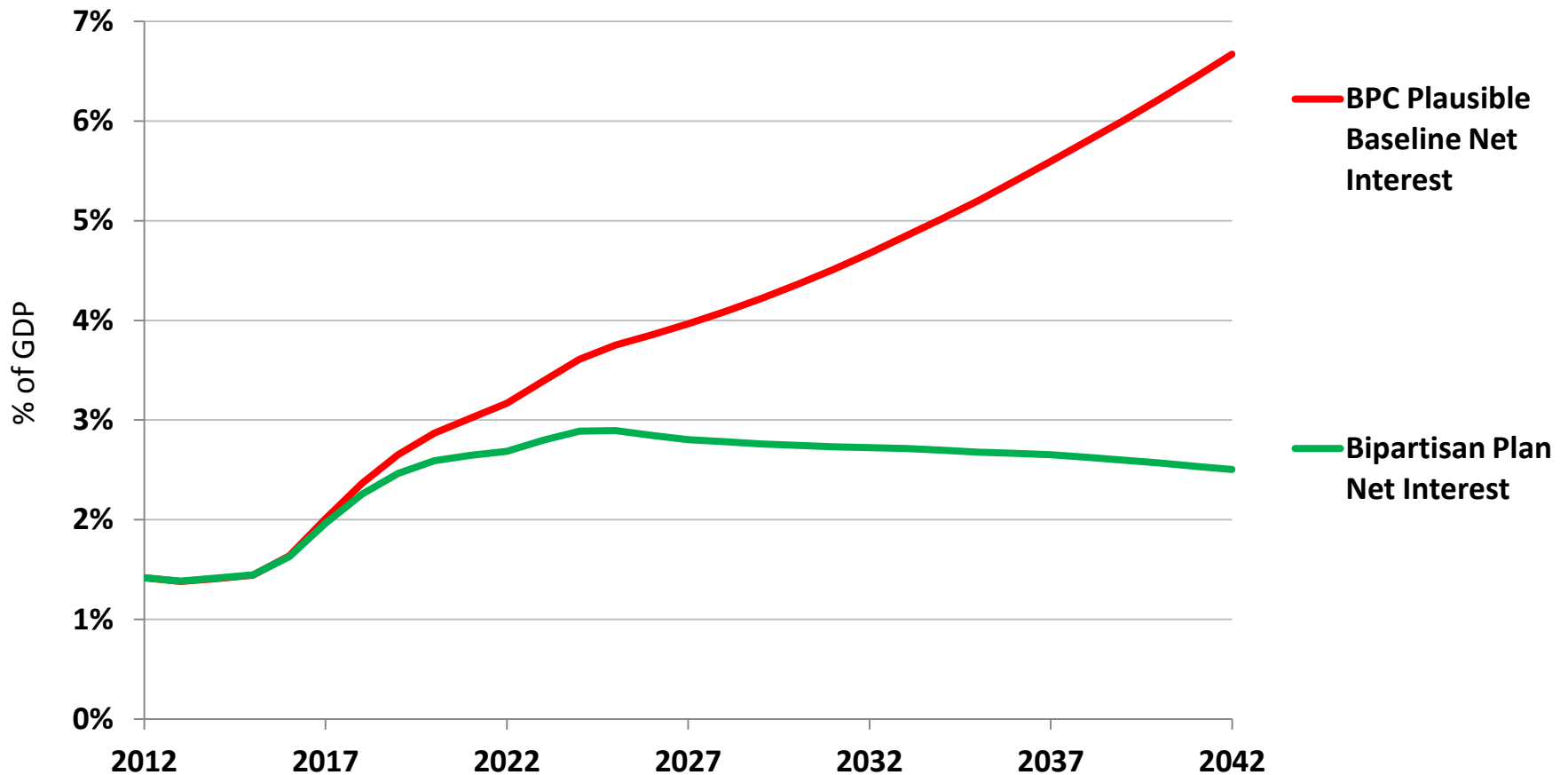
# DEBT DROPS DRAMATICALLY UNDER DOMENICI-RIVLIN 2.0



Note: Unlike current law, the Bipartisan Policy Center's Plausible Baseline assumes that the 2001, 2003, 2009, and 2010 tax cuts are extended, the Alternative Minimum Tax is indexed to inflation, Medicare's physician payment rates are maintained at 2012 levels (the "Doc Fix"), the looming sequester from the Budget Control Act of 2011 is lifted, troops stationed overseas decline to 45,000 by 2015, and health care spending grows at rates detailed in the Congressional Budget Office's Alternative Fiscal Scenario.

Sources: Congressional Budget Office (August 2012) and Bipartisan Policy Center projections

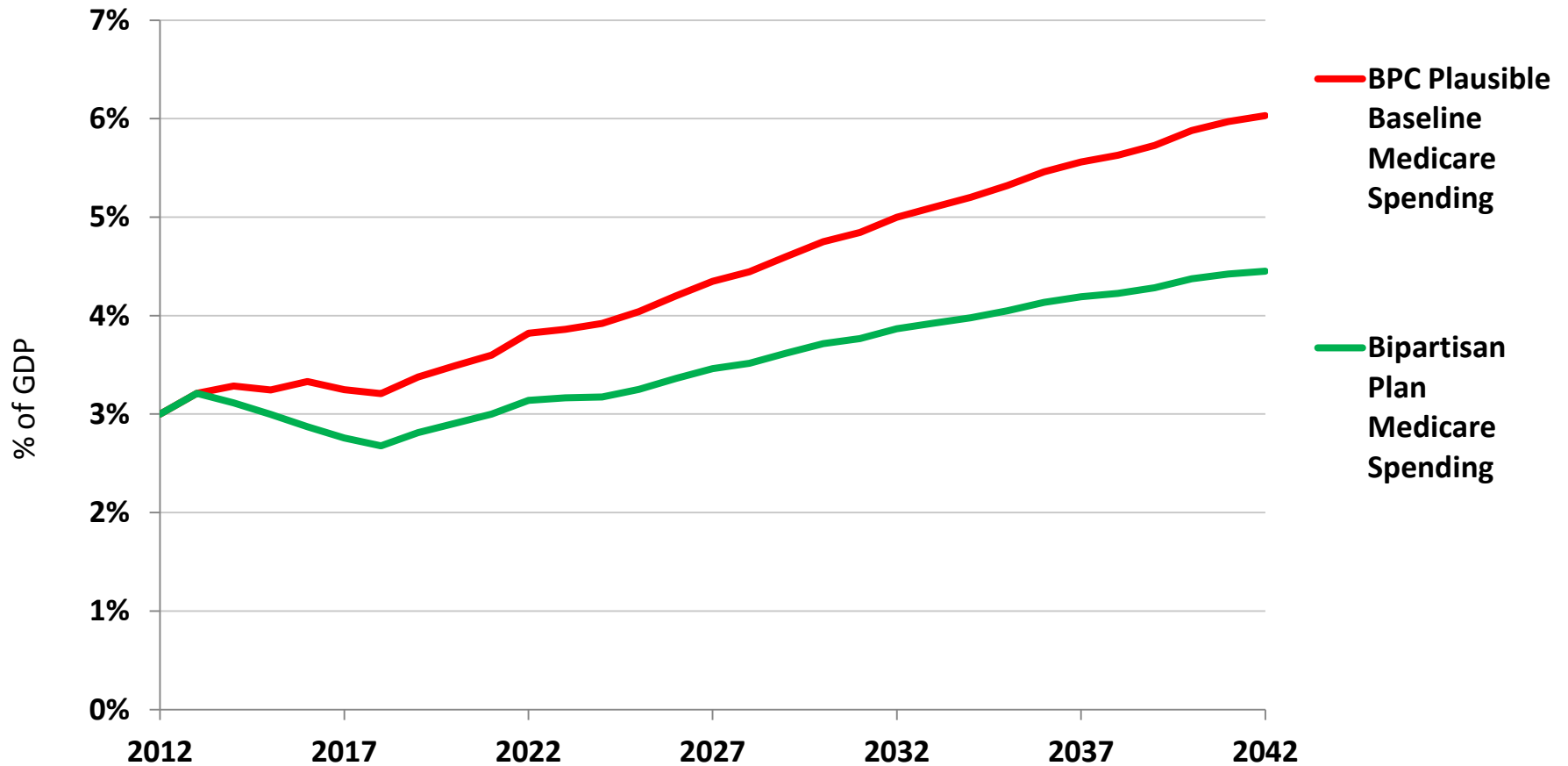
# NET INTEREST PAYMENTS DROP DRAMATICALLY UNDER BIPARTISAN PLAN



*Note:* Unlike current law, the Bipartisan Policy Center’s Plausible Baseline assumes that the 2001, 2003, 2009, and 2010 tax cuts are extended, the AMT is indexed to inflation, Medicare’s physician payment rates are maintained at 2012 levels (the “doc fix”), the looming sequester from the Budget Control Act of 2011 is lifted, troops stationed overseas decline to 45,000 by 2015, and health care spending grows at rates detailed in CBO’s Alternative Fiscal Scenario.

Sources: Congressional Budget Office (August 2012) and Bipartisan Policy Center projections

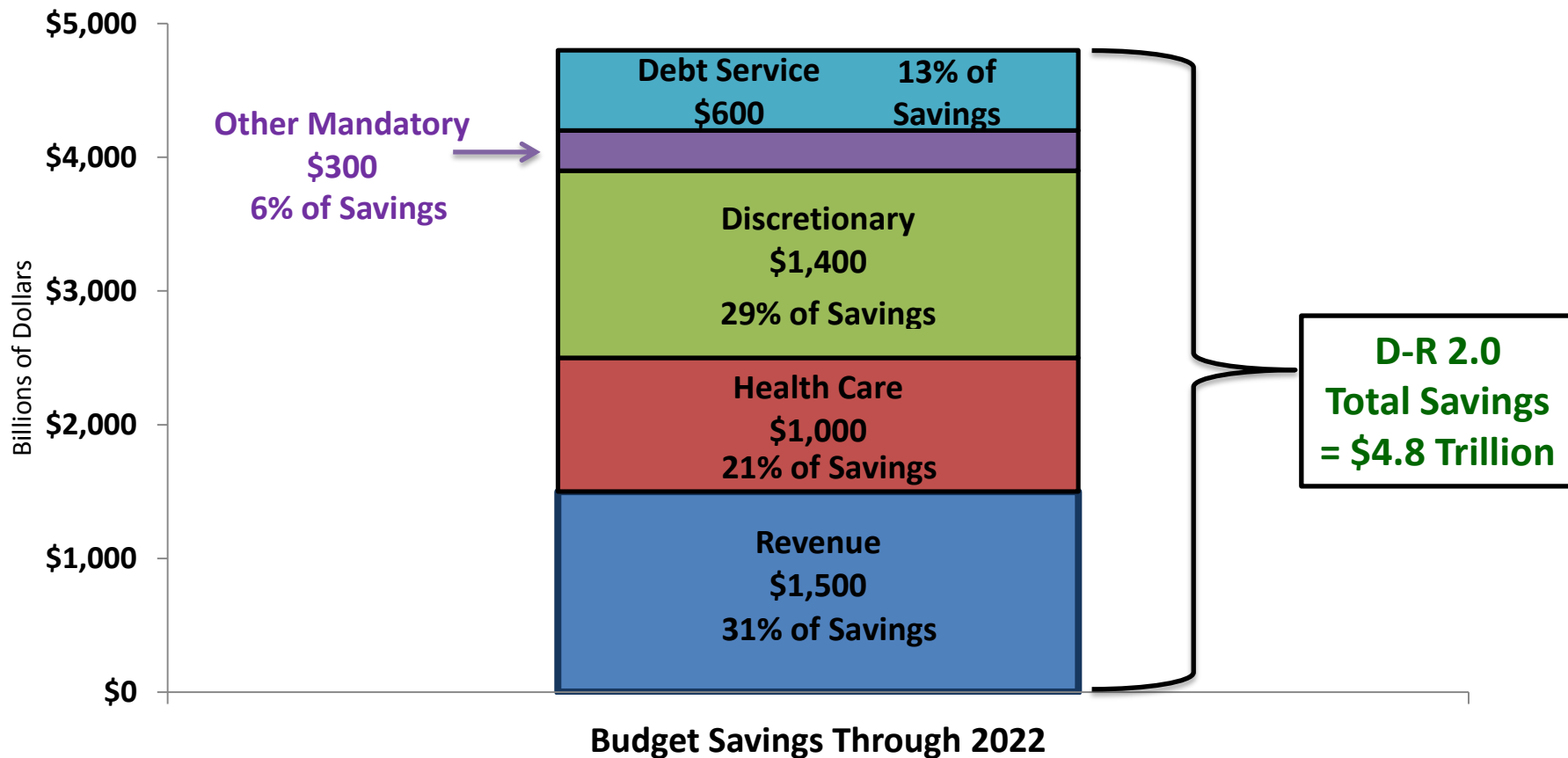
# DOMENICI-RIVLIN 2.0 BENDS THE MEDICARE COST CURVE



Note: Unlike current law, the Bipartisan Policy Center's Plausible Baseline assumes that the 2001, 2003, 2009, and 2010 tax cuts are extended, the Alternative Minimum Tax is indexed to inflation, Medicare's physician payment rates are maintained at 2012 levels (the "Doc Fix"), the looming sequester from the Budget Control Act of 2011 is lifted, troops stationed overseas decline to 45,000 by 2015, and health care spending grows at rates detailed in the Congressional Budget Office's Alternative Fiscal Scenario.

Sources: Congressional Budget Office (August 2012) and Bipartisan Policy Center projections

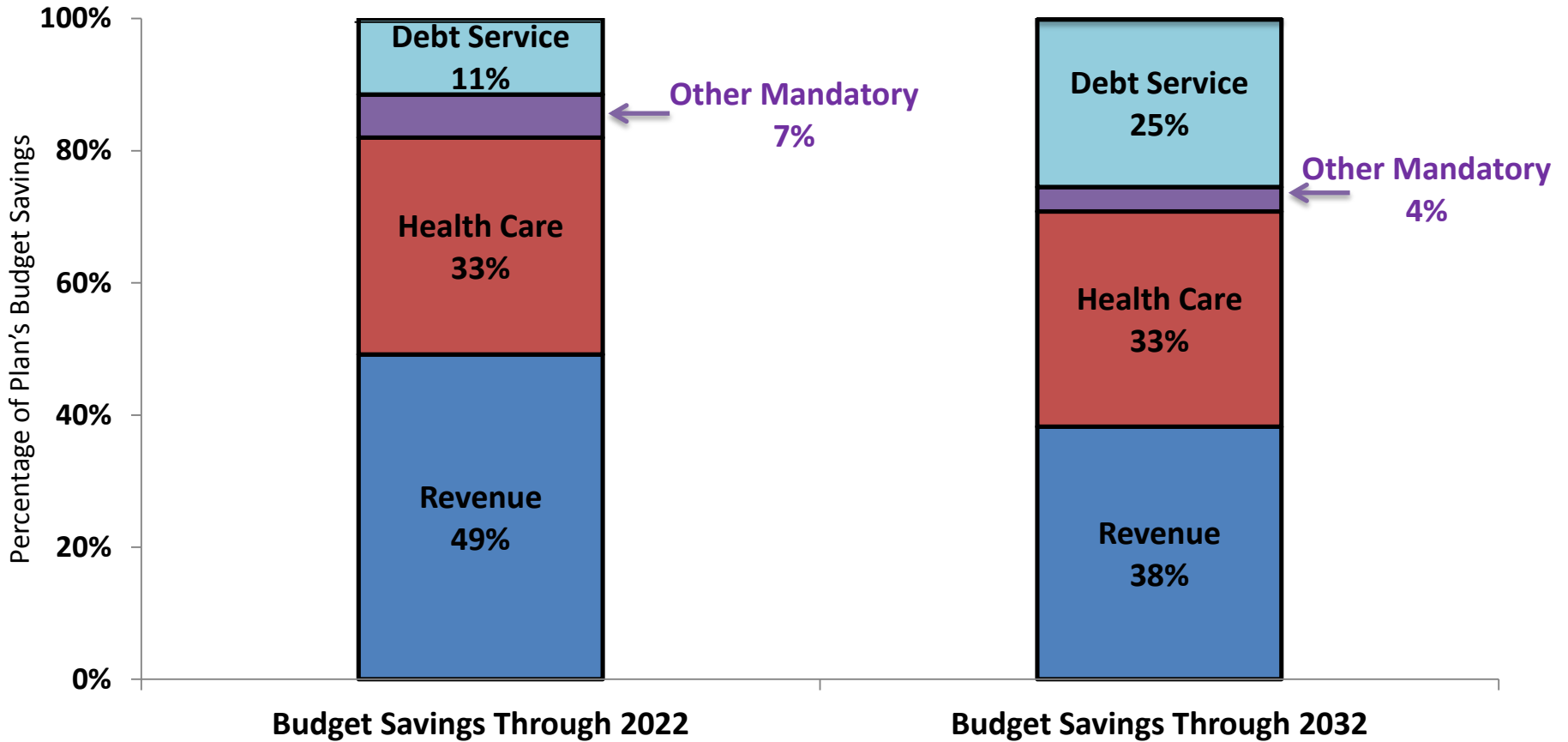
# BREAKDOWN OF SAVINGS IN DOMENICI-RIVLIN 2.0 (INCLUDING ALREADY ENACTED SAVINGS)



Note: Savings are calculated against BPC’s Plausible Baseline. Unlike current law, the BPC’s Plausible Baseline assumes that the 2001, 2003, 2009, and 2010 tax cuts are extended, the Alternative Minimum Tax is indexed to inflation, Medicare’s physician payment rates are maintained at 2012 levels (the “Doc Fix”), the looming sequester from the Budget Control Act of 2011 is lifted, troops stationed overseas decline to 45,000 by 2015, and health care spending grows at rates detailed in the Congressional Budget Office’s Alternative Fiscal Scenario.

Sources: Congressional Budget Office (August 2012), Bipartisan Policy Center estimates

# BREAKDOWN OF SAVINGS IN DOMENICI-RIVLIN 2.0 (EXCLUDING ALREADY ENACTED SAVINGS)



Note: Savings are calculated against BPC’s Plausible Baseline. Unlike current law, the BPC’s Plausible Baseline assumes that the 2001, 2003, 2009, and 2010 tax cuts are extended, the Alternative Minimum Tax is indexed to inflation, Medicare’s physician payment rates are maintained at 2012 levels (the “Doc Fix”), the looming sequester from the Budget Control Act of 2011 is lifted, troops stationed overseas decline to 45,000 by 2015, and health care spending grows at rates detailed in the Congressional Budget Office’s Alternative Fiscal Scenario.

Sources: Congressional Budget Office (August 2012), Bipartisan Policy Center estimates  
[WWW.BIPARTISANPOLICY.ORG](http://WWW.BIPARTISANPOLICY.ORG)



BIPARTISAN POLICY CENTER

# **A Framework: From Fiscal Cliff to Grand Bargain**

- With just weeks before the fiscal cliff hits, no chance of fundamental entitlement and tax reform (e.g., Domenici-Rivlin 2.0) being enacted this year
- Can't just have a "memorandum of understanding" and work out details later – must pass legislation to *change the current law*
- Need a bridge to avoid the cliff, demonstrate a commitment to solving the problem, and set the stage for a big deal next year on drivers of debt

## **The Solution: "Framework for a Grand Bargain"**

**Eliminate threat of the fiscal cliff by extending tax cuts, turning off sequester, patching AMT, extending the “Doc Fix,” etc.**

**Replace it with:**

- An expedited congressional procedure – “Accelerated Regular Order” – to achieve deficit reduction, including fundamental tax and entitlement reform, in the 113<sup>th</sup> Congress without many of the traditional barriers (e.g., the filibuster)
- A down-payment package with tangible savings that serves as a stepping stone to the grand bargain
- A realistic backstop that serves as an enforcement mechanism to facilitate action

- Demonstrates a **commitment to larger changes** next year
- **Facilitates short-term growth** (with an income tax rebate) and **phases in deficit reduction**
- **Balances reductions** to entitlement spending **with increases in revenue**
- **Avoids further cuts to discretionary spending**, which includes nearly all public investment monies and has already been cut significantly