



Common Sense Proposal to Rappel the Fiscal Cliff

December 5, 2012

Dear President Obama, Speaker Boehner, and Leader Reid:

As you know, the so-called fiscal cliff is rapidly approaching. The beginning of 2013 will herald the end of the tax provisions first enacted in 2001 and 2003, as well as start the across-the-board cuts mandated in the Budget Control Act of 2011. Each of you has stated that you don't want the nation to go over the cliff and neither does Taxpayers for Common Sense. We write to offer specific suggestions for how to move forward, minimize the collective pain the country might experience as a result of taking the wrong turn to avoid the fiscal cliff, and signal to the financial markets and the country that all of our political leaders are serious about solving our long term fiscal challenges. We urge you to take these steps to rappel the fiscal cliff and break the current political logjam:

1. Forge a short term agreement that includes increased revenues and spending cuts that delay the impending sequester and directs the 113th Congress to take up meaningful tax, spending, and entitlement reform proposals in a transparent and orderly way. The confidential negotiations that led to the Budget Control Act of 2011 have not served the public well.
2. Ensure that whatever budget deals are made in the lame duck Congress do not expand mandatory spending, such as enacting a five year farm bill would do, rely on budget gimmicks for savings, or inhibit long term tax and spending reform.
3. We recommend the short term agreement include the following specific changes to current law and policy:
 - a) **Revenues:** Increase revenues by at least \$90 billion over the next two years. This can be achieved by capping deductions at \$50,000, eliminating certain tax breaks, increasing tax rates for higher income earners, or some combination thereof. We recognize that there are heartfelt ideological differences on each side of this debate, but the time has come for compromise and using the 2001 and 2003 tax cuts as the baseline for reform is not responsible. Comprehensive individual and corporate tax reform should be taken up by the 113th Congress and should start from a zero based approach on tax expenditures that allows for balanced budgets over time.

- b) **Entitlements:** Enact initial and modest curbs on entitlement spending that would encourage a more thoughtful approach to reform. Specifically, we recommend: linking Social Security benefits to average prices instead of average earnings, yielding \$30 billion in deficit reduction by 2020. Also, shifting the cost-of-living adjustments to a chained consumer price index for all urban consumers would save an additional \$20 billion over the same period. Minimum out-of-pocket requirements under TRICARE for Life would chip in an additional \$5 billion over that time period.

- c) **Discretionary Spending:** The lack of prioritized spending has led to overspending in general. To prioritize our limited resources, highway spending should be tied to actual gas tax revenues deposited in the highway trust fund, reducing the deficit by \$11 billion by 2020. Further, to help rein in unsustainable growth in the Defense budget, half of the mandated defense sequestration cuts for 2013 should be retained with the Department of Defense allowed to allocate the reductions (instead of mandated across – the-board cuts) yielding an additional \$27.3 billion. Similarly, halving the non-defense sequestration for 2013 would yield another \$17 billion in deficit reduction. This would result in roughly half of discretionary savings coming from defense and half from non-defense (though over different time periods).

- d) **Debt Limit and Enforcement:** The debt limit should be increased and specific targets for spending, revenue, and entitlement savings adopted. These targets must be made enforceable through the budget reconciliation or other measures to ensure consideration in Congress. Further, sequestration provisions from the Budget Control Act should be delayed, but not repealed until the savings are realized.

Enacting credible deficit reduction proposals will give lawmakers and the President breathing room until the 113th Congress can resolve the issue with fundamental tax, spending, and entitlement reform. To discuss this further please contact me or Steve Ellis at 202-546-8500.

Sincerely,



Ryan Alexander
President

Copy:
Leader Pelosi
Leader McConnell