An Alternative Deficit Reduction Plan

By Editor Test *Wed, Nov 17, 2010*

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Former Federal Reserve vice chair Alice Rivlin, a member of President Obama's deficit-reduction commission and co-chair of a separate 19-member group sponsored by the Bipartisan Policy Center in Washington, today proposed a 6.5 percent national sales tax to reduce the U.S. budget deficit.

Rivlin's recommendations come as week after the commission's co-chairmen, Erskine Bowles and Alan Simpson released a draft proposal and two weeks before the commission's recommendations are to be delivered to Congress.

As reported by Bloomberg News, Rivlin, a Democrat, and former New Mexico Republican Senator Pete Domenici, are offering a more aggressive approach to tax increases and cuts to Medicare than the Bowles-Simpson plan did.

Similar to the Bowles-Simpson proposals, the Rivlin plan would lower income tax rates while eliminating most deductions and credits. It would replace the home mortgage and charitable contribution deductions with 15% refundable credits.

The plan also makes $756 billion in cuts to health care costs through 2020, including raising Medicare premiums from 25% to 35% over five years, and starts a premium support program to limit growth in federal spending on the health-care program for the elderly. It also attempts to spark economic growth with a one-year Social Security payroll tax holiday designed to create 2.5 million jobs.

"It is a fundamental difference" with the Bowles-Simpson plan, said Steve Bell, a scholar at the Bipartisan Policy Center. "They assume that this deficit reduction plan in and of itself is sufficient. We don't."

On Social Security, instead of raising the retirement age, as in the Bowles-Simpson plan, the Rivlin group proposes a gradual increase in the amount of wages subject to payroll taxes, currently $106,800, over the next 38 years to cover 90% of all wages. It would also trim the annual cost-of- living adjustments and reduce the growth in benefits for the top 25% of beneficiaries.

The Rivlin-Domenici plan seeks to illustrate why a combination of spending cuts and tax increases is the only way to stabilize the debt by 2020. According to their report, targeting domestic discretionary spending cuts alone would require eliminating almost everything from law enforcement and border security to education and food and drug inspection.

The nation also cannot grow fast enough to grow its way out of the deficit, the report says. To stabilize the debt at 60% of GDP, the economy would have to grow at a sustained rate of more than 6% a year for at least the next 10 years—more than 1.5 points faster than in any decade since World War II.

Finally, raising taxes on wealthy Americans won’t by itself solve the problem, the report says. Reducing deficits to manageable levels by the end of the decade would require raising rates on the top two income brackets to 86% and 91%, the report says.

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