

## Oshkosh's Closing the Federal Deficit Choices 2

My last column discussed the how my 13 panelists chose to handle the expiring Bush tax cuts. Today's topic begins with how they chose to trim Social Security.

First though, a comment on Social Security's viability. A lot of young people believe that Social Security is in so much peril that it will disappear long before they retire. That's nonsense. Even if we do nothing, the Social Security system should still be able to pay out about 90% of what it has promised, for the next 70 years. That's not a reason to do nothing, but it does suggest that the problem can indeed be fixed, by addressing that 10% gap.

On the spending side, not a single panelist refused to cut Social Security spending – because if you treat Social Security as a sacred cow, you just can't touch it from here. The panel majority cut Social Security spending by \$290 Billion, partly by raising the retirement age (9 votes), partly by changing COLA adjustments (10), and partly by including all new State workers in the Social Security System (10).

But \$290 Billion less Social Security spending is not by itself enough. And so, on the revenue side, nine panelists voted to raise the income cap subject to Social Security taxes, a \$420 Billion gain. Together, that cap increase and those spending cuts would eliminate the Social Security shortfall, and put that part of the budget back on an even keel.

Outside of Social Security, the overwhelming majority was willing to cut another \$750 Billion in Federal spending. That amount included \$220 Billion in defense cuts, by enacting weapons cuts (10), reducing ship building (11), cancelling the missile defense system (11), reversing the "Grow the Army" initiative (13\*). Reducing foreign aid (9\*) cut another \$110 Billion. Saving \$50 Billion by enacting malpractice reform got 11 votes. The other \$370 Billion in spending cuts came by eliminating outdated programs (13), cutting the Federal workforce (9\*), cancelling the moon mission (9), cutting farm subsidies (10), and cutting earmarks (11).

But Social Security changes and spending cuts alone were not enough. The goal was to reduce the deficit by at least \$1,320 Billion, and even just adjusting the Alternative Minimum Tax, without renewing any other Bush tax cut, increased that to \$1,800 Billion. So the group's \$710 in Social Security changes and \$750 Billion in other spending cuts still leaves a \$340 Billion shortfall.

So the panel adopted \$410 Billion in tax increases, taxing the banks that benefited from the bailout (10), reforming the taxation of foreign income (13\*), putting a surtax on high incomes (10\*), and improving tax collection (12). Another \$190 Billion was raised by changing the Mortgage Interest deduction – another sacred cow – to a 20% tax credit, reducing its benefit for people in high tax brackets.

All together, the group cast 2/3rds of their votes for enough spending cuts and tax increases to stabilize the Federal debt at only 59% of GDP, as long as the Bush tax cuts are not renewed. Now I'm sure you disagree with some of their choices. I disagreed with 5 of them, marked with asterisks. But they do give us a reasonable picture of what needs to be done.

Although maybe you don't think it's reasonable. Maybe you think Social Security spending should remain uncut. Or maybe you think tax increases should be off the table. Fine, but don't just criticize: show us your plan!

Next – the options we didn't choose.