Committee for Economic Development

February 20, 2013

Open Letter to Congress and the President,

We write to you as members and co-chairs of the Committee for Economic Development, a nonprofit, nonpartisan, business-led public policy organization of business executives and academic leaders that for 71-years has delivered well-researched analysis and reasoned solutions to our nation's most critical issues. We urge you to take action to end the nation's looming public-debt crisis.

Specifically, we urge you, our elected leaders, to: (1) replace this year's across-the-board spending "sequester" with better-crafted savings, divided between spending cuts and revenue increases, with less near-term adverse impact on the economy; (2) establish a two year budget-sustainability "framework" outlining milestones to reach and legislative process tools to achieve them; and then to (3) proceed to fundamental tax and entitlement reform.

The economy will continue to suffer if we rely on makeshift palliatives rather than sound, fundamental reform. Our budget problems are structural and complex and will not be solved with across-the-board, automatic policies – which actually create more uncertainty. Building true solutions will take energy, thought, and planning. We need *one* solution, agreed upon by our divided government. All sides *must* compromise.

We need to set a course soon. Private-sector decision-makers fear aimlessness and partisan politics. Purposeful engagement on your part, even though it may be a gradual process, will encourage the business community to make investments to help our country grow – and will set our nation even further apart from our international competitors, many of whom are now failing to extract themselves from their own versions of political gridlock.

The broad goals should be: (1) bring spending and revenue more into line; (2) set the public debt relative to the GDP on a continuous downward path, reaching a maximum of 60 percent within 10 years; (3) head off the risk of a destabilizing downgrade, and then achieve an upgrade, to the nation's credit rating; and (4) achieve a fiscal policy that stimulates economic growth.

As a way to proceed, we have outlined a number of policy options for consideration.

**First,** replace the first-year savings of the crude spending sequester with better-crafted spending cuts and revenue increases that extend over the next decade. Our economy remains shaky from the financial crisis and the resulting recession. The sequester was *intended* to spur legislative action by striking terror into the economy. If it is allowed to occur, however, it may achieve that effect – both in fact and through expectation. In an attachment to this letter we suggest a long list of policy options for consideration, both entitlement reforms and minor revenue increases, any selection of which can achieve the sequester's first year of deficit reduction spread over ten years, and will not derail the economic recovery. On the good faith of these alternative savings, we believe that you can postpone the sequester for one year – with a commitment to eliminate the remaining sequester if you reach the next milestone in our suggested course of action.

**When you postpone the sequester, we most strongly urge you to increase the debt limit, and permanently to forswear its use as a negotiating tool.** Some recently have quibbled over the technical definition of "default" to defend bargaining over the debt limit. But from our experience, a financial system that is built upon *security* – and that is what we all commonly call each of our Treasury's debt instruments – cannot be reassured by speculations, however well meaning, about the unprecedented and the unknown. The danger is not some literal default, but rather fear deteriorating into panic. Please do not so threaten our economy; leave these unknowns to remain unknown, so that the full faith and credit of our nation is never subject to question, or even to doubt.

**Second**, create a "framework" for progress over the next two years. Start with negotiated targets for the Congressional Committees of jurisdiction to achieve savings in each program area and in revenues. Give those Committees the authority they need – which will be different from the budget "reconciliation" process – to achieve fundamental reform of both tax and entitlement programs.

For all of the public assurances from all policymakers that they care about the budget problem, Washington has remained gridlocked. To break the logjam, we respectfully suggest that you set as your task for this year – separate from the budget issue narrowly defined – solidifying the finances of Social Security for the long term. Both sides agreed last year that reform is necessary; this year, within the framework that we outline, we believe that the prospects for success would be far more favorable. A comprehensive approach to reform could incorporate changes such as a strengthened minimum benefit and help for very long-lived beneficiaries, which would protect or even improve the status of the most needy elderly – even as the program overall is made more financially sound. Success on this front would give a cynical and disappointed public a new measure of confidence that Washington actually can address their problems.

**Third**, following success this year, please proceed to the broader task of Medicare, Medicaid and tax reform that is essential ultimately to lay to rest the debt demon. We believe that such a two-year approach, with a limited target for the remainder of this year, would both increase the odds of success and decrease the risk to the still-shaky economic recovery.

Our view, which we believe is typical of American businesspersons, is that everyone must engage in the effort to achieve the stable public finances that are a prerequisite of sustained economic growth. That economic growth is the most powerful force working for the benefit of our country, our fellow citizens, our businesses, and ourselves. Our predecessors in the Committee for Economic Development saw many similar challenges over the last 71 years. Always, the American people, with the business community as an economic driver, rose to meet and overcome those challenges. We can do so again. We pledge our best efforts to justify the sacrifices of those earlier generations of Americans, in the nation's interest.

Signed[1],

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Chief Executive Officer, CED

**Roger W. Ferguson, Jr.**
Co-chair, CED

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Co-chair, CED

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Co-chair, CED Fiscal Health Subcommittee

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[1] The views expressed herein by the individual signatories are solely in their capacities as members or co-chairs of the CED and do not necessarily represent the companies they lead or with which they are otherwise affiliated.

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**ATTACHMENT**
**Options to Replace the Sequester**[2]

Using Congressional Budget Office estimates, we anticipate that the scheduled March 1 sequester of $85 billion of total FY 2013 budgetary resources would save about $44 billion this fiscal year (with the balance of the savings occurring in future years We outline a number of policy options for consideration that would save approximately that $44 billion, but over the next ten years, thereby ultimately and cumulatively achieving that first-year amount of debt reduction but avoiding the potentially destabilizing first-year hit on the economy. We would divide those savings evenly between spending reduction and revenue increases.

Following is a long list of *alternative* policies to save $44 billion in the most constructive possible way. CED does not advocate specifically for any one of these recommendations, but rather seeks to here present multiple options.

***Outlay Alternatives ($22 billion – 50 percent of total – over 10 years)***:

1. In the near term, achieve a small first step toward long-run Medicare fundamental reform:

(i) extend competitive bidding to additional categories of durable medical equipment;

(ii) extend Medicare reductions in the cost of durable medical equipment to Medicaid;

(iii) reduce the patent exclusivity period for biologics from 12 to seven years;

(iv) implement a MedPAC proposal to encourage generic drug use among the low-income population that benefits from pharmaceutical subsidies; and

(v) reform Medicare Part B reimbursement for provider-administered medications.

2. Instead, cut future discretionary spending (appropriations) reducing outlays by approximately 0.2 percent to reach the target. This reduction would be incorporated into those already mandated in the spending caps in the law

3. As an alternative, choose selected cuts in non-Medicare entitlement programs.

***Revenue Alternatives ($22 billion – 50 percent of total – over 10 years)***:

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1. Repeal some of the numerous "tax extenders" in the year-end "fiscal cliff" bill.

2. Increase the gasoline tax. A two cent increase per gallon over ten years would hit the $22 billion target.

3. Increase the excise taxes on alcohol. An increase of about one-quarter over ten years would raise the target revenue.

4. Change the parameters in the personal exemption phaseout (or "PEP") provision.

5. Reduce itemized deductions or their value across-the-board under the income tax.

6. Tax "carried interest" as ordinary income.

7. Fully or partially replace "Last-In, First-Out" (LIFO) and "Lower of Cost or Market" (LCM) inventory accounting.

8. End the expensing of exploration and development costs of extractive industries (such as oil).