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Overview of the Deficit Reduction Committee Report

President Obama created the bipartisan National Commission on Fiscal Responsibility and Reform to address ways to reduce the federal deficit. The Co-Chairs of the Commission – Erskine Bowles, former White House chief of staff under President Bill Clinton, and former Senator Alan Simpson (R-WY) – unveiled a draft proposal of recommendations promoting fiscal sustainability on November 10, 2010. It would cut total federal deficits by as much as $4 trillion over the next decade.

The Proposal is just a starting point. The Commission will vote on a final report no later than December 1, 2010; it will later be considered by Congress if 14 of the 18 Commission members come to an agreement.

Proposed Major Cuts

The Proposal presents five basic recommendations:

- enact tough discretionary spending caps and provide $200 billion in illustrative domestic and defense savings in 2015
- pass tax reform that dramatically reduces rates, simplifies the code, broadens the base and reduces the deficit
- address the "Doc Fix" through savings from payment reforms, cost-sharing and malpractice reform, and long-term measures to control healthcare cost growth
- achieve savings from mandatory budget items such as farm subsidies, military and civil service retirement
- ensure Social Security solvency for the next 75 years while reducing poverty among seniors

In addition to providing general recommendations, the Proposal also included illustrative lists outlining specific cuts to the defense and domestic budgets. Here are the lists of those cuts:

$100B in Illustrative Defense Cuts	
Proposed spending action	**Estimated savings by 2015 (in billions)**
Apply the overhead savings Secretary of Defense Gates has promised to deficit reduction	28.0
Freeze federal salaries, bonuses and other compensation at the Department of Defense for three years	5.3
Freeze noncombat military pay at 2011 levels for three years	9.2
Double Secretary Gates' cuts to defense contracting	5.4
Reduce procurement by 15 percent	20.0
Reduce overseas bases by one-third	8.5
Modernize Tricare, the Department of Defense healthcare program	6.0
Replace military personnel performing commercial activities with civilians	5.4
Reduce spending on Research, Development, Test & Evaluation by 10 percent	7.0
Reduce spending on base support	2.0
Reduce spending on facilities maintenance	1.4
Consolidate the Department of Defense's retail activities	0.8
Integrate children of military personnel into local schools in the United States	1.1

$100B in Illustrative Domestic Cuts	
Proposed spending action	**Estimated savings by 2015 (in billions)**
Reduce Congressional & White House budgets by 15 percent	0.8
Freeze federal salaries, bonuses, and other compensation at non-Defense agencies for three years	15.1
Cut the federal workforce by 10 percent (2-for-3 replacement rate)	13.2
Eliminate 250,000 non-defense service and staff augmentee contractors	18.4
Reduce unnecessary printing costs	0.4
Create a Cut-and-Invest Committee charged with trimming waste and targeting investment	11.0
Terminate low-priority Army Corps of Engineers construction projects	1.0
Slow the growth of foreign aid	4.6
Eliminate a number of programs administered by the Rural Utility Service (formerly REA)	0.5
Eliminate all earmarks	16.0
Eliminate funding for commercial spaceflight	1.2
Sell excess federal property	1.0
26 other options of $2 billion or less	17.0

The Proposal tackles several tax reform issues. They include:

- eliminating the popular child tax credit
- eliminating the home mortgage interest reduction
- broadening the taxpayer base by reducing the top income tax rate from 35 percent to 23 percent
- implementing a 15-cent-per-gallon gasoline tax to increase revenue

The gasoline tax would potentially go toward infrastructure investment, one of three areas the Proposal aims to protect. The other two areas are education and high-value research and development projects.

The Proposal would also have far-reaching effects on the retirement community. According to the plan, the retirement age for full Social Security benefits would be gradually increased to 69 in 2075. (The full retirement age for those retiring now is 66. For those born in 1960 or after, it is currently 67.) Furthermore, the formula used to calculate yearly benefit increases would be adjusted to produce smaller annual increases.

President Obama's health care overhaul would not be cut by the Proposal. In fact, cost-control provisions would be strengthened and a board with power to make cuts in Medicare payments to providers would be created. However, the tax-free status of employer-provided health benefits would be limited or eliminated for most Americans with job-based health coverage. This would encourage people to search for more cost-conscious insurance plans.

For More Information

The Proposal has received criticism from both Republicans and Democrats. However, it has jump-started conversation among lawmakers who have begun to identify specific areas for potential funding cuts. Discussion will continue throughout the lame-duck session, but no formal action is expected until the 112th Congress convenes next year.

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