BUSINESS**FORWARD**

COMPARING THE SIMPSON–BOWLES DEFICIT REDUCTION PLAN WITH THE OBAMA AND RYAN BUDGETS

SEPTEMBER 2012

CNBC Host: *When we go around and talk to CEOs, it is almost universal…[T]hey say if they had a chance and could vote for Bowles-Simpson or Simpson-Bowles, they would put this in immediately. And they can't understand why this hasn't happened already…*

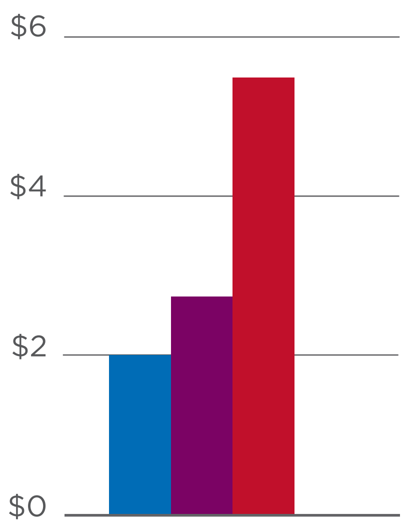
Warren Buffett: *That's not limited to CEOs either…I think if you polled Fortune 500 CEOs…It'd certainly be 80 percent. I wouldn't be surprised if it was 90 percent…They not only think it should be done, I mean, they think these fellows are heroes. And so do I.*

CNBC interview with Warren Buffett,
Alan Simpson and Erskine Bowles on the U.S. debt.
July 12, 2012

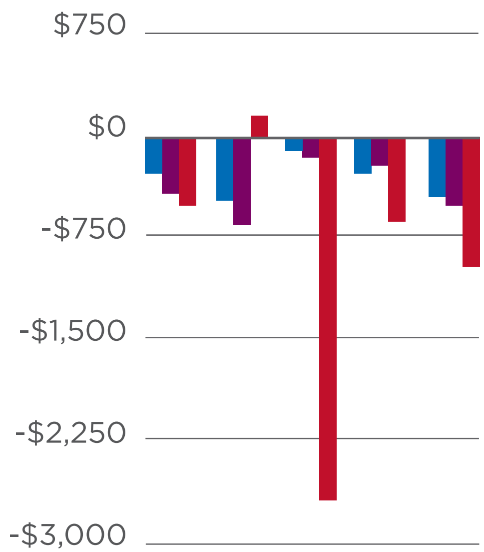
WHAT IS SIMPSON-BOWLES, AND HOW DO THE OBAMA AND RYAN BUDGET PLANS COMPARE?

TOPLINE

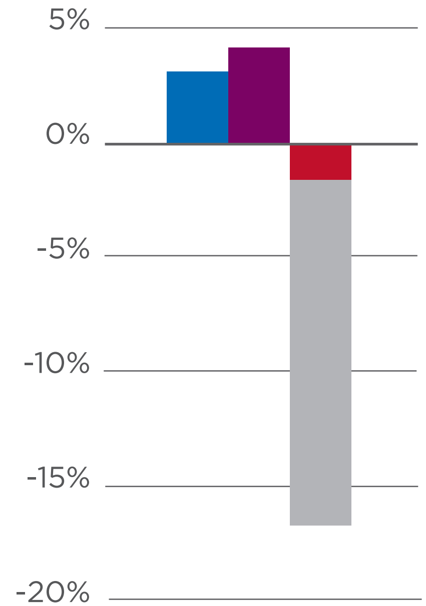
SPENDING CUTS
(OVER 10 YEARS)



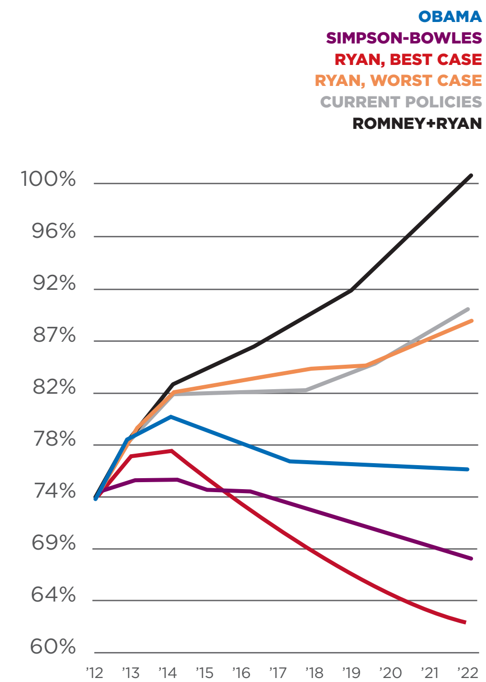
CHANGES ACROSS CATEGORIES



NET CHANGE IN TAX REVENUE



DEBT, AS % OF GDP
(IN 2022)



- **OBAMA** would cut $2 trillion.
- **SIMPSON-BOWLES** would cut $2.7 trillion.
- **RYAN** would cut $5.8 trillion.

- **OBAMA** and **SIMPSON-BOWLES** spread pain of cuts across every budget category.
- **RYAN**, by comparison, concentrates cuts on Medicaid and other anti-poverty programs and increases defense spending.

- **OBAMA** budget and **SIMPSON-BOWLES** would increase Federal tax revenue by 3% and 4%, respectively.
- **RYAN'S** plan would reduce Federal tax revenue by 2%. But this assumes $5.6 trillion in new revenue through tax reforms **RYAN** has not yet identified.

- **SIMPSON-BOWLES** cuts debt by 8 percentage points more than **OBAMA**. **RYAN** cuts between 6 percentage points more or 21 percentage points less, depending on how much of his $5.6 trillion in unspecified tax revenues he generates.
- If we count the $2.2 trillion in new spending **ROMNEY+RYAN** have endorsed, the Federal debt will exceed 100% of GDP.

Calculations are based off the most recent Simpson-Bowles baseline (2010)

BASICS

SIMPSON–BOWLES 101

President Obama created the bipartisan National Commission on Fiscal Responsibility and Reform in February 2010, with the stated goal of breaking through partisan gridlock on spending.

Under the Commission's rules, if a supermajority of members voted in favor of the Commission's plan, it would be submitted to Congress for a binding, up-or-down vote.

18 Commission members (including Members of Congress, economists, and business leaders) negotiated for 10 months. Alan Simpson and Erskine Bowles, its co-chairs, submitted their plan in December 2010.

Simpson-Bowles included proposed spending cuts of $2.7 trillion and $1.4 in new revenue for a total of $4.1 trillion in deficit reduction over 10 years. It would have reduced the national debt from 73% (current) to 68% of GDP over 10 years.

On December 3, 2011, only 11 of the Commission's 18 members voted for the plan, falling short of the 14 necessary for approval.

AMONG THE COMMISSION'S OPERATING PRINCIPLES

- Everything must be on the table.
- It is cruelly wrong to make promises we cannot keep.
- Do not disrupt the fragile economic recovery.
- Protect the truly disadvantaged.
- Cut and invest to promote economic growth and keep America competitive.
- Cut spending we cannot afford—no exceptions.
- Demand productivity and effectiveness from Washington.
- Reform and simplify the tax code.

VOTED FOR THE REPORT

Erskine Bowles, Chief of Staff to President Clinton
Sen. Tom Coburn (R-OK)
Sen. Kent Conrad (D-ND)
Sen. Mike Crapo (R-ID)
David Cote, Chairman and CEO, Honeywell International
Sen. Richard Durbin (D-IL)
Ann Fudge, Former CEO, Young & Rubicam Brands
Sen. Judd Gregg (R-NH)
Alice Rivlin, Senior Fellow, Brookings Institute and former Director, Office of Management and Budget
Sen. Alan Simpson
Rep. John Spratt (D-SC 5)

VOTED AGAINST THE REPORT

Sen. Max Baucus (D-MT)
Rep. Xavier Becerra (D-CA 31)
Rep. Dave Camp (R-MI 4)
Rep. Jeb Hensarling (R-TX 5)
Rep. Paul Ryan (R-WI 1)
Rep. Jan Schakowsky (D-IL 9)
Andrew Stern, President, Service Employees International Union

EACH PLAN'S POSITION ON KEY POINTS

	OBAMA	SIMPSON-BOWLES	RYAN
Includes both spending cuts and revenue increases	YES	YES	NO
Achieves savings in all parts of the budget	YES	YES	NO
Minimizes cuts to vulnerable populations	YES	YES	NO
Proposes tax increases on high income households	YES	YES	NO
Lowers the top income tax rate	NO	YES	YES
Reduces the debt	YES	YES	MAYBE
Identifies specific loopholes to reform	YES	YES	NO

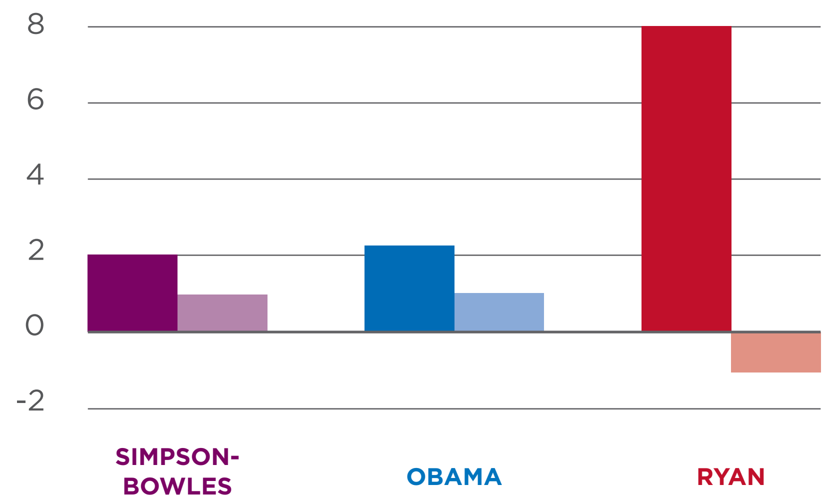
BALANCE BETWEEN SPENDING CUTS AND NEW REVENUE

It can be difficult to compare budget plans on an apples-to-apples basis, because plans generally use their own assumptions about "baseline" revenue and spending. For example, different plans can use different assumptions about which Bush tax cuts will expire, or whether Medicare payments to doctors will be adjusted each year. The chart on this slide applies baseline assumptions agreed upon by the Fiscal Commission to spending and revenue proposals made by the **OBAMA**, **SIMPSON-BOWLES** and **RYAN** plans.

While **OBAMA** and **SIMPSON-BOWLES** adopt different approaches on new revenue (the former focuses more on tax rates, while the latter focuses more on tax expenditures), they each have a similar balance of spending cuts and new revenues. **RYAN** relies exclusively on spending cuts and reduces revenue. In this chart, **OBAMA** and **SIMPSON-BOWLES** are presented on a "cuts per dollar of new revenue" basis, while **RYAN** is presented on a "cuts per dollar of reduced revenue" basis.

SPENDING CUTS TO REVENUE INCREASES

(Lighter color indicates revenue increase)



DEFINED TERMS

All figures in this presentation are measured against the Fiscal Commission's own baseline calculation for future spending and revenue.

OBAMA	Obama administration's 10-year budget plan, submitted February 2012. Includes $2 trillion in spending cuts and $950 billion in new revenue, over 10 years (through 2022). Changes to tax rates and tax expenditures are specified.
SIMPSON-BOWLES	Final recommendation of the Fiscal Responsibility and Reform Commission. Includes $2.7 trillion in spending cuts and $1.4 trillion in new revenue, over 10 years (through 2022). Changes to tax rates and tax expenditures are specified.
RYAN, BEST CASE	"Path to Prosperity" budget submitted by Ryan in March 2012. Includes $5.8 trillion in spending cuts and $6.1 trillion in tax rate cuts. While changes to tax rates are specified, $5.6 trillion in proposed new revenue from reforming tax expenditures is not. Ryan proposes to obtain this $5.6 trillion by reforming tax deductions and exemptions (tax expenditures). This line item assumes he is able to do so. *Unless stated otherwise, this report uses the "best case" scenario for Ryan. Whenever we use the "worst case" scenario, we list it next to the "best case."*
RYAN, WORST CASE	"Path to Prosperity" budget submitted by Ryan in March 2012, assuming Ryan is unable to raise any of the $5.6 trillion in tax revenue he promises, but has not yet identified. This analysis combines CBO assumptions with revenue estimates from the Tax Policy Center.
ROMNEY+ RYAN	Since joining the Romney ticket, Ryan has endorsed approximately $1 trillion in additional defense spending (over the $173 billion increase in his plan). He has also endorsed approximately $700 billion in additional Medicare spending. This line item starts with the Ryan plan, assumes none of the unspecified new tax revenues are obtained, and includes Romney's added spending on Medicare and defense.

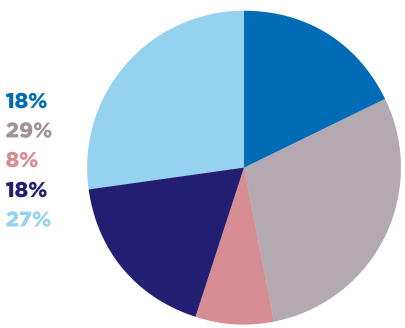
SPENDING

WHERE DO SPENDING CUTS COME FROM?

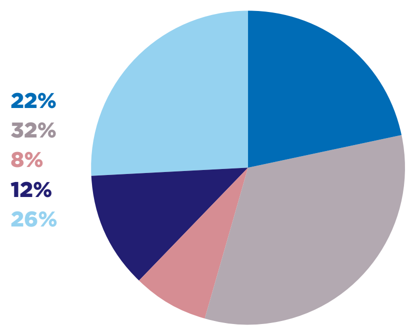
OBAMA cuts slightly less from defense than **SIMPSON-BOWLES** (in absolute terms and as a percentage of total cuts). **RYAN** proposes a $173 billion increase in defense spending. **ROMNEY+RYAN** (not reflected in the **RYAN** chart below) proposes a $1.2 trillion increase.

8% of **OBAMA** and **SIMPSON-BOWLES** cuts are to Low-Income and Anti-Poverty programs. 58% of **RYAN'S** cuts fall in this category—seven times more.

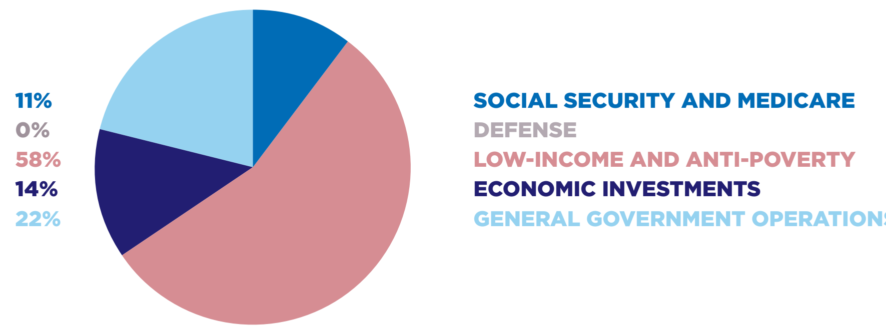
DISTRIBUTION UNDER OBAMA
($2 TRILLION TOTAL)



DISTRIBUTION UNDER SIMPSON-BOWLES
($2.6 TRILLION TOTAL)



DISTRIBUTION UNDER RYAN, BEST CASE
($5.8 TRILLION TOTAL)



The "Low-Income and Anti-Poverty" category includes Medicaid and all of budget function 600 (Income security). Programs in budget function 600 include food stamps, TANF, housing assistance, unemployment insurance, school lunch and breakfast, and Supplemental Security Income.

"Economic Investments" includes all federal spending in budget functions 250 (general science, space and technology), 270 (energy), 400 (transportation) and 500 (education, training, and employment). It also includes budget subfunction 552 (health research and training).

"General Government Operations" includes everything not found in the other categories. Major expenditures in this category include: veterans' benefits, law enforcement, international affairs, food and drug safety, national parks, and agriculture support.

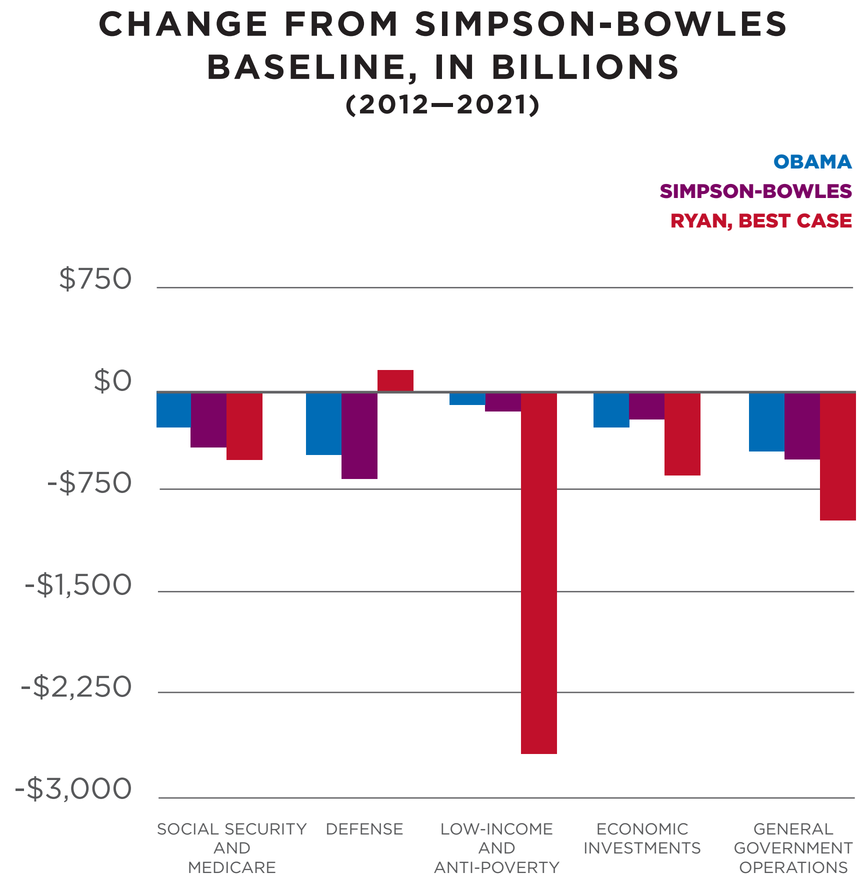
HOW MUCH DOES EACH CUT?

Among the differences between **RYAN** plan and **SIMPSON-BOWLES**:

- Total difference is $3 trillion.
- **RYAN** generates 20X more of his cuts from programs that help low-income families, 2X from economic investments.

Among the differences between **OBAMA** plan and **SIMPSON-BOWLES**:

- Total difference is $600 billion.
- **OBAMA** cuts less in four of five categories, with biggest difference in defense.



WHAT HAS ROMNEY CHANGED IN RYAN'S PLAN?

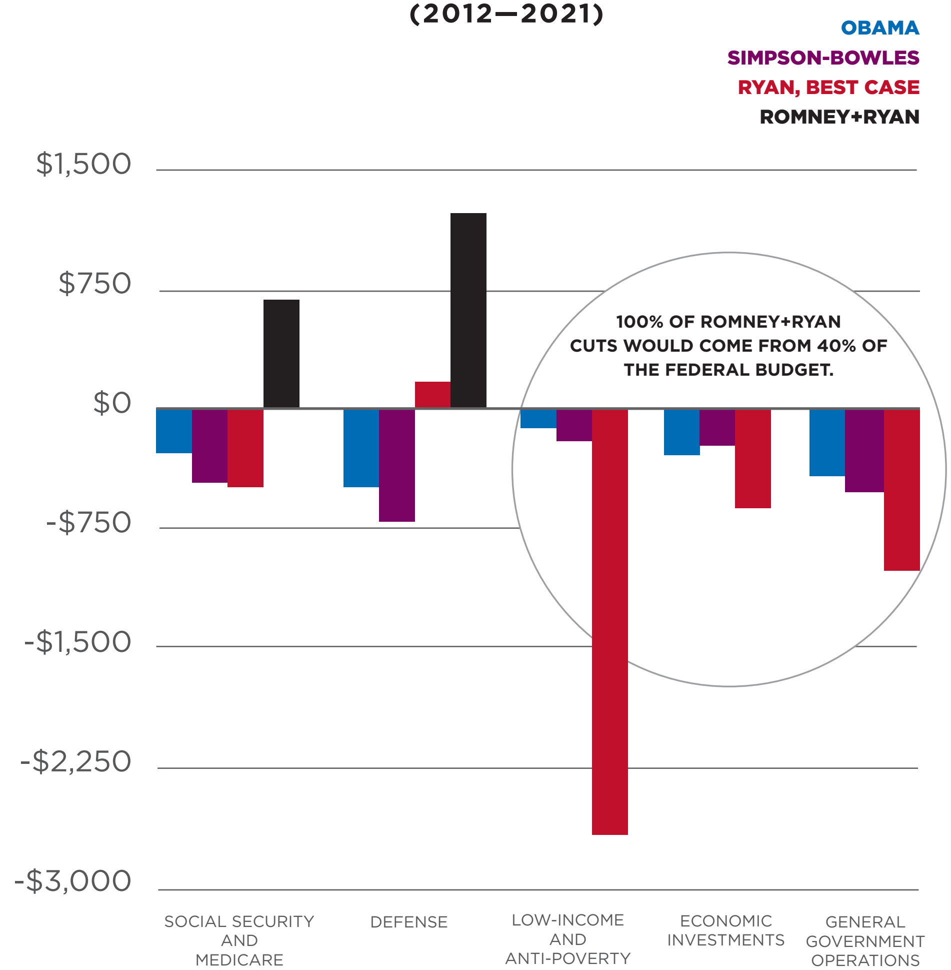
Governor Romney has called for increasing defense spending by more than $1 trillion over the **RYAN** plan. He has also pledged to increase spending on Medicare by $700 billion (in comparison to **RYAN**, which would have cut Medicare by $500 billion). Ryan has endorsed these changes **(ROMNEY+RYAN)**.

In order to match the **RYAN** goal of capping spending at 19.8% of GDP by 2022, **ROMNEY+RYAN** would have to make an additional $2.2 trillion in spending cuts, a nearly 40% increase over **RYAN'S** $5.8 trillion in cuts over that same period.

Because **ROMNEY+RYAN** increases spending in categories representing 60% of Federal spending, it must put all of its cuts in categories representing 40% of Federal spending.

These $2.2 trillion in cuts would have to come from Low-Income and Anti-Poverty, Economic Investments and General Government Operations (as noted in the charts on this page). If half of this amount ($1.1 trillion) were cut from any one of these categories, it would represent a reduction from baseline operations of 70%, 83% and 73%, respectively.

CHANGE FROM SIMPSON-BOWLES BASELINE, IN BILLIONS (2012—2021)



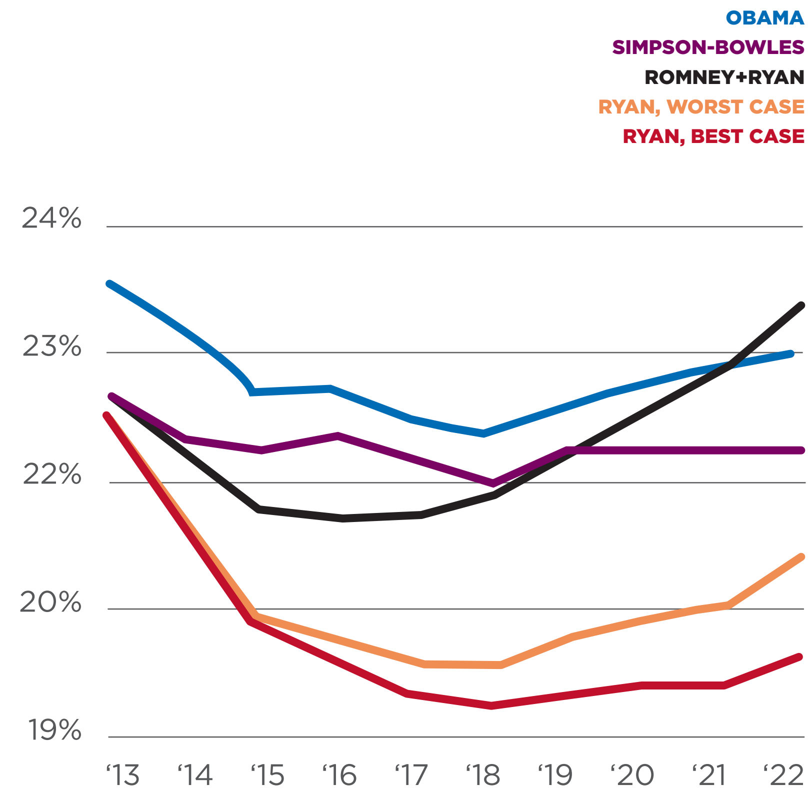
HOW MUCH SPENDING DOES EACH PLAN CUT?

OBAMA and **SIMPSON-BOWLES** reduce Federal spending to approximately 23% and 22%, respectively, by 2022.

RYAN results vary widely, depending on whether they reduce tax expenditures by $5.6 trillion ("best case"), fail to reduce them at all ("worst case"), or fall somewhere in between.

ROMNEY+RYAN cuts less spending than **OBAMA** or **SIMPSON-BOWLES**, because of its defense spending and Medicare increases.

SPENDING, AS % OF GDP
(2012—2022)



Estimates are derived by applying assumptions from the Congressional Budget Office Ryan Budget analysis and using estimated Ryan Budget revenues from the non-partisan Tax Policy Center.

TAXES

HOW DO PLANS CHANGE TAX RATES AND EXPENDITURES?

	OBAMA	SIMPSON-BOWLES	RYAN
Overall Revenue	+ $900 billion	+ $1.4 trillion	- $730 billion
Income Tax Rates	Allows top rate to return to **39.6%**	Reduces top rate to **28%**	Reduces top rate to **25%**
Capital Gains	Returns top rate to **20%**	Taxed at ordinary income rates (top rate of **28%**)	Maintains current top rate of **15%**
Tax Expenditures	Limits the value of itemized deductions for high earners	Turns mortgage interest and charitable deductions into 12% credits	Unspecified
	Eliminates tax subsidies for fossil fuel industry	Phases out the health care exclusion	Approximately $5.6 trillion in new revenue needed to achieve revenue target
	Reforms a variety of tax provisions relating to international income	Taxes capital gains and inside build-up of life insurance at death	
		Limits contributions to tax-deferred retirement accounts	
		Eliminates dozens of other tax expenditures including the State and local tax deduction	

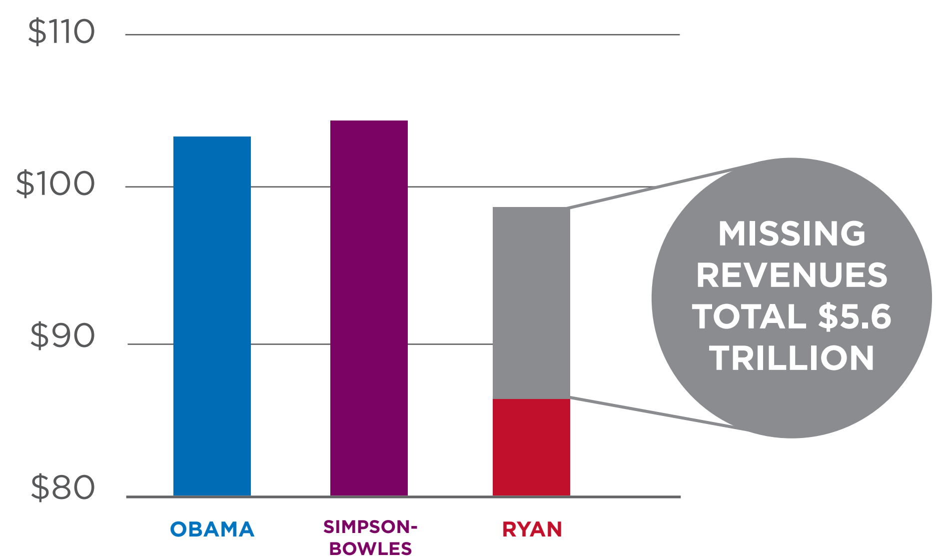
WHAT IS EACH PLAN'S IMPACT ON NET REVENUE?

To achieve revenue targets, each plan combines tax rate changes with reductions in tax expenditures (reducing deductions and credits).

Starting at a revenue baseline of $100, **OBAMA** increases revenue by 3% to $103, while **SIMPSON-BOWLES** raises revenue by 4% to $104.

RYAN tax rate cuts would reduce overall revenue from $100 to $86. **RYAN** proposes to produce another $12 of tax revenue by cutting or eliminating certain tax credits and deductions. But he has not identified which credits or deductions he would touch.

NET REVENUE USING A $100 BASELINE



DEBT REDUCTION

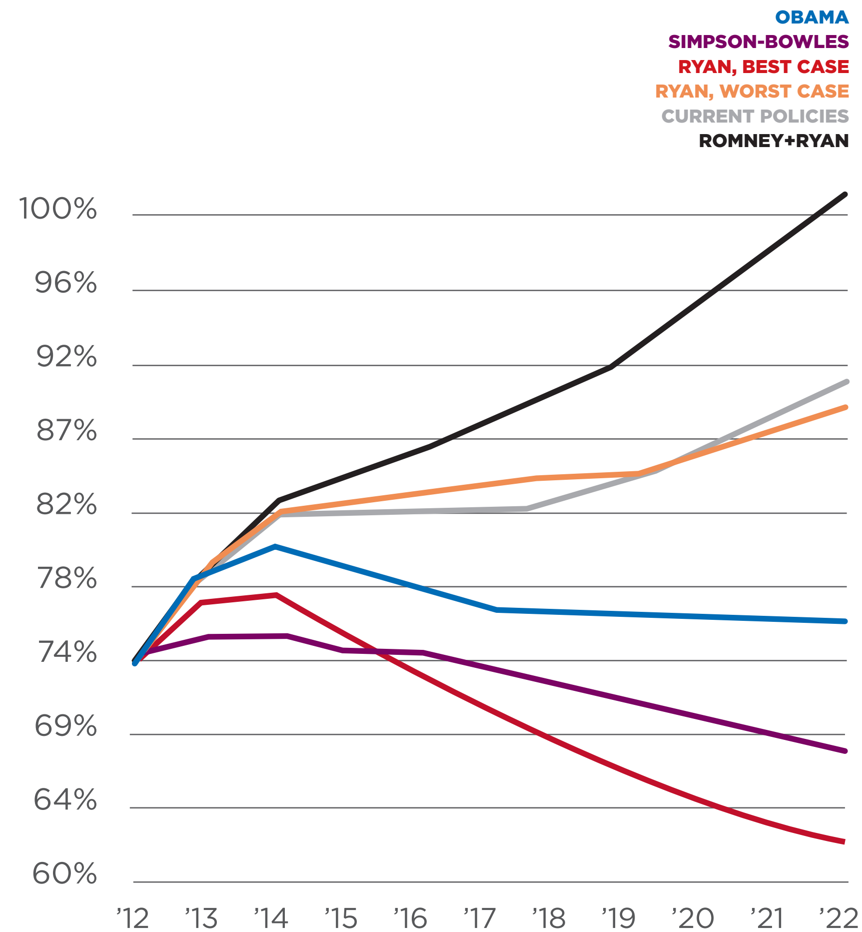
HOW DOES EACH PLAN REDUCE OUR DEBT?

Under **OBAMA** and **SIMPSON-BOWLES**, our national debt would represent 76% and 68% of our GDP in 2022, a difference of eight percentage points.

Under his best case scenario, **RYAN** would reduce the national debt to 62% of GDP by 2022. But the worst case scenario would leave our national debt at 89% of GDP, 27 percentage points higher.

Assuming **ROMNEY+RYAN** spending on defense and Medicare, our national debt could grow as high as 102% of our GDP, during that same time.

DEBT, AS A % OF GDP FOR EACH BUDGET PLAN



SUMMARY

SUMMARY

1. **OBAMA** is closer to **SIMPSON-BOWLES** on total spending cuts than **RYAN**: he has proposed $640 billion less over 10 years, while **RYAN** has proposed $3.1 trillion more.

2. **OBAMA** and **SIMPSON-BOWLES** generally spread their cuts the same way (and across every category). **RYAN** increases defense spending and concentrates his cuts on health care and other services for lower income Americans.

3. Both **OBAMA** and **RYAN'S** budgets plans raise less revenue than **SIMPSON-BOWLES**, but **OBAMA'S** is closer. He would raise about $420 billion less than **SIMPSON-BOWLES** (by 2022). **RYAN** would raise $2.1 trillion less.

4. **OBAMA** and **SIMPSON-BOWLES** specify how they will generate revenue, but **RYAN** leaves $5.6 trillion in new tax revenue unspecified.

5. If **RYAN** fails to raise $5.6 trillion by cutting tax expenditures, his actual spending would increase and his stated impact on the debt would be entirely eliminated.

6. Since joining the Romney ticket, **RYAN** has endorsed approximately $2.2 trillion worth of new spending. To reach his reduction goal, **RYAN** must find $2.2 trillion in new revenue or make additional cuts.

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