**TO:** Honorable Members of the Joint Select Committee on Deficit Reduction  
**FROM:** Jim Kessler, Senior Vice President for Policy and  
David Kendall, Senior Fellow for Health and Fiscal Policy  
**RE:** In Case of Emergency, *Break Glass: A $1.2 trillion Failsafe Option*  

Imagine this: It’s the week before Thanksgiving and the “super committee” deadline to report a deficit reduction bill to Congress is looming. Despite concerted efforts, a “grand bargain” to address the nation’s long-term structural deficit through broad tax and entitlement reform has once again collapsed.

With a deal in tatters and the clock ticking, Congress and decision-makers throughout government brace against the threat of sequestration. Unless the $1.2 trillion target is hit, programs dealing with everything from defense to food safety will face deep, indiscriminate cuts that slash wasteful and worthy spending alike.

Outside Washington, Congressional gridlock is once again shaking the markets. The likely failure of the “super committee” provides further proof that government is too dysfunctional to deal with our nation’s challenges, again putting the nation’s credit rating at risk and dealing a blow to confidence. The public is frustrated with the partisan bickering and is yearning for leadership that delivers results.

There’s an answer—*break the glass*.

Third Way’s bipartisan plan\(^1\) hits the “super committee’s” $1.2 trillion charge and includes enough deficit reduction to fund a congressional version of the President’s jobs proposal. It’s also a failsafe that includes no gimmicks, will allow Congress to move on to a future budget deal in 2012 or beyond, and can satisfy Democrats and Republicans when the flames of failure are raging and the Committee needs to extinguish them. In essence, it’s the emergency plan for the emergency committee.

The following memo summarizes why, if all else fails, the Third Way plan can help the committee snatch victory from the jaws of defeat.

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**It’s Truly Bipartisan**

This plan brings together ideas from across the ideological spectrum. It includes ideas in President Obama’s proposal,\(^2\) Senator Coburn’s “Back in Black,”\(^3\) the Bowles-Simpson Fiscal Commission report,\(^4\) and proposals from outside groups.\(^5\) For example:

- 70% of the revenue in Third Way’s plan overlaps with Senator Coburn’s proposal.
- Nearly two-thirds of the savings in mandatory programs are from items that are also in the President’s proposal.
• The President’s proposal, Sen. Coburn’s, and Third Way’s all achieve at least 22% of their savings from defense cuts. The cuts in this plan provide considered, broadly supported alternatives to the deep and indiscriminate defense cuts that would result from sequestration—something members of both parties want to avoid.

• Our plan includes items that have already been supported by multiple sources from across the ideological spectrum and on both sides of the aisle. For example, letting the federal pension protection program charge higher fees to cover losses from bankruptcies and reductions to agricultural subsidies have both been endorsed by the White House, Senator Coburn, and the Bowles-Simpson Commission.

• Even on the issue of entitlements, our plan finds common ground. Lowering Medicare payments for medical education and requiring higher income seniors to pay a larger share of the cost for doctors’ bills and prescription drugs are included in our plan, and have been supported by the White House, Senator Coburn, and the Bowles-Simpson Commission.

The fact that our plan draws from both the left and the right provides a built-in foundation for agreement—a prerequisite for a failsafe plan.

**It’s Achievable**

Should efforts to achieve a “grand bargain” come up short, it will primarily be because each side has a line it’s simply not ready to cross. Democratic resistance to sweeping entitlement reform and Republican fealty to the Norquist/Tea Party no-tax line have placed wholesale changes to the safety net and tax code off limits. Simply put, our plan would not require either side to cross its own Rubicon.

On taxes, our plan would eschew the larger debate on top line rates and focus on weeding out egregious tax earmarks. For example, we propose eliminating special tree planting write-offs for the timber industry, which would save $4.8 billion over ten years. This is an example of a revenue raiser that Republicans should be able to accept without budging from their “no tax increase” stance.

Our plan would not change the fundamental structure of entitlements, but would focus on generating savings by improving the way those programs do business. For instance, seniors who need medical care and nursing home care end up in two different programs under Medicare and Medicaid. If they received better, coordinated care, they might not need to be in a nursing home. To improve their care, Medicare would have to spend a little more money so that Medicaid would save a lot. Our proposal can help to ensure that these vulnerable seniors get care that can improve their lives and would save taxpayers $15 billion over ten years. This type of adjustment saves money without fundamentally altering the program, making it palatable for Democrats.
Bridging the structural tax and entitlement divide will likely take more time than the “super committee” has. However, a plan that focuses strictly on tax expenditures and entitlement program savings can create common ground.

**It Gets the Job Done**

Just because this plan doesn't complete the “grand bargain” doesn’t mean it doesn’t advance the ball. The first round of reductions, enacted by the Budget Control Act, began the hard work of deficit reduction by focusing on domestic discretionary spending and the defense budget. This failsafe plan would build on that momentum by taking on key drivers of our deficit—insufficient revenue, mandatory programs, excess Pentagon spending, and interest on the national debt.

Mandatory spending is the biggest part of the federal budget, but also the part that Americans depend on heavily. Even small changes can add up to significant savings. For example, requiring federal employees to pay a larger share of the retirement saves up to $117 billion over ten years. It also shows the public that the federal government will contribute to deficit reduction.

With regard to revenues, it’s important to remember that the federal treasury loses billions of dollars every year to special interest provisions in the tax code. You can raise revenue by eliminating or curtailing wasteful provisions for such things as NASCAR race tracks, tree planting, and railroad track maintenance. Taken together, our plan identifies $434 billion in revenue over ten years for deficit reduction, without touching tax rates.

Defense spending has grown almost 50% over the past decade. This fast growth has come from poor accountability and two wars and resulted in much waste—more waste than will be cut by the Budget Control Act, which only slows the rate of growth in defense to slightly below inflation. More can be done. For example, contractor positions at DOD have tripled over the last decade causing Secretary Gates to propose a reduction of duplicated overhead costs and contractors working in the Pentagon by 10% each year from 2011-2013. These contractors easily could be further reduced by 20% instead. Critical responsibilities could, in turn, be covered by their civilian counterparts at a much lower cost.7

The plan also saves an additional 18% from lower interest costs on the national debt over the next ten years. When combined with the $917 billion saved by the Budget Control Act, our plan gets you almost two-thirds of the way toward the overall $4 trillion deficit reduction target—while setting the stage for a final deal on broad tax and entitlement reform.

**No One Gets a Free Ride**

Even though both parties’ core principles would be protected, this deal would require give on both sides. Democrats would cede a round of adjustments to entitlements, and Republicans would have to accept more revenue. Taxes, mandatory spending, and the Pentagon would share the burden, meaning that a wide range of stakeholders are invested and no one gets a free ride.
Republicans will likely bristle at, but should ultimately be willing to approve our plan’s inclusion of $42.5 billion in revenue from tightening estate tax rules. Similarly, even if they accept it Democrats will probably not enthusiastically embrace our call to trim $43 billion from student loan subsidies.

In this respect our plan would adhere to the structure of the “grand bargain” - with each side making concessions on entitlements, taxes, and Pentagon spending – on a more manageable scale.

**Conclusion: A Small Deal would be a Big Deal**

If the “super committee” can cut a grand bargain, go for it. The nation would be better off. But, while we hope the “super committee” succeeds in the largest possible endeavor, we believe the consequences of failure are too high to not have a plan B. A smaller, but significant deal may be necessary to build some confidence in order to get a bigger deal later on. It would certainly be better than no deal at all. That’s why we believe you should keep this failsafe handy and, if necessary, break the glass to use it.

**Endnotes**


