

What's Next for Fiscal Negotiations?

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We have reopened the government and avoided breaching the debt ceiling, albeit temporarily. In so doing, we have protected the ACA from irreparable harm. We have exposed rifts within the Republican Party, displayed remarkable progressive unity, and opened the door to further fiscal discussions. This is all good. But now we have another round of fiscal negotiations before us, and we cannot keep lurching from fiscal crisis to fiscal crisis if we want to hold out any hope of a strong middle-class economic recovery.

We believe there is a route to break the fiscal logjam and end this debilitating cycle of fiscal crises.

As part of whatever Congress negotiates on FY14 spending, we suggest achieving Social Security solvency through a bipartisan commission, structured in a way to ensure balanced action. In this memo, we explain why a Social Security fix is critical to advancing Democratic priorities:

1. This is the most direct route to gaining significant Republican support for raising hundreds of billions in new revenue—something that all progressives desire.
2. Social Security can be fixed in a way that is balanced and secures the program for current and future generations of beneficiaries.
3. It allows each side to claim a win without betraying any core principles.
4. It will open the door for movement on other important issues, from tax reform to domestic spending to immigration.
5. There is no better time to fix Social Security both politically and substantively.

1. Fixing Social Security is the most direct route to revenue.

Third Way conversations with House and Senate offices have confirmed that many Republican members—most privately and some publicly—remain open to revenue through a partial lifting of the Social Security FICA maximum. If packaged with benefit changes devoted to extending Social Security solvency, enough Republicans could join Democrats to reach a deal boosting revenue by as much as \$700-plus billion over ten years. In fact, last month a Dear Colleague from conservative Representative Reid Ribble (R-WI) asked fellow conference members to make Social Security (with a payroll tax cap boost) the center of a bipartisan budget deal.

From a progressive perspective, the most likely fix to Social Security contains far more new revenue than benefit reductions over the next 20 years. We project that reform would bring in \$2 in new Social Security revenue for every \$1 in benefit reductions between 2016 and 2035.

2. A balanced plan through a commission can clear Congress.

As it was in 1983, Social Security can be fixed by a balanced commission, ensuring that no one ideological extreme dictates the fix. And a commission can be structured to ensure there is an up or down vote on a balanced plan. Here's how:

- A Social Security commission would have to report its recommendations for 75-year solvency in December 2014.
- Congress would need to vote on the recommendations by March 2015.
- Substitute plans would be allowed as amendments, but all plans would have to achieve 75-year solvency.

3. Both parties get something they want.

Democrats get substantially more revenue, nearly all from wealthy people and businesses. They get Social Security solvency for the remainder of the century. They will have a plan that is balanced and protects the most vulnerable. And they will kill—once and for all—any attempt to privatize Social Security under a future Congress.

Republicans get significant entitlement reform. They get to claim credit for eliminating the \$9.6 trillion in unfunded Social Security obligations. Fixing Social Security has the side benefit of substantially improving America's long-range fiscal outlook. And Republicans would no longer face Democrats using Social Security as a cudgel during political campaigns.

4. Success opens the door to other legislative priorities.

Fixing Social Security would make it far easier to resolve a series of logjams that have crippled the government and stalled the economy. For example:

- **Tax reform:** Because a Social Security fix locks in hundreds of billions in new taxes, there will be far less pressure on tax reform to generate significant new revenue.
- **Sequestration:** Assuming a commission recommends Chained CPI, this index could generate additional tax revenue and program savings—*outside of Social Security*. A total of \$260 billion in **non-Social Security-related** Chained CPI savings could be dedicated to rolling back the sequester's discretionary caps.
- **Economic Growth:** A bipartisan agreement on something as big as Social Security could only help lead to more bipartisan efforts on immigration, infrastructure, and education.

- **Fiscal showdowns:** As part of any Social Security plan, the debt ceiling would be hiked substantially, because fixing Social Security has the added benefit of improving our long-range fiscal outlook by trillions of dollars.

5. This is the right time to fix Social Security.

On substance, the Social Security insolvency date has moved from 2042 to 2031 in the space of 12 years. And according to Chuck Blahous, a Social Security Trustee, Social Security is in worse fiscal shape today than it was in 1983.

Further, the disability insurance portion of Social Security goes broke in 2016. In the past, money has been shifted from the retirement and survivors trust fund to bail out the disability trust fund, but that requires a congressional vote. This vote is by no means automatic. Something has to give.

On the politics, Social Security can only be fixed with divided government, because solutions inevitably cause heartburn. And there will never be a more optimal roster than one led by President Obama and Leaders Reid and Pelosi.

Conclusion

Both parties agree that Social Security needs fixing, and the solutions are finite and known. A compromise would be good for current and future beneficiaries and open the door for further cross-party cooperation. We hope this gets a serious look.