

**The Economy and Higher Education
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**Approaches to Deficit Reduction--Summary
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Alice Rivlin, founding director of the Congressional Budget Office, former director of the White House Office of Management and Budget under the Clinton administration, and former vice chair of the Federal Reserve, served both as co-chair of the Bipartisan Policy Center's Debt Reduction Task Force and as a member of President Obama's National Commission on Fiscal Responsibility and Reform. She urges that swift action be taken now so that the United States can avoid a sovereign debt crisis. Both groups proposed 1) reform of entitlement programs—Medicare, Medicaid and Social Security—to curb their rate of growth; 2) tax reforms to create a more fair system and raise more revenue; and 3) cuts in discretionary spending, including domestic and defense spending. Rivlin warns that unless the federal government's budget is put onto a more sustainable track, the United States could face a debt crisis within the next two or three years. And once a debt crisis begins it is very hard to stop, and the downward trajectory is fast.

Key observations include:

- ∞ All projections indicate that even as the U.S. economy recovers, federal spending will rise faster than federal revenues because the costs of entitlement programs—Medicare, Medicaid, and to a lesser extent, Social Security—are growing faster than the economy, yet tax revenues can rise roughly only as fast as the economy grows.
- ∞ The level of U.S. debt is now more than 60 percent of GDP, and it is rapidly moving up to dangerous levels. Unless we make significant changes to move the federal government's budget to a more sustainable track, there

is certainly a possibility that we will face a sovereign debt crisis in this country before too long.

- ∞ Once a sovereign debt crisis begins, it is very hard to stop, and the downward trajectory is fast and quick.
- ∞ Both the President's and the Domenici-Rivlin debt commissions proposed entitlement reforms to curb their rate of growth, significant reforms of the tax code to make it fairer and raise more revenue, and domestic and defense spending cuts.
- ∞ The effects of the measures recommended by the debt commissions, in whatever form they may take, will be severe for higher education.
- ∞ The argument that higher education is somehow different because it's an investment in the future of our country can be made by many others. Indeed, the Defense Department has been making that argument—but at the same time is proposing large spending cuts.
- ∞ Discretionary spending—including that for higher education and defense—is not part of the deficit problem, because one can assume that such spending won't rise faster than inflation or growth. Regardless, we must use our resources as efficiently and sensibly as we can.
- ∞ The tax code needs to be dramatically reformed—not just incrementally changed—to achieve a fair and efficient tax system. The home mortgage deduction, for example, should be reduced to a credit at a far lower level, and charitable deductions should be limited. The consequences of not enacting tax reform are serious.
- ∞ Just a few years ago, our nation's high debt appeared to be a problem for the long-term. Today it is clear that the U.S. could have a debt crisis within the next two or three years unless significant actions are taken to increase revenues, reduce spending and reform the tax code.