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CBPP STATEMENT

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HOW DOES THE OBAMA BUDGET DO IN MEETING DEFICIT REDUCTION GOALS?

STATEMENT BY ROBERT GREENSTEIN, ON PRESIDENT OBAMA'S 2013 BUDGET

The President's budget would, if enacted, make significant progress in reducing deficits, although policymakers would have to take further steps, especially for future decades. Under its economic assumptions, it would achieve what most budget analysts, and all recent bipartisan commissions or panels, have identified as the crucial fiscal goal for the decade ahead — stabilizing the debt so that it no longer rises faster than the economy. To meet that goal, deficits must shrink to a bit less than 3% of Gross Domestic Product (GDP), and the President's budget would stabilize deficits at 2.8% of GDP from 2019 through 2022. The budget also would stop the debt from rising as a share of the economy in 2014 and reduce it slightly as a share of GDP over the following eight years.

When the Congressional Budget Office (CBO) analyzes the Obama budget in coming weeks, it will likely show deficits under the budget somewhat above 3.0% of GDP, and the debt continuing to rise somewhat as a share of GDP because CBO's current economic assumptions are more pessimistic than those of the White House Office of Management and Budget (OMB). Both sets of economic assumptions are in the range of mainstream economic forecasts; the differences between them reflect reasonable differences of opinion among economists about the long-term effect of the recent recession on future growth.

The costs and deficit numbers in the budgets of some previous Presidents could not be trusted for the "out-years," because they omitted future-year costs for overseas wars and for continuing relief from the Alternative Minimum Tax and the scheduled deep cuts in Medicare payments to physicians. The Obama budget includes such costs in all years, making its out-year numbers more meaningful.[1] If Congress enacted the Obama budget in full *and* its economic assumptions proved correct, the debt would stabilize over the coming decade although, as the White House acknowledges, policymakers would have to subsequently enact significant further deficit reduction to keep the debt stable in future decades.

The budget either achieves or approaches this key fiscal target for the coming decade with several trillion dollars in deficit reduction, through a balanced combination of spending cuts and revenue increases. In total, deficit reduction over the coming ten years (fiscal years 2013-2022) — through a *combination* of the proposals in the budget and measures enacted in 2011 — would equal about $3.8 trillion, not counting savings from reductions in costs for the wars

[1] The only potential cost omitted in future years is that the budget's transportation/infrastructure initiative is shown as ending after 2018, with annual funding for highways, mass transit, and rail programs declining from $96 billion in 2018 to $60 billion in 2019. If the $96 billion funding level for 2018 were maintained after 2018, costs and deficits would be slightly greater, by less than 0.2 percent of GDP.

in Iraq and Afghanistan, according to Table S-3 in the President's budget.[2] About 54 percent of these savings (not counting the savings from lower interest costs) would come from spending cuts, with about 46 percent coming from revenue increases, as compared to roughly a 50-50 mix under the Bowles-Simpson plan. (The Bowles-Simpson plan is sometimes described as having a two-to-one ratio, but that ratio counts interest savings as a spending reduction and measures revenue increases from a baseline that already assumes the savings from the expiration of the high-end Bush tax cuts.)

Indeed, the composition of the deficit reduction under the Obama budget is actually to the conservative side of the Bowles-Simpson plan — it raises significantly less in revenues and reduces security spending much less than Bowles-Simpson would.[3]

One striking feature of the Obama budget is the degree to which federal spending outside Social Security, Medicare, and Medicaid would *fall* as a share of GDP.

- Non-security discretionary spending would fall from 3.1% of GDP in 2011 to 1.7% in 2021 and 2022, the lowest level on record with data back to 1962.
- Spending for mandatory programs other than Social Security and Medicare — a budget category that *includes* the Medicaid program and the costs of the health reform law — would decline from 6% of GDP in 2011 to 5.5% in 2022.
- Entitlement and mandatory programs other than Social Security, Medicare, *and* Medicaid would fall from 4.2% of GDP in 2011 to 3.2% in 2022.[4]

These figures underscore the significant restraint in the budget overall, outside of programs whose rising costs are driven by the aging of the population and the rise in health care costs throughout the U.S. health care system. Per-beneficiary costs have actually been rising faster under private-sector health insurance than under Medicare and Medicaid, reflecting the system-wide cost pressures throughout the health system.

While a detailed examination of the full array of proposals in the budget lies beyond this initial assessment, several deficit-reduction proposals merit a brief mention here. Among other things, the budget proposes:

- **To save** $156 billion over ten years by eliminating the excess prices that Medicare pays for prescription drugs prescribed for low-income beneficiaries. Before the 2003 prescription drug law, *Medicaid* provided drug coverage for low-income elderly and disabled people also enrolled in Medicare. The 2003 law shifted that coverage to *Medicare* while abandoning the features of Medicaid that secured low prices for those drugs by requiring drug manufacturers to pay rebates — on the theory that the private insurance companies in the Medicare drug program (Part D)

[2] This figure excludes war savings included in Table S-3 as part of the savings from the enactment of 2012 full-year appropriations levels, as well as the savings shown as coming in the years ahead from capping "Overseas Contingency Operations" funding. It also excludes lower interest costs resulting from those savings.

[3] The size of the Obama plan's cuts in non-health mandatory programs appears similar to that in Bowles-Simpson, while the level of reductions in health-care mandatory programs — while significant at $360 billion over ten years — appears somewhat below the Bowles-Simpson levels. Bowles-Simpson also included changes in Social Security on both the benefit and revenue sides.

[4] These figures do not include costs or savings from TARP.

would negotiate still-lower prices from drug manufacturers. This theory proved seriously mistaken, and Medicare is now paying considerably more to provide drugs to these beneficiaries than Medicaid used to pay. The President's budget proposes to secure for Medicare the same price levels that Medicaid continues to get for the same drugs when they are prescribed for Medicaid recipients who are *not* elderly or disabled. This proposal also was included in the Bowles-Simpson plan. (But, due to opposition from the pharmaceutical industry, most congressional Republicans, and some congressional Democrats, this common-sense proposal is unlikely to move on Capitol Hill.)

- **To save** $119 billion from restoring the generous estate tax rules that were in place in 2009, under which the first $3.5 million of an estate for an individual — and the first $7 million for a couple — were entirely exempt from the tax, with only the estates of the wealthiest one-quarter of 1 percent of people who died subject to any estate tax at all. The tax-cut extension deal that President Obama and Congress enacted at the end of 2010 weakened the estate tax further, however, showering tens of billions of dollars of additional tax cuts on the estates of the top one-quarter of 1 percent of Americans. The Obama budget would end the additional estate tax cuts.

- **To re-submit** an important proposal from last year's budget to reform the financing of the unemployment insurance system in order to strengthen its soundness and solvency, and to reduce the need for state unemployment insurance systems to borrow from the federal government in future recessions. This proposal would reduce the deficit by $47 billion over ten years. Unfortunately, amidst calls from House Republicans for UI "reforms" that would, among other things, impose drug-testing and educational requirements as a condition for benefit receipt — measures that CBO estimates would have no significant fiscal impact — this much more important and fiscally consequential package of UI reforms has been ignored. It should be at the center of any debate of reform of the unemployment insurance system to shore up the system for coming years and decades.

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