Center on Budget and Policy Priorities

820 First Street, NE, Suite 510
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

CBPP STATEMENT

For Immediate Release:
Moday, February 14, 2011

Contact:
Michelle Bazie, 202-408-1080, bazie@cbpp.org

STATEMENT BY ROBERT GREENSTEIN, EXECUTIVE DIRECTOR, ON THE PRESIDENT'S BUDGET PROPOSAL

The President's budget would take an important step toward addressing the nation's long-term fiscal challenge, cutting the deficit enough to stabilize the debt as a share of the economy for most of this decade. The debt would represent the same share of the economy in 2019 as in 2013, and be only 0.7 percent of GDP higher in 2021 than in 2013.[1] Stabilizing the debt as a share of the economy is the most important fiscal goal for the decade ahead, as recent high-level fiscal commissions have noted. It would prevent a debt explosion, thereby substantially reduce the risks of a financial crisis, and give policymakers the time to address the longer-term deficits that are driven largely by rapidly rising health costs throughout the U.S. health care system and the aging of the population.

The President's budget achieves this goal by cutting domestic discretionary programs, securing savings in entitlement programs, limiting defense expenditures, and raising revenues primarily by curbing a plethora of tax loopholes. At the same time, it does not propose the immediate and severe cuts in domestic discretionary programs that House Republicans are proposing, which would weaken the economy (and thereby cost many jobs) before it can safely absorb such austerity measures, eviscerate key programs and services, and render the federal government unable to meet some critical national needs.

The President's budget, however, does not go nearly far enough to keep the debt stabilized in later decades, which the Administration acknowledges. The President and Congress will need to take much bigger steps — on both spending and taxes — to meet those challenges. The budget signals the Administration's interest in bipartisan discussions on these issues, explicitly calling, for example, for bipartisan talks on Social Security and laying out the Administration's principles for such negotiations.

Tough Choices

The budget includes a number of hard choices. Its five-year freeze on overall funding for non-security discretionary programs — which would save $400 billion over ten years — includes an array of deep cuts, such as a 50 percent cut in the community services block grant and the Low-Income Home Energy Assistance Program (LIHEAP). It

[1] Debt net of the government's financial assets, a measure many analysts favor, would be exactly the same as a share of the economy in 2021 as in 2013.

includes other hard choices within programs even when not cutting overall funding, such as eliminating Pell Grant assistance to help low-income students afford summer courses in order to limit program costs while maintaining the maximum Pell Grant award.

The budget would allow various Bush tax cuts for people making over $250,000 a year to expire on schedule at the end of 2012 (although the budget does not count these savings as part of its estimated $1.1 trillion in total deficit savings), and it proposes to close an array of tax loopholes for special interests such as the oil and gas industries. In addition, the budget would cap the value of itemized deductions at 28 percent and use the savings to extend relief from the Alternative Minimum Tax for three years, so that the AMT doesn't ensnare millions of middle- and upper-middle-income households. Until now, Presidents and Congresses of both parties have repeatedly extended AMT relief *without* paying for it — that is, by financing the cost through bigger deficits. There is risk that Congress will ignore this proposed reform and simply continue to extend AMT relief without paying for it; we urge lawmakers to resist that temptation.

Given current fiscal and political circumstances, the budget strikes a tough but generally sound overall balance among the need for fiscal restraint, the need to avoid large immediate cuts while the economy is still weak, the need to protect effective high-priority programs (especially those that represent effective long-term investments), and the need to avoid inflicting serious harm on the poorest and most vulnerable members of our society.

One exception is the deep cut in LIHEAP. The President proposes to return LIHEAP to its 2008 funding level on the grounds that home energy prices are much lower now than when Congress substantially increased LIHEAP funding in response to a rise in those prices. But, the Energy Department's own price forecasts indicate that home energy prices in the winter of 2012 will be back to their levels in the winter of 2008 and higher than in any year since then as well as in the years before 2008. The price of home heating oil is projected to be almost *twice* its 2000-2007 average; residential electricity almost 30 percent higher, and residential natural gas over 10 percent higher. While these prices will still be lower than at the peak of the price spike that occurred after the winter of 2008, the number of low-income Americans is much higher now— the number of people living in poverty is expected to be about *15 percent* greater in 2012 than it was in 2008.

Why Not More Long-Term Deficit Reduction?

Some critics charge that the President's budget is deficient because it does not do enough to address the nation's longer-term fiscal problems. We agree that the President and Congress must do much more to put the budget on a sustainable path in later decades. Nevertheless, we believe this criticism is misguided for two reasons.

First, the criticism downplays both the budget's significant achievement in stabilizing the debt-to-GDP ratio in this decade, and the extent to which the steps to reach this goal would substantially improve the fiscal outlook for later decades.

Second and more important, it ignores the fact that had the budget included a large array of specific proposals for longer-term deficit reduction — ranging from increased taxes to changes in Social Security — that likely would have made it harder, not easier, for the Administration and

Congress to eventually reach bipartisan agreement on those matters. Specific presidential proposals would have invited immediate attacks from lawmakers across the political spectrum and almost certainly led to pledges by scores or hundreds of members of Congress never to agree to them. That, in turn, would have made it harder for negotiators to reach agreement on large, longer-term deficit-reduction measures. A goal at this point should be to keep policymakers from taking various specific proposals *off the table* before negotiations even commence.

That problem occurs even in normal political times. But, these are not normal political times. The atmosphere is far more toxic, and the tendency to launch immediate incendiary attacks on specific deficit-reduction proposals for political gain far greater, than in the past when successful bipartisan negotiations took place.

For example, health reform (i.e., the Affordable Care Act or ACA) contains most of the major recommendations for Medicare savings that Congress' own bipartisan expert advisory commission, the Medicare Payment Advisory Commission, has made in recent years. Yet, despite statements by Republican congressional leaders and many rank-and-file members that Congress must significantly reduce projected health care program costs, these same lawmakers have attacked and called for the repeal of these Medicare savings provisions.

Similarly, the President's budget creates a well-crafted framework for reforming unemployment insurance (UI) financing to achieve four important goals: (1) avoid automatic tax increases on businesses that otherwise will occur in the next two years at a time when the economy is expected to remain weak; (2) prevent a future UI financing crisis that, in the next recession, could create a need for a federal bailout or takeover of insolvent state UI trust funds; (3) enact overdue UI reforms by *lowering* the federal UI tax rate and *broadening* the UI tax base in a revenue-neutral manner; and (4) reduce the federal budget deficit in the process. All four of these goals should appeal to policymakers across the political spectrum. Yet many Republican congressional leaders immediately attacked the proposal last week when the Administration revealed its details, claiming it would raise taxes on business — even though UI taxes on employers will rise *automatically*, and soon, in many states across the country in the absence of federal reforms. (These taxes will increase automatically to repay the loans that states have taken from the federal government to pay UI benefits during the recession.)

These sad examples suggest that the Administration was on sound footing in not offering, in the budget, various controversial proposals for long-term deficit reduction that policymakers could consider more constructively as part of future deficit-reduction negotiations. Floating proposals that swiftly get blown up as politicians jockey for political advantage does not advance the cause of fiscal responsibility.

The Timing of Deficit Reduction and the Obama Budget

In its approach to deficit reduction, the budget also reflects another unfortunate reality. Over the long run, the largest contribution to deficit reduction likely will need to come from slowing the rate of growth of health care costs throughout the U.S. health care system, in the public and private sectors alike. But major savings probably are not achievable in this area in the next five or ten years. Health reform includes most of the steps that we know how to take now to reduce expenditures in these areas. (That's how the ACA can generate modest deficit reduction while extending coverage to 32 million people.) Health reform also contains an extensive array of demonstration projects, pilots, and research to test and identify cost-saving reforms in health care delivery and payment systems, which could eventually produce substantial savings throughout the health care system. But these reforms will take time to identify, test, and then institute on a broad scale. While these reforms offer the potential for large and growing savings in future decades, they offer little realistic hope of large savings before 2020.

Measures to restore long-term Social Security solvency also can contribute to deficit reduction in future decades, albeit on a far more modest scale. But here, too, policymakers will not be able to secure sizeable savings in the decade ahead. Policymakers across the political spectrum widely agree that changes in Social Security benefits generally should not affect people who are now 55 or over, and that any reforms should phase in changes in Social Security benefits and taxes gradually over a considerable period of time.

These realities create a dilemma: how can policymakers stabilize the debt in the decade ahead if they cannot achieve substantial savings in Medicare, Medicaid, and Social Security in that timeframe without imposing serious hardship on millions of the nation's poorest and sickest citizens? The President's budget provides an answer. It would bring deficits and debt down to a safe range in this decade. That should reassure financial markets that the nation is serious about its fiscal problems, buying policymakers the time to find and make the larger changes — especially in system-wide reform of health care delivery and payment systems — that are crucial to keeping deficits under control over the long term.

If the Administration and Congress hold successful deficit-reduction negotiations later this year, they could conceivably generate further steps in areas like taxes (through tax reform that both raises revenue and makes the tax code more conducive to economic growth) and Social Security. The pivotal longer-term changes in the U.S. health care system, however, will have to wait until we know more about how to appreciably slow the growth of health care costs without compromising the quality of care or denying needed care to people who otherwise cannot afford it.

Looking Ahead to Negotiations

The budget responsibly calls for allowing the Bush tax cuts for high-income households to expire at the end of 2012 and returning the estate tax to its parameters in 2009, when the assets of 99.75 percent of Americans who died were fully exempt from the tax. These steps would avert $950 billion in *additional* deficits and debt over the next decade. But, the budget adheres to the President's longstanding promise to make permanent all of the Bush tax cuts for people under $250,000. Allowing *all* of the Bush-era tax cuts to expire at the end of 2012 — and allowing the tax code to return to where it stood in the final Clinton years, a period of robust economic growth — would contribute far more dramatically to deficit reduction. Although such a sensible measure is not politically feasible at the present time, it should be part of serious negotiations on longer-term deficit reduction, as it would help very significantly in getting the nation's fiscal house in order.

In short, the President's budget has its warts, but it represents a sound approach to start reducing the deficit. It avoids massive, destructive budget cuts in the next couple of years when the economy will still be weak, while proposing an array of spending and tax changes that would bring deficits and debt under control for the medium term.

Although policymakers will have to do much more, stabilizing the debt as a share of the economy for most of the coming decade would be a major achievement. It would alleviate concerns about a potential debt crisis in the near term and thereby buy time for a thoughtful, bipartisan approach to enacting the additional changes in the tax code, various programs, and — crucially — the health care system to ensure the nation's long-term fiscal stability.

# # #