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## CBPP STATEMENT

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# STATEMENT OF ROBERT GREENSTEIN ON PRESIDENT OBAMA'S DEFICIT-REDUCTION PLAN

President Obama made an important contribution today to efforts to address the nation's long-term fiscal problems, proposing a plan to reduce deficits by about $4 trillion over the next 12 years and meet the essential goal of stabilizing the national debt so that it rises no faster than the economy.

Of particular note, the President called for bipartisan negotiations to start quickly on these issues, both to avoid a default that looms if Congress does not raise the debt ceiling in coming weeks and to make progress on the deficit reduction front. Also to his credit, the President leveled with the American people, making clear that the budget is dominated not by "waste and abuse" or by programs like foreign aid, but instead by basic programs and services that the vast majority of Americans want or need — particularly Social Security, Medicare, Medicaid, and national defense. He made clear that, if the American people and their elected leaders truly want to reduce deficits to sustainable levels, policymakers will have to address these program areas as well as taxes.

The President's plan stands in sharp contrast to the budget plan that House Budget Committee Chairman Paul Ryan unveiled, and his committee approved, last week. Unlike the Ryan plan, the President's plan puts *all* parts of the budget on the table, including defense and revenues. Unlike the Ryan plan, which the Congressional Budget Office (CBO) has found would *increase* the costs of providing health care to Medicare beneficiaries, the President's plan contains measures to reduce these costs. CBO estimates that Chairman Ryan's Medicare proposals would substantially *raise* overall costs per beneficiary. Ryan's plan reduces federal Medicare expenditures only because it dramatically shifts more of these costs on to the backs of beneficiaries, who CBO says would see the amount they pay for health care more than double by 2022 (for people turning 65 in 2022 or subsequent years). In short, Ryan's plan doesn't lower health costs; it shifts them. The President's plan, by contrast, seeks to reduce underlying health costs themselves.

Nevertheless, we have several significant concerns about the President's plan. First, like the plan of his fiscal commission (the Bowles-Simpson plan), the President's plan takes two-thirds of its deficit reduction from budget cuts and one-third from revenue increases. (This two-to-one split does not include the interest savings that the deficit reduction measures would generate; counting those savings, both the Obama and Bowles-Simpson plans would get three-quarters of their savings from spending reductions and one-quarter from increased revenues.) The deficit reduction plan issued last fall by a bipartisan panel co-chaired by former Senate Budget Committee Chairman Pete Domenici and former Clinton White House Budget Office and CBO Director Alice Rivlin offered a more balanced approach — with half of its deficit savings from budget cuts and half from revenue increases. Such a 50-50 split represents a fairer and more balanced approach.

Because the Obama plan relies on budget cuts for two-thirds of its deficit reduction measures, it goes dangerously far in two areas. It calls for $360 billion in cuts in mandatory programs other than Medicare, Medicaid, and Social Security. The large budget-cut target for this part of the budget risks leading to substantial cuts in core programs for low-income Americans, our most vulnerable people. To the President's credit, his plan states that "reforms to mandatory programs should protect and strengthen the safety net for low-income families and other vulnerable Americans." And the Bowles-Simpson plan enunciates the same basic principle. But to achieve $360 billion in savings in this part of the budget without cutting programs for low-income families and thereby increasing poverty and hardship will require very tough choices that entail confronting powerful special-interest lobbyists to a degree that neither party has proved capable of doing in the past.

Another significant concern stems from the President's proposal to limit the annual growth in Medicare costs per beneficiary to the per capita rate of growth in the Gross Domestic Product (GDP) plus only 0.5 percentage points and to require automatic cuts in Medicare if this target would otherwise be exceeded. This goal is laudable. But it may be unrealistic. Historically, Medicare costs per beneficiary have risen about 2 percentage points per year faster than GDP growth per capita. The health reform law will launch a series of demonstrations, pilots, and research projects to find effective ways to slow health care cost growth without reducing the quality of care or access to care. But we don't know yet how much or how quickly we can lower health care cost growth, especially since the principal driver in cost growth is medical advances that improve health and save and prolong lives but add significant costs.

Finally, the President's plan calls for a mechanism to trigger automatic reductions in programs and tax expenditures if the debt would exceed certain benchmarks (measured as a share of GDP). The goal of stabilizing the debt as a share of GDP is precisely the right one. But all triggers like this that have been designed in the past have suffered from a fatal flaw — they required the deepest budget cuts when the economy was weakest and the smallest cuts when it was strongest — the opposite of what sound economic policy entails. The President's plan calls for the trigger to "include a mechanism to ensure that it does not exacerbate an economic downturn." No one has succeeded until now in producing a mechanism that meets this test, and it remains unclear whether it can be done. This new proposal bears some similarities to the trigger in the 1985 Gramm-Rudman-Hollings law, which was not successful and which Congress ultimately repealed.

To be sure, the President's plan represents an important step forward in the debate. But it should be recognized that this plan is a rather conservative one, significantly to the right of the Rivlin-Domenici plan. While we worry about some particular elements of the President's plan, we worry much more that the deficit-reduction process that's now starting could produce an outcome that is well to the right of the already centrist-to-moderately-conservative Obama proposal, by reducing its relatively modest revenue increases and cutting more deeply into effective programs that are vital to millions of Americans.

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