UNITED STATES SENATE

COMMITTEE ON THE BUDGET

THE $4 TRILLION GIMMICK: AN SBC REPUBLICAN ANALYSIS OF THE PRESIDENT'S DEFICIT REDUCTION 'FRAMEWORK'

PABLO MARTINEZ MONSIVAIS / AP

April 13, 2011 - President Obama gives his Deficit Reduction Framework speech.

SUMMARY OF SBC REPUBLICAN ANALYSIS

THE $4 TRILLION GIMMICK: PRESIDENT'S 'FRAMEWORK' TO REDUCE THE DEFICIT BY $4 TRILLION WOULD GROW IT $2.2 TRILLION BEYOND CBO BASELINE

The American people deserve an honest, fact-based budget. Instead the president's deficit speech was the biggest gimmick yet.

An analysis of the president's April 13 speech from the Republican staff of the Senate Budget Committee exposes the president's claim that he has a revised budget framework which will result in $4 trillion dollars in deficit reduction. The analysis reveals that the president's new framework is simply a rhetorically repackaged version of the budget he submitted on February 14—a budget that CBO estimated would actually worsen our deficits by $2.7 trillion. The committee has concluded that the president's 'framework' compared to the current CBO baseline would now worsen the deficit by $2.2 trillion over 10 years.

The president's speech is thus a sleight-of-hand that creates the impression of bringing new deficit reduction measures to the table without actually doing so—leaving us, at bottom, with the original flawed proposal, only presented in language that makes it seem new.

Here's how the president's $4 trillion gimmick works:

1. He offers the same proposals in his framework as his formal budget submission but using new language
2. Assumes savings from his February budget that CBO already found to be bogus
3. Calculates 12 years of savings while comparing it to budgets with shorter time frames
4. Adds the long-term savings from the just-passed CR

As the analysis in the following pages demonstrates, the president's framework offers no new proposals beyond his failed February budget to reduce our dangerously high deficits. Even if you use the White House's own estimates (estimates discredited by the Congressional Budget Office), his framework *still* falls an astonishing $3.2 trillion short of his own fiscal commission. Perhaps this is why the White House has been unwilling to heed the call of the Senate Budget Committee Republicans to prove he has an actual plan for reducing the deficit by formally submitting that framework to Congress. As it stands now, the president has no real plan to reduce the deficit—let alone a framework to reduce it by $4 trillion dollars. It's just one more big gimmick.

On February 14, two and a half months ago, the president submitted his budget request for 2012.

On April 13, the president gave a speech where he "updated" his budget by proposing what he called a "comprehensive, balanced deficit reduction framework to cut spending, bring down our debt and increase confidence in our nation's fiscal strength" that covers 12 years (2012-2023) instead of the 10 years (2012-2021) covered by his February budget. The president claimed this framework would "set a goal of reducing our deficit by $4 trillion in 12 years." [emphasis added]

Two key questions are: why are two years added to the budget time frame in the president's April framework, and is there anything new in the framework besides the two extra years?

The reasons there are no simple answers is that the president did not submit a new budget to fill out the framework, did not clearly differentiate in his speech between the items already proposed in his February budget and any new items proposed in the framework in his speech, and did not explain how much of any new deficit reduction appears in the extra two years. The following tables extrapolate the president's February request for two years to isolate what is new in his April framework.

Additional Deficit Reduction

Compared to the "adjusted" baseline (not the CBO baseline) that the Office of Management and Budget constructed to measure the effect of his proposals, the president estimated his February budget (see table S-2 of the *Fiscal Year 2012 Budget of the U.S. Government*) would reduce the deficit by $2.2 trillion over 10 years (and, extrapolated, by $2.9 trillion over 12 years).

In his April 13 speech, the president said the framework aims instead to reduce the deficit by $4 trillion over 12 years and "builds on the roughly $1 trillion in deficit reduction I already proposed in my 2012 budget." In his February budget, the president separates the $2.2 billion of total claimed deficit reduction into two components: the $1.1 trillion in "savings" that would arise from not spending as much as $150 billion per year for the next 10 years on wars, and the remaining $1.1 trillion in deficit reduction the president says will occur by adopting all his other policy proposals. But the April framework offers no reliable information to determine whether the claimed $4 trillion in deficit reduction is anything other than a new ending point to update the $2.9 trillion in deficit reduction over 12 years claimed in the February budget. So by subtraction, the April framework appears to be adding only $1.1 trillion more than the February budget claimed to reduce the deficit over 12 years.

The President's April Framework Claims
$1.1 Trillion More In Deficit Reduction Than His February Budget
($ trillions)

	10 years	12 years
President's Adjusted Baseline Deficits	9.4	11.9
President's February Budget Deficits	7.2	8.9
Claimed Deficit Reduction in Budget	2.2	2.9
Claimed Deficit Reduction in Framework	NA	4.0
Additional Deficit Reduction from April Framework	NA	1.1
Total Deficits Under April Framework	NA	7.9

NA = Not Applicable. The president made no claims about how the proposed framework would affect 10 years.
Source: For 10-year figures, Office of Management and Budget, *Fiscal Year 2012 Budget of the U.S. Government*; for 12-year figures, president's speech of April 13, 2011, and SBC Republican staff extrapolations.

This is where the president described the $4 trillion would come from:

> It's an approach that achieves about $2 trillion in spending cuts across the budget. It will lower our interest payments on the debt by $1 trillion. It calls for tax reform to cut about $1 trillion in tax expenditures.

Extrapolating the revenue and spending components of the president's February budget illustrates how they contribute to the deficit levels over 12 years and where any new deficit reduction proposals implicit in the president's April framework might "live."

Any Additional Revenues?

Starting with revenues might be the easiest because there appears to be no change between the February budget and the April framework. In the February budget, the president proposed to increase revenues by $1 trillion over 12 years (compared to his "adjusted baseline"), and that is the amount of revenue increase he said his April framework would yield. Given the way the president's numbers work, there appears to be no new revenue increases in the April framework compared to the February budget, though the president's speech certainly creates confusion on this point:

> The fourth step in our approach is to reduce spending in the tax code, so-called tax expenditures… We cannot afford $1 trillion worth of tax cuts for every millionaire and billionaire in our society… The tax code is also loaded up with spending on things like itemized deductions… So my [February] budget calls for limiting itemized deductions for the wealthiest 2 percent of Americans—a reform that would reduce the deficit by $320 billion over 10 years.
>
> But to reduce the deficit, I believe we should go further. And that's why I'm calling on Congress to reform our individual tax code so that it is fair and simple… We

should reform our corporate tax code as well, to make our businesses and our economy more competitive.

Note that the $1 trillion in revenue increases over 12 years in the February budget is composed of $0.5 trillion in gross, additional some-kind-of excise tax to finance the Highway Trust Fund (which the president is saying is not a gas tax increase and which would be spent on the spending side of the budget, for no net deficit reduction) and probably $0.4 trillion from the elimination of the itemized deductions that the president called out in his speech. Beyond that, the speech leaves it perfectly muddled how much, if any, additional revenue from efforts to reform various part of the tax code will be used as part of the reform or how much will reduce the deficit beyond the $1 trillion proposed in the February budget. In absence of the necessary detail to determine what is truly additional from the April framework, the repetition of the $1 trillion target for revenue increases forces one to conclude that the framework includes no significant revenue increase beyond his February budget.

The President's April Framework Proposes No Hard New Revenues Compared To His February Budget

($ trillions)

	10 years	12 years
President's Adjusted Baseline Revenues	37.9	48.3
President's February Budget Revenues	38.7	49.4
Claimed Revenue Increase in Budget	0.8	1.0
Claimed Revenue Increase in April Framework	NA	1.0
Increase in Revenues from April Framework	NA	0.0
Total Revenues Under April Framework	NA	49.4

NA = Not Applicable. The president made no claims about how the proposed framework would affect 10 years.

Source: For 10-year figures, Office of Management and Budget, *Fiscal Year 2012 Budget of the U.S. Government*; for 12-year figures, president's speech of April 13, 2011, and SBC Republican staff extrapolations.

What About Interest Savings?

So if none of it appears on the revenue side, the $1.1 billion in additional deficit reduction claimed in the president's framework must be entirely on the spending side of the budget. The president said about $1 trillion (out of the $4 trillion in total deficit reduction from his framework) would come from lower interest payments on the debt. When the president submitted his budget in February, he said it would lower interest payments by $0.5 trillion (extrapolated from 10 years to 12 years), so that suggests his new framework proposes to double (!?!) the interest savings from his February budget. If true, that additional $0.5 trillion in interest savings would account for nearly half of the total $1.1 trillion in additional deficit reduction the president claims in his framework.

That cannot possibly be the case, however. Even if the implicit balance of the president's new deficit reduction—amounting to $0.6 trillion out of the $1.1 trillion—occurred entirely in 2012, the interest savings would be closer to $0.3 trillion over 12 years, not $0.5 trillion. The president must be using generous rounding to describe the contribution of interest savings to the total $4 trillion in deficit reduction in order to be able to describe the $4 trillion in very speech-worthy, very round components of 1, 1, and 2 (trillion $, respectively, for revenues, interest savings, and other outlay savings). The extra interest savings from his speech have to be less than $0.5 trillion—probably no more than $0.3 trillion.

The President's April Framework Claims About $0.3 Trillion More In Interest Savings Than His February Budget

($ trillions)

	10 years	12 years
President's Adjusted Baseline Interest Payments	6.1	8.1
President's February Budget Interest Payments	5.7	7.6
Claimed Reduction in Interest Payments in Budget	0.3	0.5
Claimed Reduction in Interest Payments in Framework	NA	0.8[a]
Additional Reduction in Interest Payments from Framework	NA	0.3
Total Interest Payments Under April Framework	NA	7.3

a. President rounded additional interest savings from framework to $1 trillion.

NA = Not Applicable. The president made no claims about how the proposed framework would affect 10 years.

Source: For 10-year figures, Office of Management and Budget, *Fiscal Year 2012 Budget of the U.S. Government*; for 12-year figures, president's speech of April 13, 2011, and SBC Republican staff extrapolations.

Is The President Proposing Additional Spending Cuts?

Since the president is not proposing new taxes beyond those in his February budget, the only way for the president to claim additional interest savings is if his framework includes additional spending reductions not proposed in his February budget.

Let's look at discretionary spending—it's the part of the budget that Congress funds on an annual basis in appropriation bills, which the president mentioned in his speech:

> The first step in our approach is to keep annual domestic spending low by building on the savings that both parties agreed to last week. That step alone will save us about $750 billion over 12 years.

Remember that the president's 2011 appropriations request (reiterated in his 2012 budget) was $1.135 trillion for non-war appropriations for 2011 (see CBO's *Analysis of the President's Budgetary Proposal for Fiscal Year 2012*, table 1-4, p. 12). The Continuing Resolution for 2011 enacted net appropriations of $1.050 trillion, or $85 billion less than the president's request for 2011. Since about $10 billion of that $85 billion difference stems from reductions in mandatory programs (not already proposed in the president's budget to be credited against discretionary spending), the net reduction in enacted 2011 discretionary budget authority is about $75 billion compared to the president's February budget.

Remember also that the president had proposed in his February budget to "freeze" a subset of discretionary programs for five years at 2011 levels. The president could not possibly be proposing in his framework to undo the 2011 reductions—which affected the same subset of discretionary programs—in all future years covered by his budget. Instead, his framework likely means he is prepared to adjust his February budget for discretionary budget authority for 2012-2023 down by $75 billion in every year to reflect lower appropriations enacted for 2011.

Combining the president's wish to build "on the savings that both parties agreed to" with his framework's fact sheet statement that "[w]e should build on this year's savings… by cutting non-security spending to levels consistent with what the Fiscal Commission recommended," would easily lower discretionary outlays by $0.8 trillion over the next 12 years. So here the president's speech is not proposing anything new compared to the baseline path set out by current appropriations law (though it is new compared to his February budget).

The President's April Framework Takes Credit For $0.8 Trillion In Discretionary Savings Because Appropriations Enacted for 2011 Are Lower Than His February Budget

($ trillions)

	10 years	12 years
President's Adjusted Baseline Discretionary Outlays	15.7	17.4
President's February Budget Discretionary Outlays	12.8	15.7
Claimed Reduction in Discretionary Outlays in Budget	1.3	1.7
Additional Reduction in Discretionary Outlays from Framework	NA	0.8
Additional Reduction in Discretionary Outlays in Framework Compared to Current Law		0.0
Total Discretionary Outlays Under April Framework	NA	14.9

NA = Not Applicable. The president made no claims about how the proposed framework would affect 10 years.
Source: For 10-year figures, Office of Management and Budget, *Fiscal Year 2012 Budget of the U.S. Government*; for 12-year figures, president's speech of April 13, 2011, and SBC Republican staff extrapolations.

Recap For Informed Budgeteers

The president, in his new framework, has taken a "Look Ma! No hands!" approach to budgeting. The president appears to be proposing $1.1 trillion in additional spending cuts, but the difficult work has already been done (though he still has to stretch the time frame to 12 years to claim a $4 trillion reduction in deficits using his own optimistic estimates). He takes credit for about $0.8 trillion in discretionary savings from lowering his February discretionary request over the next 12 years by the amount of the reduction in 2011 enacted appropriations to get to the same place the Fiscal Commission did. This $0.8 trillion in discretionary savings combined with the associated interest savings of about $0.3 trillion produces total additional deficit reduction of $1.1 trillion.

That means the president's framework appears to include no *significant* new proposals on the mandatory side of the budget. If he is proposing major new savings, then he has done a good job of hiding them somewhere in his speech and fact sheet, because they don't fall out in any clear way.

Where Does the Additional Deficit
Reduction In The President's Framework Come From?
From Not Undoing the Reduction in 2011 Appropriations
$ trillions

	12 years
Additional Deficit Reduction Announced in April Framework	1.1
Breakdown:	
Increase in Revenues	0.0
Reduction in Discretionary Outlays	0.8
Reduction in Mandatory Outlays	0.0
Reduction in Interest Payments	0.3

Source: President's speech of April 13, 2011, and SBC Republican staff extrapolations.

The president spends the first four and half pages of his April 13 speech explaining what everyone already understands—that we have a fiscal problem—and the next page and a half criticizing the House Republicans' budget plan. The president then employs only two and a half pages to sketch out the barest hints of his opaque deficit reduction framework, finishing off in pages 10 and 11 with exhortations to action. While it is true that a Congressional budget resolution, like the one that the House passed last month, is not required to have the account-by-account detail that is required in the president's budget that he submitted in February, the president's framework is attempting to counter the House's budget with far fewer details than the House budget provides. At least both the House plan and the plan of the president's Fiscal Commission take the trouble to show the year-by-year path of the dollar levels for the major components of those plans. Perhaps the president's speech should have used more of its 11 pages to provide comparable information.

Until the president does submit a more detailed version of his framework and explain how it is different than his February budget, then his framework appears the same as his budget ever was, only updated for enactment of the 2011 appropriation reductions and adding two years to confuse people.

Before the president's speech in April, the most important thing we knew about the president's February budget is that it would produce deficits of nearly $1 trillion per year, totaling $9.5 trillion over 10 years (according to CBO)—$2.3 trillion higher than the president had claimed in February. Looked at another way, while CBO said the president's February budget would increase the deficit by $2.7 trillion above the CBO March baseline over 2012-2021, it appears that the president's framework would still increase the deficit by about $2.2 trillion over the same timeframe (the president's framework appears to adjust his discretionary request down by the amount of the reductions that Congress pressed him to accept in the continuing resolution for 2011, but the baseline will move down to reflect enactment of that law as well). After deconstructing the speech, it appears the president is proposing to change little about his

February budget except to carry out (over the next 12 years) the effect of the $75 billion in lower (compared to his 2011 request) appropriations enacted for 2011.

Deficits in president's Framework Are $3.2 Trillion Higher Than Fiscal Commission

Since the president's Fiscal Commission issued its final report, *The Moment of Truth*, in December 2010, it has been commonly reported that the Commission's plan would reduce the deficit by $4 trillion ($3.885 trillion over 2012-2020; see Figure 3, page 15).

During his April 13 speech, twice the president directly compared his framework to parts of the Fiscal Commission's recommendations.

> So today, I'm proposing a more balanced [than House Budget Committee Chairman Ryan's] approach to achieve $4 trillion in deficit reduction over 12 years. It's an approach that borrows from the recommendations of the bipartisan Fiscal Commission that I appointed last year…
>
> I believe reform should protect the middle class, promote economic growth, and build on the Fiscal Commission's model of reducing tax expenditures so that there's enough savings to both lower rates and lower the deficit.

And in claiming deficit reduction, perhaps not coincidentally, of $4 trillion as well, the president appears to hope listeners will believe his framework will achieve the same results as the Fiscal Commission.

But careful observers would be right to note that the president's $4 trillion goal for reducing the deficit is <u>over a period of 12 years</u>, 2012-2023, instead of <u>nine</u> years like the Fiscal Commission recommended.

Besides the games that can be played by altering the number of years covered, deficit reduction plans also obscure what they are proposing to do by describing the plan in terms of how much a of a <u>change</u> in the deficit will result if one implements the plan. Of course, what the change means depends on what the starting point is—change from what? Because both the Fiscal Commission and the president's budget framework have each invented their own starting points (the "Plausible Baseline" and the "Adjusted Baseline," respectively) that are different from each other and different from the CBO baseline, it is nearly impossible to compare what the two sets of recommendations do by comparing the amount of deficit reduction they claim.

Given different starting points, it is more useful to compare where the plans <u>end up on levels</u> of spending, revenues, and deficits. The only way to know for sure whether the president is finally adopting the same goal that he charged his Fiscal Commission with achieving—and that his Fiscal Commission attained—is to look at the levels resulting from the two plans over the same time period.

The President's Framework Exceeds Fiscal Commission's Deficit Levels By $3.2 Trillion

	2012-2023
Discretionary Spending	
Fiscal Commission	14.9
President's Framework	14.9
Mandatory Spending	
Fiscal Commission	32.7
President's Framework	35.1
Interest Payments	
Fiscal Commission	7.2
President's Framework	7.3
TOTAL OUTLAYS	
Fiscal Commission	54.8
President's Framework	57.2
TOTAL REVENUES	
Fiscal Commission	50.1
President's Framework	49.4
DEFICIT	
Fiscal Commission	4.7
President's Framework	7.9

Sources: For Fiscal Commission levels for 2012-2020, *The Moment of Truth: Report of the National Commission on Fiscal Responsibility and Reform*; for extrapolation of Fiscal Commission levels for 2021-2023, SBC Republican staff; for levels for president's framework, president's speech of April 13, 2011, and SBC Republican staff.

Note that by embracing the reductions enacted for 2011 appropriations and reducing his request for 2012-2023 accordingly, the president's framework matches total discretionary spending ($14.9 trillion) proposed by the Fiscal Commission over 12 years. In all the other major categories of the budget, the Fiscal Commission has lower outlays or higher revenues, and, therefore, lower cumulative deficits.

It appears the president's framework does not "borrow" enough from the Fiscal Commission—the deficits under his framework <u>still</u> exceed the Commission's deficits by at least $3.2 trillion over 12 years, using the president's estimate of his budget (CBO estimates that the president's budget deficits are another $2.3 trillion higher over 10 years).