



CHAIRMEN

BILL FRENZEL
 JIM NUSSLE
 TIM PENNY
 CHARLIE STENHOLM

PRESIDENT

MAYA MACGUINEAS

DIRECTORS

BARRY ANDERSON
 ROY ASH
 CHARLES BOWSHER
 STEVE COLL
 DAN CRIPPEN
 VIC FAZIO
 WILLIS GRADISON
 WILLIAM GRAY, III
 WILLIAM HOAGLAND
 DOUGLAS HOLTZ-EAKIN
 JIM JONES
 LOU KERR
 JIM KOLBE
 JAMES MCINTYRE, JR.
 DAVID MINGE
 MARNE OBERNAUER, JR.
 JUNE O'NEILL
 PAUL O'NEILL
 RUDOLPH PENNER
 PETER PETERSON
 ROBERT REISCHAUER
 ALICE RIVLIN
 CHARLES ROBB
 MARTIN SABO
 ALAN K. SIMPSON
 JOHN SPRATT
 GENE STEUERLE
 DAVID STOCKMAN
 JOHN TANNER
 LAURA TYSON
 GEORGE VOINOVICH
 PAUL VOLCKER
 CAROL COX WAIT
 DAVID M. WALKER
 JOSEPH WRIGHT, JR.

SENIOR ADVISORS

ELMER STAATS
 ROBERT STRAUSS

**Analyzing the President's Submission to the Super Committee
 September 20, 2011**

Yesterday, President Obama submitted a detailed set of recommendations to the Super Committee, which would reduce the deficit by \$4.4 trillion by the Administration's count. The recommendations would lower debt to 74 percent of GDP by 2021, compared to 81 percent under CRFB's Realistic Baseline, though that would be an *increase* from the 66 percent under current law. These recommendations show the President has embraced the rhetoric of "Go Big" to have the Super Committee exceed its mandate of saving \$1.5 trillion, but he has yet to lay out a clear path to fully achieve the necessary savings, and stabilize the debt.

Though it claims \$4.4 trillion in deficit reduction, those savings include deficit reduction from the war drawdown already in place—a true budget gimmick. Compared to current policy, the new framework would achieve only \$1.9 trillion in new savings and \$2.8 trillion when counting the savings already put in place by the BCA. It includes a similar amount of deficit reduction as the President's April Framework (though uses some savings to pay for the jobs bill), which is far less than what was recommended by the Fiscal Commission or the House Republican Budget.

More importantly, the proposal fails to put the debt on a clear downward path as a share of the economy using CBO assumptions, and it is unlikely to sufficiently control long-term deficits and debt.

Fig. 1: 2021 Fiscal Metrics (Percent of GDP)

	President's Submission	President's April Framework	House Budget	Fiscal Commission
Revenues	19.5%	--	18.2%	20.2%
Outlays	22.3%	--	19.5%	21.4%
Deficit	2.9%	--	1.3%	1.2%
Debt	74%	73%	66%	66%

Note: Figures estimated by CRFB assuming incorporation of BCA savings into all plans. There is not enough information to calculate specific revenue, outlay, and deficit levels for the April Framework.

Understanding the President's Submission

In his submission, the President proposes nearly \$600 billion in mandatory spending reductions and more than \$1.5 trillion in new revenue. His plan also claims substantial discretionary savings, though they would come from a combination of already-enacted caps and new caps to lock in war spending reductions that are already being made.

The Administration estimates that its plan would reduce the deficit to about 2.3 percent of GDP by 2021, though CBO scoring would likely put that number closer to 2.9 percent.

The recommendations in the President's submission include:

Stimulus and Jobs Proposal

The President's submission includes the President's jobs proposal unveiled last week. That proposal includes \$447 billion in spending and tax reductions, including \$240 billion from a payroll tax holiday, \$49 billion from unemployment insurance extension and reforms, and about \$100 billion of infrastructure spending, among other policies.

Discretionary Spending and War Spending Caps

The President's submission does not call for any new reductions in discretionary spending. However, in calculating total deficit reduction, the Administration counts the nearly \$1.2 trillion in savings from the recently-enacted Budget Control Act (\$917 billion according to CBO), the vast majority of which was discretionary. In addition, the Administration calls for applying the discretionary caps to Overseas Contingency Operations in order to lock in savings from the war drawdown already taking hold. Adding these controls is a smart and sensible addition to the current discretionary caps regime, but since the drawdown is already in place we believe, as we have said before, that counting the savings from caps enforcing the reductions already scheduled is a budget gimmick.

Health Care Spending

The President's submission proposes \$320 billion in health care spending reductions – \$340 billion including savings from TRICARE and TRICARE for Life. Of these savings, \$250 billion come from Medicare, with the majority of that by requiring rebates from drug manufacturers for Medicare Part D. Additional health savings come from reducing various Medicare provider payments, limiting the ability of states to game their matching rate in Medicaid, making some modest changes to the health reform law, and reforms to TRICARE and TRICARE for Life.

Beginning in 2017, the Administration calls for some direct changes to benefits, including further means-testing of premiums and increased cost-sharing for new Medicare beneficiaries. In that year, they also introduce a “blended rate” in Medicaid to

reduce its costs. Many of these changes would only apply to new beneficiaries, and as a result they would produce only modest savings in the ten-year window, but substantial savings in the next decade and beyond. The President also calls for strengthening the Independent Payment Advisory Board (IPAB) in a number of ways, including by tightening its savings targets.

Other Mandatory Spending

The President's submission proposes about \$200 billion in non-health mandatory spending cuts. This includes more than \$40 billion from various reforms to federal employee retirement benefits, over \$30 billion from reduce agricultural subsidies, and nearly \$70 billion from a variety of user fees (including bank fees to offset the costs of TARP, which in the past have been counted as revenues). The Administration also calls for a number of other reforms, including changes to make the Pension Benefit Guaranty Corporation, Fannie Mae, Freddie Mac, and the Postal Service more financially sustainable.

Social Security

Disappointingly, the President's submission includes no provisions to shore up Social Security. This is a tremendous disappointment since no matter how one prefers to reform the program, and whether it is done as part of a budget package or separately, changes should be made sooner rather than later.

Tax Reform

The President's submission calls for comprehensive tax reform that achieves five principles: 1) lower tax rates; 2) cut tax expenditures; 3) reduce the deficit; 4) increase job creation and growth; and 5) implement the so-called "Buffet Rule" where no household making over \$1 million per year should pay a smaller share of their income in taxes than do middle-class families.

Recognizing that comprehensive tax reform takes time, the President offers more than \$1.5 trillion in concrete revenue raising provisions which could be enacted in the meanwhile. Proposals include a plan to limit itemized deductions and other tax expenditures for higher earners, tax carried interest as ordinary income, and reduce a large number of corporate tax expenditures. The Administration also calls for letting the 2001/2003/2010 income and estate tax cuts expire for upper-income families and individuals, as well as reinstating superfund taxes and the unemployment surtax.

Re-Estimating the Savings in the President's Submission

President Obama claims that his submission saves \$4.4 trillion, but this is compared to a baseline that not only predates the enactment of the BCA, but also takes credit for a war drawdown that is already in place. Though there is no one "right" baseline, it is

instructive to look at the President’s submission relative to a baseline in which all current policies are continued and to one that assumes current law is carried out as written.

Compared to a more realistic current policy baseline, the President’s submission includes \$1.9 trillion in new deficit reduction on top of the \$920 billion in savings from the BCA, for a total of \$2.8 trillion. Compared to current law, excluding the Super Committee savings, the proposal actually *increases* the deficit by \$960 billion or \$1.9 trillion, depending on whether the BCA savings are counted. All of these savings would come on top of the various FY 2011 continuing resolutions that reduced the discretionary baseline by more than \$300 billion in total according to OMB.

Fig.2: Savings in the President’s Submission Compared to Various Baselines (Billions)

	Savings Relative to Administration’s Baseline [^]	Savings Relative to Current Policy Baseline [^]	Savings Relative to Current Law Baseline
War Spending	\$1,080	\$0	\$1,040
Health Care	\$340	\$340	\$40
Other Mandatory	\$200	\$200	\$200
Tax Reform	\$1,610	\$1,570	-\$2,390
Jobs Proposals	-\$450	-\$450	-\$450
Net Interest	\$440	\$220	-\$340
Total New Savings	\$3,220	\$1,890	-\$1,880
<i>Savings from BCA</i>	<i>\$1,180</i>	<i>\$920</i>	<i>\$920</i>
Total Savings	\$4,400	\$2,800	-\$960

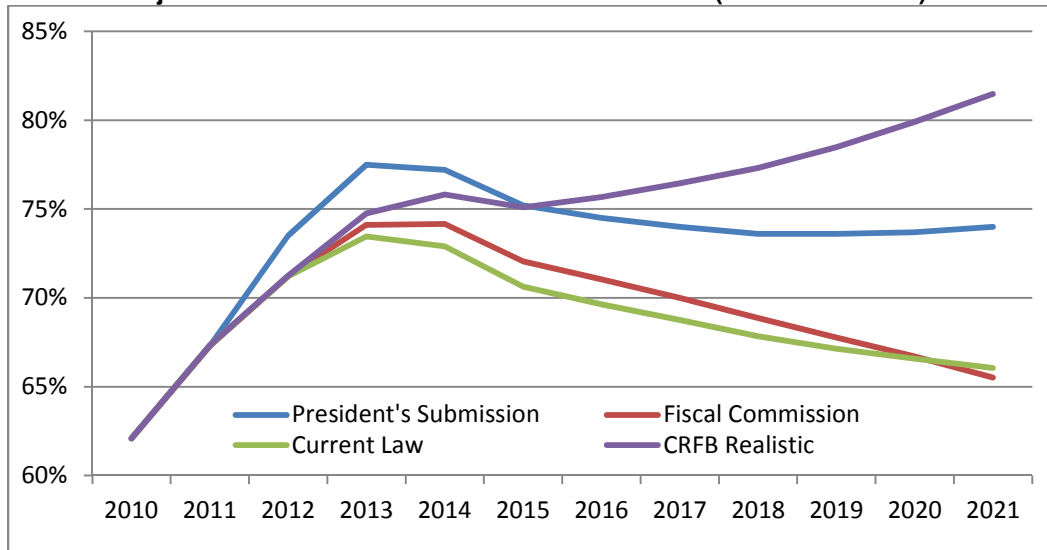
Notes: Negative numbers reflect increases in deficits. Numbers rounded to nearest \$10 billion. Categories adjusted to allocate most revenue into tax reform and federal employee health into health care.

[^] Administration’s baseline assumes all 2001/2003/2010 income and estate tax cuts continue, the AMT is patched, and annual doc fixes continue, and is based off of OMB assumptions; the current policy baseline makes the same assumptions, but also assumes a war draw down at proposed levels, and is based off of CBO assumptions. Current law baseline excludes mandated savings from the Super Committee.

Measured against CBO assumptions, the President’s submission would nearly, but not quite, stabilize the debt as a share of the economy. Under the submission, debt would rise substantially through 2014 – from 67 percent of GDP today to 77 percent by 2014. Between 2014 and 2019, it would decline below 74 percent; however it would rise slightly between 2019 and 2021.

Beyond the ten-year window, the lack of sufficient Social Security and health care reforms suggests the debt will remain on an upward path rather than a sustainable one. Two sets of policies push against this, though, and may tend to have a stabilizing effect on the long-term debt. First, the Administration has proposed tightening IPAB’s targets for Medicare growth from GDP+1 percent per beneficiary to GDP+0.5 percent. Secondly, they have introduced a number of health reforms which begin in 2017 (mainly for new beneficiaries) and will expand substantially in the 2020s and 2030s.

Fig. 3: Debt Projections under Various Fiscal Reform Plans (Percent of GDP)



Note: Estimates for President's Framework assume Debt Failsafe not employed.

Comparing the President's Submission to Other Plans

By proposing a \$1.9 trillion deficit reduction plan (on top of existing cuts) that exceeds the Super Committee's \$1.5 trillion target, the President has taken an important step in pushing the "Go Big" message. From 2014 through 2021 – after most of the jobs money has been spent – the President's plan includes \$2.3 trillion in deficit reduction, which is nearly enough to stabilize the debt at 74 percent of GDP.

Unfortunately, the President's submission still falls short of the Fiscal Commission's recommendations and those in the House Republican Budget Resolution, both of which bring the debt down to 66 percent of GDP by 2021.

Both of those plans contain more cuts to discretionary spending, health spending, and other mandatory spending (and in the House Republican plan, substantially more). The Fiscal Commission plan also proposes higher revenue than the President's submission, from more ambitious tax reform, and it includes a comprehensive Social Security reform plan that achieves some savings within the budget window in addition to achieving sustainable solvency over the long term.

Indeed, the President's submission most closely resembles the President's prior framework announced in April, with the addition of a jobs package. The health care, other mandatory spending, and revenue proposals are quite similar in magnitude to that proposal, though this version includes far more detail. When that proposal was put forward, we argued that it was a good start but would not be enough. The same is true of this proposal.

Fig. 4: 10-Year Savings under Various Plans Against Current Policy Baseline (Billions)

	President's Submission	President's April Framework	House Republican Budget	Fiscal Commission
BCA Savings (with Interest)	\$920	\$920	\$920	\$920
Discretionary Savings	\$0	N/A ¹	\$960*	\$390*
Social Security Reform	N/A	N/A	N/A	\$270
Health Care Savings				
State Medicaid Gaming Limits	\$30	\$30	\$0	\$50
Other Medicaid Reforms	\$30	\$70	\$750	\$20
PPACA Changes	\$20	\$0	\$590	-\$90
Prescription Drug Reforms	\$140 [#]	\$120	\$0	\$60
Changes to Federal Civilian and Military Health Care	\$20	\$120	\$0	\$70
Provider Payment Reductions	\$80		\$0	\$140
Premiums and Cost-Sharing	\$20		\$0	\$130
Other Health Savings	\$10		\$70	\$30
Sub-Total, Health Care	\$340	\$340	\$1,410	\$400
Other Mandatory Savings				
Agricultural Subsidy Cuts	\$30	\$260*	\$30	\$10
Federal Retirement Reforms	\$20		\$120	\$90
User Fees and Charges	\$70*		\$0	\$10
Postal Service, PBGC, and Fannie/Freddie Reforms	\$60		\$30	\$10
Other Mandatory Cuts	\$20 [^]		\$700**	\$120*
Sub-Total, Other Mandatory	\$200	\$260	\$890	\$240
Tax Reform				
High-Income Tax Cut Expiration	\$830	\$830	\$0	\$1,830
Tax Expenditure Reductions	\$670	\$760	\$0	
Other Revenue	\$70		\$0	\$200
Sub-Total, Tax Reform	\$1,570	\$1,590	\$0	\$2,030
Total Gross Primary Savings	\$2,110	\$2,200	\$3,260	\$3,320
New Jobs Proposals	-\$450	\$0	\$0	\$0
Net Interest	\$220	\$380	\$570	\$520
Total Savings w/ BCA Caps	\$2,810	\$3,500	\$4,750	\$4,760
Total New Savings	\$1,890	\$2,580	\$3,830	\$3,840

Note: Numbers rounded to nearest \$10 billion. Numbers may not add due to rounding.

¹ Discretionary cuts in Budget Control Act were larger than what the President's Framework called for. The authors assume they would be fully incorporated into the proposal.

[#] CBO would likely estimate the savings from drug rebates below the Administration's estimate.

* Revised downward to reflect measures enacted as part of Budget Control Act.

[^] Includes some elements that could be considered revenues, such as a fee on financial institutions.

[^] Includes about \$260 billion in specified cuts, with the rest from unspecified reforms.

Conclusion

CRFB has called for the Super Committee to “Go Big” by exceeding their \$1.5 trillion mandate by two to three times that amount, “Go Long” by focusing on the long-term drivers of debt, and “Go Smart” by focusing on an economic growth strategy. The President’s submission takes half measures in each of these categories.

It recommends \$1.9 trillion in new savings (\$2.8 trillion in savings including the BCA discretionary caps), which is more than the \$1.5 trillion charged to the Super Committee but not enough to put the debt on a sustainably declining path. It proposes a number of health care reforms which would provide a growing amount of deficit reduction outside the ten-year budget window; but it does not do nearly enough to slow the growth in health care costs, and it fails to even begin to address the costs of Social Security. And it offers new jobs spending, new investments, and a call for comprehensive tax reform; but it does not include a full proposal to achieve pro-growth tax reform and it may not include enough debt reduction to reassure markets, spur investment, and get the economy on a strong long-term growth path.

Still, the President’s submission contains a number of thoughtful deficit reduction policies, which could be included in a larger, more comprehensive plan. While we are disappointed that the Administration did not “Go Big” enough, we hope many of these ideas can be incorporated into the important work of the Super Committee in coming up with a larger, full-scale plan to stabilize the debt.