CRFB Reacts to the President's FY 2013 Budget
February 13, 2012

This morning, President Obama released his FY 2013 budget, proposing $3.8 trillion in spending (24.3 percent of GDP) and $2.5 trillion of revenue (15.8 percent of GDP) in 2012, resulting in a $1.3 trillion (8.5 percent of GDP) deficit. Through 2022, deficits would total $6.7 trillion (3.3 percent of GDP), with debt reaching $19.5 trillion (76 percent of GDP).

This budget would replace the $1.2 trillion in automatic spending cuts (the sequester) currently in place due to the Super Committee's failure with a comprehensive set of policies that would hold the debt at about 76 percent of GDP between 2018 and 2022. We applaud the President's focus on deficit reduction and encourage him to go further in order to put the long-term debt on a downward path.

"The President is doing exactly the right thing by proposing to replace the mindless cuts of the sequester with health reforms, mandatory spending cuts, and new revenues," said Maya MacGuineas, president of the Committee for a Responsible Federal Budget. "At the same time, his proposals would barely stabilize the debt – and at too high a level. We need to go bigger if we want to get this debt monkey off our back."

In total, the budget proposals nearly $1.6 trillion in net new revenue, over $360 billion in health savings, and about $270 billion in other mandatory savings through 2022, along with $350 billion of jobs measures. It also claims about $850 billion in savings from unwinding the wars in Iraq and Afghanistan, $230 billion of which is used for highway funding.

"There are a number of good policies in this budget, but the use of this war gimmick is quite troubling," said MacGuineas. "Drawing down spending on wars that were already set to wind down and that were deficit financed in the first place should not be considered savings. When you finish college, you don't suddenly have thousands of dollars a year to spend elsewhere – in fact, you have to find a way to *pay back* your loans."

"I also worry that this plan doesn't contain enough deficit reduction or entitlement reform. It does stabilize the debt, but at too high a level and in a way that isn't robust over the long-run. Still, this budget represents a positive step in the fiscal conversation, and I'm hopeful it will help to push for a broader debt deal this year."

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CRFB will release a complete summary and analysis of the President's budget later this week, and will also provide further analysis on our blog, *The Bottom Line*, at http://www.crfb.org/blog.

Here is a preliminary look at the budget:

The Basics

Under the President's budget, revenues and outlays would converge over the next five years. As the economy recovers and proposed spending cuts come into effect, outlays under the President's budget will decline – from 24 percent of GDP in 2012 down to 22 percent by 2018, and then rise to about 23 percent by the end of the decade. Revenues, meanwhile, would rise substantially from nearly 16 percent of GDP in 2012 to over 20 percent by 2022. By comparison, average historical revenues and outlays have been about 18 percent and 21 percent of GDP, respectively.

As a result, deficits would fall from 8.5 percent of GDP in 2012, down to 3.0 percent in 2017 and remain below that level through the rest of the decade. These deficit levels would be sufficient to stabilize the debt at over 76 percent of GDP through the end of the decade, according to OMB's estimates.

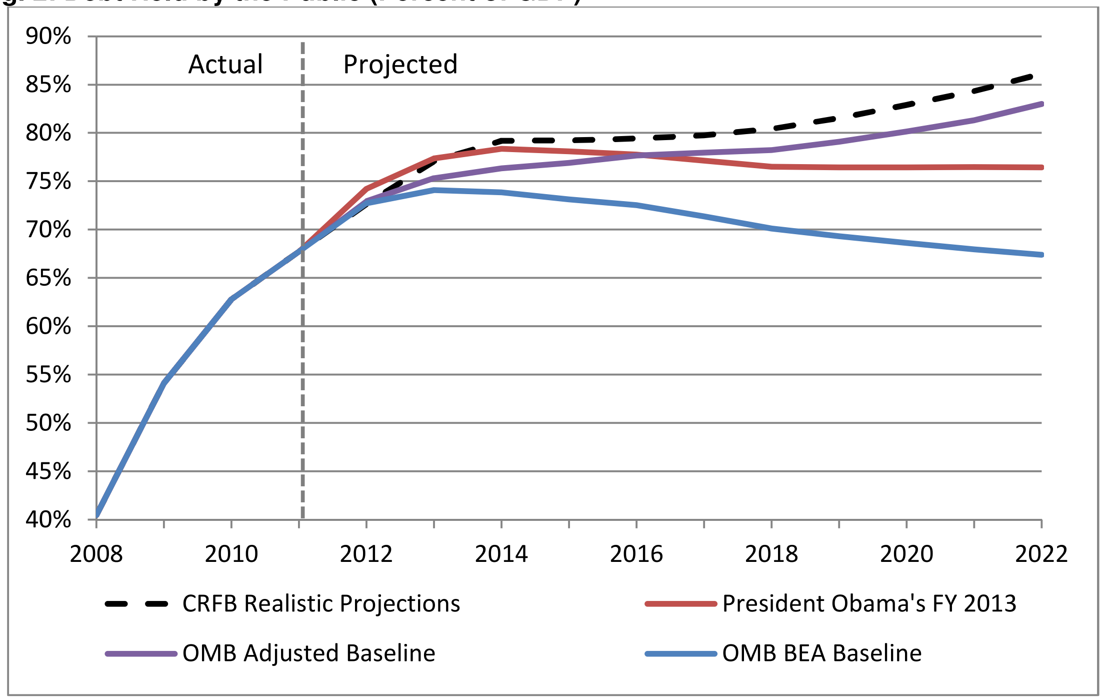
Fig. 1: Fiscal Metrics of the President's FY 2013 Budget

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Ten-Year
Billions of Dollars												
Revenues	$2,469	$2,902	$3,215	$3,450	$3,680	$3,919	$4,153	$4,379	$4,604	$4,857	$5,115	$40,274
Outlays	$3,796	$3,803	$3,883	$4,060	$4,329	$4,532	$4,728	$5,004	$5,262	$5,537	$5,820	$46,959
Deficit	$1,327	$901	$668	$610	$649	$612	$575	$626	$658	$681	$704	$6,684
Debt (Trillions)	$11.6	$12.6	$13.4	$14.2	$15.0	$15.7	$16.4	$17.1	$17.9	$18.7	$19.5	n/a
Percent of GDP												
Revenues	15.8%	17.8%	18.7%	19.0%	19.1%	19.2%	19.4%	19.5%	19.7%	19.9%	20.1%	19.2%
Outlays	24.3%	23.3%	22.6%	22.3%	22.5%	22.2%	22.0%	22.3%	22.5%	22.7%	22.8%	22.5%
Deficit	8.5%	5.5%	3.9%	3.4%	3.4%	3.0%	2.7%	2.8%	2.8%	2.8%	2.8%	3.3%
Debt	74.2%	77.4%	78.4%	78.1%	77.8%	77.1%	76.5%	76.4%	76.5%	76.5%	76.5%	n/a

The Good

The President's budget has a lot to be supportive of. Most importantly, it appears that his budget would stabilize the debt as a share of the economy, which is an important first step for putting the country on a sustainable fiscal path. These debt levels would occur not through gimmicks and magic asterisks, but through specific and scoreable policy proposals.

Fig. 2: Debt Held by the Public (Percent of GDP)



Note: CRFB Realistic Baseline based off CBO baseline and policy estimates, which differ from OMB projections. For more details on CRFB Realistic Baseline, see http://crfb.org/blogs/crfbs-new-realistic-baseline. OMB's BEA baseline does not include the savings from the discretionary spending caps and automatic sequester, whereas OMB's Adjusted Baseline assumes savings from both (CRFB Realistic Baseline assumes savings from the caps but not the sequester).

In addition, the budget recognizes health care as a key driver of our debt, and proposes specific policies to begin to address its growth. In total, the President proposes about $290 billion of Medicare savings and $70 billion of Medicaid and other health savings through 2022. These will not be enough to put health spending on a sustainable track, but are certainly a positive step in the right direction.

And finally, the President proposes specifics on tax policy. Not only does the President call for comprehensive tax reform to reduce both tax rates and deficits, but he identifies a number of specific revenue-raising measures to ensure that deficit reduction materializes regardless of whether or not the tax reform does.

The Bad

There are some parts of the President's Budget, however, that we do find concerning.

The President employs a major budget gimmick by relying on the war drawdown for savings. This drawdown is already in effect and not the result of new deficit-reducing policies, and so it should not be counted as deficit reduction. Worse than simply counting it to inflate their numbers, though, the Administration uses some of the phantom savings to pay for existing unfunded transportation costs and to expand jobs and infrastructure initiatives. Paying for real costs with phony offsets is no way to budget or to control rising debt.

Also of significant concern, the President's budget does not do enough to put the debt on a sustainable path. It does appear to stabilize the debt over the decade, but it does so at above 76 percent of GDP – roughly double historical debt levels. The President's budget does not take the next important step of beginning to reduce the debt relative to the economy, which is critical to give future generations a vibrant economy and the budget flexibility to respond to any crises.

The Administration claims that, when combined with the savings already enacted under the Budget Control Act and elsewhere, their policy proposals will result in over $4.3 trillion in deficit reduction from 2012-2021 and $5.3 trillion from 2013-2022. On the same basis, these savings are far below those in the Fiscal Commission's plan – which we estimate at about $6.6 trillion through 2021 and $7.5 trillion through 2022 when war savings and already enacted deficit reduction measures are included.

Achieving medium and long-term sustainability will require a "Go Big" approach that combines many of the elements in the President's budget with further savings in all areas and with more ambitious entitlement reform designed to fundamentally change the trajectory of our health and retirement programs. Without these, our fiscal problems will remain.