

The Arithmetic of the President's \$4 Trillion Deficit Reduction Claim

- Despite claims that the President has a \$4 trillion deficit reduction plan, the President's own budget shows only a \$2 trillion reduction in the deficit over 10 years, while the debt increases by \$11 trillion.
- After removing gimmicks and using CBO data, the President's budget shows only [\\$577 billion in deficit reduction over 10 years](#).
- In contrast of the claim of \$2.50 in spending reductions for every \$1 in tax increases, the President's own budget actually shows \$20 in tax increases for every \$1 dollar in spending cuts.
- After removing gimmicks, the President's budget would actually *increase* spending by 83 cents for every \$1 it raises in new taxes.

During his speech to the 2012 Democratic National Convention, President Obama claimed, "Independent analysis shows that my plan would cut our deficits by \$4 trillion."¹ The previous night, former President Clinton told the audience that the current President had a "\$4 trillion debt reduction plan" and highlighted the arithmetic behind the numbers. He went on to say that President Obama's budget included \$2.50 dollars in spending reductions for every \$1 in taxes increases.²

This paper reviews the numbers in the President's own budget using Office of Management Budget (OMB) data to show its actual deficit reduction and the ratio of spending reductions to tax increases. It also removes gimmicks to show his budget's realistic deficit reduction and ratios of tax increases and spending cuts.

¹ DNC 2012; President Obama's Speech at the Democratic National Convention (Full transcript). September 7, 2012. Washington Post. http://www.washingtonpost.com/politics/dnc-2012-obamas-speech-to-the-democratic-national-convention-full-transcript/2012/09/06/ed78167c-f87b-11e1-a073-78d05495927c_story_1.html

² "DNC 2012: Bill Clinton's speech at the Democratic National Convention (Full transcript)," September, 6, 2012, Washington Post. http://www.washingtonpost.com/politics/dnc-2012-bill-clintons-speech-at-the-democratic-national-convention-excerpt/2012/09/05/f208865e-f7a4-11e1-8253-3f495ae70650_story.html

Unpacking the President's \$4 Trillion Deficit Reduction Claim

When making statements about a budget's supposed deficit reduction, any claim must be measured relative to a baseline. Budget analysts typically use a baseline that reflects a current policy status quo and assume it remains unchanged over the period during which the budget applies.

President Obama's budget contains an estimate of this baseline in tables S-2 and S-4, which show cumulative deficits will be \$8.7 trillion over the next 10 years. His budget also shows how it would reduce the 10-year baseline deficit from \$8.7 trillion to \$6.7 trillion (tables S-1 and S-2). As shown in table 1 below, this change results in \$2 trillion in deficit reduction, not \$4 trillion.

Table 1 –Deficit Reduction in President Obama's Own Budget FY2013-2022

Baseline Deficit	\$8.7 trillion
<u>President's Proposed Deficit</u>	<u>\$6.7 trillion</u>
Actual Deficit Reduction	\$2.0 trillion

In other words, President Obama's budget shows that his claim of \$4 trillion in deficit reduction overstates his own claim by 100 percent. Yet, even the lower \$2 trillion vastly overstates the realistic deficit reduction as it contains several well known budget gimmicks.

First, the President claims \$848 billion in savings from winding down the wars in Iraq and Afghanistan (table S-2). These savings are illusory because they reflect war funds that would never have been requested or spent in the first place (see House Budget Committee publication on [War Savings Gimmick](#)).

Second, the President inflated his baseline by \$559 billion by adding new spending for Medicare, Pell Grants, and disaster response costs (see table S-8). None of these policies have been enacted into law and should not be assumed in a baseline that supposedly reflects the status quo.

Third, the President gives himself credit for debt service savings flowing from these gimmicks. Assuming the same rate of debt service as used in the Budget Control Act of 2011 (18 percent) would add another \$253 billion to the President's deficit reduction total. Table 2 below shows that once these gimmicks are removed, the President's true deficit reduction would only be about \$340 billion.

Table 2 – The President's Deficit Reduction Minus Gimmicks

President's Deficit Reduction as Shown in the Budget	\$2 trillion
Less War Savings	-\$848 billion
Less Medicare, Pell Grants, and Disaster Spending Added to the Baseline	-\$559 billion
<u>Less Debt Service</u>	<u>-\$253 billion</u>
Realistic Deficit Reduction	-\$340 billion

What Independent Analysis Says about the President's Deficit Reduction

Contrary to the President's claim that independent analysis shows his plan reduces the deficit by \$4 trillion, several groups say the actual figure is much less. Table 3 below shows deficit reduction estimates of the President's budget as estimated by various sources.

Table 3 – Estimates of Deficit Reduction in the President's FY13 Budget

<u>Source</u>	<u>Deficit Reduction</u>
President's Budget	-\$2.0 trillion
Congressional Budget Office	+\$3.5 trillion
House Budget Committee Republicans	-\$577 billion
Committee for a Responsible Federal Budget	-\$2.4 trillion
Senate Budget Committee Democrats	-\$2.4 trillion

First and foremost, as mentioned above, the President's own budget doesn't support his \$4 trillion claim. The Congressional Budget Office [CBO] – Congress's official scorekeeper – says the President's budget would actually *increase* the deficit by \$3.5 trillion. Of course, CBO's baseline assumes that all of the Bush-era tax policies expire and that war spending keeps growing with inflation, which gives an unlikely view of the current policy status quo. Most groups aside from CBO, therefore, use a different baseline (see House Budget Committee publication on [Deficits and Baselines](#)).

The House Budget Committee Republicans use a baseline that assumes all Bush-era tax policies are extended, the automatic sequester's savings are realized, and that future war fighting costs match the President's request. Under this scenario, the President's budget would achieve only [\\$577 billion in deficit reduction](#).

Both the Committee for a Responsible Federal Budget [CRFB] and the Senate Budget Committee Democrats use a baseline similar to the House Budget Committee Republicans, except that they also assume the sequester is repealed and that Medicare spending for physician reimbursements is increased. Under this generous scenario – one that repeals the sequester entirely and risks another credit downgrade - the President's budget would only achieve \$2.4 trillion in deficit reduction.

A Balanced Approach to Deficit Reduction?

The President's own budget shows that the claim of \$2.50 of spending cuts for every dollar of tax increases is blatantly false. In preparing their 2.5:1 spending cut to tax increase ratio, the Administration appears to have used the memorandum line from table S-3 in the President's budget. This method is deeply flawed because it treats spending cuts from prior legislation as *new* cuts in addition to those proposed in the budget.

Also, the President skews his ratio by classifying significant portions of spending increases as tax cuts, and vice-versa as can be seen in the footnotes of table S-9.

For example, the President treats refundable tax credits like the Earned Income Tax Credit and the American Opportunity Tax Credit as tax cuts, when in fact they are spending increases. Similarly, he treats increases in unemployment insurance taxes as a spending offset. These misclassifications skew the President’s ratio by improperly driving his true tax increases lower while inflating his spending cuts. When the President’s actual budget proposal is compared to his own baseline, a much different outcome results.

Table S-4 shows the President’s baseline contains outlays of \$47,053 billion and receipts of \$38,391 billion. Table S-1 shows the President’s budget proposal contains outlays of \$46,959 billion and receipts of \$40,274 billion. When these figures are compared against each other, (Table 4 below) the President’s budget is shown to cut spending by only \$94 billion, while raising taxes by \$1,883 billion. These figures represent a ratio of \$20 of tax increases for every \$1 of spending cuts.

**Table 4 – Spending Cuts vs. Tax Increases in the President’s Budget
(In billions)**

<u>Source</u>	<u>Outlays</u>	<u>Receipts</u>
President’s Baseline (S-4)	\$47,053	\$38,391
<u>President’s Budget (S-1)</u>	<u>\$46,959</u>	<u>\$40,274</u>
Net Change	-\$94	+\$1,883

Ratio of Tax Increases to Spending Cuts = 20:1

Yet, as mentioned above these figures contain the war, Medicare, Pell, and disaster spending gimmicks. If these are subtracted from the President’s inflated baseline, his budget would actually *increase* spending \$1,566 billion. They also include debt service savings from lower interest payments. In the President’s budget, these result entirely from tax increases and are not the result of cutting spending. Under this analysis, the President’s plan has absolutely no spending cuts and actually increases spending by 83 cents for every \$1 it raises in taxes. Table 5 below shows these details.

**Table 5 – Spending Cuts vs. Tax Increases in the President’s Budget
Minus Gimmicks (in billions)**

<u>Source</u>	<u>Outlays</u>	<u>Receipts</u>
President’s Baseline (S-4)	\$47,053	\$38,391
Subtract War, Medicare, Pell, Disaster, & Debt Service Gimmicks from Baseline	-\$1,660	
Adjusted Baseline w/o Gimmicks	\$45,393	
<u>President’s Budget (S-1)</u>	<u>\$46,959</u>	<u>\$40,274</u>
Net Change	+\$1,566	+\$1,883

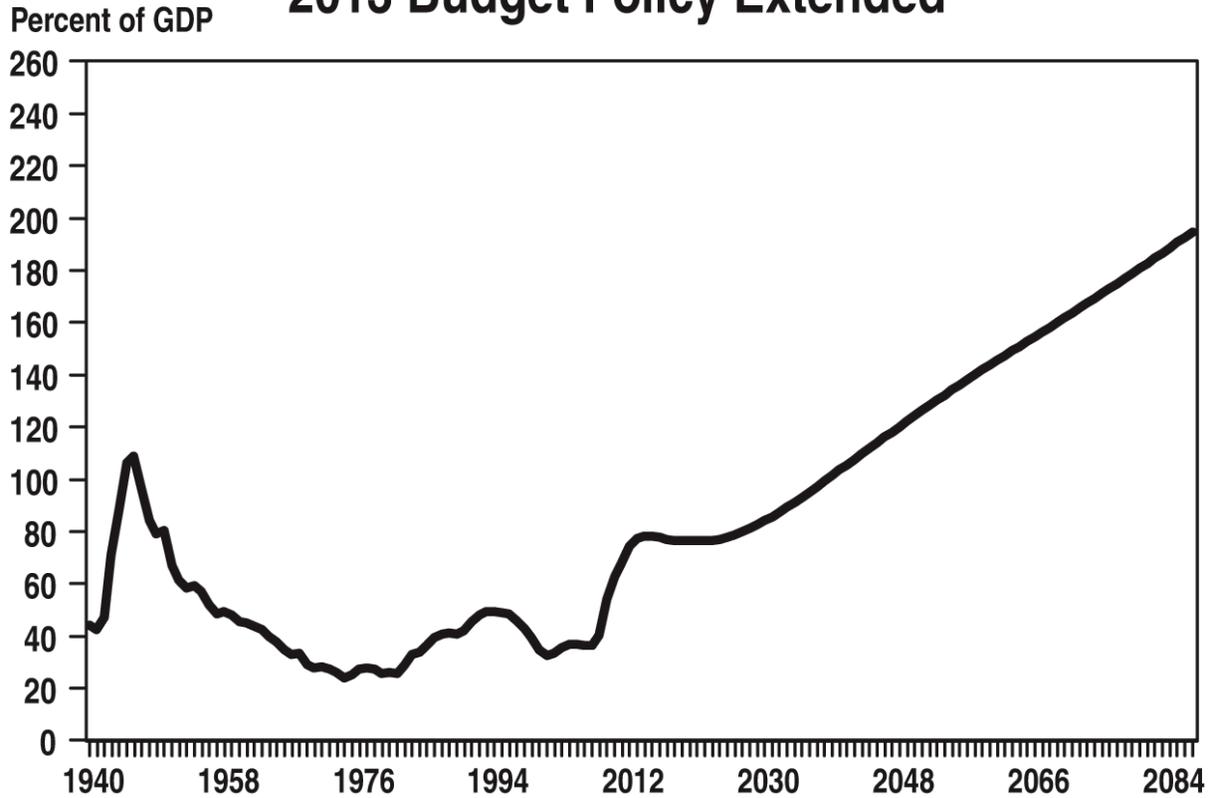
Ratio of Spending Increases to Tax Increases = 0.83:1

Deficits vs. Debt

Former President Clinton and President Obama use deficit reduction and debt reduction interchangeably. It is important to understand the difference between these two. The deficit represents the amount added to the debt each year.³ The debt is the total accumulation of deficits and surpluses since the country’s founding. As long as there are deficits, there is no debt reduction. The debt will continue to rise until the budget is balanced. Since the President’s budget runs a deficit every year over the next 10 years, it does not reduce the debt. In fact, it increases the total debt by \$11 trillion. And, as the graph from the President’s own budget below illustrates, his plan never balances the budget and never reduces the debt.

³ For the unified budget, the change in the debt is the amount of the unified deficit plus means of financing transactions. As an example, in FY 2011, the unified deficit amounted to \$1.3 trillion. Means of financing transactions amounted to -\$190 billion. The net change in the debt held by the public was \$1.1 trillion.

Chart 5-1. Publicly Held Debt Under 2013 Budget Policy Extended



Source: Office of Management and Budget. "Analytical Perspectives," Budget of the United States Government, FY13. Page 58.

http://www.whitehouse.gov/omb/budget/Analytical_Perspectives