Summary of President Obama's Long-Term Deficit and Debt Reduction Framework

April 15, 2011

President Obama released his framework for reducing long-term debt and deficits on Wednesday, April 13. The framework expands upon some deficit-reducing proposals in his February budget (see the Peter G. Peterson Foundation analysis here), and also incorporates some proposals from the December report of the National Commission on Fiscal Responsibility and Reform. Though it lacks specifics in many areas, the framework commits to deficit reduction, emphasizes the need for bipartisanship and balance going forward, and calls for both spending decreases and tax increases.

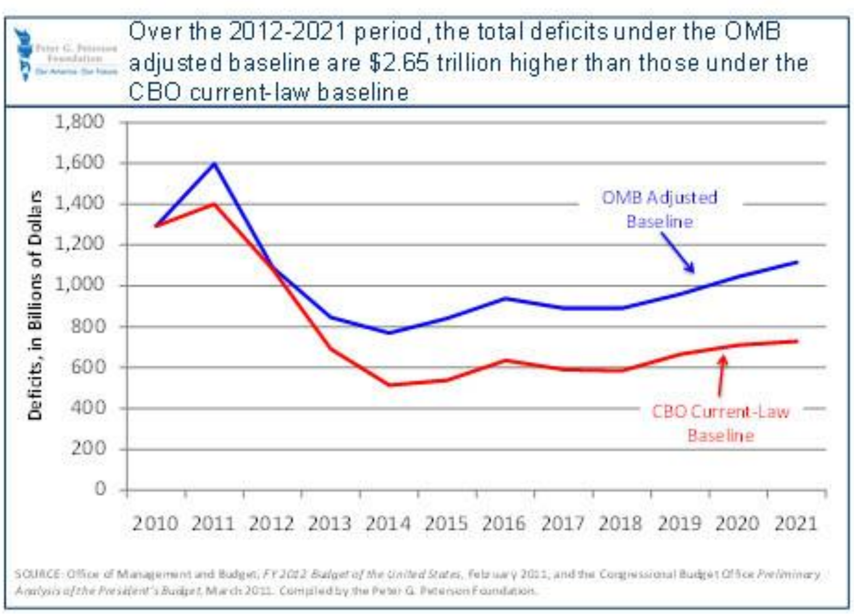
Highlights of the President's framework

- The framework aims to reduce deficits by at least $4 trillion over the next 12 years compared to OMB's adjusted baseline; compared to a current-law baseline, however, the savings will be less than $1.35 trillion over ten years.
- The proposals would lower deficits to 2.5 percent of gross domestic product (GDP) by 2015, and about 2.0 percent of GDP by the end of the decade.
- Of the targeted savings, 25 percent would come from revenue increases, and 75 percent from spending and interest cost reductions.

A closer look at the $4 trillion deficit reduction

Already, many are comparing the President's proposals both to those of Chairman Paul Ryan of the House Budget Committee (see Peter G. Peterson analysis here) and to those of the National Commission on Fiscal Responsibility and Reform. There are several important things to keep in mind when comparing across plans, however.

The president's plan compares its deficit reduction proposals to the Office of Management and Budget's (OMB) "adjusted baseline," a baseline that takes into account likely policy (like the extension of the Bush tax cuts for middle-income taxpayers), as opposed to strictly extending current law. This baseline is significantly higher than the current-law baseline —$2.65 trillion over ten years—and so the savings look greater. Chairman Ryan, in contrast, compares his proposals to the current-law baseline of the Congressional Budget Office (CBO). The graph below illustrates the magnitude of difference between these two baselines.



In addition, the savings under the President's proposals are added up over 12 years, as opposed to the typical 10 years. This means that deficit reduction, over the 10-year 2012-2021 period, would add up to less than $4 trillion. Taking into account the differences in timeframe and underlying assumptions, the savings achieved through the framework would be no more than $1.35 trillion relative to the CBO's current-law baseline. (That figure comes from subtracting the $2.65 trillion difference in baselines from the $4 trillion in estimated deficit reductions.)

All said, $1.35 trillion in deficit reduction over ten years is still an impressive achievement. The OMB estimates that the framework will reduce deficits to 2.5 percent of gross domestic product (GDP) by 2015, and about 2.0 percent of GDP by the end of the decade. This is a notable reduction relative to the CBO's current-law baseline, which has projected corresponding deficits of 3 percent of GDP and 3.1 percent of GDP, respectively.

The President's framework also includes a "failsafe" that acts as a sort of insurance that the deficit reductions will actually happen. If, by 2014, debt is not projected to stabilize as a percentage of GDP by the end of the decade, the President has proposed a mechanism that would impose automatic cuts to spending (including spending in the tax code).

Outline of the President's proposals

The following table provides an outline of the main elements of the President's framework. Although the OMB has published a fact sheet on the proposals, it has not released a set of budget tables. As a result, it is not possible to present a consistent set of estimates of the deficit savings associated with each category of the proposal.

Area of the Budget	Details of the President's Proposal
Discretionary Spending	
Non-security spending	The ultimate spending levels would be similar to those proposed by the Fiscal Commission, but details are not provided. (The Commission proposed a spending cap that would return discretionary spending to pre-crisis 2008 levels by 2013.)
Security spending	The plan calls for future cuts to be made after consultation with Secretary of Defense Robert Gates and the Joint Chiefs. These cuts would be in addition to any savings achieved by the drawdown of troops in Iraq and Afghanistan.
Mandatory Spending	
Health care spending	The proposals come largely from strengthening cost-cutting measures through the Independent Payment Advisory Board (IPAB) that was created in the 2010 health care reform, reducing prescription drug spending, and reforming federal-state partnerships in Medicaid funding.
Social Security	The proposal calls for future reform to Social Security, with commitment to strengthen the program for future generations while largely preserving benefit levels.
Other mandatory spending	The proposal builds on savings from the President's February budget, but does not provide details on specific new policy changes.
Revenues	
Comprehensive tax reform	The President's proposals call on Congress to undertake future comprehensive tax reform. The plan supports the Fiscal Commission's goal of broadening the base and lowering tax rates while financing deficit reduction. The plan also restates the President's views that the Bush tax cuts for the wealthiest Americans should be allowed to expire.

CONCLUSION

As President Obama said in his speech outlining the plan, "doing nothing on the deficit is just not an option. Our debt has grown so large that we could do real damage to the economy if we don't begin a process now to get our fiscal house in order." The President's proposals lack many specifics, but draw attention to the need for Congress to come together and seriously address our long-term fiscal challenges. Doing so will involve difficult decisions, and bipartisan compromise going forward.

RESPONSE BY FOUNDATION CHARIMAN PETE PETERSON TO PRESIDENT OBAMA'S SPEECH ON THE NATION'S LONG-TERM DEBT

"President Obama's proposed framework is a big step toward the compromise we need to achieve fiscal sustainability. The President has made it clear that he supports a comprehensive plan for long-term deficit reduction, and his framework provides another credible approach to tackling the key drivers of our long-term debt. The proposal put forth by the President for bipartisan negotiations with representatives of both houses of Congress led by the Vice President is a call to action to our elected officials to come together to develop and implement a balanced, comprehensive plan to secure our economic future.

"Any successful long-term deficit reduction plan must be bipartisan, so both political parties will need to make compromises. Any viable plan must include both spending cuts and revenue increases, and should address all of the major areas of the budget, including tax expenditures, defense, entitlements and discretionary spending. There is no doubt that we can solve our problems in a comprehensive and compassionate way that achieves fiscal sustainability while preserving the social safety net for America's vulnerable citizens and providing resources for important future investments in our economy.

"We encourage leaders from both parties to find common ground so that all citizens can enjoy a prosperous future."