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Behind The Times's Deficit Project

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My column that's running with The Times's new interactive deficit puzzle offers some detail about the methodology behind the project. This post will provide much more detail. As the calculator says, we encourage readers to come up with their own deficit solution and post it online.

The starting point for our calculation is work done by Alan Auerbach and William Gale, two economists who are experts on the federal budget. Mr. Auerbach and Mr. Gale have written two recent papers that review what they call "the dismal prospects for the federal budget." As an extension of that work, they built a spreadsheet for The Times that analyzed the savings that the government would need to achieve each year starting in 2015 to keep the deficit at 3 percent of gross domestic product. That's the level that many economists consider sustainable for the deficit, because one year's normal economic growth can pay off the previous year's budget shortfall.

The Auerbach-Gale analysis set 2015 as the first year in which the deficit had to equal 3 percent of G.D.P., so that the government could continue to spend money and cut taxes in the next few years, while the hangover from the Great Recession lingers. The year 2015 was also the target for President Obama's bipartisan deficit commission to cut the deficit to 3 percent of G.D.P.

The Auerbach-Gale analysis then assumed that the government made a series of continuing cuts to keep the deficit at 3 percent of G.D.P. Otherwise, the cost interest on the national debt would become onerous. In the Week in Review section on Sunday, we ask readers to come up with a package of cuts that would adequately reduce the deficit for the year 2030.

As the chart in the Week in Review says: "Why 2030? That's when Boomers start to weigh heavily on the budget, and it's the latest year for which experts have estimated costs for budget items." The chart does not ask reader to pick the timetable for the cuts, but notes that they would be "implemented gradually over the next 20 years, some taking effect well before 2030 in order to keep the deficit, and thus interest payments on the national debt, at a manageable level between now and 2030."

In the interactive version of the chart online, readers are asked to come up with a set of cuts that would sufficiently reduce the deficit for both 2015 and 2030. Some policies save more money in the near term than others, and some policies — particularly changes to Medicare and Social Security — have much more long-term savings. The country's ultimate deficit solution will have to include a mix of medium- and long-term savings, which is why we set up the online graphic as we did.

Our baseline was current policy. That is, we assumed that existing policies would continue, even those, like the Bush tax cuts, that are scheduled to expire. But we then allowed readers to choose the reversal of any such policies as part of their deficit solution.

In all, the needed deficit savings for 2015 came to $418 billion. (All dollar figures in this project are adjusted for projected future inflation and expressed in terms of 2010 dollars.) The needed deficit savings for 2030 were $1.355 trillion.

To achieve these savings, readers are asked to choose a mix of tax increases and spending cuts. The details behind those policy options was the second major part of the project.

Our goal was to come up with a list that included the major options that are part of the current debate over the deficit — even if they are not considered politically feasible in the immediate future. As Mr. Gale notes, closing the deficit doesn't seem to be politically feasible anytime soon.

The spending options are broken into four categories: domestic programs and foreign aid; the military; health care; and Social Security. A few of the options in domestic programs and foreign aid come from the proposal by Erskine Bowles and Alan Simpson, the chairmen of the deficit commission. The proposal to cut state aid comes from the Cato Institute.

For the military, the first five options — relating to the permanent structure of the military — come from the Sustainable Defense Task Force, a bipartisan group created by Congress that issued recommendations in June. Its report has much more detail on these options. The two options relating to the withdrawal of troops from Iraq and Afghanistan came from the Committee for a Responsible Federal Budget.

On health care and Social Security, these two Congressional Budget Office reports on budget options were a significant help, as were the offices of Medicare's and Social Security's chief actuaries. Outside economists also helped us calculate the projected savings — as they did on other options, too.

The tax options don't fall as neatly into subcategories as the spending options do. The Tax Policy Center in Washington calculated the savings from policies relating to the Bush tax cuts, the estate tax and the capital-gains and dividends taxes. Several other options came from the Committee for a Responsible Federal Budget. Two of the tax-reform options come from the deficit commission. The savings from the bank tax matches the projected savings from a financial-transactions tax analyzed by the Economic Policy Institute.

More information on the national sales tax option is here and on the carbon tax (see Option 57) is here. You can also find more discussion of many options — both taxes and spending — in the Room for Debate feature in The Times's online Opinion section.

In some cases, no savings estimate previously existed for the year 2030. To come up with an estimate in those cases, we typically looked at the trend of savings from 2010 to 2020, as a share of G.D.P., and then asked experts whether that trend was likely to continue. The ultimate estimate was a product of those conversations. In other cases, the Congressional Budget Office, the Medicare actuary, the Social Security actuary or the Committee for a Responsible Federal Budget did make an estimate for 2030.

Finally, we would like to thank the many economists and budget experts who helped us with this project. I'm especially grateful to those who patiently answered question after question, week after week: Mr. Auerbach; Maya MacGuineas, Jason Peuquet and colleagues at the Committee for a Responsible Federal Budget; Stuart Kantor, Bob Williams, Joseph Rosenberg, Jim Nunns and colleagues at the Tax Policy Center; Chris Edwards at Cato; Jonathan Gruber of M.I.T.; Michelle Bazie, Jim Horney and colleagues at the Center on Budget and Policy Priorities; Melissa Merson and colleagues at the Congressional Budget Office; Ken Baer at the Office of Management and Budget; Charles Knight and Carl Conetta at the Project on Defense Alternatives; and others who spoke off the record.