

Debt-limit deal: Will the cuts be phony?

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Behind closed doors, congressional leaders and the White House are discussing budget savings to tie to the upcoming vote on the federal debt limit. Republicans have promised that spending cuts must be at least as large as the debt-increase amount. Thus, if the debt limit is increased by \$2 trillion to get the government through the end of 2012, policymakers need to agree on \$2 trillion in cuts, probably measured over 10 years.

However, I'm getting very suspicious that party leaders will deliver phony "cuts," not actual terminations in programs or reductions in entitlements. Looking at Congressional Budget Office projections, it is fairly easy to come up with \$2 trillion in "savings" without actually cutting anything.

Figure 1 shows 10-year "savings" of \$1 trillion in Iraq and Afghanistan war costs. The top line is the CBO baseline, against which "cuts" are officially measured. To construct the baseline, the CBO takes current spending and increases it over time by inflation. But nobody expects war spending to continue rising like that. Rather, spending is supposed to fall in coming years as troops are withdrawn.

Thus, the bottom line in the chart is the more realistic troop-withdrawal spending path used in both the Paul Ryan House budget plan and President Obama's budget. This spending path produces official "savings" of \$1 trillion over 10 years, but it's more of an accounting artifact than real savings.

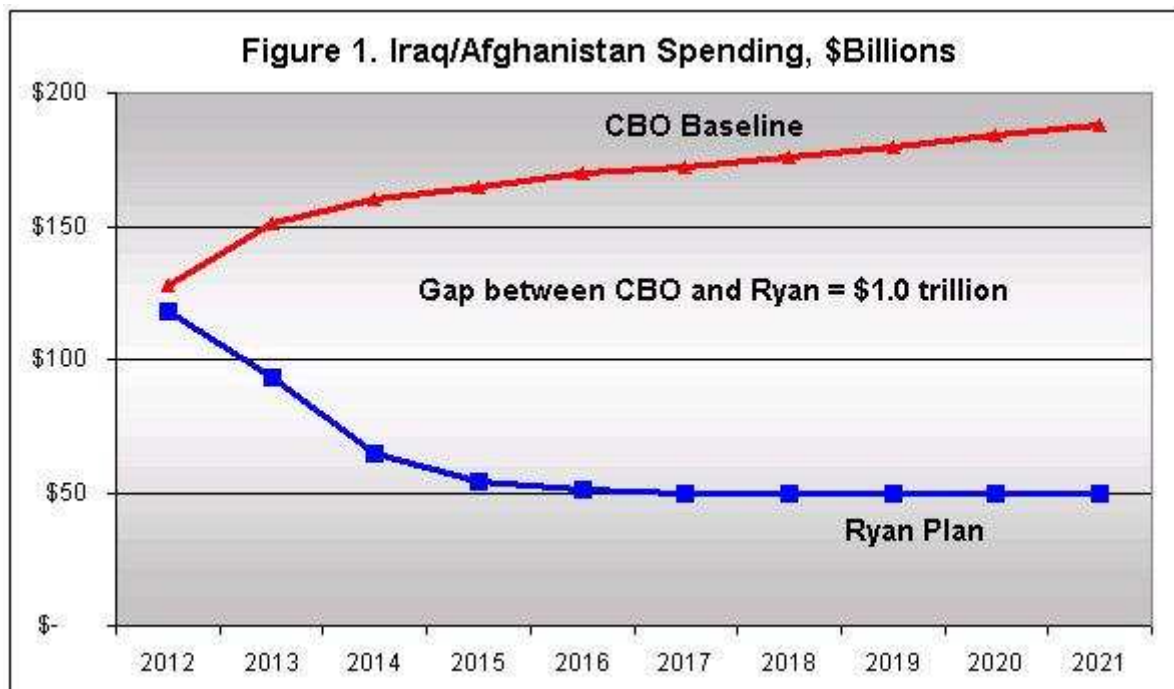
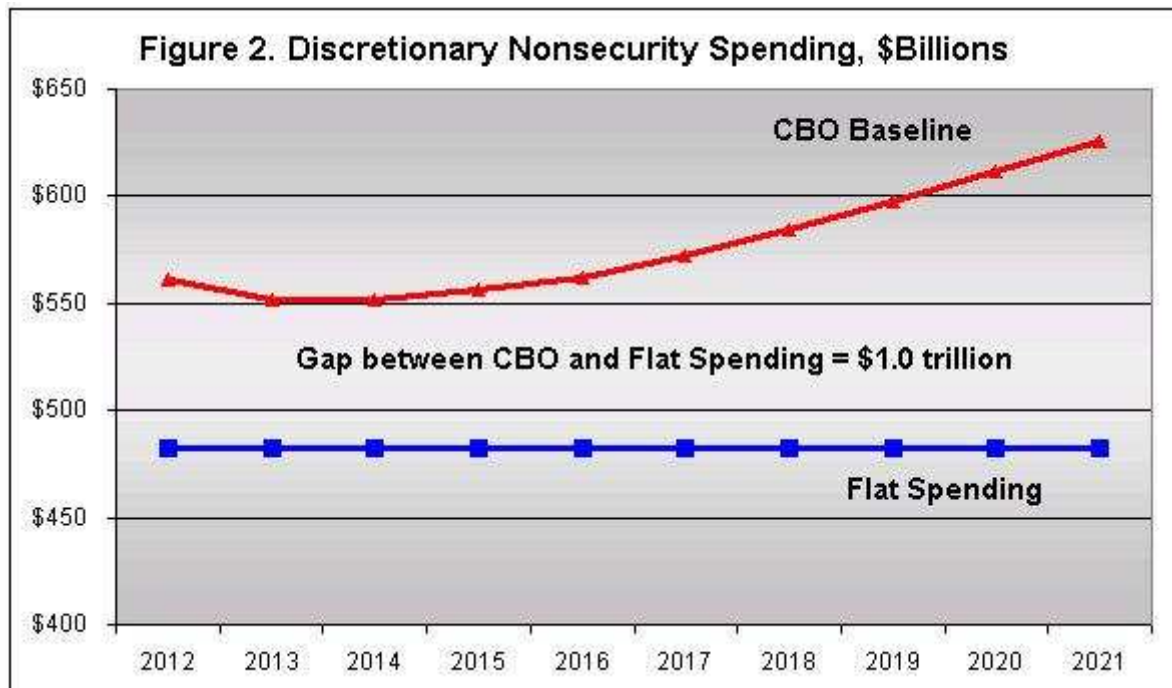


Figure 2 shows the non-security portion of discretionary spending, which is roughly total discretionary spending less defense and homeland security. The top line shows CBO baseline

spending, which initially dips as “stimulus” funding peters out, then starts rising again with assumed inflation.

The bottom line shows an alternative of holding spending fixed at the 2012 level proposed in the House budget plan. Holding spending constant after some initial cuts in 2012 would save \$1 trillion over the decade compared to the CBO baseline. That would be an accomplishment, but any debt-limit deal would need a rigid enforcement mechanism for these savings to actually materialize because future appropriators will push to reverse cuts and keep spending rising. However, most budget analysts are skeptical about the ability of budget mechanisms to rigidly control future discretionary spending.



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To recap, Figures 1 and 2 show how to get \$2 trillion in “savings” without making any actual cuts. But it’s even easier than that because policymakers will include interest savings in any spending-cut deal. Interest savings are roughly 20 percent of the value of any program “cuts” over 10 years. Thus to reach a \$2 trillion goal in “savings,” policymakers will just need to find “cuts” of about \$1.7 trillion.

So far, I haven’t mentioned entitlement programs. The two charts show that party leaders could find \$2 trillion in “savings” without even touching the three giant programs that are wreaking havoc on our fiscal future: Social Security, Medicare, and Medicaid. And we reached the \$2 trillion savings goal without touching the bloated regular defense budget.

The upshot of all this is that conservative voters and Tea Partiers interested in real spending cuts need to watch closely when party leaders announce their grand debt-limit compromise in coming weeks. A deal that simply counts projected future savings against inflated discretionary baselines would be a fiscal fraud.

Instead, we need real spending cuts, and those come in only two flavors. One type of real cut is to fully zero out discretionary programs and repeal the underlying program authorizations. The other sort of real cut is to change entitlement laws to permanently reduce benefit levels of programs such as Medicare. Those sorts of cuts would be difficult to reverse, and thus would be solid steps toward controlling the budget and averting the coming debt tsunami.

