

Treating the Symptoms

Obama's sequester proposal may reduce the deficit, but it doesn't address the size of government.

By: Michael Tanner – March 6, 2013

As the sequester took effect last Friday (and the world as we know it began to end), President Obama and his spokesmen took to the airwaves to insist that they had a fairer and more balanced alternative.

At his press conference on Friday, the president said, "I've put forward a plan that calls for serious spending cuts, serious entitlement reforms, goes right at the problem that is at the heart of our long-term deficit problem. I've offered negotiations around that kind of balanced approach."

Over the weekend, Gene Sperling, the White House's top economic adviser, appeared on the Sunday shows to argue that "the real answer to eliminating this harmful sequester for the next ten years is exactly the type of balanced agreement that the president has called for, [and] has still kept on the table."

Picking up on the White House talking points, David Gregory confronted House speaker John Boehner on *Meet the Press*, insisting, "[The administration] made it very clear, as the president just did, that he has a plan that he's put forward that involves entitlement cuts, that involves spending cuts."

But has he? Let's look at what the president has actually been offering.

The president's plan would replace those sequester cuts with an even larger deficit-reduction package, supposedly split almost 2:1 in favor of spending cuts. The president's alternative would reduce spending by \$930 billion, we are told, while also raising some taxes by \$680 billion. Adding in \$200 billion in interest savings, the president claims \$1.8 trillion in deficit reduction, even more than will be cut if the sequester remains in place.

But the president's plan is far less "balanced" than he would have you believe.

First, the spending cuts are, as usual, maddeningly vague. For example, the president calls for \$200 billion in discretionary-spending cuts through 2021, split equally between defense and domestic spending. Such a cut would amount to a pathetic one-half of 1 percent of federal spending over that time period. But equally important, those cuts are completely unspecified — there is no hint as to what they might be, besides evenly spread between defense spending and domestic programs.

For entitlement reform, the president would agree to a GOP proposal for "chained CPI," which would reduce cost-of-living increases for Social Security recipients. But beyond that concession, he offers little.

The president does propose \$400 billion in savings from government health-care programs, which will affect the trajectory of entitlement programs. However, for the most part, the plan says little about how those savings would be found, except for vague promises such as “encouraging efficient care after hospital stay” and the ever popular “other health savings.”

Second, and perhaps more significantly, much of what the president calls spending cuts are actually new revenues in disguise. Take the largest savings item in the president’s plan, \$140 billion in “reduced payments to drug companies.” Those reduced payments are in fact rebates that President Obama wants drug makers to pay the government.

Similarly, under spending cuts, the president’s plan calls for “strengthen[ing] the unemployment insurance trust fund,” to the tune of \$50 billion. In actuality, it is an increase in unemployment-insurance taxes. It also claims \$40 billion in “savings” from TSA and postal-service reform, but a large portion of that comes from new fees.

Means-testing Medicare benefits for upper-income taxpayers may well be a wise policy. But the president doesn’t propose to reduce their benefits, but to increase their premiums. That is a revenue increase, not a spending reduction. The president’s plan to “reform federal retirement programs” also involves boosting government employees’ contributions — a good idea, but not necessarily a spending cut.

And, as in a dozen or so earlier budget plans, the president would sell parts of the telecommunication spectrum and charge additional fees for spectrum access. Somehow, this too gets classified as a spending cut.

That is not to say that there are no good ideas in the president’s plan. There are. But it is misleading in the extreme, particularly in classifying tax hikes as spending cuts.

It is also important to recall that the fiscal-cliff deal in December raised taxes by \$600 billion over the next ten years. In addition, Obamacare will impose roughly \$1 trillion in new or increased taxes over that same period, with most beginning this year. That’s a total of \$1.6 trillion in tax hikes. At the same time, the sequester imposes \$965 billion in spending cuts through 2021 (not counting interest savings). Combining these means that the baseline measures this year yield \$1.65 in tax hikes to \$1 in spending cuts.

Therefore, repealing the sequester cuts and substituting the president’s plan would actually result in a total of \$2.6 trillion in new taxes or other revenues, and just \$600 billion in true spending cuts (excluding interest savings and disguised revenue increases), nearly all of which are unspecified. In other words, the president’s “balanced” approach would raise taxes and revenues by \$4.30 for every \$1 in spending cuts.

The president’s proposal shows the danger of focusing solely on debt and deficits. There is no doubt that fiscal insolvency is a serious threat to our economy and an unfair burden on future generations. But debt is just a symptom of a larger disease, an ever growing government. Simply balancing the books without reducing the size, cost, and intrusiveness of government would not solve the bigger problem.

The president’s proposals might treat some of our symptoms by slowing the growth of future debt. But the patient is still dying.

