Insight

A Brief History of President Obama's "Deficit Neutral" Policies

GORDON GRAY | FEBRUARY 13, 2013

The president's customary laundry list of SOTU quick-fixes, included an interesting qualification: none would increase the deficit. Sounds good, but a quick review of past such pledges betrays what this pledge really means – higher taxes and budget gimmicks chasing higher spending.

Making deficit-neutrality the sole budget yardstick ignores how a federal policy interacts with the economy more broadly. It grants equivalency to a policy that would raise $100 billion in taxes while spending $100 billion with one that budgetarily did nothing at all. Both would have no net effect on the deficit, but very different impacts on the economy.

Taken a step farther, this approach to budgeting would celebrate a policy that raises $1 trillion in new taxes and $900 billion in new spending as a deficit reduction plan of $100 billion. While that narrative would not be arithmetically wrong, it is a well practiced deception that has been exercised in at least three different variations by this administration.

The crown jewel of this is the healthcare law. The administration and its allies still trumpet the "deficit reduction" achieved by this law. But this line of argument is predicated on a $788 billion expansion in federal spending that is ultimately netted out by $511 billion in cuts to programs, including Medicare, and $420 billion in higher taxes, according to the original cost estimate. This critique does not address the further budget gimmicks (CLASS Act, off-budget receipts, Medicare double-counting, etc) that further erode the credulity of any claims that the health law approaches fiscal soundness. Rather, it serves to reveal that this administration's idea of "deficit reduction" is often a rather loaded proposition.

Take also last year's American Jobs Act. That campaign-style proposal included a number of front loaded costs financed with 10 years of higher taxes. As has been previously noted, short-term spending binges financed by long-term tax increases actually end up costing more than advertised because of the borrowing costs associated with the need to borrow to finance the front-loaded spending. In the case of the American Jobs Act, this new borrowing would have cost $63.7 billion in interest expense – wiping out the claimed $3.2 billion in deficit reduction. Policies structured in this fashion also seem to run afoul of the will of the American people, who, according to one recent poll, appear to view the tax increase debate as settled in the wake of December's tax hikes.

Finally, look no further than the oft-used near term spending increases offset by 10 years of promised spending cuts. One example of this was the president's proposal for the so-called "doc fix" in his FY2012 budget. The budget proposed a two-year fix, financed with savings from 10 years worth of cuts. This sort of deficit neutrality exhausts the means to achieve meaningful deficit reduction. Near-term appetites (i.e. an expensive two year expenditure) satisfied by longer-term resources meets the definition of unsustainability that characterizes the federal budget.

The administration has done an admirable job torturing numbers to sell itsg policies as costless or deficit neutral, but such characterizations are misleading and often belie the scope and scale of the true budgetary implications. By either dramatically expanding both sides of the federal ledger through higher taxes and spending or indulging in near-term spending binges financed over the long term, the administration’s past approach to “deficit neutrality” should provoke skepticism that last night’s claim would be any different.