Center for American Progress

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A Thousand Cuts

What Reducing the Federal Budget Deficit Through Large Spending Cuts Could Really Look Like

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Introduction and summary

There are hard budget decisions coming for our country and we need to get serious about them. Whether you agree with us that any deficit reduction should take place only after the economic recovery is firmly in place, or agree with those who believe deficits should be reduced immediately—halting projects and jobs mid-stream—there is little argument that the budget deficits projected for the years ahead are unsustainable. Everyone knows that tax increases, spending cuts, or both, are in our future. What few have been willing to do, however, is say what those tax increases and spending cuts might look like.

That failure has rendered the debate on this subject close to worthless—people talking past each other saying either "no" to meaningful tax increases or "no" to meaningful spending cuts, offering as evidence of their fiscal virtue only trivial or vague measures that serve primarily to mislead their audiences about the true scope of the problem. They scrupulously avoid detailing what meaningful action might look like. This does the country a grave disservice.

Hiding how difficult grappling with federal budget deficits is going to be, leading the public to believe that there are relatively easy ways out, raises the political liability of taking action and postpones the day when we step up to the challenge. That isn't to say that no one has acknowledged how difficult this really is or offered specific ideas and gotten attention for their work—but they have been largely drowned out by the disingenuous cacophony.

The purpose of this report is to examine what spending cuts could look like under several scenarios for hitting a deficit target of primary balance in 2015: either all through spending cuts, two-thirds through spending cuts, half through spending cuts, or one-third through spending cuts. Tax increases would have to make up the difference for those plans that don't hit the target entirely through spending cuts—although we leave to another day detailing what such tax hikes might look like.

By showing sets of specific spending cuts we hope to deepen the discussion of where deficit reduction is going to come from. The challenge we issue is this: If you think all or most of the deficit problem should be dealt with on the spending side, are you then willing to own the cuts we outline? If not, then it's time to go public with what your cuts are, with at least the same level of precision we do—no gimmicks, "sunsets," or other games. No infomercial claims that you've got a magic elixir that gets the same results for half the money.

We have analyzed spending cuts in this report to promote serious discussion not because of a failure to recognize that most spending cuts are painful and, in some way, harmful. We recognize the value of public expenditures for the nation's present and future. We recognize that millions of people rely on Social Security, Medicare, Medicaid, Veterans benefits, and the rest. We know that the future of our economy rests in part on public investments. We see that our safety and security rely on government spending.

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The cuts we identify are not chosen to scare, but represent a sincere effort to minimize the harm that would be done. Our goal is, to the extent possible, to preserve necessary spending that promotes economic growth, protects the most vulnerable, keeps the country safe, and fulfills our national obligations. But that isn't easy. The truth is that, contrary to popular wisdom, most federal government dollars go to good and popular things.

The value and popularity of most public programs does not, however, end the discussion. As we all know, not every federal dollar is spent well. And there is hardly a clamor for higher taxes to pay for all that is good and popular. It may be that the best way to preserve what is valuable for government to do is to cut what is less valuable. That is a proposition to be tested, not dismissed at the outset. This report tests that proposition by moving from the abstract to the specific—by looking at what cuts would have to be made to hit a deficit reduction target relying, to varying degrees, on the spending side of the ledger.

Our deficit reduction target is $255 billion in 2015. This is the amount by which the deficit would have to be reduced in 2015, relative to the president's current budget plan for that year, to bring the budget into "primary balance." Primary balance is when total government revenues are equal to total government spending, with the exception of interest on the debt. A budget in primary balance means that all government services, benefits, and programs are paid for and require no additional borrowing to support. Primary balance is the intermediate goal that we first suggested in our report "A Path to Balance."[1] It is also the specific goal, with 2015 as the target the year, set by President Barack Obama for the National Commission on Fiscal Responsibility and Reform.

This report is the third in a series that we have produced in the last year on the nation's budget deficits. We released "Deal With It" in September of 2009, which chronicled our national path from federal budget surpluses in the years 1998 through 2001 to a steady stream of deficits that, with the advent of the Great Recession, topped postwar records in 2009.[2] That report does not decry the deficits of 2009, 2010, or the years that will immediately follow as we dig ourselves out of our economic hole. Those deficits are largely inevitable and, in fact, necessary. Instead, that report laments the poor fiscal posture in which we entered the recession and looks ahead with alarm at the longer-term deficit projections. It is those deficits of the future that are unsustainable and pose substantial risks. "Deal With It" went through the arithmetic of deficit reduction—demonstrating the implausibility of balancing the budget solely through either spending cuts or tax increases on the wealthy and corporations.

We followed that report with "A Path to Balance" in December of 2009, which outlines a set of deficit targets including a long-term goal of a balanced budget and the interim goal of primary balance. It emphasizes the need to run deficits in the immediate future to jumpstart the economy because a growing economy makes deficit reduction much easier and much more likely. But recognizing the need for deficits now does not mean that we should not take action now on the deficits projected for the future. The report calls for such action—for making a plan *now* to deal with the deficits *later*. That is to say: a path to balance.

We have always been clear in this work that deficit reduction should not come at all costs. We could successfully address the nation's fiscal challenges but end up doing net harm to our country. Cutting investments that are important for future economic growth, for example, would leave us a poorer nation overall, even if we did have a balanced budget. Reducing our national defense, regulatory infrastructure, or social safety net to the point of inadequacy might be worse than deficits. We could also raise taxes beyond the boundaries of good sense. A more balanced budget requires a balanced approach. The nation needs a serious discussion of what that balance should be.

By offering a set of plans that demonstrate what spending cuts might look like in order to achieve significant deficit reduction, we aim to embolden that discussion. Our plans are almost certainly not perfect. And, to be clear, we do not ourselves support all the cuts listed. In fact, we offer cuts where, in other contexts, the Center for American Progress has urged expansions. But our choices have been made with a sincere eye toward what would work best for our country given the deficit-reduction parameters we have set out for ourselves. To some extent, the purpose of this exercise is to test those parameters. Is cutting the budget by $255 billion too much? Is $170 billion, $130 billion, or $85 billion?

If your answer is that every one of these options is too much, that they short-change public needs, that perhaps we need to be making greater investments and provide expanded public services not less, that's a fair position. It means you either believe that we can afford very large deficits or that we should solve the deficit problem completely, or almost completely, through taxes.

The other ground for disagreement is with our specific choices regarding what to cut. That's fair as well. But what we ask for is this: We have shown a way to do this within *your* broad parameters for spending cuts, whoever you are. If you don't like the way we did it, offer an alternative at least as detailed as we have. Replace everything you take out from our plan with something just as big. Let's put serious ideas on the table and discuss them.

But there is one position that isn't fair. That is the all-too-common posture that this can all be done with just a little belt-tightening and reductions in wasteful government spending—with no need to get into spending cuts that hurt and unwanted tax increases. That sort of nonsense does a great disservice to our country.

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The deficits our nation will run for the next few years are important for getting the country back on a solid economic foundation. But we need to be planning for the day when we deal with our longer-term deficits. That fiscal challenge is one where discussion that isn't serious doesn't just get us nowhere—it brings us backward. Nothing does more to postpone the day when we seriously address budget deficits than pretending that it is easy, offering only showy spending cuts that don't amount to much or orchestrating budget gimmicks that obscure the true cost of tax cuts. The deficit peacocks who play this game are all show and no substance.[3] But they're worse than that—by offering these palliatives they're making it politically harder to get to the real business of addressing our deficit challenge. And that's a challenge we need to address.

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