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DOING NOTHING YIELDS \$7.1 TRILLION IN DEFICIT CUTS

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In my column today, I note that because certain things will happen automatically if Congress does nothing, inaction would lead to \$7.1 trillion in deficit reduction over the next decade. For that reason, I argue, failure by the super committee to reach a deal would not necessarily be a bad thing for those who want a balanced approach to deficit reduction.

I knew that there was a lot of automatic revenue there but didn't realize how much until I called [Jim Horney](#), Vice President for Federal Fiscal Policy at the Center on Budget and Policy Priorities. He walked me through the math and explained how the actual total in deficit reduction is \$7.1 trillion. Jim kindly agreed to let me share with readers an email he wrote me outlin(n)g this. Here's what he said:

Budget experts agree that federal budget deficits and debt will grow to unacceptable levels in coming years and decades if policymakers do not make changes in current policies. What's also true, but less widely discussed, is that, under current law, changes in current policies that would reduce deficits to acceptable levels will take place unless Congress intervenes to stop that from occurring. That is, Congress can reduce deficits to acceptable levels simply by not passing certain new legislation.

The projections of growing deficits and debt under current policies assume that Congress will enact laws to extend a number of current tax and spending policies that are scheduled to expire. They also assume that the Joint Select Committee on Deficit Reduction (the "Supercommittee") will not produce \$1.2 trillion in deficit reduction over 10 years and that Congress will then enact legislation to prevent the automatic across-the-board spending cuts (the "sequestration," which is supposed to occur if the Joint Committee fails to achieve its goal) from taking effect.

What would happen, however, if Congress did not do any of those things? Deficits would be more than \$7.1 trillion lower over the next 10 years, and the budget would be nearly balanced in 2021. The savings from such inaction would be:

- \$3.3 trillion from letting temporary income and estate tax cuts enacted in 2001, 2003, 2009, and 2010 expire on scheduled at the end of 2012 **I would like to see that! But it is likely that only the taxes of those over \$250,000 will be extended. That will only save \$800,000.** presuming Congress also lets relief from the Alternative Minimum Tax expire, **this will not happen because if let alone it hits too many in the middle class** as noted below);
- \$0.8 trillion from allowing other temporary tax cuts (the "extenders" that Congress has

regularly extended on a “temporary” basis) expire on scheduled; **don’t know what they are. This is very vague and can’t be evaluated without looking at each extender separately.**

- \$0.3 trillion from letting cuts in Medicare physician reimbursements scheduled under current law (required under the Medicare Sustainable Growth Rate formula enacted in 1997, but which have been postponed since 2003) take effect; **not going to happen – there is too much of a risk that Doctors will opt out of Medicare as they are already doing with Medicaid.**
- \$0.7 trillion from letting the temporary increase in the exemption amount under the Alternative Minimum Tax expire, thereby returning the exemption to the level in effect in 2001; **hits middle class – will not happen.**
- \$1.2 trillion from letting the sequestration of spending required if the Joint Committee does not produce \$1.2 trillion in deficit reduction take effect; and **Hopefully will happen. But this sequestration is not scheduled to happen until 2003 and it is a spending cut, not a revenue raiser.**
- \$0.9 trillion in lower interest payments on the debt as a result of the deficit reduction achieved from not extending these current policies. **No, because savings will not be achieved.**

I would only add to what I said in the column that I am not proposing that we use all of that \$7.1 trillion over a decade for deficit reduction. And I continue to believe we need immediate stimulus along the lines of President Obama’s jobs bill. But those who insist, as I do, that a significant share of deficit reduction has to come from tax increases – particularly on the wealthy – should much prefer to negotiate a solution with that \$7.1 trillion in mind. There is absolutely no need for anyone, including the ratings services, to panic if the super-committee doesn’t come up with a deal. That’s why I argued in the column that no deal is far better for sensible deficit reduction than a bad one that contains insufficient revenues.