



U.S. HOUSE OF REPRESENTATIVES

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The President's 2014 Budget

Democrats and Republicans in Congress have put forward their budget proposals, and today President Obama presented his plan to boost job growth and reduce the long-term deficit in a balanced way. The President's budget request for fiscal year 2014 contains differences with the House and Senate Democratic budgets.

The President's budget cuts the deficit by \$1.8 trillion over ten years, reducing the deficit to 1.7 percent of the economy – Gross Domestic Product (GDP) – by 2023 and putting debt as a percent of GDP on a downward path starting in 2016. To continue the country's economic recovery, the budget replaces the sequester and includes a package of upfront proposals to create jobs and enhance the nation's infrastructure. Within the tight discretionary spending caps, it prioritizes funding for vital programs.

New initiatives and changes include:

- a multi-year \$75 billion universal pre-school initiative with states, along with expansion of highly effective home-visiting program for at-risk children – fully paid for by raising tobacco taxes from \$1.01 to \$1.95 per pack;
- a multi-agency initiative dedicating new resources to school safety, mental health, and prevention of gun violence;
- changing the formula used to calculate cost-of-living-adjustments for Social Security and some other programs, as well as for tax brackets and other revenue provisions;
- increasing the minimum wage to \$9 per hour along with other jobs proposals;
- new revenue proposals, including reinstating the estate and gift tax at 2009 levels, which raises \$72 billion; installing a Buffett Rule to ensure that the wealthiest pay no less than 30 percent of their income in taxes, which raises \$53 billion; and limiting tax-preferred retirement benefits to \$3 million to prevent wealthy individuals from amassing fortunes in IRAs tax-free, which raises \$9 billion;
- expanding the Federal Employee Health Benefit Program to cover health benefits for domestic partners; and
- moving student loans from fixed interest rates to variable market-based rates that remain fixed for the life of the loan, and expanding repayment options and benefits.

The President's choices to grow the economy and make the country stronger are in stark contrast to the House-passed Republican budget. The Republican budget reduces jobs and slows economic growth, slashes critical investments in our future, and breaks our promises to

seniors by converting Medicare into a voucher at the same time it protects tax breaks for special interests and the very wealthy.

Job Growth and Investments in Infrastructure

The President's budget aims to grow the economy now, while we are still recovering from the recession and too many Americans still cannot find work. First, it saves jobs simply by replacing the sequester in all years, as the Congressional Budget Office has estimated that leaving the sequester in place will cost us 750,000 jobs this year alone. Second, the budget includes initiatives to create jobs and enhance the country's infrastructure. In contrast, the House-passed Republican budget leaves the sequester in place for all years and does not include a jobs package. Some of the President's major initiatives include the following:

Transportation and Infrastructure — A new initiative increases surface transportation outlays by \$104 billion, paid for with a portion of the savings from reduced funding for Overseas Contingency Operations. The budget also includes \$50 billion to fund jobs that address immediate surface transportation priorities, including funding for highways, transit systems, rail, and aviation. The budget also includes the Administration's prior \$10 billion infrastructure bank proposal, as well as \$15 billion for Project Rebuild to create jobs through rehabilitating or redeveloping abandoned or blighted properties in neighborhoods across all 50 states.

Job training — The budget provides \$12.5 billion over three years for a Pathways Back to Work Fund to support employment for long-term unemployed and low-income adults as well as low-income youth. (Apart from the jobs initiative, the budget also includes \$27 billion over ten years for a new program to provide training and reemployment services for displaced workers, and \$8 billion for an initiative to provide job training through state partnerships with community colleges.)

Education jobs — The budget supports education jobs by providing \$12.5 billion in 2013 to help prevent teacher layoffs and \$5 billion in 2013 to improve the teaching profession. It also creates construction jobs and improves school facilities with \$10 billion to increase the federal subsidy rate on America Fast Forward Bonds for school construction.

Tax relief to create jobs — The budget provides \$33 billion over ten years in tax credits to spur growth, including \$26 billion for a temporary 10 percent tax credit for small businesses that create new jobs and increase wages. It also includes \$17 billion in tax relief for infrastructure investments, which includes the school construction bonds mentioned above. (Additional tax relief is described in "Revenue proposals" on page 4.)

Deficit Reduction

The House Republican budget reduces the deficit by doubling the cuts to non-defense discretionary funding – investments that will help our economy grow such as education, transportation and infrastructure, science and research – and breaking our promises to seniors and others by repealing the Affordable Care Act prescription drug coverage while gutting Medicaid and converting Medicare into a voucher. The President’s budget chooses a different path, replacing the sequester in all years but reducing the deficit by a greater amount through a mix of spending cuts and revenue. These policies reduce the deficit to 1.7 percent of GDP by 2023 and put debt as a percent of GDP on a downward path starting in 2016.

President's 2014 Budget Totals in Billions of Dollars											
(OMB Estimates)											
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Receipts	2,712	3,034	3,332	3,561	3,761	3,974	4,226	4,464	4,709	4,951	5,220
Outlays	3,685	3,778	3,908	4,090	4,247	4,449	4,724	4,967	5,209	5,470	5,660
Deficit	973	744	576	528	487	475	498	503	501	519	439
% of GDP	6.0%	4.4%	3.2%	2.8%	2.4%	2.3%	2.3%	2.2%	2.1%	2.1%	1.7%

During negotiations on the fiscal cliff in December, the President offered compromises on a number of deficit reduction proposals. These compromises produce \$1.8 billion in savings over ten years (2014-2023), which is greater than the deficit reduction that would have come through sequestration. Some of the major components include the following:

Discretionary spending cuts — Starting in 2017, the budget lowers both defense and non-defense discretionary caps by almost equal amounts, for total savings of \$202 billion.

Health savings — The budget reduces health care spending by \$401 billion over ten years through a variety of changes affecting Medicare, Medicaid, and the Federal Employees Health Benefits Program (FEHBP). This includes savings of \$307 billion from policies affecting Medicare provider payments; \$64 billion in savings from policies affecting Medicare beneficiaries, primarily from increasing income-related premiums; \$19 billion in net savings from Medicaid through policies affecting providers, drug companies, and device manufacturers; and \$8 billion from changes to FEHBP.

Savings from changing the cost-of-living adjustment for non-means-tested benefits — The budget includes \$230 billion in savings from moving to use the chained consumer price index (CPI) to calculate cost-of-living-adjustments (COLAs) for Social Security and some other federal programs, as well as for tax brackets and other revenue provisions. Chained CPI would not be used for means-tested programs or for poverty-line calculations. The change raises \$100 billion in revenues and reduces spending by \$130 billion, with the bulk of the spending savings from reduced Social Security COLAs.

Revenue proposals — The budget raises \$1.1 trillion in revenues over ten years. It reinstates the estate tax at 2009 levels and assumes permanent extension of the American Opportunity Tax Credit and the enhanced EITC and the child tax credit in its baseline. The budget dedicates \$683 billion to deficit reduction by limiting the value of certain tax expenditures, installing a Buffett Rule, and indexing the tax code to the chained CPI. The budget fully finances pre-school for all and other early childhood investments by raising \$78 billion from higher taxes on tobacco. To generate jobs and jumpstart the economy, the budget provides \$33 billion in hiring and investment incentives with \$20 billion concentrated in 2014-15. The budget expands infrastructure incentives by \$17 billion, and provides \$29 billion in tax cuts for families, \$9 billion in tax relief from simplifying complex tax rules, and \$1 billion to promote trade and economic growths. These tax cuts are financed (with \$149 billion to spare) through closing loopholes that benefit wealthy estates and hedge fund managers, raising fees on banks, and closing the tax gap. While not reflected in the budget's numbers, the President's proposals for revenue-neutral corporate tax reform would make permanent \$241 billion of tax incentives for manufacturing, R&D, and renewable energy, financed by eliminating fossil fuel subsidies and closing international loopholes, among other revenue increases.

Other mandatory savings — The budget includes additional savings, including \$25 billion in premium increases for the Pension Benefit Guaranty Corporation (PBGC), which provides insurance to protect individuals who participate in private defined-benefit pension plans. Last year, the Congress increased the premiums that employers pay for their plans, but PBGC's insurance funds continue to be underfunded.

Debt service savings — The combination of all the changes in the President's December compromise proposal will reduce federal debt service by about \$200 billion.

Other Budget Highlights

Education

- **Early childhood initiative** — The budget includes \$75 billion over ten years for a new partnership with states to provide all four-year-olds with access to pre-school, helping children start their education off right and saving parents the cost of child care. This early learning initiative, as well as expansion of highly effective voluntary home visiting programs for at-risk children, is fully paid for by raising tobacco taxes from \$1.01 to \$1.95 per pack.
- **Higher education** — To make college more affordable, the budget makes permanent the American Opportunity Tax Credit that helps more than 9 million students each year, expands and changes the Perkins loan program, and maintains the maximum Pell grant award for 2014 and provides \$18 billion to help maintain it in the future. It targets

federal funding to low-income students and to institutions that restrain college costs and provide high quality educational outcomes.

- **Student loans** – The budget also changes student loan interest rates and repayment benefits. Rates are currently fixed by statute: 3.4 percent for subsidized student loans, but that rate will double in July; 6.8 percent for unsubsidized loans; and 7.9 percent for PLUS loans for graduate students and parents. The President’s budget moves to variable rates pegged to prevailing Treasury rates, which will then be fixed for the life of the loan, like a fixed-rate home mortgage. Rates for all borrowers will be lower in the short term than under current law, but would rise as interest rates rise in the economy, and the rates are not capped. To help students repay their loans, all student borrowers will now be eligible for the “pay-as-you-earn” benefit that limits monthly repayments to 10 percent of the borrower’s income, and forgives any remaining balance after 20 years of repayment.

Research and development (R&D) and energy — The budget invests in R&D and includes initiatives to create the jobs of the future. The budget provides \$143 billion for R&D overall, increasing non-defense R&D by nine percent above the 2012 enacted level. This funding supports scientific research, strengthens American manufacturing and advances the Administration’s “all-of-the-above” energy strategy. The budget establishes an Energy Security Trust fund with \$1.8 billion over ten years using royalty revenue from oil and gas leases to fund research that improves energy technologies.

National defense —The budget, excluding overseas contingencies, matches the pre-sequester Budget Control Act (BCA) levels for national defense (budget function 050) for 2014 through 2016. From 2017 to 2023, the defense budget grows nominally, but at a slower rate than the BCA, saving \$119 billion over that period.

Overseas Contingency Operations (OCO) — The budget includes only placeholder estimates for 2014 and the outyears. The Administration plans to draw down the number of service members deployed to Afghanistan by 34,000 over the next year, but has not yet made decisions about the pace of those reductions. Consequently, the budget does not include final estimates for overseas operations. The President will submit an amended OCO budget once these decisions are finalized.

For 2014, budget includes \$92.3 billion for OCO, an \$88.5 billion placeholder for defense (the same amount the President requested last year) and \$3.8 billion for State Department and other international programs. Over 2015 through 2021, the budget includes \$37.3 billion per year to reflect the Administration’s policy of capping OCO funding at \$450 billion for the 2013-2021 period. The budget includes no OCO funding for 2022 and 2023.