



207 Cannon House Office Building  
Washington, DC 20515  
Representative Paul D. Ryan, *Chairman*

MAJORITY CAUCUS

## THE COMMITTEE ON THE BUDGET

Phone: (202) 226-7270  
[budget.house.gov](http://budget.house.gov)  
Augustine T. Smythe, *Staff Director*

### THE PRESIDENT'S BUDGET FOR FISCAL YEAR 2012 MORE SPENDING, TAXES, AND DEBT

15 February 2011

#### SUMMARY

Having repeatedly acknowledged the gravity of the Federal Government's fiscal outlook, the President seems to have ignored his own rhetoric: he has submitted a budget that extends a pattern of record spending, chased by ever high taxes that still fail to catch up with his ambitions. His budget makes no serious attempt to address the rapid growth of spending that threatens to smother the U.S. economy. Facing the Nation's greatest domestic challenge, the President opted to punt rather than lead. His budget spends too much, taxes too much, and borrows too much – stifling job growth today and leaving a diminished future for the next generation.

A quick summary:

*Spending.* The budget spends \$3.8 trillion in fiscal year 2011, 25.3 percent of gross domestic product [GDP], and \$46 trillion over the 10-year period. Federal spending falls slightly (due to natural declines from stimulus and unemployment insurance), but climbs above 23 percent of GDP by the end of the 10-year window. The budget increases spending by a total of \$77 billion relative to the baseline for this year (2011) and next (2012). By its own baseline accounting, the Office of Management and Budget [OMB] shows no spending savings until fiscal year 2013. This continues the pattern of budgets that keep increasing spending in the near term while promising deficit reduction in the outyears. Last year's budget projected a fiscal year 2011 deficit of \$1.3 trillion, nearly \$400 billion lower than what OMB is projecting this year.

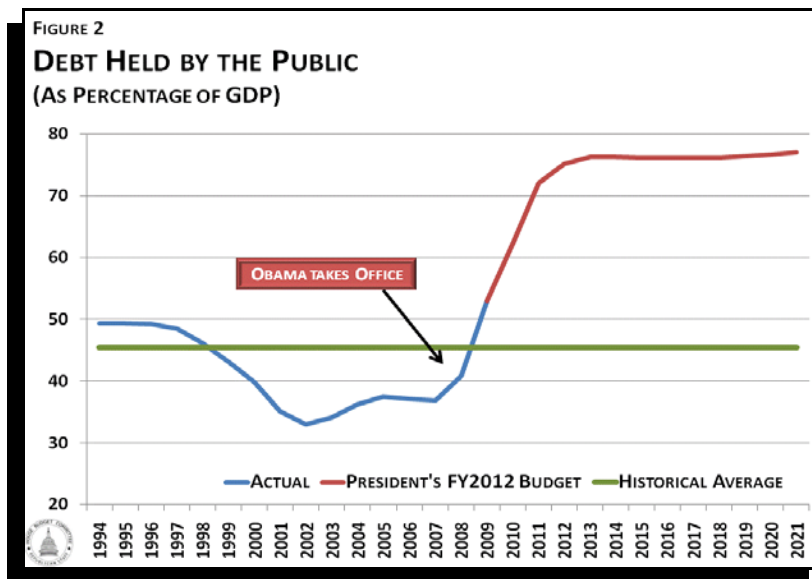
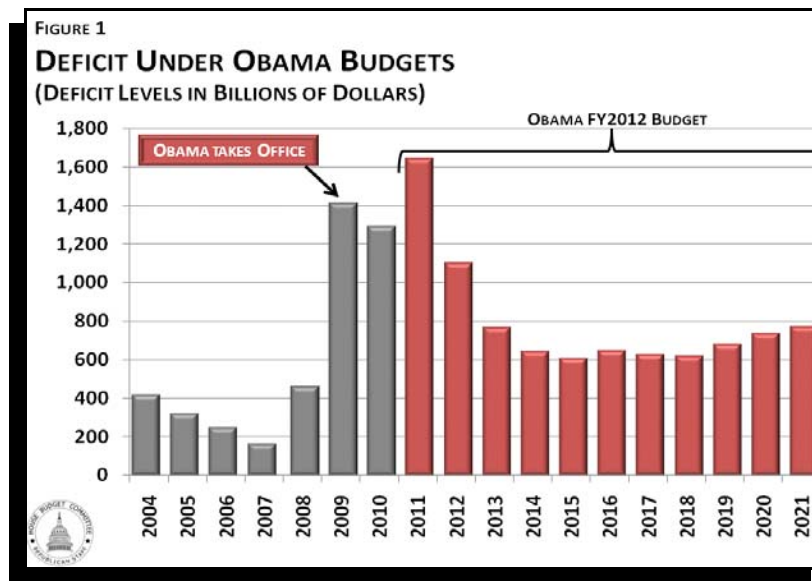
The budget goes “nowhere near where they will have to go to resolve our fiscal nightmare.”

Erskine B. Bowles  
Co-Chairman  
The President's Fiscal Commission

*Taxes.* OMB's “current policy baseline” only assumes extension of tax relief for incomes under \$200,000 for single filers and \$250,000 for joint filers. Relative to this baseline, the budget increases taxes by \$819 billion over 10 years. Adding increases for the expiration of current rates on incomes over \$200,000/\$250,000, and a return of the estate tax to 2009 parameters brings the President's total tax increases to \$1.6 trillion over 10 years.

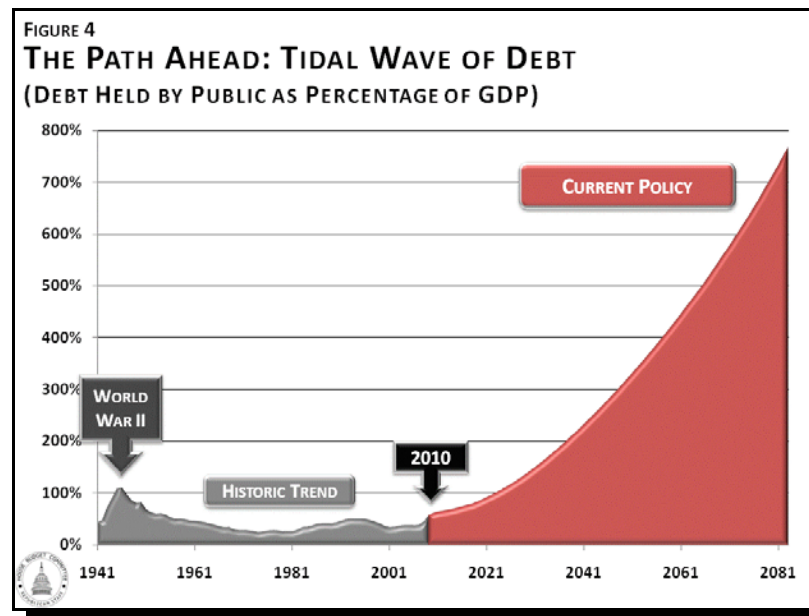
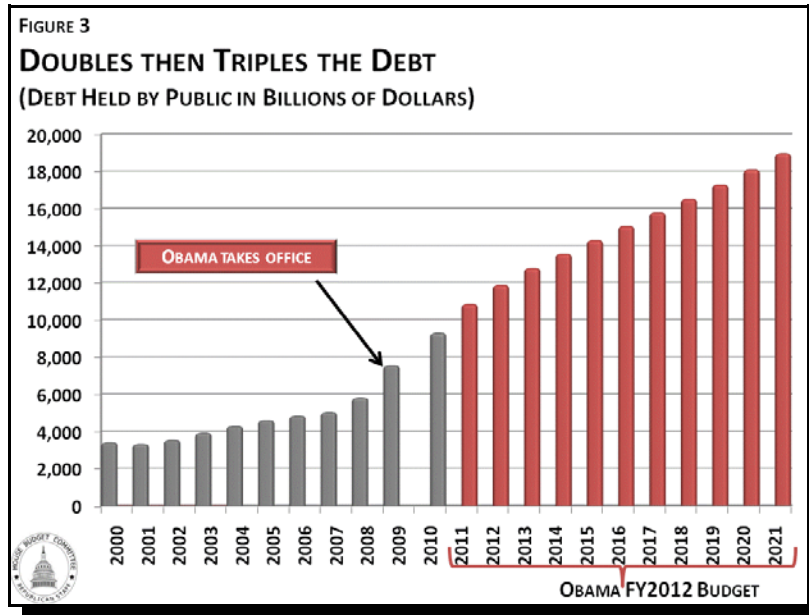
*Deficits.* The President's fiscal year 2011 deficit is \$1.6 trillion, 10.9 percent of GDP, an all-time record in nominal terms and a new post-World War II record as a share of the economy. The

President's budget projects deficits will decline to \$607 billion in fiscal year 2015 and then rise to \$774 billion by 2021. Over 10 years, the President's budget deficits total \$7.2 trillion. Deficits never fall below 3 percent of GDP – the official maximum allowed deficit for membership in the European Union. The budget has unspecified savings in the outyears (offsets for alternative minimum tax relief and highway funding) and is built on more optimistic projections than those of the Congressional Budget Office [CBO]: for its baseline, OMB projects deficits that are \$1.5 trillion lower than CBO's over the 10-year period.



*Debt.* Debt held by the public climbs to \$10.9 trillion by the end of this year (72 percent of GDP), and it continues rising after that, reaching 77 percent of GDP in 2021. In the European Union, the official maximum debt allowed for member countries is 60 percent of GDP. His budget would

double and then triple the debt compared to when he took office. The current debt limit is \$14.294 trillion. Debt subject to limit increases to \$15.5 trillion by the end of fiscal year 2011, a nearly \$2-trillion increase compared to last year. By the end of the decade, debt subject to limit climbs to above \$26 trillion.



*Interest on the Debt.* Net interest grows more than four-fold, from \$207 billion this year to \$844 billion in 2021, with some optimistic assumptions about deficit reduction and interest rates (OMB assumes the 10-year Treasury rate never gets above 5.3 percent).

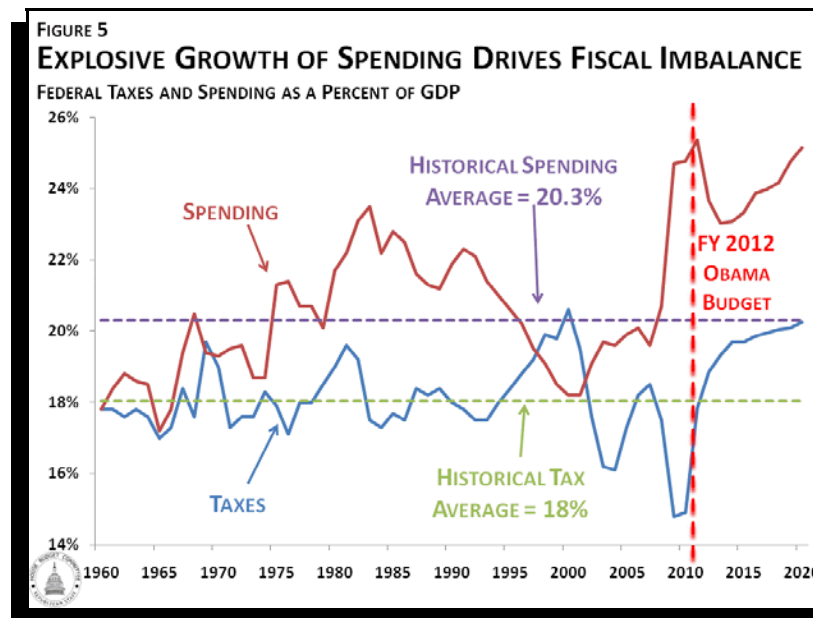
---

The President's budget last year called for the creation of a fiscal commission that would develop proposals for tackling the government's unsustainable deficits and debt. The commission reported its findings in December – and the President's budget all but ignores them, leading the commission's Co-Chairman, Erskine B. Bowles, to contend in *The Washington Post* (14 February 2011) the budget goes “nowhere near where they will have to go to resolve our fiscal nightmare.”

The balance of this discussion summarizes the President's main spending and tax proposals, his economic assumptions, and his proposed budget “disciplines.”

## SPENDING

The President's huge deficits and debt are the result of spending. His spending consistently outpaces revenue, even with the budget's sizable tax increases (see discussion, page 12). The rate of spending growth belies his claims of fiscal “responsibility” and spending “freezes.”



## Mandatory Spending Overall

As noted, the budget makes no substantial effort to address the unsustainable rate of entitlement spending, one of the major aims of the President's Fiscal Commission. Instead, the budget adds \$404 billion in new mandatory spending (see Table 7, Appendix 1), which in total rises from about \$2.2 trillion this year to nearly \$3.5 trillion in 2021.

The three major entitlements – Medicare, Medicaid, and Social Security – grow from \$1.4 trillion this year to \$2.6 trillion in 2021. Remarked Fiscal Commission member Alice M. Rivlin in *The Washington Post* (14 February 2011): “I would have preferred to see the administration get out in front on addressing the entitlements and the tax reform that we need to reduce long-term deficits. But they clearly made a tactical decision that this is not the best way to get a positive result.”

---

## The Three Major Entitlement Programs

*Medicare.* Over the next 10 years, the President's budget proposes to spend more than \$6 trillion on the Medicare program, which – by CBO's projections – is on its way to crowding out all other government spending and eventually dragging down the entire economy. Spending on the program grows from \$488 billion this year to \$840 billion in 2021, and the President's budget makes no significant effort to restrain the program's spending growth. The administration includes an update to the physician payment formula (the "doc fix"), offsetting it with specified savings over 2 years and unspecified savings thereafter.

*Medicaid.* Over the next 10 years, the President's budget proposes to spend more than \$4 trillion on the Medicaid Program. Belying these numbers however, is a huge expansion of a program that is sustainable at neither the Federal nor the State level – and this is before the 11.6 million new enrollees that are expected to join the program in fiscal year 2014, according to actuaries at the Centers for Medicare and Medicaid Services [CMS]. Federal expenditures also

"I would have preferred to see the administration get out in front on addressing the entitlements . . . But they clearly made a tactical decision that this is not the best way to get a positive result."

Alice M. Rivlin  
Member of the President's Fiscal Commission

are expected to surge: according to the President's budget, Medicaid expenditures increase by more than \$64 billion between fiscal year 2013 and fiscal year 2014. Compared with 2008, when it was \$201.4 billion, the Federal share of Medicaid spending will more than double by 2016, to \$427 billion. The President's budget contains no meaningful proposals toward reforming Medicaid and addressing the health care cost growth that continues to drive Federal spending.

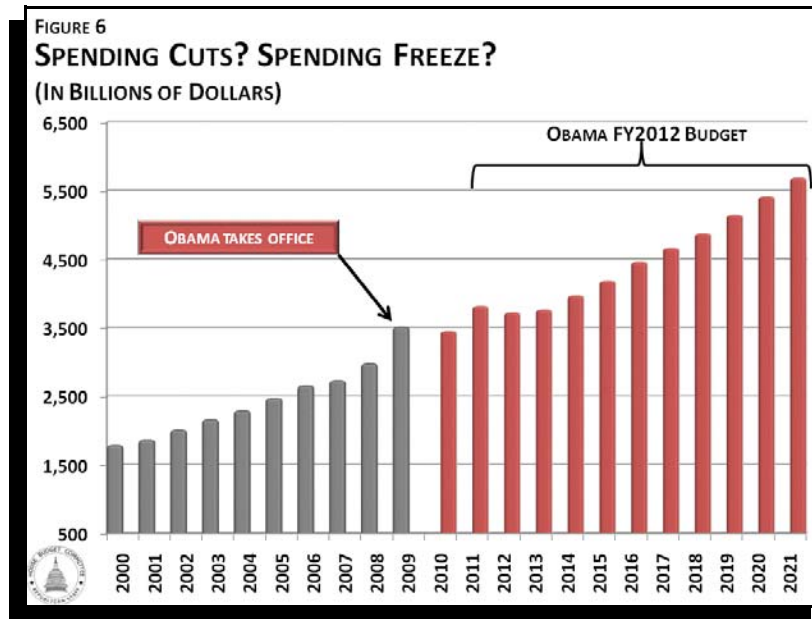
*Social Security.* With the leading edge of the baby-boom generation beginning to retire, it is increasingly clear that Social Security must be restructured to preserve the benefits of those now in or near retirement, and also ensure the program can be sustained for future retirees. Social Security's own actuaries continue to warn of 22-percent across-the-board benefit cuts in 2037 and the Congressional Budget Office has recently revised its projections for the program, finding that Social Security has entered into permanent cash deficits this year – 5 years earlier than previously projected.

Nevertheless, the President's budget takes none of the recommendations of his own Fiscal Commission, and fails to offer any reforms to put Social Security on a sound financial footing for the next generation. The program's spending nearly doubles over the next decade in the President's budget, rising from \$742 billion this year to about \$1.3 trillion in 2021. As a share of the economy, Social Security exceeds national defense in 2014 – 4.8 percent of GDP for the retirement program, 4.5 percent for defense – and then continues climbing, reaching 5.2 percent of GDP in 2021.

## Other Mandatory Spending

*Unemployment Insurance [UI].* The painful continuation of high unemployment rates, combined with the 2009 "stimulus" bill requirement that States expand eligibility, has resulted in 30 States now collectively \$42.4 billion in debt to the Federal Unemployment Trust Fund [UTF]. Current law dictates that when a State cannot fully repay its UTF loan within a certain time frame, higher

Federal taxes are triggered. With many States facing such tax increases, the President's budget seeks to push off the problem by offering *temporary* tax relief in exchange for *permanent* higher tax increases in the future. The President's budget proposes: 1) a 2-year moratorium on UI tax increases and interest payments on any Federal UI loan debt; 2) more than doubling the Federal UI taxable wage base from \$7,000 to \$15,000 in 2014 – an expansion of an existing tax – matched by a reduction in the effective Federal tax rate; the proposal is designed to ensure Federal UI taxes do not increase in the short term, but putting employers on the path to higher taxes in the future. The administration estimates this proposal would decrease the deficit by \$42.3 billion over the 2011-21 period.



*Higher Education.* The budget proposes to eliminate the in-school interest subsidies for graduate and professional students, saving \$29.3 billion over 10 years. The budget then proposes to replace the Teacher Education Assistance for College and Higher Education [TEACH] grants program with a new program called the Presidential Teaching Fellows, at a cost of \$508 million over 10 years, and establish a new College Completion Incentive Grants program at a cost of \$1.25 billion over 10 years.

The budget also seeks to take advantage of a scoring distortion created by the Credit Reform Act that makes it appear that certain loan programs save money when they may not once market risk is taken into account. It proposes to overhaul the Perkins Loan Program so that it functions like the Federal Direct Loan Program, and purportedly saves \$7.4 billion over 10 years. Similarly, the budget provides incentives for current borrowers in the Federal Family Education Loan Program [FFELP] to convert from guaranteed loans to direct loans, saving \$2.24 billion over 10 years.

*Nutrition Assistance.* The President's budget seeks to restore the stimulus bill's increase in the Supplemental Nutrition Assistance Program [SNAP] benefits (formerly food stamps) that were used as an offset to pay for the Healthy, Hunger-Free Kids Act of 2010. This benefit restoration would cost \$3.3 billion over 10 years.

---

*Wireless Broadband and Spectrum.* The President's budget sets an important goal of freeing up 500 megahertz [MHz] over 10 years to make way for increased wireless broadband use, and commits to auctioning a majority of this spectrum in future years. This is expected to generate \$27.8 billion in revenue. But even before the money is received, the President spends a majority of it. A sum of \$5 billion would go immediately to the Universal Service Fund to overbuild the country with 4G wireless, and \$3 billion would be spent on a new "Wireless Innovation" research and development program. Another \$10.7 billion, including a \$3-billion dollar swath of spectrum, would be given to public safety. Supposedly, \$9.6 billion would remain and eventually be available for deficit reduction.

There is no guarantee, however, that the spectrum auctions will garner the expected revenue. In addition, Congress is still examining how the \$7 billion allocated for broadband in the stimulus is working, and will be over next five years, which is the life of the program. Even without these subsidies, according to the Federal Communications Commission's National Broadband Plan, the private sector has already deployed broadband to 95 percent of the country, and two-thirds of the country subscribes to a broadband service.

*The American Opportunity Tax Credit [AOTC].* This credit was created in the stimulus with the intent of providing a temporary boost to the economy. It was then extended through the end of 2012 by the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010. The AOTC offers a maximum credit of \$2,500 per student for the first 4 years of college. The President's budget would make the AOTC a permanent replacement for the Hope Scholarship Credit and would cost \$94 billion over 10 years.

*Fannie Mae and Freddie Mac.* Insolvent and under government conservatorship, Fannie and Freddie have received more than \$150 billion in taxpayer support. CBO estimates the total bailout of Fannie and Freddie could reach close to \$400 billion. Because of Fannie's and Freddie's "ownership and control by the Treasury," CBO has placed the two government-sponsored enterprises [GSEs] on budget and considers them to be governmental entities. CBO treats Fannie's and Freddie's existing and new obligations as obligations of the Federal Government, and estimates them using fair value scoring on a risk-adjusted present-value basis. The administration continues to leave Fannie and Freddie off budget, keeping them afloat with regular capital injections and using them as conduits for housing policy. It treats them as nongovernmental entities, scoring only the cash transfers between Treasury and the GSEs.

While the administration recently released a plan with several options to overhaul Fannie and Freddie, the President's budget does not include new proposals for reform of housing finance. In addition, since OMB considers the two GSEs as off-budget entities, were policy changes included, they would be difficult to fully measure under the administration's current budget and scoring approach.

*TARP.* Appreciating market values and an end to Treasury authority for new TARP programs have brought down OMB's estimate of the lifetime cost of TARP to \$64.4 billion. While programs aimed at financial institutions, including TARP's late-2008 initiative, the Capital Purchase Program, will produce budgetary gains, most taxpayer losses come from three areas:

- HOUSING SUBSIDIES OMB estimates that the broad array of housing programs will be the biggest loser for TARP, costing a total of about \$46 billion. Any funds spent on housing

---

programs are recorded as outlays on a cash-basis, meaning they do not produce any returns for the taxpayer. The most expensive part of housing assistance continues to be the \$30-billion “Making Home Affordable” loan modification program, which to date has produced lackluster results: about 580,000 modifications have become permanent, well below the administration’s goal of 3 million to 4 million. In an effort to reverse this failure, Treasury introduced the “Hardest Hit Fund” and “FHA Refinance” programs, which OMB thinks will cost \$7.6 billion and \$8.1 billion, respectively.

- AUTOMAKER BAILOUTS. The all-in cost of aid to the auto industry will be about \$20 billion, according to OMB. Of the almost-\$50 billion provided to GM, \$26 billion remains outstanding – and the government still controls 33 percent in common equity of the automaker. In addition, there is still about \$23 billion outstanding in Ally Financial (formerly GMAC) and Chrysler.
- AIG. OMB estimates that insurance company AIG will ultimately cost taxpayers \$12 billion through TARP. Based on current market values, the expected losses have declined \$38 billion since July 2010. The Federal Government still owns 92 percent of the insurer, however, so cost estimates based on AIG’s common stock price remain tied to market volatility.

*Dodd-Frank Financial Regulation.* The President’s budget accommodates the increasing size and reach of the Federal Government set forth in the Dodd-Frank Act. Here are a few expansions included in the budget:

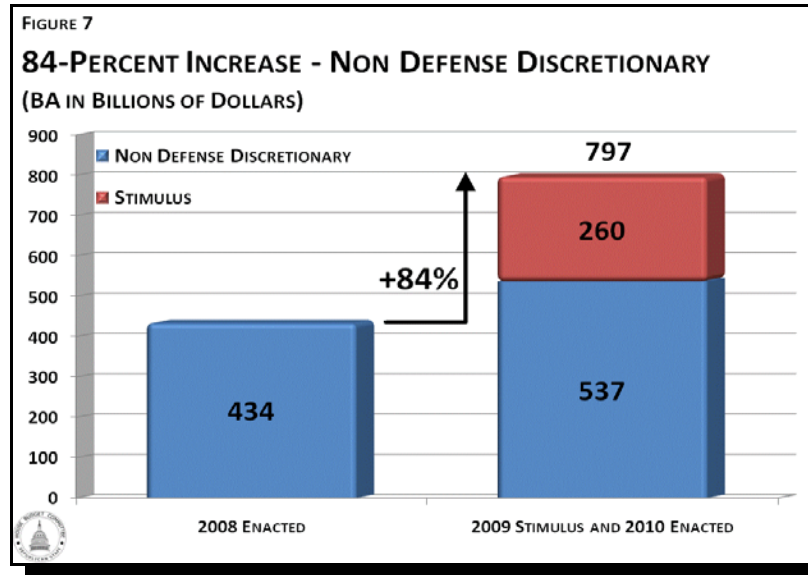
- CONTINUING TOO-BIG-TO-FAIL. The budget includes a \$20-billion cost of bank creditor bailouts for large financial institutions. This funding is assigned to the complicated, “orderly liquidation authority,” which allows the Federal Deposit Insurance Corporation to take large, failing financial institutions into receivership and pay off their debt holders with “borrowed” taxpayer funds. Since the \$20 billion budgeted is the cost using probability-based estimates, there is much uncertainty over the true cost of bailing out one large firm under this new regime, let alone many firms at a time.
- SECURITIES AND EXCHANGE COMMISSION [SEC] AND COMMODITY FUTURES TRADING COMMISSION [CFTC]. To fund the reams of new regulation required under Dodd-Frank, the President’s budget calls for a surge in SEC and CFTC funding, increasing the commissions’ budgets by 28 percent and 82 percent in 2012, respectively. The budget also calls for a new, \$1.3-billion CFTC user fee over 10 years, and reclassifies SEC fees as discretionary. (Note: SEC and CFTC funding is discretionary.)
- BUREAU OF CONSUMER FINANCIAL PROTECTION [BCFP]. The budget includes a permanent mandatory transfer to fund the new bureaucracy with the Federal Reserve’s remittances to the Treasury for deficit reduction. This is estimated to cost \$329 million in 2012 alone.
- FINANCIAL STABILITY OVERSIGHT COUNCIL AND OFFICE OF FINANCIAL RESEARCH. Dodd-Frank established a council of regulators in charge of designating large, interconnected firms “systemically significant.” The council is supported by a new Office of Financial Research within the Treasury Department. Initially, these two entities are, like the BCFP, funded by transfers from the Federal Reserve diverted from deficit reduction.



---

## Discretionary Spending

Although the President advertises his proposed spending “freeze,” non-defense discretionary spending during his administration has increased 24 percent above 2008 levels – and 84 percent when stimulus is included.



As the administration has done before, the budget subdivides discretionary spending into “security” and “non-security” categories (see Table 4, Appendix 1). “Security,” in the administration’s grouping, consists of the Department of Defense [DoD]; the Department of Energy’s National Nuclear Security Administration (which builds and maintains nuclear weapons); the Department of Veterans Affairs [VA]; the Department of State and international affairs; and the Department of Homeland Security [DHS]. Non-security is all other regularly appropriated spending. “Stimulus” and emergencies are excluded from both. (The arrangement differs slightly from those in H.R. 1, the full-year continuing resolution being considered in the House this week. In that measure, “security” consists of discretionary spending for DoD, the VA, and Homeland Security.)

*‘Security’ Spending.* The Department of Defense [DoD] represents the majority of the security category. The President’s request for fiscal year 2012 is \$553 billion for the DoD’s base operations (non-war), an increase of 4.3 percent over the fiscal year 2010 level. The President includes an additional \$117.6 billion for the military conduct of the war on terrorism. With war costs, total DoD discretionary budget authority will be \$670.6 billion in 2011, a decrease of 5.0 percent from likely fiscal year 2011 levels – driven by the troop drawdown as military operations in Iraq conclude. In the years 2013 and beyond, the President assumes a \$50-billion placeholder for war spending, and an average annual growth for DoD programs of 1.9 percent. Funding for the other agencies and programs in the “security” category is as follows:

- THE DEPARTMENT OF VETERANS AFFAIRS. The VA receives \$58.8 billion, an increase of 10.7 percent above fiscal year 2010 for its discretionary programs, which are primarily its hospitals and health programs.

- 
- THE DEPARTMENT OF ENERGY’S NATIONAL NUCLEAR SECURITY ADMINISTRATION. The agency is provided an increase of 18 percent over the 2010 level.
  - THE DEPARTMENT OF HOMELAND SECURITY. For the DHS, the request is \$43.2 billion, or \$3.4 billion higher than the \$39.8-billion proposed in 2010. The request is an increase of 8.5 percent.
  - THE DEPARTMENT OF STATE AND OTHER INTERNATIONAL PROGRAMS. The budget proposes to create for the first time a separate account to cover the diplomatic and development costs of U.S. involvement in Iraq, Afghanistan, and Pakistan. If these costs are included, State and other international programs receive a total of \$61.4 billion, or 12.6 percent over the fiscal year 2010 level.

*Non-Security.* The budget purports to freeze non-security discretionary spending through 2015. But this category of spending amounts to less than 11 percent of total Federal spending proposed for 2012. Furthermore, the President’s non-security discretionary spending has increased 19 percent since 2008, and the freeze merely maintains this elevated level. Some key items:

*Pell Grants.* To maintain the current Pell Grant maximum award of \$5,550 (\$4,860 in discretionary and a \$690 mandatory add-on), the budget adds \$118 billion (or \$11.8 billion per year) to the Pell baseline. This masks much of the additional spending that Congress will have to approve to meet this award level so that it will not appear to be as large an increase compared to the baseline. Next, the budget dedicates \$44 billion in additional mandatory funds over 10 years to shore up program funding.

Finally, the budget proposes a number of cost-saving reforms, such as eliminating the ability to receive two Pell Grants in 1 year, eliminating in-school subsidies for graduate students, and simplifying Federal student aid applications. For fiscal year 2012, the budget requests \$41 billion for Pell Grants, of which \$28.6 billion is discretionary. This funding level assumes, however, immediate enactment of the policy changes described above. Without congressional action this year, the fiscal year 2012 discretionary costs will be much higher.

*High-Speed Rail.* The budget also fulfills Vice President Biden’s promise to spend \$53 billion on high-speed rail, including \$8 billion in fiscal year 2012. The administration has already allocated more than \$10 billion for high-speed rail projects in the past 2 years, but those funds have been met with controversy. Several Governors have either returned their high-speed rail funds to the Department of Transportation, or are having second thoughts about their rail projects because of the high cost and risk of long term drain on State budgets. There are only two high-speed rail projects in the world that break even – in Japan and France – and those are situated in highly populated urban centers where the price of gasoline is twice that in the United States.

*Other Transportation.* The budget proposes to reclassify \$627 billion in outlays from the discretionary to the mandatory side of the ledger, and also proposes a \$556-billion, 6-year surface transportation reauthorization that would include not just highways and transit, but also passenger rail, highway safety, and a National Infrastructure Bank. This would add even greater pressure to an already insolvent Highway Trust Fund [HTF] – which would be renamed the Transportation Trust Fund – that has required three separate bailouts totaling \$35 billion since September 2008.

---

Even without additional spending, the Congressional Budget Office projects the Trust Fund will require another bailout by 2013. The budget also assumes a “bipartisan agreement” that would raise \$435 billion in new revenues over 10 years but does not specify how those revenues would be raised.

*Energy Programs.* The budget proposes \$29.5 billion for the Department of Energy, a 12-percent increase over the 2010 enacted levels. The budget calls for an increase of more than \$450 million for the Office of Science, doubles funding for energy efficiency programs, and increases renewable energy programs by over 70 percent. It also proposes \$588 million in spending to “put one million advanced technology vehicles [electric cars] on the road by 2015,” an 88-percent increase above current funding levels.

*Community Development Block Grants [CDBG].* The administration has been widely-advertising its \$300-million cut from CDBG. This reduction, however, follows a \$2-billion appropriation in the stimulus bill, on top of \$3.6 billion dedicated to CDBG in 2009 and more than \$4 billion in 2010.

### **Long-Term Estimates**

The administration’s budget includes a section discussing the long-term fiscal situation, finding that under the President’s plan, the fiscal gap – that is, the difference between projected revenues and expenditures – equals 1.8 percent of GDP.

This number, however, does not represent the full picture. The administration figure rests on questionable assumptions. For example, Medicaid’s growth is assumed to be at GDP plus-0.65 percent, much lower than the historical growth rate of GDP plus-2.2 percent (and in direct contrast to the most recent report by Chief Actuary at CMS). The actuaries have stated that due to the Affordable Care Act [ACA], aggregate Medicaid costs will increase significantly, and that Medicaid expenditures are projected to increase at an annual average rate of 8.3 percent over the next 10 years.

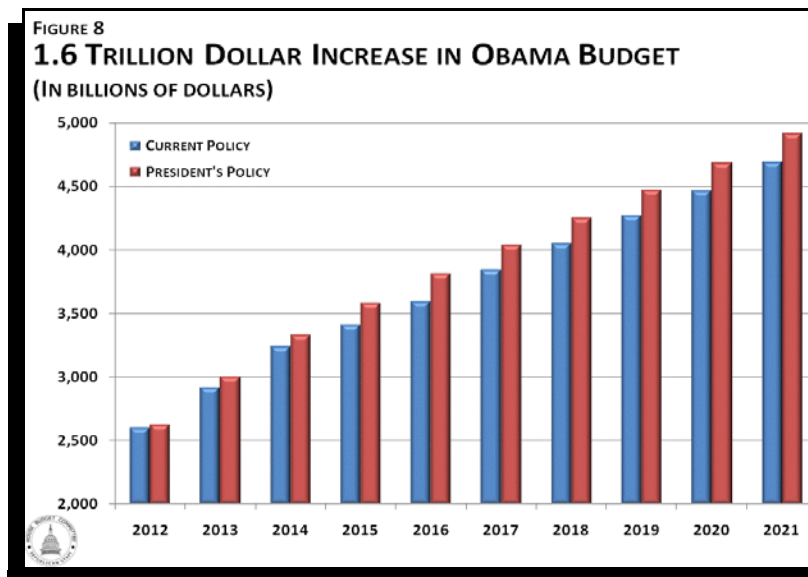
Additionally, Medicare is projected to grow at GDP plus-0.3 percent in the President’s budget. While the administration assumes its health care legislation will reduce spending on Medicare, the Chief Actuary of CMS has stated that these assumptions are not realistic, saying: “[T]here is a strong likelihood that certain of these changes [in ACA] will not be viable in the long range,” and that “the financial projections shown in this report for Medicare do not represent a reasonable expectation for actual program operations in either the short range or the long range.”

In all of this, it is unclear whether or not the new exchange subsidies are included in their long-term budget projections. Because the administration has included the new tax increases associated with the health care bill, not including the exchange subsidies would be a serious omission. If they are included in the “other mandatory” category, however, then it is unclear what the assumptions for lower spending are for other mandatory programs. This year’s long-term budget assumes lower long-term projections for other mandatory programs – so to the extent that the exchange subsidies are included in this category, they are being included at the expense of programs such as SNAP and UI, among others.

---

## TAXES

The policy proposals in the President's budget would increase tax revenues by more than \$1.6 trillion over 10 years, based on administration estimates (see Table 5, Appendix 1). OMB's "current policy baseline" assumes extension of 2001 and 2003 tax rates only for incomes under \$200,000 for single filers and \$250,000 for joint filers, and also assumes that estate taxes are increased to their 2009 levels. Relative to this baseline, the budget increases taxes by \$819 billion. But adding in tax increases on higher-income individuals and small businesses (\$709 billion) and the estate tax (\$98 billion) pushes the total tax increase to more than \$1.6 trillion. By 2021, tax revenue as a share of GDP would rise to 20 percent, well above the long-term historical average of just over 18 percent. In the budget, the administration pays lip service to comprehensive tax reform in the budget, calling on Congress to "begin work on reform that will close loopholes, lower the overall rate, and not add a dime to the deficit." But the budget fails to detail specifics on how revenue-neutral corporate tax reform might be achieved.



Among the key tax provisions outlined in the budget are the following:

*Expiration of 2001/2003 Tax Rates Provisions for Higher Incomes.* The proposal would increase the top two income tax brackets from 33 percent to 36 percent, and from 35 percent to 39.6 percent, starting in 2013. It would also increase the tax rate on capital gains and dividends from 15 percent to 20 percent for households making more than \$250,000 (\$200,000 for individuals). It would also restore the phase-out of personal exemptions and itemized deductions for such individuals (i.e. the so-called PEP and Pease). These provisions would raise \$709 billion over 10 years.

*Estate Tax Reverts Back to 2009 Levels.* Under the President's budget, the estate tax would revert back to 2009 levels (exemption level of \$3.5 million and a tax rate of 45 percent on assets). This proposal would increase revenues by \$98 billion over 10 years.

---

*Alternative Minimum Tax [AMT].* The budget would patch the AMT for 3 years and make up for the foregone revenue by “reducing the value of certain tax expenditures.” Though these tax expenditures are not detailed, the administration expects this unspecified proposal to net \$321 billion over 10 years.

*Reform Elements of U.S. International Tax System.* Similar to their proposal last year, the administration would alter the tax treatment for U.S. multinationals operating abroad. These proposals would generally have the effect of raising the tax rate on these entities. For instance, the value of foreign tax credits, which are used to offset U.S. income taxes on revenue already taxed abroad, would be reduced, and the deduction for interest expenses on certain income would be deferred. These proposals would raise \$129 billion over 10 years.

*Tax on Financial Institutions.* The administration would impose a “financial crisis responsibility fee” on certain financial institutions as pay back for their “excessive risk-taking” during the financial crisis and subsequent damage to the economy. This fee is designed to raise \$30 billion over 10 years.

*Carried Interest.* Currently, so-called carried interest (a portion of the compensation of some investment fund managers) is characterized as a capital gain. This proposal would tax carried interest at the higher ordinary income tax rate, raising roughly \$15 billion over 10 years.

*Transportation Tax.* The administration would impose an excise tax to provide “bipartisan financing for the Transportation Trust Fund.” The gross amount of the excise tax would sum to \$435 billion over 10 years. Note that there is a 25-percent revenue offset scoring convention which makes the net revenue increase \$328 billion over 10 years.

*Oil and Gas Taxes and Fees.* Similar to last year’s budget, the administration would roll back a number of tax preferences for the oil and gas industry, raising \$44 billion over 10 years.

#### **THE ADMINISTRATION’S ECONOMIC ASSUMPTIONS**

The administration assumes much stronger economic growth over the near and medium-term than either the CBO or the *Blue Chip* consensus of private-sector economic forecasters (see Table 7, Appendix 1). After assuming year-over-year GDP growth of 2.7 percent in 2011 (which is below current private-sector forecasts for this year), the administration expects GDP growth to rise to 3.6 percent in 2012 and then surge to 4.4 percent in 2013 and 4.3 percent in 2014. These medium-term GDP forecasts are roughly 1 percentage point in excess of the growth rates expected by CBO. The difference between the administration’s forecast and the *Blue Chip*’s long-term forecast (compiled last October) is even higher. Consecutive-year GDP growth in excess of 4.0 percent has not been realized in the U.S. since the latter part of the 1990s.

OMB expects the unemployment rate to average 9.3 percent this year before declining to 8.6 percent in 2012 and 7.5 percent in 2013. The unemployment rate does not return to pre-recession/pre-financial crisis levels (i.e. just over 5 percent) until the latter part of the decade. OMB’s unemployment rate forecast is roughly in line with that of CBO though it is lower than the longer-term *Blue Chip* forecast.

OMB assumes that inflation will remain contained throughout the decade, with the Consumer Price Index-Urban gradually rising to post a moderate 2.0 percent to 2.1 percent annually over the

---

medium and longer term. OMB assumes slighter higher rates of inflation than CBO over the near term (2011-14) and lower rates than CBO in the latter part of the decade. The *Blue Chip* consensus sees higher rates of inflation than OMB throughout the budget horizon.

Similar to CBO, OMB expects short and long-term interest rates to rise as the economy strengthens. Three-month Treasury bill rates are expected to rise from rock-bottom levels this year (0.2 percent) to just over 4.0 percent after mid-decade. Likewise, the 10-year Treasury rate is expected to climb from just 3.0 percent this year to over 5.0 percent after mid-decade. OMB's near-term estimates for short and long-term rates (2011-13) are below the *Blue Chip* consensus.

The budget is very sensitive to the economic forecast. If GDP growth is lower-than-expected, or if borrowing rates are higher-than-expected, deficit levels would worsen considerably. For instance, OMB calculates that if GDP were 1 percentage point lower in year one of the budget horizon, with no subsequent recovery or "catch-up" to the base-case level, the deficit would increase by \$755 billion over 10 years. Similarly, if interest rates were 1 percentage point higher than they are currently forecast throughout the budget horizon, deficits would worsen by a total of \$974 billion over 10 years, according to OMB.

**APPENDIX 1**  
**TABLES ON THE PRESIDENT'S BUDGET**

**Table 1: Administration Budget Totals**

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-21
<b>In Billions of Dollars</b>													
Outlays	3,456	3,819	3,729	3,771	3,977	4,190	4,468	4,669	4,876	5,154	5,422	5,697	45,952
Receipts	<u>2,163</u>	<u>2,174</u>	<u>2,627</u>	<u>3,003</u>	<u>3,333</u>	<u>3,583</u>	<u>3,819</u>	<u>4,042</u>	<u>4,257</u>	<u>4,473</u>	<u>4,686</u>	<u>4,923</u>	<u>38,747</u>
Deficit	1,293	1,645	1,101	768	645	607	649	627	619	681	735	774	7,205
Debt Held by the Public	9,019	10,856	11,881	12,784	13,562	14,301	15,064	15,795	16,513	17,284	18,103	18,967	—
Debt Subject to Limit	13,511	15,459	16,638	17,737	18,748	19,764	20,815	21,860	22,918	24,019	25,163	26,346	—
<b>Percentages of GDP</b>													
Outlays	23.8%	25.3%	23.6%	22.5%	22.4%	22.3%	22.6%	22.5%	22.5%	22.8%	23.0%	23.1%	22.7% <sup>a</sup>
Receipts	<u>14.9%</u>	<u>14.4%</u>	<u>16.6%</u>	<u>17.9%</u>	<u>18.7%</u>	<u>19.1%</u>	<u>19.3%</u>	<u>19.5%</u>	<u>19.6%</u>	<u>19.8%</u>	<u>19.9%</u>	<u>20.0%</u>	<u>19.0%</u> <sup>a</sup>
Deficit	8.9%	10.9%	7.0%	4.6%	3.6%	3.2%	3.3%	3.0%	2.9%	3.0%	3.1%	3.1%	3.7% <sup>a</sup>
Debt Held by the Public	62.2%	72.0%	75.1%	76.3%	76.3%	76.1%	76.1%	76.1%	76.2%	76.4%	76.7%	77.0%	

<sup>a</sup> Annual averages.

Source: Office of Management and Budget..

**Table 2: Proposed Budget by Category, in Nominal Dollars**

(outlays in billions of dollars)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-21
Discretionary													
Security <sup>a</sup>	815	908	884	819	808	818	829	845	863	880	897	914	8,559
Non-Security	<u>491</u>	<u>507</u>	<u>456</u>	<u>423</u>	<u>412</u>	<u>402</u>	<u>408</u>	<u>413</u>	<u>426</u>	<u>434</u>	<u>449</u>	<u>453</u>	<u>4,275</u>
Subtotal: Disc.	1,306	1,416	1,340	1,243	1,220	1,220	1,237	1,258	1,289	1,314	1,346	1,367	12,833
Mandatory													
Social Sec.	701	742	761	802	846	894	945	1,002	1,062	1,126	1,196	1,269	9,902
Medicare	446	488	485	528	557	582	631	650	672	732	785	840	6,462
Medicaid	273	276	269	288	352	391	427	457	488	522	557	595	4,345
TARP	-110	-28	13	10	5	4	2	1	0	0	0	—	35
Other	<u>644</u>	<u>716</u>	<u>612</u>	<u>573</u>	<u>570</u>	<u>596</u>	<u>654</u>	<u>665</u>	<u>671</u>	<u>709</u>	<u>736</u>	<u>771</u>	<u>6,557</u>
Subtotal: Mand.	1,954	2,194	2,140	2,199	2,331	2,467	2,659	2,774	2,892	3,090	3,273	3,475	27,302
Net Interest	196	207	242	321	418	494	562	627	685	741	793	844	5,726
Disaster Costs <sup>b</sup>	—	2	6	8	8	9	10	10	10	10	10	10	92
<b>Total Outlays</b>	<b>3,456</b>	<b>3,819</b>	<b>3,729</b>	<b>3,771</b>	<b>3,977</b>	<b>4,190</b>	<b>4,468</b>	<b>4,669</b>	<b>4,876</b>	<b>5,154</b>	<b>5,422</b>	<b>5,697</b>	<b>45,952</b>
Total Receipts	2,163	2,174	2,627	3,003	3,333	3,583	3,819	4,042	4,257	4,473	4,686	4,923	38,747
<b>Deficit</b>	<b>1,293</b>	<b>1,645</b>	<b>1,101</b>	<b>768</b>	<b>645</b>	<b>607</b>	<b>649</b>	<b>627</b>	<b>619</b>	<b>681</b>	<b>735</b>	<b>774</b>	<b>7,205</b>

<sup>a</sup> The administration's "security" category comprises discretionary spending for defense, the Department of State and other international affairs, the Department of Veterans' Affairs, the Department of Energy's Nuclear Security Administration, and the Department of Homeland Security.

<sup>b</sup> Placeholder for disaster costs.

Source: Office of Management and Budget.

**Table 3: Proposed Budget by Category, as Percentages of Gross Domestic Product**

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-21 <sup>c</sup>
Discretionary													
Security <sup>a</sup>	5.6	6.0	5.6	4.9	4.5	4.3	4.2	4.1	4.0	3.9	3.8	3.7	4.3
Non-Security	3.4	3.4	2.9	2.5	2.3	2.1	2.1	2.0	2.0	1.9	1.9	1.8	2.2
Subtotal: Disc.	9.0	9.4	8.5	7.4	6.9	6.5	6.2	6.1	5.9	5.8	5.7	5.6	6.5
Mandatory													
Social Sec.	4.8	4.9	4.8	4.8	4.8	4.8	4.8	4.8	4.9	5.0	5.1	5.2	4.9
Medicare	3.1	3.2	3.1	3.1	3.1	3.1	3.2	3.1	3.1	3.2	3.3	3.4	3.2
Medicaid	1.9	1.8	1.7	1.7	2.0	2.1	2.2	2.2	2.2	2.3	2.4	2.4	2.1
TARP	-0.8	-0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	—	0.0
Other	4.4	4.7	3.9	3.4	3.2	3.2	3.3	3.2	3.1	3.1	3.1	3.1	3.3
Subtotal: Mand.	13.5	14.5	13.5	13.1	13.1	13.1	13.4	13.4	13.3	13.7	13.9	14.1	13.5
Net Interest	1.4	1.4	1.5	1.9	2.3	2.6	2.8	3.0	3.2	3.3	3.4	3.4	2.7
Disaster Costs <sup>b</sup>	—	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Outlays</b>	<b>23.8</b>	<b>25.3</b>	<b>23.6</b>	<b>22.5</b>	<b>22.3</b>	<b>22.3</b>	<b>22.6</b>	<b>22.5</b>	<b>22.5</b>	<b>22.8</b>	<b>23.0</b>	<b>23.1</b>	<b>22.7</b>
Total Receipts	14.9	14.4	16.6	17.9	18.7	19.1	19.3	19.5	19.6	19.8	19.9	20.0	19.0
<b>Deficit</b>	<b>8.9</b>	<b>10.9</b>	<b>7.0</b>	<b>4.6</b>	<b>3.6</b>	<b>3.2</b>	<b>3.3</b>	<b>3.0</b>	<b>2.9</b>	<b>3.0</b>	<b>3.1</b>	<b>3.1</b>	<b>3.7</b>

<sup>a</sup> The administration's "security" category comprises discretionary spending for defense, the Department of State and other international affairs, the Department of Veterans' Affairs, the Department of Energy's Nuclear Security Administration, and the Department of Homeland Security.

<sup>b</sup> Placeholder for disaster costs.

<sup>c</sup> Annual averages.

Source: Office of Management and Budget.

**Table 4: The President's Discretionary Spending**  
(budgetary resources in billions of dollars, rounded to nearest billion)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Discretionary												
Security <sup>a</sup>	683	714	719	741	761	778	796	811	828	844	861	879
Non-Security <sup>b</sup>	402	401	397	397	397	397	406	415	427	438	454	457
Subtotal: Base Disc.	1,084	1,115	1,116	1,138	1,158	1,175	1,202	1,226	1,254	1,282	1,315	1,335
Other												
OCO <sup>c</sup>	167	165	127	50	50	50	50	50	50	50	50	50
Other 'Emergency'	6	—	—	—	—	—	—	—	—	—	—	—
<b>Total Discretionary</b>	<b>1,258</b>	<b>1,280</b>	<b>1,243</b>	<b>1,188</b>	<b>1,208</b>	<b>1,225</b>	<b>1,252</b>	<b>1,276</b>	<b>1,304</b>	<b>1,332</b>	<b>1,365</b>	<b>1,385</b>

<sup>a</sup> The administration's "security" category comprises discretionary spending for defense, the Department of State and other international affairs, the Department of Veterans' Affairs, the Department of Energy's National Nuclear Security Administration, and the Department of Homeland Security.

<sup>b</sup> All discretionary spending not included in the 'security' category.

<sup>c</sup> Funding for Overseas Contingency Operations. Figures for 2013 and beyond are placeholders and do not reflect any policy decision.

Source: Office of Management and Budget.



**Table 5: The President's Tax Increases**  
(revenue in in billions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-21 <sup>c</sup>
<b>Acknowledged Tax Increases in the President's Budget</b>											
President's Revenue Request	2,627	3,003	3,333	3,583	3,819	4,042	4,257	4,473	4,686	4,923	38,747
OMB Current Policy Revenue	2,609	2,959	3,305	3,487	3,697	3,942	4,159	4,386	4,584	4,820	37,928
<b>Tax Increases Above Baseline</b>	<b>18</b>	<b>44</b>	<b>28</b>	<b>96</b>	<b>140</b>	<b>100</b>	<b>98</b>	<b>87</b>	<b>102</b>	<b>103</b>	<b>819</b>
<b>Additional Tax Increases Assumed in Baseline</b>											
Expiration of 2001/2003 Tax Rates Above \$200K/\$250K	6	35	53	63	73	82	89	96	102	109	709
Estate Tax at 2009 Parameters	0	1	8	9	10	12	13	14	15	16	98
<b>Total Tax Increases</b>	<b>25</b>	<b>80</b>	<b>89</b>	<b>168</b>	<b>224</b>	<b>194</b>	<b>200</b>	<b>196</b>	<b>220</b>	<b>228</b>	<b>1,623</b>
Sources: Office of Management and Budget, House Committee on the Budget.											

The administration fact sheet on the budget states: "10-year Deficit Reduction: \$1.1 trillion, excluding was savings and not extending 2001 and 2003 tax cuts for high-income earners. Two-thirds are from spending cuts." But using the outlay(spending) and revenue data in the President's own budget, the budget achieves 89 percent of its deficit reduction from tax increases and 11 percent from spending reductions (see Table 6 below). Instead of a two-to-one ratio of spending reductions to tax increases, the actual figures reflect a nearly eight-to-one ratio of tax increases to spending reductions – all under OMB data.

**Table 6: Ratio of the President's Spending Savings to Tax Increases**  
(dollars in billions, 2012-21)

	10-Year Total	Share
Total Outlay Reduction in the President's Budget	-1,364	
Remove 'war savings'	1,090	
Remove associated debt service	170	
Total Outlay Reduction Without 'War Savings'	-104	11%
Total Revenue Increase in the President's Budget	819	89%
Total Deficit Reduction Without 'War Savings'	-923	100%
Actual OMB figures show an 8:1 ratio of tax increases to spending reductions.		
Source: OMB data, the President's fiscal year 2012 budget.		

**Table 7: New Entitlement Spending in the President's Fiscal Year 2012 Budget**  
(dollars in billions)

	2011-21
Medicare, Medicaid, Social Security (net change) . . . . .	267.5
Federal Retirement . . . . .	5.5
Pell Grants <sup>a</sup> . . . . .	118
\$250 Recovery Payments and Other . . . . .	17.1
Other . . . . .	-3.9
<b>Total . . . . .</b>	<b>404.2</b>

<sup>a</sup> The President's fiscal year 2012 budget includes a \$118-billion baseline adjustment intended to ensure funding for maximum Pell Grant awards. It is unclear whether the Pell increase is discretionary or mandatory. If discretionary, the total increase in mandatory spending in the President's budget falls to \$286.2 billion.

**Table 8: Comparison of Economic Assumptions**  
(Calendar Years)

	Projections											
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
	<i>Percent Change</i>											
<b>Real GDP</b>												
Administration Budget	2.7	2.7	3.6	4.4	4.3	3.8	3.3	2.9	2.6	2.5	2.5	2.5
CBO (Jan. 2011)	2.8	2.7	3.1	3.1	3.5	3.8	3.0	2.5	2.4	2.4	2.4	2.3
Blue Chip <sup>a</sup>	2.9	3.2	3.3	3.0	2.8	2.7	2.7	2.5	2.5	2.5	2.5	2.5
<b>Consumer Price Index</b>												
Administration Budget	1.6	1.3	1.8	1.9	2.0	2.0	2.1	2.1	2.1	2.1	2.1	2.1
CBO (Jan. 2011)	1.7	1.6	1.3	1.6	1.8	2.0	2.2	2.4	2.3	2.3	2.3	2.3
Blue Chip <sup>a</sup>	1.6	1.9	2.0	2.2	2.2	2.2	2.2	2.3	2.3	2.3	2.3	2.3
	<i>Annual Average, Percent</i>											
<b>Unemployment Rate</b>												
Administration Budget	9.6	9.3	8.6	7.5	6.6	5.9	5.5	5.3	5.3	5.3	5.3	5.3
CBO (Jan. 2011)	9.6	9.4	8.4	7.6	6.8	5.9	5.3	5.3	5.2	5.2	5.2	5.2
Blue Chip <sup>a</sup>	9.6	9.3	8.6	7.7	7.1	6.6	6.2	5.9	5.9	5.9	5.9	5.9
<b>3-Month Treasury Bill</b>												
Administration Budget	0.1	0.2	1.0	2.6	3.7	4.0	4.1	4.1	4.1	4.1	4.1	4.1
CBO (Jan. 2011)	0.1	0.3	1.1	2.5	3.5	4.0	4.3	4.4	4.4	4.4	4.4	4.4
Blue Chip <sup>a</sup>	0.1	0.3	1.2	3.2	3.6	3.7	3.8	3.9	3.9	3.9	3.9	3.9
<b>10-Year Treasury Note</b>												
Administration Budget	3.2	3.0	3.6	4.2	4.6	5.0	5.2	5.3	5.3	5.3	5.3	5.3
CBO (Jan. 2011)	3.2	3.4	3.8	4.2	4.6	5.0	5.3	5.4	5.4	5.4	5.4	5.4
Blue Chip <sup>a</sup>	3.2	3.6	4.3	4.7	4.9	5.0	5.1	5.2	5.2	5.2	5.2	5.2

<sup>a</sup> Figures for 2011 and 2012 are from the Blue Chip forecast of February 2011. Subsequent years are from the October 2010 projection.

Sources: Office of Management and Budget, Congressional Budget Office, Blue Chip Economic Indicators.

---

## APPENDIX 2

### BUDGET ‘DISCIPLINE’

---

*Discretionary Spending Freeze.* The President proposes a 5-year freeze in non-security discretionary spending but neglects to include an enforcement mechanism, such as spending caps. Additionally the “freeze” in his category of non-security discretionary spending is 19 percent (excluding stimulus) above 2008 non-security discretionary spending levels.

*The President’s Fiscal Commission.* For nearly a year, the President frequently cited his National Commission on Fiscal Responsibility and Reform (Fiscal Commission) as a remedy for his budget’s failure to address the government’s budgetary crisis. The fiscal year 2011 budget even reflected the President’s unsustainable budget totals under the label “Without Fiscal Commission.” In December, the commission reported numerous proposals that received bipartisan support. The President not only has failed to embrace the commission’s recommendations, but also spends \$404 billion *more* in discretionary spending than the commission recommended.

*Pay-As-You-Go.* The President once again touts the benefits of statutory pay-as-you-go (pay-go) as a process reform tool. Pay-go does not reduce deficits – it only maintains their current levels. Further, because pay-go does not apply to current law, it will do nothing to address the unsustainable rate of spending growth in *existing* entitlement programs. Pay-go does nothing to restrain spending – it only claims to pay for it.

*Expedited Rescission Authority.* The administration proposes a special process for allowing the President to submit rescissions of discretionary and non-entitlement mandatory spending to Congress for fast-track consideration. The House would be required to vote on the package without amendment. If passed the measure would go to the Senate with the entire process taking no more than 25 days. House Republicans passed a similar bill in 2006 (H.R. 4890, the Legislative Line-Item Veto Act). The President’s proposal is narrower in scope and does not guarantee that the savings accomplished are dedicated to deficit reduction.