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WASHINGTON

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United States Senate

WASHINGTON, DC 20510–4704

April 10, 2013

Dear Colleagues,

The President has submitted a budget proposal to Congress, and we are entering a new phase in the conversation about our country's economic and fiscal challenges.

Now that the Senate passed our budget, the House passed their budget, and President Obama has offered a proposal for a path forward, we need to do everything we can to work together toward a balanced and bipartisan budget deal that puts families and the economy first. I want to take this opportunity to update you all on what is in the President's budget, how it compares to what we passed in the Senate Budget, where we stand in the overall budget process, and what is coming next.

As the President has made clear, his proposal is not the budget he would write on his own. It is not the budget I would write on my own, and it includes some policies Republicans have insisted on—policies I know some Democrats, including myself, do not think are the best ways to tackle the deficit and debt responsibly. I am very interested in seeing if Republicans, some of whom are seemingly rejecting any compromise at all, will use this opportunity to come out of their partisan corner and indicate that they are willing to work toward a bipartisan deal.

As you all know, last month we passed a pro-growth Senate Budget. I am proud of our budget, and I want to thank you all for your hard work as we debated and passed the resolution. I believe it reflects where our country needs to be, by offering a responsible and balanced approach to protecting our economic recovery and creating jobs, while laying the foundation for long-term economic growth and restoring our nation's fiscal health. And critically, our budget replaces sequestration in a balanced and fair way, which, as I know I heard when I traveled across my home state over the last two weeks, is only going to get worse for families and communities as the cuts continue to kick in.

In reviewing the President's proposal, I am pleased that it reflects some of the important principles in the Senate Budget that Democrats will fight to make sure are part of any bipartisan agreement: it puts jobs and the economy first and lays the foundation for strong economic growth in the future, and it tackles our debt and deficits using a mix of spending cuts and new revenue from the wealthiest Americans and biggest corporations.

The House Budget, however, is dramatically different. It once again doubles down on extreme, economically irresponsible policies that the American people have repeatedly rejected. This means coming to a bipartisan deal is not going to be easy, but the American people are expecting us to do it, and I will continue working toward this goal.

As we move the Senate's pro-growth, pro-middle class budget toward conference under regular Congressional order, we will have the opportunity for productive debate about these vastly different plans for our country's economic and fiscal future. Hopefully, we will be able to come together around a deal that works for families across the country and brings an end to the cycle of governing by crisis.

I look forward to continuing our work together to secure a balanced, fair, and bipartisan budget agreement. I welcome your input as we move toward negotiations with the House.

Patty Murray

Senator Patty Murray
Chairman, Senate Budget Committee

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Memorandum
To: Senate Colleagues
From: Senator Patty Murray (D-WA) and Senate Budget Committee majority staff
Re: The President's Budget proposal and what comes next in the debate about our economic and fiscal future
Date: April 10, 2013

I. The President's vision for bipartisan compromise

In developing a proposal that would come out following the passage of the House and Senate budgets, the President chose to lay out a bipartisan path that includes some key policies Republicans have insisted on. So while the Senate Budget reflects our values, priorities, and ideas about a pro-growth, pro-middle class agenda for our country, the President has been clear that his proposal is not his ideal plan. Instead, the President has stated that his proposal reflects his vision of a path toward a comprehensive bipartisan deal if—and only if—Republicans are willing to join Democrats in making tough choices and significant revenue is on the table.

With this in mind, below is some information about what is included in the President's proposal.

- Deficit reduction including both spending cuts and new revenue from the wealthiest. The President's proposal includes approximately $1.8 trillion in additional deficit reduction between fiscal years 2014 and 2023. In total, spending cuts and revenue increases in the President's proposal, combined with the work done over the past two years, surpasses the bipartisan deficit reduction goal of $4 trillion over ten years. As a result, the President's proposal reduces deficits to below 3 percent of GDP[1] and puts debt as a share of the economy on a downward path (see Table 1 for year-by-year detail).

Table 1. President's Fiscal Year 2014 Budget Proposal

($Billions)	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014-23
Spending	3,685	3,778	3,908	4,090	4,247	4,449	4,724	4,967	5,209	5,470	5,660	46,502
Revenues	2,712	3,034	3,332	3,561	3,761	3,974	4,226	4,464	4,709	4,951	5,220	41,231
Deficit	973	744	576	528	487	475	498	503	501	519	439	5,271
Debt held by public	12,404	13,296	14,032	14,714	15,344	15,954	16,583	17,212	17,836	18,473	19,030	
(% of GDP)												
Spending	22.7%	22.2%	21.8%	21.6%	21.3%	21.2%	21.5%	21.6%	21.7%	21.9%	21.7%	21.6%
Revenues	16.7%	17.8%	18.6%	18.8%	18.8%	18.9%	19.2%	19.4%	19.6%	19.8%	20.0%	19.1%
Deficit	6.0%	4.4%	3.2%	2.8%	2.4%	2.3%	2.3%	2.2%	2.1%	2.1%	1.7%	2.5%
Debt held by public	76.6%	78.2%	78.2%	77.7%	76.8%	75.9%	75.3%	74.9%	74.4%	73.9%	73.0%	

Source: OMB Table S-1.

- Savings reflecting the Administration's December 2012 compromise deficit reduction package. The savings in the President's proposal come from across the federal budget and reflect the deficit reduction package the Administration put forward in December 2012 in the context of reaching a bipartisan deal (see Table 2).

[1] The Senate Budget is based on CBO's baseline assumptions. Underlying differences in the economic and technical assumptions used by OMB and CBO result in higher revenue and lower deficits in the President's proposal relative to the Senate Budget.

- Discretionary spending is lowered by $193 billion, federal health programs are reduced by $401 billion, and other mandatory savings contribute an additional $201 billion in savings.
- Revenues from the wealthiest Americans reduce the deficit by about $580 billion.
- Moving to an alternate inflation index, which grows more slowly, has both spending and revenue effects, and accounts for another $230 billion in deficit reduction.
- Reduced interest payments on the debt contribute an additional $202 billion in savings.
- The President proposes immediate investments in infrastructure of $50 billion.

- Key differences between the Senate Budget and the President's proposal. Some main differences between the Senate Budget and the President's proposal, reflected in Table 2, include the following:
  - As part of laying out a vision of a bipartisan plan, the President included in his proposal some measures that Republicans have insisted on, most notably chained CPI.
  - The Senate Budget reduces discretionary budget authority by $400 billion compared to the President's reduction of $239 billion and begins the cuts earlier.
  - The majority of the difference in discretionary savings reflects smaller reductions to defense spending in the President's proposal than under the Senate Budget.
  - The President's proposal includes $201 billion in savings from other mandatory spending, including large savings from program integrity efforts intended to reduce fraud, compared with $76 billion in savings from other mandatory programs in the Senate Budget.

Table 2. Deficit Reduction In The President's Proposal and Senate Budget

($Billions, 2014-23)	President's Proposal		Senate Budget	
Discretionary	**193**		**382**	
Non-Defense outlays		*101*		*142*
Defense outlays		*101*		*240*
Program integrity cap adjustments		*-9*		*0*
Health	**401**		**275**	
Medicare		*360*		*265*
Medicaid		*19*		*10*
Other		*22*		*0*
Other Mandatory	**201**		**76**	
Revenue	**583**		**975**	
Reduce value of certain tax expenditures		*529*		--
Buffett rule		*53*		--
Chained CPI	**230**		**0**	
Debt Service	**202**		**242**	
Immediate Infrastructure Investments	**-50**		**-100**	
Net Additional Deficit Reduction	**1,760**		**1,850**	

Source: OMB Table S-3, SBC.
Note: President's proposal reflects OMB estimates for policies included in December 2012 compromise deficit reduction package. Corresponding reduction in discretionary budget authority is $119 B for non-defense and $120 B for defense under the President's proposal and $150 B for non-defense and $250 B for defense under the Senate Budget. Chained-CPI estimate includes $100 B in additional revenue.

Policy initiatives, overseas contingency operations and additional changes to deficits in the President's proposal

In addition to the December 2012 deficit reduction package, the President's proposal includes additional policy initiatives, and potential offsets, related to early childhood education, infrastructure investment, and job creation. The President's proposal also details specific treatment for Overseas Contingency Operations (OCO) and includes other policies, primarily regarding revenue, that could be used to further reduce the deficit.

- Overseas Contingency Operations in the President's proposal. The President's proposal includes a placeholder amount for Overseas Contingency Operations (OCO) of $92.3 billion, including $88.5 billion for the Department of Defense (DOD) and $3.8 billion for the State Department. After a determination has been made on required force levels in Afghanistan, the Administration will submit a budget amendment to Congress updating the FY 2014 and outyear figures for the DOD OCO request.

- Additional changes to deficits in the President's proposal related to tax relief and closing loopholes. Apart from the policies that were included in the December 2012 package, the President proposes an additional set of policies totaling $158 billion. These are primarily related to revenue and include measures that provide tax relief for families and small businesses, including a tax credit for small businesses to encourage hiring and wage increases, as well as measures that would close loopholes and generate new revenue from the wealthiest Americans. On net, these other tax policies would raise $149 billion over ten years. The budget notes the net effect of these policies could be used to help finance the extension of the American Opportunity Tax Credit and the enhancements to the Earned Income Tax Credit and Child Tax Credit that the budget, in its baseline, assumes are permanently extended beyond their scheduled 2017 expiration.

- Revenue-neutral business tax reform. The President's proposal sets aside a number of other revenue policies affecting business taxpayers and notes that they are reserved for revenue-neutral business tax reform. These policies include incentives for manufacturing and research, various international tax reforms, and the repeal of tax preferences for the fossil fuel industry. The budget effects of these reserved policies are not counted toward the budget's total deficit reduction.

II. The President's proposal includes key pro-growth, pro-middle class principles in the Senate Budget

Senate Democrats and the President have made clear that any agreement must confront the need to get Americans back to work and strengthen our economy. The President's proposal and the Senate Budget each prioritize this shared goal. The Senate Budget and the President's proposal also adhere to the recommendation of Simpson-Bowles and every other serious bipartisan group examining this issue—that deficit reduction should include a mix of responsible spending cuts and new revenue, and ask those who can most afford it to pay their fair share.

Below are some examples of how these principles are embraced in both the Senate Budget and the President's proposal.

a. Strengthening the middle class by putting jobs and the economy first

Getting more Americans back to work

Reflecting the opinion of economists across the spectrum that we should protect the fragile recovery and boost the economy in the near term, the Senate Budget and the President's proposal replace sequestration and make new investments in job creation and economic growth that are fully paid for.

- Both the Senate Budget and the President's proposal replace the economically harmful cuts from sequestration, which are estimated to slow economic growth and lower employment by 750,000 jobs this year alone.

- The Senate Budget and the President's proposal would put Americans to work repairing our national infrastructure and invest in targeted job training. The Senate Budget includes $90 billion for essential repairs to our infrastructure and our nation's K-12 schools, and invests $10 billion in proven job training programs. The President's proposal establishes an infrastructure bank that will leverage both public and private dollars more effectively and creates a short-term fund to rebuild infrastructure that is most in need of repair. The President's proposal also invests in near-term education and training.

Americans strongly support federal investment in job creation, and see getting more workers back on the job as an immediate priority. A recent Gallup poll showed that 72 percent of those surveyed support using government funding to put Americans back to work on urgent infrastructure repairs.[2] A Morning Joe/Marist poll found that 64 percent of Americans see job creation as a top priority relative to deficit reduction.[3]

Laying the foundation for long-term economic growth

The Senate Budget and the President's proposal prioritize investments in education and in research and development, to maintain our most valuable resource—the skill and ingenuity of the American people—and help to ensure that we can compete and win in the 21st century.

- The President's proposal and the Senate Budget each include strong investments in Head Start, including an expansion of Early Head Start, protect funding for the federal child care block grant, support a new public preschool program through federal-state partnerships, and allow for continued mandatory funding of the Maternal, Infant, and Early Childhood Home Visiting Program. These programs help our children get a strong start to their academic and professional careers.

- The President's proposal and the Senate Budget work to keep college affordable for students and their families by eliminating the sequester fees on student loans, maintaining the maximum Pell award authorized under current law, and continuing important programs such as subsidized student loans and Pay As You Earn (PAYE), which keeps student loan debt affordable for certain borrowers. The President's budget proposes expanding eligibility for PAYE.

- The President's proposal and the Senate Budget provide an increase in funding for research and development programs in the National Science Foundation, NASA, and the Office of Science in the Department of Energy. The President and the Senate recognizes that these investments will help to ensure that the country remains competitive in the 21st century.

b. Achieving balanced deficit reduction and meeting bipartisan benchmarks using a mix of spending cuts and new revenue from the wealthiest

The Senate Budget and the President's proposal reflect the key idea expressed by Simpson-Bowles and every other serious bipartisan group examining this issue—that deficit reduction needs to be done with a mix of spending cuts and new revenue, and that we should ask those who can most afford it to pay their fair share.

- Additional revenue from the wealthiest paired with spending cuts**:** As Table 3 shows, each of the major bipartisan deficit reduction proposals over the last two years call for a combination of new revenues and spending cuts. Both the Senate Budget and the President's proposal follow this principle. The House Budget, on the other hand, doubles down on an extreme, cuts-only approach.

[2] Gallup, 3/20/13.
[3] MSNBC, 4/3/13.

Table 3. Comparison of Deficit Reduction Presented In Plans

(% total deficit reduction)	President's Proposal	Senate Budget	House Budget	Simpson-Bowles	Rivlin-Domenici 2.0	Senate Gang of Six
Spending cuts	68%	64%	92%	57%	70%	57%
Revenue	32%	36%	8%	43%	30%	43%

Source: OMB, SBC, HBC, The Moment of Truth Project, Bipartisan Policy Center, Senate Gang of Six, CBO, JCT, and SBC staff.

Notes: Spending cuts include savings from lower interest payments. Numbers do not include Social Security changes. Except for Simpson-Bowles and Senate Gang of Six, estimates include spending cuts and revenue from savings enacted during the 112th Congress and compares current spending path to CBO's August 2010 baseline. The discretionary savings for Simpson-Bowles and Senate Gang of Six are measured relative to CBO March 2011 baseline. The estimates exclude investments to spur economic growth contained in the President's proposal, Senate Budget and Rivlin-Domenici 2.0. The estimates assume that the outlay effects of the chained CPI policy in the President's proposal primarily affect Social Security and are, therefore, excluded.

- Building on efforts so far to surpass $4 trillion in deficit reduction: Since the Simpson-Bowles and Domenici-Rivlin deficit reduction proposals first recommended roughly $4 trillion in balanced deficit reduction over ten years, calls for deficit reduction have echoed this goal. Taking into account the $2.4 trillion in deficit reduction put in place over the last two years, both the President's proposal and the Senate Budget would surpass the bipartisan benchmark of reducing the deficit by $4 trillion over the next decade.

- Putting our deficits on a downward path: A deficit reduction plan that imposes severe cuts in the near term could cause contraction in the economy, which would have damaging consequences for American families and businesses. With this in mind, the Simpson-Bowles and Senate Gang of Six plans each proposed phasing in savings and reducing deficits to below 3 percent of GDP to stop our debt from growing larger. The President's proposal and the Senate Budget both meet this recommendation, stabilizing the deficit as a share of the economy and putting it on a downward path.

The Senate Budget outlines Senate Democrats' vision for putting jobs and a strong middle class first—and our revenue proposal reflects this fair and responsible approach

The Senate Budget and the President's proposal follow the bipartisan principle of combining spending cuts and new revenue from the wealthiest to reduce the deficit, but the Senate Budget reflects the plan Senate Democrats think will best serve American families and our economy. Including the year-end deal, the Senate Budget would bring the total revenue in deficit reduction measures enacted over the last two years to $1.575 trillion—slightly less than recommended in any of the major bipartisan deficit reduction proposals.[4] If legislation consistent with the Senate Budget was signed into law, the total deficit reduction since the Simpson-Bowles report would consist of 64 percent spending cuts, 14 percent tax rate increases for those who can most afford it, and 22 percent new revenue from closing loopholes and cutting wasteful spending in the tax code for the wealthiest Americans and biggest corporations.

This is a fair approach, and a responsible approach—and it's the one we look forward to bringing to the negotiating table.

[4] Both Simpson Bowles and the Senate's Gang of Six proposed more than $2 trillion in new revenue, and the updated plan of the Bipartisan Policy Center's Debt Reduction Task Force recommended about $1.6 trillion in new revenue.

c. The House Budget takes an economically irresponsible approach that would hurt our recovery and weaken our economy over the long term

Federal Reserve Chairman Ben Bernanke recommended "acting now to put in place a credible plan for reducing future deficits over the longer term, while being attentive to the implications of fiscal choices for the recovery in the near term." [5] The House Republican budget does the opposite. It includes significant spending cuts in the near term, and it contains cuts even deeper than the economically damaging cuts from sequestration.

While risking our fragile recovery in the short term, the House Budget would require drastic cuts to areas of the government that lay the foundation for long-term economic competitiveness, such as education, infrastructure, and basic research.[6] According to the Center on Budget and Policy Priorities, the House Budget would cut government funding that includes these kinds of investments—non-defense discretionary programs—by $700 billion more than the cuts from sequestration.[7]

Instead of pursuing the kind of balanced deficit reduction that the majority of Americans support,[8] and every serious bipartisan proposal has recommended, the House Budget would reach its targets through spending cuts alone—putting our economy at risk and asking the middle class, seniors, and the most vulnerable families to bear the burden of deficit reduction.

This extreme, unfair approach won't work for American families or our economy—and it won't help us get to the bipartisan deal Americans expect and deserve.

III. Democrats look forward to working toward a fair, pro-growth budget deal—and we hope Republicans are ready to join us in making tough choices

Democrats can enter the next phase of the fiscal debate confident that in the Senate Budget we are offering a serious, responsible proposal that puts middle class families and our economy first. We know that our plan reflects key bipartisan principles for responsible deficit reduction, as well as the preferences of the vast majority of the American people. And now that the President has offered his plan for a bipartisan path forward, Republicans need to show they are serious about compromising and reaching a fair, balanced deal.

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[5] Chairman Ben Bernanke speech at the Federal Reserve Bank of Kansas City Economic Symposium, Jackson Hole, Wyoming, 8/26/11.

[6] E.g. Center on Budget and Policy Priorities, 3/14/13.

[7] Center on Budget and Policy Priorities, 3/14/13.

[8] E.g. USA Today/Pew Research Center, 2/21/13, Hart Research Associates, Americans for Tax Fairness, January 2013.

Appendix: FY 2014 President's Budget Proposal Funding Levels for Discretionary Programs by Agency

($B, Budget Authority)

Base Discretionary Funding by Agency	FY 2013 Request	FY 2014	FY 2014 - FY 2023
Agriculture	23.0	21.5	248.9
Commerce	8.0	8.6	109.1
Census Bureau	*0.9*	*1.0*	*24.6*
Defense	525.4	526.6	5,728.9
Education	69.8	71.2	758.7
Energy	27.2	28.4	306.5
National Nuclear Security Administration	*11.5*	*11.7*	*119.3*
Health and Human Services (HHS)	71.7	78.3	902.2
Homeland Security	39.5	39.0	426.4
Housing and Urban Development	34.5	33.1	362.2
Interior	11.4	11.7	131.0
Justice	17.9	16.3	298.8
Labor	12.0	12.1	124.3
State and Other International Programs	46.5	48.1	532.8
Transportation	16.5	16.3	185.1
Treasury	12.5	12.9	160.5
Veterans Affairs	61.0	63.5	700.1
Corps of Engineers	4.7	4.7	53.4
Environmental Protection Agency	8.3	8.2	81.4
General Services Administration	-0.8	0.2	2.8
National Aeronautics & Space Administration	17.7	17.7	196.3
National Science Foundation	7.4	7.6	84.5
Small Business Administration	0.9	0.8	8.9
Social Security Administration (SSA)	9.0	9.1	97.8
Corporation for National & Community Service	1.1	1.1	11.8
Other Agencies	18.9	19.4	211.1
Allowances	-2.6	0.0	-259.5
Total Base Discretionary Funding	1,041.5	1,056.4	11,464.0

Note: Totals may not match OMB's table S-11 due to rounding. This table does not include cap adjustments, such as Overseas Contingency Operations, Disaster Relief, Program Integrity, and other emergency/supplemental funding, or any rescissions or reclassifications.