



## United States Senate Budget Committee

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### CBO Confirms Obama 2014 Budget Does Not Change Dangerous Debt Course

#### *Relative To Baseline, No Deficit Reduction Would Occur Until President Leaves Office*

The Congressional Budget Office's *Analysis of the President's 2014 Budget* shows that the policies proposed by President Obama would increase taxes by \$972 billion and spending by \$954 billion, yielding deficits and debt that are little changed from the levels expected under current law. **As a result, the President's budget never reaches balance.** Over the next 10 years, CBO estimates deficits in President's budget total \$5.195 trillion, an average of \$520 billion per year, significantly above the highest deficit ever recorded before the Obama Administration (\$459 billion).

#### **Deficits Dip Briefly Before Beginning A Relentless Climb Again**

The President's budget would increase the FY 2013 deficit by \$27 billion, to \$642 billion. This 4.2 percent increase in the deficit comes from reversing the spending reductions from sequestration that began on March 1 (\$13 billion), lowering the interest rate on student loans (\$9 billion), and other Administration proposals (\$6 billion).

CBO estimates the President's policies would increase deficits for the following four years by \$227 billion relative to its baseline.<sup>1</sup> In fact, the President's policies would not begin to reduce deficits until FY 2018, which ends eight months after President Obama's term in office ends.

Despite \$972 billion in tax increases, deficits are only \$19 billion lower than baseline estimates over the 2013–2023 period covered by the President's budget proposals. Rather than taming deficits, the President's budget increases taxes and deficits today while promising to reduce deficits under a future administration.

#### **Debt Per Household Increases By \$55,005**

The failure of the President's policies to control spending continues the surge in the national debt. By CBO's estimate, gross federal debt will reach \$24.3 trillion in 2023, an increase of \$7.4 trillion (44 percent) from expected levels at the end of this year under current law. Following the President's recommended budgetary path results in a \$55,005 per household increase in the gross federal debt in a decade.

The growth in the debt exacerbates the increase in interest costs projected in coming years. Net interest payments are expected to total \$223 billion today, rising to \$782 billion in 2023—an

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<sup>1</sup> The CBO baseline is adjusted to reflect the President's actual request for war spending and to count 2013 spending for Superstorm Sandy relief as one-time spending.

almost fourfold increase. The interest costs on our national debt would exceed the base defense budget in 2020, just seven years from now, under the President's budget policies.

### **Taxes Increase By Almost \$1 Trillion**

CBO and Joint Committee on Taxation (JCT) staff estimate that the President's tax policies will increase tax revenues by \$974 billion over the next 10 years. Two-thirds of the President's tax hikes are realized in the 2nd five years of the projection period. In the 10th year, taxes rise by 82 percent relative to today's levels.

The bulk of the tax increase comes from the President's call to limit the tax benefit of tax deductions and certain exclusions to 28 percent of the value of those tax preferences. JCT estimates that this proposal would raise \$493 billion from taxpayers whose top marginal tax rate is above 28 percent, lower than the \$529 billion estimated by the Administration.

The President's proposal to use the chained CPI to index tax brackets accounts for \$99 billion of the tax increase, while increases in tobacco taxes account for \$83 billion. Changes to the estate tax raise \$77 billion.

The President's proposal to implement a new minimum tax on high income taxpayers (the Buffett rule) would raise \$69 billion, slightly above the \$53 billion estimated by the Administration.

### **Discretionary Spending Increases By More Than 7 Percent Next Year**

The President's policies for annually appropriated spending would result in a \$72 billion (7.3 percent) increase in agency spending next year relative to current law. The spending increase largely results from the President's call to eliminate the reduction in the 2014 discretionary caps required by the Budget Control Act (BCA).

As shown in the table below, under the President's policies, defense spending is increased to 2012 enacted levels, while non-defense spending is increased above 2012 levels.

<b>Discretionary Spending in CBO's Baseline</b> (in \$ billions of regular budget authority)			
	<u>2012 enacted</u>	<u>2013 post-BCA</u>	<u>2014 request*</u>
Defense	553	518	553
Non-defense	<u>490</u>	<u>470</u>	<u>507</u>
Total	1,043	988	1,060

\*--Does not include \$3 billion in Amtrak BA that the Administration reclassifies from discretionary to mandatory. Amtrak is included as discretionary in the 2012 and 2013 data shown here.

In total, the President's budget will increase regular discretionary budget authority (excluding war, emergency, and program integrity spending) by \$715 billion over the next 10 years. Of that increase, \$423 billion goes to defense and \$292 billion goes to non-defense. (Under the Budget Control Act, defense programs absorbed a disproportionate share of the reductions, so even these increases do not result in an equitable distribution of savings.)

### **Entitlement Spending Surges 77 percent**

Mandatory spending under the President's policies will total \$28.892 trillion over the next 10 years. This is an increase of \$222 billion from the \$28.670 trillion projected in the CBO baseline. Total mandatory spending in 2023 is estimated at \$3.583 trillion, an increase of 77 percent from today's levels.

Net health care savings in the President's budget amount to only \$225 billion over 10 years in CBO's analysis, far below the \$401 billion estimated by the Administration. This is largely because the President's policy to stop scheduled reductions in the reimbursement rates provided to Medicare physicians is counted as a cost by CBO, while the President ignores this cost in his budget figures.

Changes in the computation of inflation adjustments also save \$133 billion over 10 years, but savings in mandatory programs are more than used up on new spending. These include \$141 billion for higher transportation spending, \$125 billion from cancelling the current-law sequestration, and \$115 billion to expand refundable tax credits.

Finally, CBO estimates that the President's proposal to provide for universal pre-school and home visitation will cost \$66 billion over the next 10 years, equal to the cost as estimated by the Administration.