United States Senate Budget Committee

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President Obama's Budget Achieves Virtually No Deficit Reduction

Surges Debt By $8.2 Trillion

The President's 2014 budget never reaches balance, but asks taxpayers to send more money to Washington to grow the government. Relative to current law, the President would raise taxes by $1.083 trillion to increase spending by $1.025 trillion (including the President's 2013 proposals). The actual deficit reduction in this budget is only $59 billion, barely making a dent in the gross federal debt, which is expected to grow by $8.2 trillion, from $17.2 trillion at the end of this year to $25.4 trillion at the end of 2023.

The President's proposals increase the 2013 deficit by $61 billion. (The 2013 fiscal year ends September 30.) This increase stems from $13 billion in first-year outlays from the President's $50 billion "stimulus" proposal plus the $48 billion cost of turning off the sequester that took effect on March 1. In 2014, spending will increase by $154 billion (4.2 percent) relative to current spending (see table below).

Under the President's policies, spending will grow from $3.625 trillion today to $5.660 trillion in 2023. This is an increase of 56 percent, more than double the rate of inflation (24 percent over the same period). Spending for Medicare, Medicaid and Social Security would account for one-half of all federal spending in 2023, and federal spending per household would reach $42,300. The costs of interest on the debt would surpass national defense spending within just seven years.

The President's 2014 Budget Request

(By fiscal year, in billions of dollars)

	Current Law	***Under President's Policies***		
	2013	2013	2014	2014-2023
Expenditures	3,624	3,685	3,778	46,502
Revenues	2,712	2,712	3,034	41,231
Deficit (-)	-912	-973	-744	-5,271
Gross Debt ($ Trillions)	17.2	17.2	18.2	25.4

All of the deficit reduction in the President's plan would take place after 2019, after he has left office; before that time, deficits increase because the President's new spending outpaces his tax increases. Deficits reach a low point of $439 billion in 2023.

As noted, the budget would raise taxes by $1.1 trillion. This is on top of the $1.8 trillion in tax increases already enacted in January of this year and as part of health care reform in 2010. Revenues will almost double over the next 10 years. The Office of Management and Budget (OMB) projects revenues will grow by 92 percent, from $2,712 billion today to $5,220 in 2023. The President calls for an average annual tax increase of $110 billion.

Debt will grow by 48 percent from the level at the end of this year. By the end of the 2023, federal debt would be 96 percent of U.S. gross domestic product (GDP)—still well above the 90 percent threshold that academic studies have shown tends to slow a country's economic growth. Debt in the U.S. reached this threshold in 2010, and will not be below that level in any year covered by the President's budget.

The rising debt may cause actual deficits and debt to be above those projected by OMB should the 2.9 percent real growth in the economy forecast by OMB prove to be optimistic.

Discretionary Spending

The President's budget proposes eliminating the Budget Control Act (BCA) sequester, which would return discretionary spending to the original cap levels set in the BCA. This will increase spending by a total of $784 billion over 2013–2021. The budget then lowers the BCA caps by a total of $239 billion from 2017 to 2023—half from defense and half from non-defense.

For 2014, the President requests $1,058 billion for discretionary spending (the BCA cap level), representing a $15 billion increase over the 2013 cap level. Because, however, the BCA sequester took place on March 1, actual spending in 2013 is currently projected to be approximately $975 billion. The President's request for 2014 is then $83 billion (or 8.5 percent) above current agency spending levels. Within the proposed 2014 levels, the budget provides $552 billion for defense spending and $505 billion for non-defense spending.

The budget provides for BCA cap adjustments in 2014 of $92 billion for Overseas Contingency Operations (war), $6 billion for Disaster Relief, and $432 million for Program Integrity, bringing the total 2014 discretionary request to $1,155 billion. This total includes -$18 billion in Changes in Mandatory Programs (CHIMPs), slightly below the 2013 enacted level of CHIMPs. Emergency discretionary funding provided in 2013 for Hurricane Sandy relief is not extended in the Administration baseline or as policy.

The total base discretionary request for the 10 years from 2014–2023 is $11,485 billion, with adjustments provided in that period only for Overseas Contingency Operations and Program Integrity. Disaster Relief funding is not extended as a discretionary policy, but is assumed to be provided at a level of roughly $10 billion per year, in the form of discretionary or mandatory funding (or tax relief). After the expiration of the current BCA caps in 2021, discretionary spending is increased from the 2021 cap level at about 1.5 percent per year.

Mandatory Spending

The President's budget would increase mandatory spending by $187 billion over the next 10 years, and by $215 billion when one includes the 2013 effects of turning off the sequester and the President's

"stimulus" proposal. Under the President's policies, mandatory spending will grow by 5.4 percent per year. Welfare spending grows by 70 percent. But the extraordinary growth of welfare spending is small in comparison with spending on interest costs on the growing debt, which almost quadruples over the next 10 years—from $222 billion today to $763 billion in 10 years.

The budget increases mandatory spending in three ways: (1) the President turns off the sequester; (2) the President does not pay for the doc fix; and (3) the President asks for new spending initiatives. Turning off the sequester for mandatory programs adds about $150 billion to such spending. Failure to pay for the doc fix costs $249 billion over 10 years. And new spending initiatives add another $165 billion. Proposals to reduce mandatory spending, such as $317 billion in reductions to Medicare providers, are not sufficient to offset the added costs, so mandatory spending is increased above current law baseline levels.