United States Senate
COMMITTEE ON THE BUDGET
WASHINGTON, DC 20510–6100
TELEPHONE: (202) 224–0642 FAX: (202) 224–4835
Thursday, February 27, 2014

Dear Colleagues,

At this time last year, Congress faced a series of fiscal deadlines that threatened to slow the recovery, cost jobs, and call into question the full faith and credit of the United States.

Democrats hoped to avoid these crises by passing a budget resolution and moving immediately to a bipartisan budget conference, but unfortunately, Republicans blocked our efforts for months. It ultimately took a harmful government shutdown and debt limit fight to get Republicans to agree to stop avoiding compromise and come to the table.

The two-year bipartisan budget deal House Budget Chairman Paul Ryan and I reached in those negotiations showed that we can set aside the partisanship and make compromises for the good of the country. Working across the aisle, we were able to restore much-needed certainty to the budget process by setting spending levels not just for this current fiscal year, but also for fiscal year 2015. We replaced a significant share of the damaging cuts from sequestration with smarter savings from elsewhere in the budget, ensured that appropriators can move forward on filling out the details of our budget deal, and took the threat of another government shutdown off the table.

In the coming year, free of the arbitrary fiscal deadlines and damaging manufactured crises that have demanded so much attention recently, we need to take the opportunity to build on this bipartisan foundation.

This opportunity is particularly significant because of improvements in our near-term fiscal outlook. With $3.3 trillion in deficit reduction put in place over the last few years and near-term deficits declining to 3 percent of the economy, we have some breathing room to focus more on creating jobs, expanding opportunity and generating broad-based economic growth now and into the future—while we keep looking for ways to tackle our long-term fiscal challenges using a balanced and responsible approach.

As all of us continue to work on these priorities in the coming months, the attached memo will provide an update on the deficit reduction we have put in place since August 2010 and what our country's fiscal outlook is going forward. The memo will also point out some of the other deficits we are increasingly facing—like those in job growth, innovation, infrastructure and education. Each of these is critical to the United States' long-term competitiveness and to economic security for workers and families across the country, which is why many of us would like to make progress on them this year.

I hope this information is useful to you, and I look forward to our continued efforts to fight for more opportunity and prosperity for the hardworking families and communities we serve.

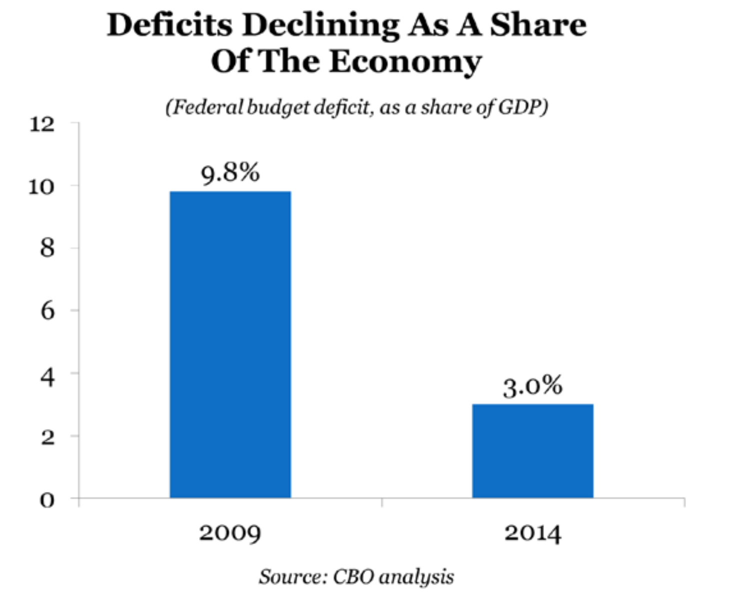
Sincerely,

Patty Murray

Patty Murray
Chairman, Senate Budget Committee

MEMORANDUM
To: Senate Democrats
From: Senate Budget Chairman Patty Murray
Re: Our current fiscal outlook
Date: Thursday, February 27, 2014

I. Our budget outlook has improved significantly in recent years



Near-term deficits have improved dramatically over the last several years. In January 2009, before President Obama even took office, the Congressional Budget Office expected the deficit in 2009 would total nearly $1.2 trillion. [1] As it turned out, the actual federal budget deficit in 2009 surpassed $1.4 trillion, or 9.8 percent of gross domestic product (GDP) for that year. [2] Five years later, the fiscal year 2014 deficit is now expected to be $520 billion, or 3 percent of GDP. [3] By either measure, this year's deficit will be roughly one-third the size of the deficit from five years ago.

It is not only the near-term deficits that have improved. The budget outlook over the next decade has also brightened significantly compared to what was projected several years ago. In the summer of 2010, plausible projections had debt reaching nearly 100 percent of GDP by 2024**.** [4] In the summer of the following year, the Congressional Budget Office released its long-term "Alternative Fiscal Scenario" which projected the debt would reach 114 percent of GDP in 2024. [5] Even a more optimistic projection used by the Simpson-Bowles Commission —one that included the expiration of the Bush tax cuts for household income over $250,000—foresaw debt reaching well past 90 percent of GDP by 2024. [6]

Since those projections were made, the budget picture has improved substantially. Instead of deficits averaging 5.6 percent of GDP from 2015-2024, as would have been expected based on the Congressional Budget Office's August 2010 projections, deficits are now projected to average 3.7 percent of GDP over this period, which is nearly 2

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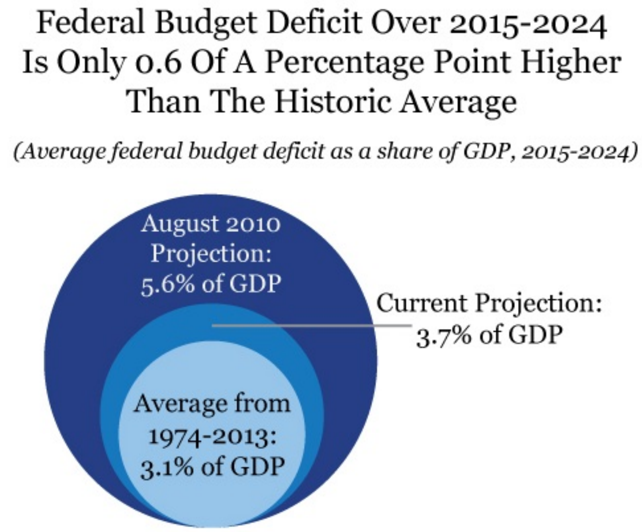
[1] Congressional Budget Office, "The Budget and Economic Outlook: Fiscal Years 2009 to 2019," January 7, 2009.
[2] Congressional Budget Office, "The Budget and Economic Outlook 2014 to 2024," February 4, 2014.
[3] The official Congressional Budget Office baseline projection of the budget deficit for this fiscal year is $514 billion. In this memo, we adjust these projections to account for some common "current policy" assumptions, including a permanent fix to the Sustainable Growth Rate formula. The SGR assumption adds approximately $5 billion to the deficit for 2014, hence the larger $520 billion number reflected here. Other adjustments include the assumption that operations in Afghanistan will draw down in line with the alternative path the Congressional Budget Office outlines, the assumption that that the discretionary spending caps after 2015 will conform to the original Budget Control Act levels and not the lower "sequester" levels as assumed in current law, and the assumption that reforms to certain refundable tax credits that are set to expire after 2017 are permanently extended. See Appendix 1 for a full accounting of the baseline adjustments.
[4] This projection was based on the August 2010 update to the budget and economic outlook, adjusted to reflect common "current policy" assumptions at the time, namely that the 2001 and 2003 tax cuts would be fully extended, the Alternative Minimum Tax would be permanently fixed, the Sustainable Growth Rate formula would be permanently fixed, and that operations in Iraq and Afghanistan would draw down. See the Appendix for a full accounting of the August 2010 baseline adjustments.
[5] Congressional Budget Office, "Deficits Projected in CBO's Baseline and Under an Alternative Fiscal Scenario," May 14, 2013.
[6] Moment of Truth Project, "Updated Estimates of the Fiscal Commission Proposal," June 29, 2011.



Source: Senate Budget Committee staff calculations based on CBO analysis

percentage points lower.[7] This is only 0.6 of a percentage point higher than the average budget deficit since 1974. Lower deficits mean less debt—and based on the latest estimates, by 2024 debt as a share of the economy will be nearly 20 percent lower than it was projected to be in 2010.

Reasons for the fiscal improvement: spending cuts, slower growth in health care costs, and new revenue from those who can most afford it

Large reductions in federal spending are the main reason for lower deficits over the next decade. Current projections of federal spending over the next ten years are about 10 percent lower than they were expected to be in 2010.[8] This year is a good example. In 2010, reasonable budget projections put total fiscal year 2014 federal spending at just under $4 trillion. This month's Congressional Budget Office projections now put that total at about $3.5 trillion, an 11 percent reduction. In other words, in this year alone the federal government will spend about $450 billion less than was expected just four years ago.

This large reduction in projected federal spending is primarily the result of two factors. First, over the past several years, Congress passed several rounds of large spending cuts, mostly to funding for discretionary programs. In a series of continuing resolutions beginning at the close of calendar year 2010, Congress enacted discretionary spending levels that both reduced budget authority from 2010 levels and prompted the Congressional Budget Office to reduce its projections going forward as well.

The Budget Control Act of 2011 further reduced discretionary spending by placing statutory caps on both defense and non-defense programs.[9] The combined effect was to reduce projected discretionary spending by approximately $1.5 trillion over 2015-2024. Subsequent legislation, including the American Taxpayer Relief Act of 2012 and the Bipartisan Budget Act of 2013, reduced discretionary spending by another nearly $100 billion (for more on legislated deficit reduction enacted to date, see section II). These savings exclude additional savings from sequestration after fiscal year 2015, or from replacing sequestration with more responsible deficit reduction, in fiscal years 2016 through 2021.

The second factor contributing to reduced federal spending is the dramatic slowdown in the growth of health care costs over the last several years. For most of the past several decades, health care costs have grown substantially faster than the overall economy. But that has not been the case since 2009. In fact, 2012 was the fourth consecutive year that overall health care costs grew at a historically slow pace.[10] This slowdown has prompted the Congressional

[7] In the summer of 2013, the Bureau of Economic Analysis announced an update to the way it measured gross domestic product. The overall effect of the revision was to increase nominal GDP relative to the previous measurement methodology. Consequently, in order to compare budget projections as a share of GDP today to previous budget projections, GDP from older projections must be "rebased." For example, in the August 2010 budget update, the CBO reported that 2009 GDP was $14,230 billion. After the revision, BEA now reports that 2009 GDP was $14,414 billion. We then used the same growth rates that the CBO used in August 2010 to produce "revised" GDP projections. This allows for a fair comparison between spending, revenue and deficits as a share of GDP in previous years' projections. For more on the BEA's revision, see Stephanie H. McCulla, Alyssa E. Holdren and Shelly Smith, "Improved Estimates of the National Income and Product Accounts: Results of the 2013 Comprehensive Revision," Bureau of Economic Analysis, September 2013.
[8] Spending projections for 2021-2024 are extrapolated from the August 2010 adjusted baseline.
[9] The caps were originally on "security" and "non-security" categories, but reverted to defense and nondefense starting in 2012.
[10] "National Health Spending In 2012: Rate Of Health Spending Growth Remained Low For The Fourth Consecutive Year," Health Affairs, February 2014.

Budget Office to substantially reduce its projections of federal health care spending. In fact, last year, Congressional Budget Office Director Doug Elmendorf wrote:

> *"In recent years, health care spending has grown much more slowly both nationally and for federal programs than historical rates would have indicated. For example, in 2012, federal spending for Medicare and Medicaid was about 5 percent below the amount that CBO had projected in March 2010. In response to that slowdown, over the past several years CBO has made a series of downward adjustments to its projections of spending for Medicaid and Medicare."* [11]

The Congressional Budget Office has continued to reduce its projections of spending for mandatory health care programs as health care cost growth has remained below expectations**.** In fact, relative to the August 2010 outlook, current projections for health care outlays are approximately 11 percent lower. In raw dollar terms, the Congressional Budget Office now expects that we will spend about $1.2 trillion less on health care over the 2011-2020 period than it thought we would over the same time frame in 2010. [12]

The current 2014 budget estimates serve as a good example of each of these two spending trends. Based on the 2010 projections, we would have expected base discretionary spending this year to total $1.245 trillion. In fact, discretionary spending in 2014 is likely to total just $1.089 trillion, a reduction of 13 percent. [13] Similarly, federal spending on Medicare, Medicaid, and other mandatory health care programs is now projected to come in $109 billion below the 2010 projections, an 11.5 percent reduction. Other areas of federal noninterest spending are roughly in line with previous projections, indicating that the pattern is unique to spending on discretionary and mandatory health programs. [14]

Revenue increases from the wealthiest Americans also play a role in our improved fiscal outlook, though a smaller one than the two factors described above. Allowing the Bush tax cuts to expire for household income above $450,000, along with several other smaller provisions contained in the American Taxpayer Relief Act of 2012 and the Bipartisan Budget Act of 2013, together are estimated to generate an additional roughly $770 billion in revenue relative to the policies in place before those changes. Without that added revenue, deficits would average 4.1 percent of GDP over the 2015-2024 period, rather than the currently projected 3.7 percent.

II. We have put in place $3.3 trillion in deficit reduction to date

As discussed above, much of the improvement in the near and medium-term budget outlook stems from actions taken by Congress and President Obama to reduce federal spending and modestly increase revenues, primarily on certain high-income taxpayers. **In total, since August 2010 when the Congressional Budget Office released the baseline that was used by the President's Fiscal Commission (Simpson-Bowles Commission) to formulate its policies and savings targets, Congress has enacted approximately $3.3 trillion in deficit reduction over the 2015-2024 period**. [15] The $3.3 trillion in deficit reduction to date *does not include additional savings in discretionary*

[11] Elmendorf, Doug, Congressional Budget Office, "How Have CBO's Projections of Spending for Medicare and Medicaid Changed Since the August 2012 Baseline?" February 21, 2013.

[12] In their August 2010 budget outlook, the Congressional Budget Office projected a total of $10,843 billion in mandatory health care spending from 2011 through 2020, plus an additional $267 billion to fix the SGR, for a total of $11,110 billion. Current projections for 2014 through 2020—after accounting for an SGR fix—plus actual spending levels from 2011 through 2013, total $9,859 billion.

[13] These numbers refer to outlays and not budget authority. In addition, the August 2010 budget outlook projected a total of $1,418 billion in discretionary outlays in FY 2014, but that included $172 billion in spending for operations in Iraq and Afghanistan. Currently, the Congressional Budget Office expects discretionary spending this fiscal year to total $1,194 billion, but that includes $105 billion for "Overseas Contingency Operations."

[14] This calculation includes an assumed fix to the SGR in both the 2010 and the current projections.

[15] This total does not include the 2016-2021 effects of sequestration, because our baseline budget projections assume that the caps on discretionary spending in 2016 and beyond will conform to the original Budget Control Act levels, and not the lower sequestration levels.

spending from sequestration after fiscal year 2015, or from replacing sequestration with more responsible deficit reduction in fiscal years 2016 through 2021. With those savings, the amount of deficit reduction to date is nearly $4.2 trillion.

Enacted deficit reduction since August 2010, 2015-2024		
	Total (billions)	% of total enacted
Discretionary spending cuts	$1,622	49%
Mandatory spending cuts	$219	7%
Net interest savings	$706	21%
Total spending reductions	*$2,547*	*77%*
Total revenue increases	*$767*	*23%*
Total deficit reduction	**$3,314**	**100%**

Deficit reduction from spending cuts

Of the total $3.3 trillion, more than $1.8 trillion comes directly from programmatic spending cuts. The vast majority of those cuts, 88 percent, have been to discretionary spending. As described above, these cuts were the result of several rounds of reductions that began in late 2010 and culminated with the Bipartisan Budget Act of 2013.

Mandatory spending cuts have also contributed to the deficit reduction total, though by a much smaller amount. The Budget Control Act of 2011, the Bipartisan Budget Act of 2013 and the Agricultural Act of 2014 (Farm Bill) each contained cuts to mandatory spending programs. Together, the 2015-2024 mandatory savings total more than $200 billion.

In addition to direct, programmatic spending cuts, legislated deficit reduction also produced $700 billion in net interest savings. Therefore, the combined 2015-2024 deficit reduction resulting from enacted spending reductions since 2010 now totals over $2.5 trillion.

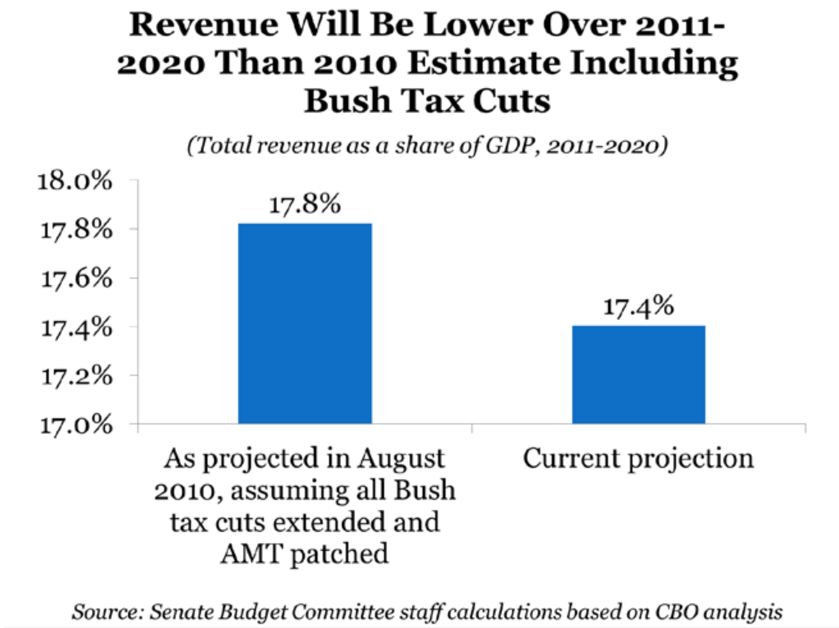
Deficit reduction from new revenue

The remaining deficit reduction comes from enacted revenue increases. The American Taxpayer Relief Act of 2012 allowed the 2001 and 2003 tax cuts to expire for household income over $450,000. Relative to permanently extending all of those tax cuts for all income, that expiration, along with several other smaller provisions, was estimated to raise approximately $760 billion from 2015-2024. The Bipartisan Budget Act of 2013 also included some measures that raise federal revenues. In total, revenue increases account for nearly $770 billion of the total legislated deficit reduction.

Overall, spending reductions account for about 77 percent of the total deficit reduction enacted since 2010—56 percent from programmatic cuts, 21 percent from net interest savings—with only 23 percent resulting from revenue increases. **In other words, there has been about $3.32 in spending reductions for every $1 in increased revenue.**

Of course, factors besides direct changes in federal tax and spending policies can influence the budget outlook. As noted above, the slowdown in health care costs has had an enormous positive impact on the federal budget outlook. But unfortunately, the overall state of the economy has had the opposite effect. The deep recession and the subsequent slow recovery, made worse by the economic drag of fiscally austere policies fought for by Republicans, prompted the Congressional Budget Office to significantly reduce its projections of future economic growth, especially relative to expectations from several years ago.

For example, in August 2010, the Congressional Budget Office expected the unemployment rate to decline to 5.3 percent by 2014 and then settle at 5 percent going forward. Today, the Congressional Budget Office expects this year's unemployment rate to average 6.8 percent, and never fall below 5.5 percent going forward. Compared to its August 2010 economic projections, the Congressional Budget Office currently sees our economy overall being about 3 percent smaller throughout the decade. That may not seem like much, but the difference translates into a cumulative economic loss of about $7 trillion from 2015-2024.[16] An economy that is $7 trillion smaller means less revenue coming in and possibly more spending going out as well.



Indeed, the Congressional Budget Office's projections of federal revenue have changed to reflect the fact that the economic outlook is dimmer. Over the 2011-2020 period alone, the sluggish economy caused the Congressional Budget Office to reduce its projections of federal revenue by $1.7 trillion relative to its August 2010 projections**.** Economic changes also resulted in lower projections of federal spending, but not enough to fully offset the enormous reduction in federal revenues.

Projected revenue levels have declined much more due to the weaker economic outlook than they have increased due to the modest tax changes enacted since August 2010**.** As a result, federal revenue levels from 2011-2020 are now expected to be *lower* than what was projected in 2010, *even assuming that all the 2001 and 2003 tax cuts were permanently extended.*

III. The long-term budget outlook has also improved, but much more remains to be done—and revenue raised from the wealthiest individuals and biggest corporations must be part of future deficit reduction

Though these significant improvements in the near and medium-term have also translated into some improvement in the longer term, we continue to face serious long-term budget challenges**.** According to the current projections, debt as a share of the economy will remain roughly stable over the next five years, but then begin to rise again starting in 2019. For the much longer term, the Congressional Budget Office's most recent extended forecast sees debt growing steadily and reaching 100 percent of GDP by 2038.[17]

This is a welcome improvement over the 2010 forecast which warned of debt surpassing 200 percent of GDP by that point, but it nevertheless underscores the fact that there remains a long-run fiscal imbalance between expected revenues and expected spending. That long-run fiscal imbalance will eventually require Congress to take steps to bring spending and revenue levels more closely into alignment.

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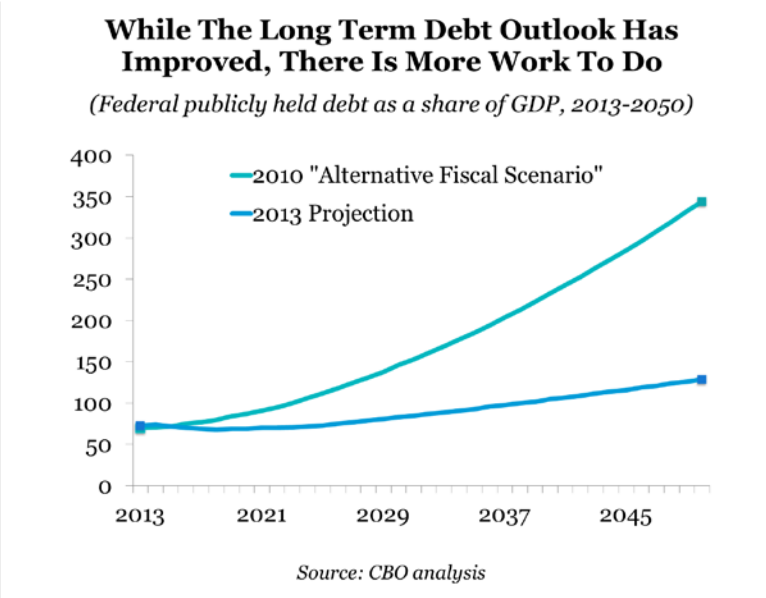
[16] This calculation adjusts the August 2010 GDP projections to account for the BEA's 2013 revision (see footnote 7). It also extrapolates projected GDP for 2021-2024 from the growth rates used in the August 2010 update and the 2010 long-term budget outlook.

[17] Note that these long-term projections do not adjust for common "current policy" assumptions such as a drawdown in spending on operations in Afghanistan, a repeal of the sequester, or a fix to the Sustainable Growth Rate formula.



There is no practical way to accomplish this task without a fair mix of both responsible spending reductions and tax reforms that raise more revenue from the wealthiest Americans and biggest corporations. Even assuming that all recently expired tax provisions (i.e. "tax extenders") are not renewed, revenue levels over the next decade are projected to average only 18.1 percent of GDP. The budget has only been balanced in four of the last forty years, all under President Clinton. During those four years revenues averaged 19.3 percent of GDP and were never less than 18.8 percent of GDP. [18]

Furthermore, the last time the budget was balanced, the population of senior citizens was equivalent to only 21 percent of the working-age population, but by 2024, that percentage will be up ten points, on its way to nearly 40 percent by 2038. Put another way, over the next several decades, the number of older Americans per working-age Americans will nearly double. Consequently, what constituted "sufficient" revenue in the past, will necessarily fall short in the future.

Current and projected revenue shortfalls are in large part the result of wasteful spending and unfair loopholes throughout our tax code. In 2014 alone, "tax expenditures," or the countless special tax breaks embedded in the tax code, are estimated to cost the Treasury $1.4 trillion—more than the expected cost of Medicare, Medicaid, Social Security, or our national defense. [19] While many of these provisions offer critical support for middle class and struggling families, most tax expenditure benefits are heavily skewed to the wealthiest 1 percent of Americans who need them the least. Tax loopholes and offshore tax abuse cost the government tens of billions more each year, while encouraging the biggest corporations to send jobs and investment overseas.

Attempts to address the long-run fiscal imbalance without including new revenue from those who can most afford it will result in either broken promises to our seniors, undermining the social safety net, or both. Deficit reduction including both spending cuts and new revenue from the wealthiest Americans and biggest corporations—especially from getting rid of wasteful, skewed loopholes in our tax code—is the only fair and responsible solution.

IV. With a brighter budget outlook over the decade and without the constant crises of recent years, we have an opportunity to focus on our other growing deficits—and we need to take advantage of it

We absolutely need to continue finding ways to tackle our long-term budget challenges. But with near term deficits significantly reduced, a brighter fiscal outlook over the decade, and without the constant crises that have taken up far too much of our time in recent years, we must do more to address the serious and growing deficits in other areas that will only become more costly if ignored. Too many Americans are still struggling to find work and make ends meet. We are increasingly at risk of losing our competitive edge in innovation, in business-friendly infrastructure, and in preparing our students for success in a global economy.

Just as we cannot afford to ignore our long-term budget deficits, we cannot afford to underestimate the very real impact that these other deficit challenges have on families and communities—right now and for decades to come.

[18] Congressional Budget Office, "The Budget and Economic Outlook 2014 to 2024," February 4, 2014.
[19] Congressional Budget Office, "Federal Revenues Are Projected to Increase Significantly Over the Next Two Years and Remain Steady as a Share of GDP Thereafter," February 11, 2014.

Getting workers back on the job and helping struggling families make ends meet

Our economy has come a long way since deregulation and greed on Wall Street plunged our economy into the Great Recession just as President Obama took office—but we are not out of the hole yet. Although the economy added roughly 7.8 million jobs since early 2010, it is still 851,000 jobs short of where it was at the beginning of the crisis. [20] This is a significant challenge, but the true employment deficit is actually larger. Since the recession our working age population has grown, meaning that our economy needs to not only recover jobs lost during the recession, but create enough new jobs to accommodate the larger working age population. To reach this goal and achieve full employment, our economy would need to create about 8 million jobs on top of those lost during the recession. [21]

And while creating more jobs is critical, we cannot stop there. Employed Americans face significant barriers to the opportunity and security that should come with hard work. A recent report found, for example, that earning the minimum wage, an American worker would have to hold two and a half full-time jobs to be able to rent a two-bedroom home. [22] Stagnant wages and an insufficient minimum wage place a unique burden on working women, who make up two-thirds of the minimum wage workforce and continue to earn 77 cents on the dollar relative to their male counterparts.[23]

Maintaining our competitive edge in public and private research and development

To ensure that we can attract and keep the kinds of high-skill, high-wage jobs we need to strengthen our middle class, our country must maintain its competitive edge in developing the ideas and products that drive the global economy. But as other countries ramp up their efforts, we are at risk of falling behind. Both public and private investment in research and development has stagnated in recent years, and our country's share of global research and development has declined from 37 percent to 30 percent since 2001 as global competitors have prioritized research and development. [24] China, for example, has seen enormous growth in research and development investments over the last decade, increasing at a rate of 18 percent compared to just 4.4 percent in the United States. [25] At this rate, China is catching up quickly. A study released late last year estimated that China will surpass the United States in research and development spending by 2022. [26]

Supporting businesses and public safety with much-needed infrastructure repairs

Despite consistent bipartisan support for job-creating investments in repairing bridges, roads, ports and airports across the country, we are falling behind in making much-needed upgrades. This failure comes at a real cost to businesses that need to move products with maximum efficiency, as well as to families and workers dealing with increasingly time-consuming commutes. Forty-two percent of our country's main highways are congested, resulting in a $101 billion loss to the economy due to wasted time and fuel in 2011.[27] Delays and overcrowding at airports is similarly costly. The Federal Aviation Administration estimated these problems will cost our economy $34 billion in 2020, and grow to $63 billion by 2040. [28]

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[20] Center on Budget and Policy Priorities, "Chart Book: The Legacy of the Great Recession," February 11, 2014.
[21] Senate Budget Committee analysis based on Brookings Institution, "How Far Are We From Full Employment?" August 27, 2013.
[22] Children's Defense Fund, "The State of America's Children 2014," January 23, 2014.
[23] National Women's Law Center, "Fair Pay for Women Requires Increasing the Minimum Wage and Tipped Minimum Wage," February 11, 2014 .
[24] National Science Foundation, "Science and Engineering Indicators 2014, Chapter 4, Research and Development: National Trends and International Comparisons," February 6, 2014;
"The Coming R&D Crash," Washington *Post*, February 26, 2013.
[25] National Science Foundation, "Science and Engineering Indicators 2014, Chapter 4, Research and Development: National Trends and International Comparisons," February 6, 2014.
[26] "The Rise of China's Innovation Machine," Wall Street Journal, January 16, 2014.
[27] American Society of Civil Engineers, "2013 Report Card for America's Infrastructure," March 19, 2013.
[28] American Society of Civil Engineers, "2013 Report Card for America's Infrastructure," March 19, 2013.

These inefficiencies, along with many others in our bridges, ports, and transit systems, have damaged our international competitiveness. Since 2005, the United States has fallen from #8 to #15 in the World Economic Forum's rankings of global competitiveness based on infrastructure. [29]

Preparing our students to compete in a global economy

We cannot expect to lead in the 21st century without a workforce that is prepared to compete successfully in the global economy. This means all children must start on a level playing field and have access to high-quality education from preschool through their chosen careers. But unfortunately, it is very clear that we are not doing enough to prepare our young people for academic and professional success.

In the latest international surveys, children from the United States were less likely to be enrolled in preschool at the ages of three and four compared with other globally competitive countries, even though decades of research shows that strong early childhood education gives children critical tools for success later in school. [30] High school students from the United States scored below average in math and only roughly average in reading and science compared to their international peers. [31] As other countries have prioritized investments in post-secondary education to ensure more of their students graduate, the United States has fallen from first in college attainment among 25-34 year olds in 1990 to 12th in 2012. [32]

Each of these challenges presents a risk to our country's growth and potential—and there are many more, from reforming our broken immigration system to ensuring hardworking Americans can retire with security and dignity—that require our attention. We must continue finding ways to bring down our long-term debt and deficits, but at the same time, work together to create jobs and expand opportunity and prosperity for all Americans.

V. We can make progress by building on last year's bipartisan work

With $3.3 trillion in deficit reduction enacted over the last few years, a two-year budget deal that takes away the risk of arbitrary fiscal deadlines and manufactured crises, and an improved fiscal outlook especially in the near term, we need to do more to create jobs and address the many deficits outside of the budget that are making it harder for families across the country to get ahead.

Making progress across the aisle, however, will not be easy. While many in Congress can agree that the kinds of challenges outlined above are serious, our two parties have real differences when it comes to the solutions we think will do the most to help families and communities. I believe, however, that there is reason for optimism. We saw over the last year that when both sides are willing to come to the table and compromise, we can move the ball forward. I hope we will be able to build on last year's bipartisan efforts, work together towards solving the many deficits we face—fiscal and otherwise—and help ensure all Americans have the opportunity, prosperity and security they deserve.

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[29] World Economic Forum, "The Global Competitiveness Report 2005 – 2006," 2005; World Economic Forum, "Global Competitiveness Report 2013-14," September 2013.

[30] Center for American Progress, "Investing in Our Children: A Plan to Expand Access to Preschool and Child Care," February 6, 2013.

[31] "U.S. Students Get Stuck in Middle of the Pack on OECD Test," Bloomberg BusinessWeek, December 3, 2013.

[32] Executive Office of the President, "Increasing College Opportunity for Low-Income Students," January 2014; Organisation for Economic Co-operation and Development, "United States Country Note: Education at a Glance 2013: OECD Indicators," September 26, 2013.

VI. Appendices

Please find below details on federal spending by category for 2014 and on the Senate Budget Committee majority staff baseline assumptions.

Appendix 1a.

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
February 2014 baseline deficits					-680	-514	-478	-539	-581	-655	-752	-836	-912	-1031	-1047	-1074
Reduce troops deployed for OCO						0	10	36	49	59	64	68	70	72	72	72
Fix Sustainable Growth Rate formula						-5	-10	-11	-10	-9	-10	-11	-12	-13	-14	-16
Discretionary caps set to original BCA levels							0	-54	-76	-84	-87	-88	-87	-89	-90	-92
Extend refundable tax credit reforms										-2	-27	-27	-27	-27	-27	-27
Net interest effects							0	-1	-2	-4	-6	-8	-11	-14	-17	-21
Senate Budget Committee baseline deficits					-680	-520	-478	-568	-619	-695	-818	-902	-980	-1103	-1124	-1157

Appendix 1b.

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
August 2010 baseline deficits	-1413	-1342	-1066	-665	-525	-438	-507	-585	-579	-562	-634	-685
Extend 2001 and 2003 tax cuts, patch AMT			-198	-295	-338	-362	-388	-411	-435	-460	-488	-517
Reduce troops deployed for OCO			1	6	34	72	104	124	135	141	146	150
Fix Sustainable Growth Rate formula			0	-19	-22	-23	-25	-28	-31	-35	-40	-44
Net interest effects			-2	-6	-19	-38	-61	-85	-111	-138	-166	-199
"Reasonable" baseline deficits	-1413	-1342	-1265	-980	-870	-789	-877	-985	-1021	-1054	-1182	-1294

Appendix 2. Federal spending by category, 2014, in billions	2010 projection	Current projection	Difference	% difference
Social Security	831	846	15	1.8%
Mandatory health care	949	840	-109	-11.5%
Other mandatory	414	435	21	5.1%
Defense discretionary (non-OCO)	590	507	-83	-14.1%
Non-defense discretionary (non-OCO)	655	582	-73	-11.2%
Overseas contingency operations	100	105	5	5.1%
Total primary spending	3540	3315	-225	-6.4%
Net Interest	449	233	-216	-48.1%
Total spending	3989	3548	-441	-11.0%