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Ten Things to Look for in the President's Budget April 8, 2013

On Wednesday, President Obama is expected to release his FY 2014 budget proposal, detailing his vision for the budget over the next ten years. With the House and Senate already passing their respective budget resolutions, the President's budget will be another important contribution to the debate and, based upon early reports, demonstrate some areas of common ground as new and bipartisan budget discussions kickoff.

Unlike budget resolutions, the President's budget usually has detailed policy recommendations and detailed estimates of those recommendations. Budget proposals should offer fiscally responsible policies and a productive path forward. Specifically, a responsible budget from the President should seek to do the following:

1. Put the debt on a clear downward path relative to the economy. Current debt levels stand at 73 percent of GDP – about twice the historical average – and are on track to rise to nearly 79 percent a decade from now. As the economy recovers, any responsible plan must begin to not only stabilize, but reduce the debt as a share of the economy this decade and beyond. Failing to put the debt on a clear and robust downward path would slow long-term growth, reduce budget flexibility, and increase the risk of a future crisis.

2. Include serious health care reforms. Medicare, Medicaid, and other federal health spending represent the fastest growing parts of the budget and the single biggest threat to long-term fiscal sustainability. The growth in federal health spending is due to a combination of population aging and overall health care cost growth. The President's budget must propose serious health reforms aimed at truly slowing the growth of federal health spending. The President should include structural reforms aimed at improving and realigning incentives on both the provider and beneficiary side.

3. Include comprehensive Social Security reform. The latest Social Security Trustees' report projects that Social Security will exhaust the assets in its trust funds by 2033, at which point benefits will be cut by a quarter across-the-board. Social Security's Disability Insurance program will become insolvent in 2016. Given the looming insolvency of these programs, the President should put forward a plan or process designed to make the program sustainably solvent for the next 75 years and beyond. Short of a comprehensive plan, the President should at least put forward proposals where there is bipartisan agreement, such as indexing cost-of-living adjustments to the more accurate chained CPI.



4. Include pro-growth tax reform. The current tax code is badly in need of reform. Since the American Taxpayer Relief Act (the final fiscal cliff deal) enacted much of what the President's previous budgets asked for in terms of the extension of the 2001/2003/2010 tax cuts, the focus will likely be on tax expenditure reforms and closing certain tax loopholes. The Obama Administration has made a good start in outlining some revenue raisers in both the individual and corporate tax code, and the President's budget could broaden their scope to pave the way for more comprehensive tax reform focused both on deficit reduction and economic growth.

5. Put other areas of the budget on the table for discussion. While entitlement and tax reform are the key to long-term sustainability, it is important to identify additional savings throughout government. The President should look to make changes throughout the federal budget and especially where there is some consensus – including further reductions to discretionary spending, agriculture subsidies, federal retirement benefits, higher education subsidies, various user fees, and in other areas of government. While not every program needs to be reformed in the same ways or by the same magnitude, no area should be exempt from scrutiny.

6. Focus on the long-term. Although budgets tend to focus on the next decade, it is equally important to address the long-term growth of our debt. To do so, the budget must pursue real structural entitlement reforms designed to change the trajectory of spending growth and must aim for revenue levels sufficient to keep our debt on a sustainable path. The budget should include long-term projections showing a stable or declining debt-to-GDP ratio for decades to come.

7. Don't ignore expected costs or offset costs with unspecified savings. Often, budget proposals will ignore certain expected costs so as to make debt levels appear lower than they are likely to be. Pretending that Congress will no longer enact annual "doc fixes," for example, would represent a serious omission. Assuming costs will occur, but offsetting them with unspecified savings – so-called magic asterisks – is equally problematic. Past budgets, for example, have called for unspecified changes to offset the costs of not only doc fixes but transportation spending as well. These sleights of hand should absolutely be avoided.

8. Avoid budget gimmicks to inflate savings numbers. The President's budget should rely on real savings rather than fakery. For example, assuming funding for Hurricane Sandy will not continue over the next decade does not represent real savings, but should instead be included as part of the baseline. Assuming savings from war drawdown plans that are already underway does not represent new savings. The budget should also not rely on optimistic economic forecasts to improve budget projections. Gimmicks like these undermine the seriousness and credibility of any budget.

9. Build upon, don't water down, previous proposals. During the fiscal cliff talks, the President put forward a serious proposal which combined new revenue with spending cuts and entitlement reform. Although this proposal was too small, it was directionally right in that it took account of the need to at least stabilize the debt-to-GDP ratio. There will be substantial pressure to water down some of the proposals the President previously endorsed. These pressures should be resisted, and instead the President should look to go beyond what he has proposed so far.

10. Demonstrate willingness to compromise on a bipartisan basis. It is to be expected that the President would include his preferred policies in his budget. However, a responsible budget would move beyond the same debate by including policies and potential areas where bipartisan



compromise can be attained. By demonstrating openness to compromise and including ideas supported by the other side, the President can help to move budget talks forward and closer to reaching a deal.

As lawmakers return to Washington to restart budget talks, the President's budget provides yet another opportunity to refocus the budget debate on fiscal sustainability. We hope the Administration will propose a budget that adheres to these guidelines and lays the groundwork for compromise between the House and Senate-passed budget resolutions.