COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

Analysis of the President's FY 2014 Budget
April 11, 2013

Yesterday, the President released his FY 2014 budget proposal, which combines a $1.8 trillion deficit reduction package with a number of new spending and revenue proposals while repealing the sequester. Encouragingly, the President's proposals would begin to reduce the debt as a share of the economy over the course of the decade, though at higher levels than what CRFB has called for. The budget clearly shows that deficit reduction is a priority, but more will need to be done this decade and, in particular, over the long term in order to keep the debt on a sustainable and downward path.

Below are highlights of the President's latest recommendations:

- The budget would put debt on a declining path this decade, falling from a peak of **78.2 percent** of GDP in 2015 to **73.0 percent** of GDP by 2023.
- Under the proposal, OMB estimates revenues would rise from **16.7 percent** of GDP in 2013 to **20.0 percent** by 2023, spending would fall from **22.7 percent** of GDP in 2013 to **21.7 percent** by 2023. And deficits would fall from **6.0 percent** of GDP in 2013 to **1.7 percent** by 2023.
- In total, the budget reduces ten-year deficits by $1.4 trillion relative to its own baseline, by $1.3 trillion relative to current law, and by $1.8 trillion relative to our "CRFB Realistic Baseline."
- The budget incorporates a version of the President's last fiscal cliff offer from December, calling for what it describes as $1.8 trillion in net deficit reduction – including $400 billion from health savings, $400 billion from other spending, $230 billion from the chained CPI, $580 billion from new revenues, and $50 billion in new infrastructure spending.
- Aside from the deficit reduction proposal, the budget includes nearly $350 billion in new spending initiatives and $90 billion in new tax cuts. These are paid for mainly with new revenues and to a lesser extent with further spending cuts.
- Among the offsets in the budget includes "savings" from drawing down war spending, a long-standing budget gimmick enhanced by the fact the budget assumes no war spending in 2022 and 2023.

Ultimately, policymakers will need to go beyond the proposals laid out in the President's budget in order to put the debt on a clear downward path as a share of the economy over the long term and to ensure that programs like Social Security and Medicare are fully funded for the next generation. However, this budget certainly represents an important contribution to the debate, and one we hope lawmakers will build on in the coming weeks and months.

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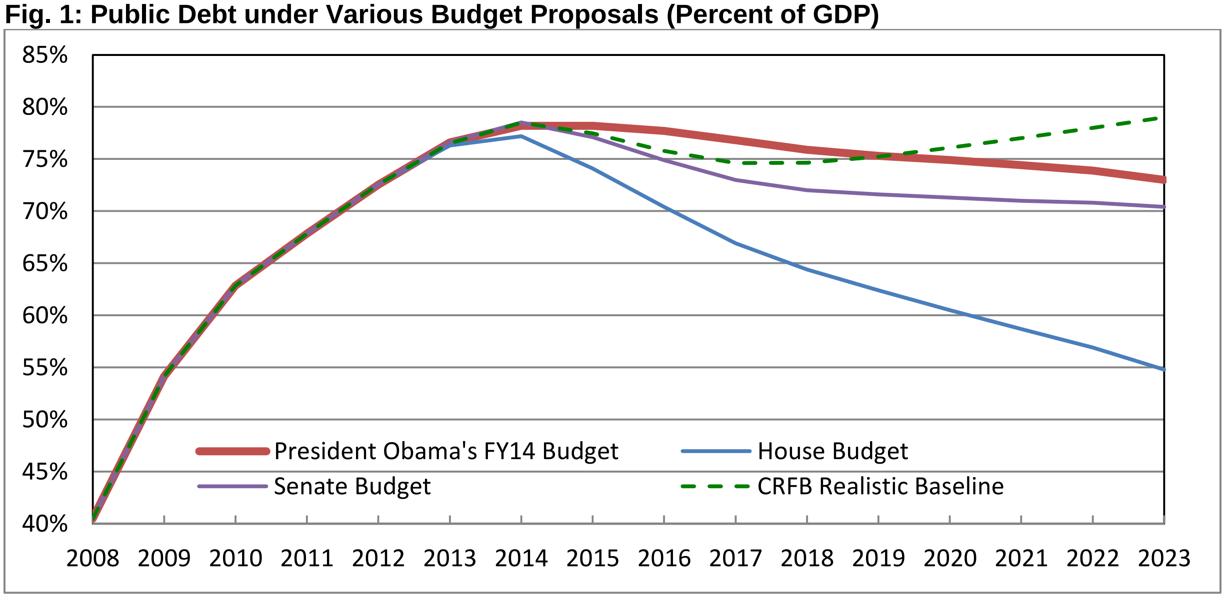
Spending, Revenues, Deficit, and Debt

Encouragingly, the President's budget appears to put the debt on a downward path as a share of the economy over the course of the decade. After peaking at 78.2 percent of GDP in 2015, the budget projects debt levels will decline to 76.8 percent of GDP by 2017 and 73.0 percent by 2023. As a result, budgets from the House, Senate, and President now all project debt levels to be moving in the right direction. We see this as an important step met by all budgets.

The budget accomplishes this with somewhat less deficit reduction than the $2.4 trillion we argued would be necessary over the next ten years – proposing only about $1.8 trillion.[1] In part, this amount is able to put the debt on a downward path due to the back-loaded nature of its savings – with new spending initiatives concentrated heavily in the early years. However, OMB's economic and budget assumptions appear to play a large part in allowing the budget to reduce the debt and ***we expect the Congressional Budget Office to find that the President's budget puts the debt on only a very modest downward path this decade.***

Fig. 1: Public Debt under Various Budget Proposals (Percent of GDP)



Revenues, under the President's budget, are projected to rise from 16.7 percent of GDP in 2013 and 17.8 percent in 2014 to 18.9 by 2018 and 20 percent by 2023. Much of this increase is due to a combination of the economic recovery, the new taxes from the Affordable Care Act, the higher tax rates and other changes resulting from the American Taxpayer Relief Act (the fiscal cliff deal), and proposals to generate additional revenues over the next ten years. Indeed, revenues would rise to 19.4 percent of GDP by 2023 under the Administration's baseline, with an additional 0.6 percent on top of that from revenue increases. This is nearly 2 percentage points higher than the historical average of 18 percent of GDP in recent decades.

[1] See Committee for a Responsible Federal Budget. "Our Debt Problems Are Far from Solved." February 11, 2013. http://crfb.org/document/report-our-debt-problems-are-far-solved.

Spending is projected to decline through 2018 and then gradually rise in subsequent years. Specifically, the budget projects outlays to fall from 22.7 percent of GDP in 2013 and 22.2 percent in 2014 to a low of 21.2 percent in 2018 before rising to 21.7 percent by 2023. Driving this path is a number of offsetting effects. Providing downward pressure on spending is the continued economic recovery and a number of spending cuts, including those already in place and new proposals from the President's budget. Pushing in the opposite direction is rising spending as a result of the Affordable Care Act, several newly proposed initiatives such as infrastructure and education investments, rising interest costs, and growing entitlement costs as a result of health care cost growth and population aging.

Fig. 2: Budget Projections (Percent of GDP)

Fiscal Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Ten-Year*
REVENUES													
FY2014 Budget	15.8%	16.7%	17.8%	18.6%	18.8%	18.8%	18.9%	19.2%	19.4%	19.6%	19.8%	20.0%	19.1%
OMB Baseline	15.6%	16.7%	17.6%	18.3%	18.4%	18.3%	18.4%	18.6%	18.8%	19.0%	19.1%	19.4%	18.6%
CBO (February)	15.8%	16.9%	18.0%	19.1%	19.1%	18.9%	18.8%	18.7%	18.7%	18.9%	19.0%	19.0%	18.9%
Mid-Session Review	15.7%	17.0%	18.6%	18.9%	19.0%	19.2%	19.3%	19.5%	19.7%	19.9%	20.0%	N/A	19.1%
OUTLAYS													
FY2014 Budget	22.8%	22.7%	22.2%	21.8%	21.6%	21.3%	21.2%	21.5%	21.6%	21.7%	21.9%	21.7%	21.6%
OMB Baseline	22.5%	22.4%	21.3%	21.3%	21.2%	21.1%	21.1%	21.5%	21.8%	22.0%	22.7%	22.9%	21.7%
CBO (February)	22.8%	22.2%	21.7%	21.6%	21.6%	21.5%	21.7%	22.0%	22.2%	22.4%	22.9%	22.9%	22.1%
Mid-Session Review	23.5%	23.1%	22.5%	22.2%	22.3%	22.0%	21.9%	22.1%	22.3%	22.5%	22.6%	N/A	22.3%
DEFICITS													
FY2014 Budget	7.0%	6.0%	4.4%	3.2%	2.8%	2.4%	2.3%	2.3%	2.2%	2.1%	2.1%	1.7%	2.5%
OMB Baseline	6.9%	5.7%	3.7%	3.0%	2.9%	2.8%	2.7%	2.9%	3.0%	3.0%	3.6%	3.5%	3.1%
CBO (February)	7.0%	5.3%	3.7%	2.4%	2.5%	2.7%	2.9%	3.2%	3.5%	3.6%	3.8%	3.8%	3.3%
Mid-Session Review	7.8%	6.1%	3.9%	3.3%	3.2%	2.9%	2.6%	2.6%	2.6%	2.6%	2.6%	N/A	3.2%
DEBT													
FY2014 Budget	72.6%	76.6%	78.2%	78.2%	77.7%	76.8%	75.9%	75.3%	74.9%	74.4%	73.9%	73.0%	N/A
OMB Baseline	72.6%	76.3%	77.3%	77.2%	76.8%	76.2%	75.7%	75.7%	75.9%	76.2%	77.0%	77.7%	N/A
CBO (February)	72.5%	76.3%	77.7%	76.3%	74.6%	73.4%	73.1%	73.5%	74.2%	75.0%	76.0%	77.0%	N/A
Mid-Session Review	73.5%	77.5%	78.6%	78.4%	77.9%	77.1%	76.3%	75.9%	75.6%	75.4%	75.1%	N/A	N/A

*Ten-year column reflects 2014-2023 for most projections but 2013-2022 for Mid-Session Review.

With revenue projected to rise far more quickly than spending, deficits will narrow under the President's budget. The $973 billion (6.0 percent of GDP) deficit in 2013 will fall to $744 billion (4.4 percent of GDP) for 2014, $475 billion (2.3 percent of GDP) for 2018, and $439 billion (1.7 percent of GDP) for 2023. While these deficit levels make notable progress in putting debt on a downward path as a share of the economy, more would need to be done to ensure both lower debt levels over the next ten-years and a declining debt-to-GDP ratio over the long term.

The President's Deficit Reduction Offer

Included in the President's budget is what it describes as nearly $1.8 trillion of deficit reduction, reflecting the top-line numbers the President proposed in his last offer to Speaker Boehner during the fiscal cliff negotiations in December. The proposal includes a combination of tax and spending changes designed both to replace the sequester and to help put the debt on a downward path this decade relative to the economy. The elements of this proposal include the following:

Discretionary Spending Caps – Though the President's proposal repeals the $1.1 trillion sequester, the budget proposes further cuts to discretionary spending – relative to pre-sequester levels – beginning in 2017. Specifically, defense and non-defense spending levels would be reduced by about $100 billion each.

Health Care Savings – The President proposes about $400 billion in health savings, mainly from Medicare. The largest amount of savings – $123 billion – comes from requiring drug companies to pay drug rebates to participate in Medicare Part D, in addition to another roughly $40 billion in savings from other prescription drug reforms. Another $150 billion comes from a variety of provider payment reductions such as reducing reimbursements for bad debts, reducing payments to rural providers, and most significantly, adjusting payments for post-acute care providers. On the beneficiary side, the budget calls for $50 billion from increasing means-testing of premiums and another $7 billion from modest cost-sharing reforms applied to new beneficiaries. The remaining health savings come from a variety of sources including adjustments to Medicare Advantage payments and reforms the Federal Employees Health Benefit Program (FEHBP). The Administration has dropped most of its proposed Medicaid reforms from previous budgets.

Chained CPI – The President's budget would adopt the use of the chained CPI to more accurately measure inflation in most parts of the federal budget and the tax code beginning in 2015.[2] It also calls for various protections for the elderly and certain vulnerable populations and only applies the chained CPI to non-means tested programs. In total, the budget calls for $130 billion of savings on the spending side of the ledger and $100 billion on the revenue side.

Other Mandatory Savings – The President's budget claims about $200 billion in other mandatory savings within his deficit reduction offer, though roughly one quarter of that would come from new revenue as a result of greater funding to reduce tax fraud. The remaining savings include $38 billion from reducing farm subsidies, $26 billion from increasing federal civilian retirement contributions and reforming TRICARE benefits, $33 billion from reducing fraud and abuse on the spending side, and roughly $50 billion from other changes such as increasing Pension Benefit Guaranty Corporation (PBGC) premiums.

Revenue Increases – Outside of the revenue generated from switching to the chained CPI and reducing tax fraud, the President calls for $583 billion of revenue increases. These increases come from two sources: $530 billion is raised by limiting the value of tax deductions and exclusions to the 28 percent tax bracket, effectively capping their value for higher earners; and the additional $53 billion in revenue comes from a new "Buffett rule" that would effectively impose a new 30 percent minimum tax for millionaires.

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[2] For more information on the chained CPI see The Moment of Truth Project: http://momentoftruthproject.org/news/moment-truth-project-releases-updated-policy-paper-chained-cpi

Fig. 3: Savings and Costs in the President's Budget Compared to Various Baselines (Billions)

	CRFB Realistic	OMB Baseline	Current Law^	House Budget Baseline	Senate Budget Baseline
Discretionary Savings	**$174**	**$202**	**$174**	**$174**	**$174**
Defense Reductions	$101	$101	$101	$101	$101
Non-Defense Reductions	$73	$101	$73	$73	$73
Health Savings	**$401**	**$401**	**$152**	**$152**	**$401**
Drug Rebates and Related Reforms	$162	$162	$162	$162	$162
Post-Acute Care Provider Reductions	$94	$94	$94	$94	$94
Other Provider Reductions (including SGR)	$55	$55	-$194	-$194	$55
Income-Related Premiums	$50	$50	$50	$50	$50
Cost-Sharing Reforms	$14	$14	$14	$14	$14
Other Changes	$27	$27	$27	$27	$27
Other Mandatory Savings	**$145**	**$192**	**$145**	**$145**	**$145**
Agriculture Reductions	$38	$38	$38	$38	$38
Civilian/Military Health and Retirement Changes	$26	$26	$26	$26	$26
Program Integrity and Other Fraud Reductions	$33*	$79*	$33*	$33*	$33*
Other Changes	$49	$49	$49	$49	$49
Infrastructure Spending	**-$50**	**-$50**	**-$50**	**-$50**	**-$50**
Chained CPI w/ Low-Income Protections	**$230**	**$230**	**$230**	**$230**	**$230**
Revenue Impact	$100	$100	$100	$100	$100
Spending Impact	$130	$130	$130	$130	$130
Revenue	**$629**	**$583**	**$629**	**$629**	**$629**
Tax Expenditure Limitation for Higher Earners	$529	$529	$529	$529	$529
"Buffett Rule"	$53	$53	$53	$53	$53
Program Integrity/Tax Gap	$46*	n/a*	$46*	$46*	$46*
Net Interest	**$197**	**$202**	**$168**	**$168**	**$197**
Subtotal, Deficit Reduction Package	**$1,726**	**$1,760**	**$1,448**	**$1,448**	**$1,726**
Spending Initiatives	**-$191**	**$432**	**$747**	**-$234**	**-$575**
New Spending Proposals	-$345	-$345	-$345	-$345	-$345
Spending Reduction Proposals	$56	$107	$56	$56	$56
Lower War and Disaster Spending`	$98	$670	$1,036	$55	-$286
Tax Initiatives	**$278**	**$227**	**$117**	**$117**	**$278**
Tax Reduction Proposals	-$89	-$89	-$250	-$250	-$89
Tax Increase Proposals	$367	$316	$367	$367	$367
Repeal Sequester	**n/a**	**-$893**	**-$1,018**	**-$1,018**	**n/a**
Net Interest	**-$37**	**-$129**	**$12**	**-$157**	**-$145**
Total Deficit Reduction	**$1,776**	**$1,397**	**$1,306**	**$156**	**$1,284**
Addendum:					
Total Effect of Primary Spending Policies	**$609**	**$414**	**$280**	**-$701**	**$225**
Total Effect of Tax Policies	**$1,007**	**$910**	**$846**	**$846**	**$1,007**
Total Interest Savings	**$160**	**$73**	**$180**	**$11**	**$52**

Note: Positives/negatives reflect deficit decreases/increases, respectively. All baselines reflect underlying OMB economic and budget forecasts but concepts consistent baselines as identified in appendix.
`Includes postal adjustment
*Classified as spending by OMB but counted as revenue by CRFB
^Using CBO concepts

Infrastructure Investments – The President also proposes $50 billion in new spending towards immediate investments in infrastructure, most of which would be spent before 2017 when the economy is still projected to be weak.

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The size and composition of the President's deficit reduction offer depends on the vantage point from which it is measured. The table below shows the budget relative to five different "budget baselines" (for more descriptions, see the appendix). Depending on how it is measured, the deficit reduction proposal reduces the deficit by anywhere from $1.4 trillion to $1.8 trillion with anywhere from $680 billion to $730 billion coming from revenue and $720 billion to $1.1 trillion coming from spending (including interest). Importantly, these numbers only reflect the deficit reduction offer, not the budget in its entirety.

The President's Policy Initiatives

In addition to his deficit reduction offer, the President's budget includes a number of new policy initiatives. By and large, these initiatives would increase spending (or offer new tax breaks) and finance the cost with new revenues (and some spending reductions). Some of the additional proposals in the President's budget include:

New Spending Initiatives – The President proposes almost $350 billion of new spending beyond what is in his deficit reduction offer. Almost half of this spending is on infrastructure and jobs initiatives, including an infrastructure bank, spending on surface and rail transportation, and a series of employment programs. The budget also allocates $75 billion in spending toward universal preschool and other education investments. Additional funding is put toward everything from job retraining to Pell Grants to encouraging energy efficiency.

New Tax Cuts – The President proposes about $90 billion of new tax cuts, along with another $160 billion of extensions to existing tax breaks. Among the new tax breaks are temporary hiring incentives, tax preferences for infrastructure bonds, and new measures to encourage savings. The budget would also extend the expansions of the child tax credit, earned income tax credit, and American opportunity tax credit – which are all set to expire in 2017.

Spending Offsets – To finance some of their initiatives, the President proposes over $110 billion in spending reductions and reforms, of which $50 billion is in reality a revenue provision that effectively increases unemployment insurance payroll taxes. Other cuts include student loan reforms such as locking interest rates to those in the broader economy, cuts to various overpayments, and new and increased user fees. *The budget also claims $675 billion in war savings, though we regard this as a gimmick in two ways. First, the budget takes credit for a drawdown already scheduled to occur, and secondly because beginning in 2022 it abruptly reduces annual appropriations from $37 billion to $0 billion without a strong policy basis for doing so.*[3]

[3] The budget suggests that the President will submit an amendment updating their war spending estimates once force-level decisions have been made. At that point, we will make a reevaluation.

Fig. 4: Additional Spending and Revenue Initiatives in the President's Budget (Billions)

	CRFB Realistic	OMB Adjusted	Current Law	House Budget Baseline	Senate Budget Baseline
New Spending	**-$346**	**-$346**	**-$346**	**-$346**	**-$346**
Early Childhood Investments	*-$77*	*-$77*	*-$77*	*-$77*	*-$77*
Infrastructure and Jobs Programs	*-$166*	*-$166*	*-$166*	*-$166*	*-$166*
Higher Education Spending	*-$29*	*-$29*	*-$29*	*-$29*	*-$29*
Universal Displaced Worker Program	*-$27*	*-$27*	*-$27*	*-$27*	*-$27*
Other Spending Initiatives	*-$47*	*-$47*	*-$47*	*-$47*	*-$47*
New Tax Cuts	**-$89**	**-$89**	**-$250**	**-$250**	**-$89**
Hiring and Infrastructure Incentives	*-$50*	*-$50*	*-$50*	*-$50*	*-$50*
Tax Breaks for Individuals and Families	*-$39*	*-$39*	*-$200*	*-$200*	*-$39*
Spending Offsets and Reductions	**$155**	**$778**	**$1,093**	**$111**	**-$229**
Higher Education Reform	*$33*	*$33*	*$33*	*$33*	*$33*
Unemployment Insurance Reform	*	*$51*	*	*	*
War Drawdown Offsets	*$98*	*$670*	*$1,036*	*$55*	*-$286*
Other Spending Cuts and User Fees	*$24*	*$24*	*$24*	*$24*	*$24*
Revenue Offsets and Increases	**$367**	**$316**	**$367**	**$367**	**$367**
Cigarette Tax Increase	*$78*	*$78*	*$78*	*$78*	*$78*
Estate Tax Increases	*$79*	*$79*	*$79*	*$79*	*$79*
Financial Crisis Responsibility Fee	*$59*	*$59*	*$59*	*$59*	*$59*
Other Revenue	*$151**	*$100*	*$151**	*$151**	*$151**
Repeal Sequester	**n/a**	**-$893**	**-$1,018**	**-$1,018**	**n/a**
Net Interest	**-$37**	**-$129**	**$12**	**-$157**	**-$145**
Total Other Changes	**$50**	**-$363**	**-$142**	**-$1,293**	**-$442**

Note: Positives/negatives reflect deficit decreases/increases, respectively. All baselines reflect underlying OMB economic and budget forecasts but concepts consistent baselines as identified in appendix.

New Revenue – Although some of the budget's new initiatives are paid for with spending reductions such as the student loan interest rate reform and increasing user fees, most are financed from about $320 billion of additional tax increases. His universal pre-school initiative is financed by roughly doubling the cigarette tax for $78 billion in revenue over the next ten years. His budget would also raise $79 billion from estate tax changes, mainly by returning to 2009 estate tax parameters in 2017, $59 billion from a tax on large financial institutions, $16 billion from taxing carried interest as ordinary income, $14 billion by reforming the treatment of retirement accounts, $20 billion from reinstating the so-called "superfund" taxes, and billions more from other sources.

Tax Reform – The President's budget calls for business (though not individual) tax reform that would lower tax rates and broaden the tax base on a revenue-neutral basis. While he does not put forward a comprehensive tax plan, the President proposes a number of corporate measures, some of which would raise revenues and some of which would lose revenues. Included in some of the reforms are making permanent the R&E tax credit, increasing expensing for small businesses, modifying the international tax system, changing the tax treatment of the insurance industry, reducing oil and gas preferences, and repealing Last in First Out (LIFO) accounting rules. The budget does not include the revenue effects of these provisions in its budget.

Sequester Repeal – Included in the President's budget is the full repeal of the sequester, which costs almost $900 billion in direct costs and more than $1 trillion if counting extrapolated discretionary costs in 2022 and 2023.

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When combining the deficit reduction proposals and new spending and revenue initiatives, the President's budget saves anywhere from $160 billion to $1.8 trillion, depending on the baseline, with anywhere from $850 billion to $1 trillion coming from net revenue increases and spending either falling by as much as $600 billion or *increasing* by as much as $700 billion.

Economic Assumptions

Budget projections are highly sensitive to economic assumptions. A larger economy, for example, will lead to higher revenue levels, reduced spending on automatic stabilizers and a larger denominator for purposes of measuring the debt-to-GDP ratio. All in all, OMB's economic projections are slightly more favorable than those projected by the CBO and under the Blue Chip consensus, but still within the range of most estimates. The President's budget projects real GDP growth to be 2.3 percent in 2013 and 3.2 percent in 2014, compared to 1.4 percent and 2.6 percent, respectively, from CBO's February outlook. At the end of the decade, there still remains a difference in real GDP growth, with 2.3 percent projected by OMB compared to 2.2 percent projected by CBO.

Fig. 5: Comparison of Economic Projections (Calendar Year)

Calendar Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Ten – Year^
Real GDP Growth													
CBO (February)	2.3%	1.4%	2.6%	4.1%	4.4%	3.8%	2.6%	2.4%	2.3%	2.2%	2.2%	2.2%	2.7%
FY2014 Budget	2.3%	2.3%	3.2%	3.5%	3.6%	3.5%	3.1%	2.6%	2.4%	2.4%	2.3%	2.3%	2.9%
Mid-Session	2.3%	2.7%	3.5%	4.1%	4.0%	3.8%	3.2%	2.7%	2.5%	2.5%	2.5%	N/A	3.2%
Blue Chip	2.2%	1.8%	2.7%	3.1%	2.9%	2.8%	2.7%	2.6%	2.5%	2.5%	2.5%	2.5%	2.6%
Federal Reserve	1.8%	2.6%	3.4%	3.4%	N/A								
Inflation (CPI)													
CBO (February)	2.1%	1.6%	1.9%	2.1%	2.1%	2.2%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	2.2%
FY2014 Budget	2.1%	2.1%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%
Mid-Session	2.1%	1.9%	2.0%	2.0%	2.1%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	N/A	2.1%
Blue Chip	2.1%	1.8%	2.1%	2.3%	2.4%	2.4%	2.4%	2.4%	2.3%	2.3%	2.3%	2.3%	2.3%
Federal Reserve*	1.7%	1.8%	1.8%	2.0%	N/A								
Unemployment Rate													
CBO (February)	8.1%	7.9%	7.8%	7.1%	6.3%	5.6%	5.5%	5.5%	5.4%	5.4%	5.3%	5.3%	6.1%
FY2014 Budget	8.1%	7.7%	7.2%	6.7%	6.2%	5.7%	5.5%	5.4%	5.4%	5.4%	5.4%	5.4%	5.8%
Mid-Session	8.0%	7.7%	7.3%	6.7%	6.2%	5.7%	5.4%	5.4%	5.4%	5.4%	5.4%	N/A	6.1%
Blue Chip	8.1%	7.7%	7.3%	6.7%	6.3%	6.0%	5.7%	5.6%	5.6%	5.6%	5.6%	5.6%	6.2%
Federal Reserve	7.9%	7.4%	6.8%	6.3%	N/A								
Gross Domestic Product (Fiscal Year, Trillions)													
CBO (February)	$15.5	$16.0	$16.6	$17.6	$18.8	$20.0	$20.9	$21.9	$22.9	$23.8	$24.9	$25.9	N/A
FY2014 Budget	$15.5	$16.2	$17.0	$17.9	$18.9	$20.0	$21.0	$22.0	$23.0	$24.0	$25.0	$26.1	N/A
Mid-Session	$15.7	$16.4	$17.3	$18.3	$19.3	$20.5	$21.5	$22.5	$23.5	$24.5	$24.6	N/A	N/A

^Ten-year figures refer to 2014-2023 to CBO and the FY2014 budget, but to 2013-2022 for OMB's Mid-Session Review.
*Federal Reserve numbers reflect Personal Consumption Expenditures (PCE) index, which is on average 0.2 to 0.3 percentage points lower than the Consumer Price Index (CPI).

The budget also projects the unemployment rate to gradually fall from 7.7 percent this year to 5.4 percent by 2019, where it would remain for the remainder of the ten-year period. CBO projects similar, though slightly higher, unemployment rates over the next ten years.

Conclusion

The President's FY 2014 budget reflects the Administration's last offer made during the fiscal cliff negotiations at the end of last year, in addition to a series of new spending and tax proposals (including increases and cuts). Encouragingly, the President's budget would put the debt on a downward path as a share of the economy later this decade. However, lawmakers should go further in order to both reduce the debt to lower levels this decade and put in place additional longer-term reforms to ensure a sustainable debt path in future decades.

Earlier this year, CRFB and other experts called for putting forward a plan sufficient to reduce debt levels to below 70 percent of GDP by the end of the decade (requiring $2.4 trillion relative to our baseline) and include the structural entitlement reforms necessary to keep it on a sustainable path thereafter. While the President's plan takes notable steps towards building consensus on a long-term budget plan, more savings and reforms will be needed. Now that both the President has entered the debate and the Senate and House have passed budget resolutions putting the debt on downward paths, though to varying degrees, the stage is set for lawmakers to come together to put our fiscal house in order through one, bipartisan plan.

We encourage lawmakers to focus on policy reforms that can get bipartisan support and then use them to build a debt deal that is large enough to put the debt on a downward path relative to the economy in the medium and long term. We encourage the President to lead on this issue and use the bully pulpit to help educate the country about why it is so important to address the nation's fiscal challenges.

Appendix: What's in a Baseline?

	CBO Current Law	CRFB Realistic Baseline	OMB Adjusted Baseline	House Budget Baseline	Senate Budget Baseline
Sequestration Cuts	Continues as scheduled; extrapolated past 2021	Repealed	Continues as scheduled through 2021	Continues as scheduled; extrapolated past 2021	Repealed
War Spending	2013 spending grows with inflation	Drawdown to 45,000 troops by 2015	2013 spending grows with inflation	"Plug" consistent with drawdown	"Plug" through 2015, no spending after
Medicare SGR Payment Formula	25% physician payment cut occurs as scheduled	Scheduled cuts replaced with payment freeze	Scheduled cuts replaced with payment freeze	25% physician payment cut occurs as scheduled	Scheduled cuts replaced with payment freeze
Emergency Disaster Funding	2013 Sandy disaster aid grows with inflation	Small allowance for annual disaster costs	Small allowance for annual disaster costs	Small allowance for annual disaster costs	Small allowance for annual disaster costs
Expiring Refundable Tax Credits	Expire after 2017	Continue after 2017	Continue after 2017	Expire after 2017	Continue after 2017
Pell Grants	No adjustment	No adjustment	Maximum award funded	No adjustment	No adjustment