



# Fact Sheet

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## Obama Budget Emphasizes Democrats' Commitment to Fiscal Responsibility

*As we look to the future, we must recognize that the era of irresponsibility in Washington must end... In the long term, we cannot have sustainable and durable economic growth without getting our fiscal house in order.*

-President Obama, 2/2/2010

President Obama's Fiscal Year 2011 budget request includes a strong commitment to getting this nation's fiscal house in order, even as we continue to work to aggressively tackle the economic challenges facing American families and address the lagging employment market, which has left far too many Americans looking for work.

In his Budget Message, President Obama stated that: "[I]n order to understand where we are going in the coming year, it is important to remember where we started just 1 year ago." The economy was on the verge of complete melt down – record deficits and a doubling of the debt inherited from the Bush Administration, as well as the worst recession since the Great Depression, financial market and housing crises, ongoing wars in Iraq and Afghanistan, and an unsustainable long-term budget outlook with ever-rising health care costs.

The failure to pay for two large tax breaks that principally benefit the wealthiest Americans and a new entitlement program that the Bush Administration had championed has added an estimated \$7.5 trillion in national debt over ten years. [Office of Management and Budget, 2/1/10] And the worst economic and financial crisis since the Great Depression forced the President Obama to add temporarily to record deficits.

Recently, there has been some good news about the growth of the economy, suggesting that the economy has moved from the edge of the precipice, though for too many Americans remain out of work. But even as we work to aggressively tackle the serious problems in the employment market, the President's budget recognizes the need to address the nation's long-term fiscal crisis and has re-committed to cutting the deficit in half by the end of the President's first term.

The Administration's budget includes several proposals to achieve this goal, including the establishment of a [bipartisan fiscal commission](#); the creation of a [Fiscal Crisis Responsibility fee](#); the [elimination of wasteful and unfair tax breaks](#) for multi-millionaires and special interests; and a [review and streamlining of government programs](#), including a three-year freeze on non-security discretionary spending. Meanwhile, the President remains committed to

addressing the single most important source of our long-term fiscal problems: the exploding cost of [health care](#).

**Bipartisan Fiscal Commission.** The President has committed to create a deficit reduction commission charged with identifying policies to improve the fiscal situation in the medium term and achieve fiscal sustainability over the long run. While details are now being worked out, the commission is expected to be charged with: 1) balancing the budget, excluding interest payments on the debt, by 2015; and 2) examining policies to meaningfully improve the long-run fiscal outlook. This would stabilize the debt-to-GDP ratio at an acceptable level once the economy recovers and begin to address the growth of entitlement spending and the gap between projected revenues and expenditures of the government. Majority Leader Reid has committed to bringing the commission's report to a vote before the end of the 111th Congress and, if approved by the Senate, Speaker Pelosi has committed to a vote in the House of Representatives, as well.

The President supported the bipartisan fiscal task force proposal that Senate Budget Committee Chairman **Conrad** and Ranking Republican Gregg had proposed on the Senate Floor last month. While the commission won the support of 53 Senators – a majority of votes – this was insufficient to bring us to the 60 vote threshold that was required for adoption of this measure. In fact, seven Republicans voted against the very proposal to which they had earlier signed their name as sponsors.

**Financial Crisis Responsibility Fee.** In 2008, the Troubled Assets Relief Program (TARP) was established to help the financial industry weather the economic and financial crisis that was caused by Republican economic policies and the risky behavior of Wall Street banks. The President's budget proposes a fee on TARP's largest and most indebted recipients to ensure that taxpayers are fully compensated for the extraordinary support they provided. This also would provide a deterrent to the risky practices that contributed to this crisis. The fee would be imposed only on firms with over \$50 billion in assets and would raise an estimated \$90 billion over ten years.

**Fairness in a time of crisis and austerity.** The President's budget also proposes to eliminate subsidies and tax breaks for the wealthiest Americans. We could not afford these tax breaks when they passed, and fairness demands their elimination in a time of crisis and austerity. These would include:

- Eliminating the “carried interest” tax loophole, which allows wealthy investment managers to treat their earned income as capital gains, at less than half the rate that would otherwise apply. This would ensure that the income earned by investment managers is treated the same way as income earned by middle-class families;
- Ending the Bush tax breaks for the wealthiest Americans, reducing the deficit by up to \$678 over ten years. We cannot afford to continue these tax breaks for those at the very top while almost everyone else struggles – the expiration of the tax cuts would not apply to the 98 percent of households who make less than \$250,000;
- Limiting the itemized deduction write-off for families with incomes over \$250,000. Currently, a millionaire who makes a donation to a charity or pays for mortgage interest enjoys a deduction that is more than twice as generous as the deduction afforded to a middle-class family.

In addition, the President's budget would: 1) reform the way corporations are taxed for their international income and eliminate other corporate loopholes and 2) terminate the subsidies for big oil, gas, and coal companies, which many believe are both too costly and counterproductive to our efforts to create a clean energy economy (raising an estimated \$40 billion over ten years).

**Streamlining What Works, Eliminating What Doesn't.** In addition to his proposal to freeze non-security discretionary funding for three years, to further trim the budget, the President's budget includes measures to:

- Terminate or consolidate more than 120 outdated or ineffective programs;
- Freeze pay and eliminate bonuses for senior political appointees;
- Reduce improper payments to individuals, organizations, and contractors who inadvertently or deliberately overbill the government;
- Cut waste in contracting;
- Increase accountability in, and reduce the number of, earmarks;
- Evaluate program performance to determine what works and what doesn't;
- Close the technology gap;
- Centralize provision of information technology services for non-military agencies;
- Hold agency leaders accountable for specific goals;
- Revamp the federal hiring process; and
- Eliminate unneeded federal real estate from the government books.

**Statutory Pay-As-You-Go.** In the meantime, the Democratic-led Congress is sending a bill to the President's desk that includes reinstatement of a statutory pay-as-you-go rule (PAYGO), so that we can govern in a fiscally-responsible way. The PAYGO law requires the Congress to find offsetting savings for new direct spending or tax cuts. It would apply the same discipline to the federal budget that American families use every day in their own lives: in order to spend a dollar, we have to have a dollar in our wallets. In part because of PAYGO, the Clinton Administration turned deficits into record surpluses. Unfortunately, under President Bush and the Republican-controlled Congress, PAYGO was first waived and then allowed to expire, leading to massive tax breaks and other policies that exploded the deficit and doubled the debt.

The reinstatement of statutory PAYGO is the type of sensible, responsible leadership that Senate Democrats are bringing to the federal budget process after eight years of reckless spending that helped create the mess we are in today. It is regrettable, if not surprising, that Senate Republicans opposed this step to rein in irresponsible deficit spending.

**Health Insurance Reform.** The President's budget also recognizes that skyrocketing health care costs are contributing to the current economic crisis, weighing heavily on family, business and government budgets. Health care costs take up a growing share of federal and state budgets and are the greatest threat to the government's long-term fiscal outlook. In 2009, the United States spent an estimated \$2.5 trillion on health care, consuming 17.3 percent of the GDP and representing the largest one-year increase in the health share of GDP since the measure was first tracked in 1960, according to experts from the Centers for Medicare and Medicaid Services (CMS). [Health Affairs, 2/4/2010] Without action, total health care spending will consume more than 19 percent of GDP by 2019, just nine years from now. Federal spending on Medicare and Medicaid now consumes approximately 5.5 percent of GDP,

and in newly released estimates, the Congressional Budget Office estimates such spending will consume 6.6 percent of GDP by 2020 and ten percent of GDP by 2035. [Congressional Budget Office, [1/2010](#)]

That's why the bill approved by the Senate in December 2009 will rein in unsustainable increases in health care costs to ensure future sustainability of the system, and will reduce federal deficits by \$132 billion over the next ten years. [Congressional Budget Office (CBO), 12/19/2009] The *Patient Protection and Affordable Care Act* would also bend the cost curve over the long-term, as it will continue to reduce federal deficits in the decades following 2019. [CBO, [12/20/2009](#)]

Twenty-three prominent economists – including Nobel laureates and members of both Democratic and Republican administrations – recently identified four key measures that will lower costs and reduce long-term deficits. [Letter to the President, [11/17/2009](#)] The *Patient Protection and Affordable Care Act* includes all four measures: deficit neutrality, an excise tax on high-cost plans, an Independent Payment Advisory Board, and delivery system reforms.

A recent Business Roundtable report confirms that many delivery system reform policies in the *Patient Protection and Affordable Care Act* will help reduce costs. As the report explains, “[a] number of the proposed reforms offer real promise, not only to save federal dollars, but also to reduce the rate of increase in private sector spending if adopted and implemented appropriately.” [Business Roundtable, [11/2009](#)]