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**STATEMENT BY ROBERT GREENSTEIN, EXECUTIVE DIRECTOR,
ON THE PRESIDENT'S 2010 BUDGET PROPOSAL**

The President's budget represents a bold and courageous proposal to make progress in restoring fiscal discipline while addressing two central problems of our time — a broken health care system and the threat of catastrophic global warming — and other national needs.

Particularly courageous are several proposals that take on vested interests to fully pay for the costs of health care reform and tackling global warming, including:

- Instituting major cost-saving reforms in Medicare that also hold promise for slowing private-sector health care costs and are consistent with recommendations of Congress' expert advisory body, the Medicare Payment Advisory Commission. Faced with intense opposition from insurance companies and other interests, Congress has shied away from such proposals, but the new Administration has embraced them. The budget also includes a sound, longstanding Republican proposal — to increase the premiums that affluent Medicare beneficiaries pay for the prescription drug benefit that Medicare provides them.
- Limiting various tax subsidies to the most affluent Americans to 28 cents on the dollar. Currently, middle-income Americans receive a tax subsidy equal to 10 cents or 15 cents for each dollar of their deductible expenses (if they itemize deductions at all), while affluent Americans get a subsidy of 35 cents for each dollar of the same expenses. The budget would cap the subsidy at 28 cents on the dollar for those with incomes over \$250,000, the same rate at which those expenses could be deducted in the final Reagan years, when the top tax rates were lower. As a result, incentives to incur those expenses would be the same as under President Reagan.
- Auctioning *all* emissions permits under the Administration's proposed cap-and-trade system to address global warming, rather than conferring windfall profits on energy companies and others that pollute by giving them tens of billions of dollars' worth of permits for free. The proposal would then use auction proceeds to offset the impact on working families of the resulting increases in energy prices, by extending the Making Work Pay tax cut. (This tax cut is similar to tax-reduction proposals of recent years by a number of analysts, including those here at CBPP, to efficiently provide middle-income consumers with relief from the increased energy costs that an emissions cap would trigger.) Additional measures will be required to provide adequate relief to low-income consumers; the budget envisions using some of the remaining auction proceeds for that.

The budget also makes a significant commitment to restoring fiscal responsibility while meeting high priority national needs, by:

- Reducing deficits to 3 percent of the Gross Domestic Product by 2013, about the level needed to keep the federal debt from rising much faster than the economy and thus leading to an explosion of debt that swamps the budget and the economy.
- Pledging to offset the costs over the next ten years of health care reforms that initially will raise costs by providing universal coverage but that will set the stage for reducing public- and private-sector health care costs in subsequent decades by gradually slowing the rate at which those costs grow. The high rate of growth of health-care costs is at the root of the nation's long-term fiscal problem.

By themselves, these budget proposals would prove insufficient to keep deficits at 3 percent of GDP indefinitely. Policymakers will need to take additional steps in subsequent years, as President Obama noted at his "fiscal summit" on Monday.

The budget also deserves high marks for transparency and honesty. Gone are the gimmicks that have been an annual feature of both Presidential and Congressional budgets, under which policymakers pretended to reduce deficits markedly over time by omitting costs in the "out years" for operations in Iraq and Afghanistan, natural disasters, and continued relief from the Alternative Minimum Tax and the scheduled reductions in Medicare fees for doctors — and by printing in the budget numbers for the costs of discretionary programs in the out years that everyone knew were unrealistically low.

Those gimmicks, sleights-of-hand, and convenient omissions are absent from this budget. Its greater realism and transparency makes the President's pledge to cut the deficit in half in four years a meaningful one; we will now know each year whether we are on course to meet that goal.

The budget also provides needed investments in key areas for long-term economic growth, such as energy efficiency and early childhood education. And it proposes savings from lower priority programs such as bloated agricultural subsidies and from unwarranted tax breaks, such as one that millionaire equity fund managers have exploited to pay taxes at lower rates than many middle-income families and others that benefit oil companies. The budget also follows in the tradition of the 1990 and 1993 deficit-reduction laws in both shrinking the deficit *and* reducing poverty, which is higher in the United States than in other Western nations.

Predictable but Unfounded Criticisms

The budget already is facing several lines of attack that rest on inaccurate or misleading charges. Chief among them is the claim that the tax increases for people who make over \$250,000 will seriously injure small businesses.

In fact, small businesses would win under this budget. Tax Policy Center data show that fewer than one in every ten people with small business income have incomes over \$250,000, the only group that faces higher taxes under this budget. Moreover, many people with small business income who are in this category are wealthy individuals who have invested in businesses, but who are not proprietors and have little or nothing to do with running those businesses. The vast majority of small business owners are middle-income individuals who would receive tax *cuts* under the

budget; many of them would also benefit from its universal coverage and health care cost containment reforms.

To be sure, many will oppose various proposals to close tax loopholes, the Medicare and agricultural subsidy reforms, and the cap on the value of itemized deductions for the most affluent Americans — while saying that they, too, favor universal health coverage, curbing global warming, improvements in education, and the like. This budget challenges them to propose their own ways to finance such measures.

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