

## Statement by Robert Greenstein, President, on President Obama's FY 2014 Budget

President Obama's budget includes a \$1.8 trillion deficit reduction package that reflects his last offer to Speaker Boehner during their budget talks in December. The new budget — like the President's offer — represents a substantial compromise on the President's part; compared to the President's *original* offer to the Speaker from earlier in December, it contains \$400 billion less in new revenue, \$200 billion more in discretionary program cuts, and the proposal to use the alternative cost-of-living adjustment known as the "chained CPI" for various benefit programs and the tax code.

The budget contains a mix of spending cuts and revenue increases that would replace the sequestration cuts and achieve the important goal of stabilizing the debt over the next decade (and putting it on a slightly downward path). The budget is designed to protect the still-weak economy from the effects of premature deficit reduction — by both including short-term investments to address infrastructure needs and by phasing in some of the deficit reduction measures that would replace sequestration in order to allow the economy to continue its recovery. The discretionary program cuts, for example, would not start until 2017.

That would be a welcome change from the current budget path. The Congressional Budget Office estimates that if sequestration remains in effect, it will cost the economy 750,000 jobs by the end of this year.

As it stands, the package makes tough policy choices while largely adhering to the principle, as enunciated by the Bowles-Simpson commission, that deficit reduction should not increase poverty or inequality. Nevertheless, the budget's substantial spending cuts, both in entitlements and discretionary programs, would have real-world consequences for millions of individuals and families. They leave little room for the President to move further to the right and still protect vulnerable Americans.

Politically speaking, I had thought that the White House should not put these concessions in its budget, as distinguished from offering them in bipartisan negotiations *if and when* Republicans agreed to dedicate substantial savings from curbing tax credits, deductions, and other preferences (known as "tax expenditures") to deficit reduction. The Administration took a different approach. Having done so, it is appropriately insisting that the part of its budget that contains the President's last offer to Boehner is an indivisible package — that policymakers cannot cherry pick the budget cuts on their own, as some Republicans are already suggesting, without taking the accompanying revenue increases.

The White House must hold firm on this point. When it comes to deficit reduction, the playing field is not level. The President is sticking with his final offer to Boehner despite the anger that it's creating in his party and his political base due to the chained CPI and other proposals. The Speaker and other Republican

leaders, however, have buried their last offer to Obama in December and are ignoring the fact that it included \$400 billion in revenue increases beyond what policymakers enacted at the start of the year. They now brand any new revenues as unacceptable. The contrast between the President's approach and that of Republican leaders is striking.

The budget's key revenue-raising provision — capping, at 28 cents on the dollar, the value of many tax deductions and exclusions for high-income households, a proposal that Speaker Boehner reportedly signaled at one point in the December negotiations that he could accept — is well designed. Unlike proposals to cap deductions at a fixed dollar amount (or a particular percentage of income), the provision retains a strong incentive for high-income households to engage in charitable giving and other useful activities. On the spending side, the budget contains \$370 billion in Medicare savings, through such measures as eliminating the excess prices that Medicare is paying for prescription drugs for lower-income beneficiaries and requiring more affluent seniors to pay higher premiums for Medicare.

Obama's budget also would adopt the chained CPI for various benefit programs and the tax code. That would mean somewhat lower annual benefit adjustments under Social Security and some other programs and modestly higher income taxes across the income scale.

Experts widely regard the chained CPI as a more accurate measure of inflation for the population as a whole. It may well be, however, less accurate for elderly individuals and many low-income people and, thus, understate the inflation that they face. ([See my commentary.](#)) In an effort to address this problem, the budget includes a series of adjustments and protections for the very old and for people with low incomes. No set of adjustments can fully shield the very old or the poor, but the Obama package is robust and well designed. It should prevent an increase in the overall poverty rate among the very old and would shield the beneficiaries of most programs that focus on people at the bottom.

I am concerned about the President's proposal to cut non-defense discretionary spending by \$100 billion over the next decade below the already-tight annual caps set by the 2011 Budget Control Act (BCA). The *existing* BCA caps would, by 2016, shrink this category of spending — which goes for everything from education to basic research to food safety — to its lowest level as a share of the economy since 1962. By cutting another \$100 billion over the next decade, the proposal would almost certainly result in fewer resources both for important investments that can help boost economic growth over the long term, such as education and scientific research, and for programs that assist millions of low- and moderate-income families and other vulnerable people. This cut was among Obama's concessions to Boehner in his final offer in December.

On the other hand, the budget also would repeal sequestration. So, while non-defense discretionary spending would be \$100 billion *below* the BCA caps over the coming decade, it would be several hundred billion dollars *above* the even-more-severely shrunken funding levels that will be in place if sequestration remains in effect (as it likely will in the absence of a bipartisan budget deal).

If presented as isolated proposals rather than as part of a balanced deficit reduction package, I would counsel against the chained CPI proposal and the non-defense discretionary cuts. Policymakers should consider them only as part of a package that both reduces the deficit enough to stabilize the debt and replaces sequestration, and does so through a balanced mix of spending cuts and measures that raise revenue in a progressive manner. To ensure that such a package is balanced, policymakers have little room to cut further into programs without jeopardizing services on which millions of families of modest means rely and funding for key building blocks of our economy.

While much attention will focus on the part of the Obama budget that reflects the President's offer to Boehner, the new budget also contains a number of important initiatives, which are "paid for" (and thus would not increase the deficit). Of particular note is the President's pre-K initiative, which would give many more children access to quality early education — which research shows to increase children's chances to succeed in school and thus later in life. That proposal would benefit both millions of children and, over time, the U.S. economy. Other important initiatives in the budget include new investments in infrastructure needs, from roads and bridges to school construction, which the economy sorely needs.

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