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CBPP STATEMENT

For Immediate Release:
Tuesday, March 4, 2014

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Statement of Robert Greenstein on President Obama's New Budget

President Obama's new budget is a solid blueprint that would reduce deficits, alleviate poverty, and boost investment in areas needed for future economic growth, such as infrastructure, education, and research.

On the deficit front, the budget confounds the recent predictions of some pundits by including, rather than eschewing, deficit reduction. While offsetting the costs of its new investment initiatives by cutting spending and scaling back tax breaks, the budget goes further by reducing deficits enough to put federal debt as a share of gross domestic product (GDP) on a declining path. With about $1.7 trillion in deficit reduction over the next ten years (excluding the savings from winding down operations in Afghanistan), the budget would reduce the debt-to-GDP ratio to 69 percent in 2024.

As previously announced, the budget doesn't include the proposal in the President's budget last year to switch to the "chained Consumer Price Index" in calculating annual cost-of-living adjustments in Social Security and other programs. It does, however, retain the $400 billion in Medicare savings in last year's budget, including about $60 billion in Medicare beneficiary reductions (through increases in premiums for affluent beneficiaries, increases in some co-payments, and changes affecting Medigap coverage).

On the poverty-fighting front, the budget features an important proposal to boost the Earned Income Tax Credit (EITC) for low-income workers who are not living with minor children — a measure many analysts across the political spectrum believe holds considerable promise for reducing poverty and also increasing labor-force participation, including among young minority men. Single low-wage men and women are the one group of Americans whom the federal tax code literally taxes into — or deeper into — poverty. The Obama proposal, which builds on a long bipartisan tradition of support for the EITC, would substantially address that problem.

No one should declare this budget "dead on arrival," for two reasons. First, under the Murray-Ryan agreement of last year, both parties have agreed on the total amount available for appropriated programs this year, and the Obama budget includes program-by-program requests that hit that total. Consequently, the budget's appropriations requests will likely play an important role as the Appropriations Committees craft the annual funding bills this year.

Second, with no big budget showdowns or deadlines looming this year, 2014 likely won't be a year of significant budgetary action beyond the appropriations bills. But 2015 may well be. Policymakers likely will seek to negotiate another budget deal to ease the scheduled sequestration budget cuts for 2016 and beyond and also may consider tax reform and other measures. Both the new Obama budget and the budget proposal that House Budget Committee Chair Paul Ryan will unveil in a few weeks will offer dueling

frameworks for a year-long debate on where fiscal and program policy should go, in advance of larger decisions next year.

The vision reflected in the Obama budget will provide a much sounder course than the one we'll likely see in the Ryan budget. That's because the Obama budget curbs lower-priority spending and unproductive special-interest tax breaks in order to make investments that the nation needs for future prosperity, reduce poverty and better reward low-paid work, and give many young children a better chance of success, while reducing mid-term and long-term deficits at the same time.

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