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STATEMENT BY JAMES R. HORNEY, VICE PRESIDENT FOR FEDERAL FISCAL POLICY, ON PRESIDENT OBAMA'S BUDGET PACKAGE

President Obama proposed a balanced and well-designed package today that would boost economic growth and jobs in the short run while stabilizing federal debt as a share of the economy after 2013.

By keeping federal debt held by the public from growing as a share of the economy, the President's proposal would meet the definition of a "sustainable budget" that economists often use. The President's program cuts and revenue increases would take effect as the economy recovers, putting the federal budget on a sound footing through the end of this decade.

To be sure, policymakers would have to take further steps in coming years and decades, particularly to slow the rate of growth of health care costs, to keep the debt from starting to rise faster than the economy again after 2021. But, make no mistake, achieving stability through the end of this decade would represent a major accomplishment and buy time for policymakers to design and enact the changes in the health care system (in both the public and private sectors) needed to slow cost growth.

The President proposes that the sacrifices necessary to reduce the deficit be widely shared. Higher-income Americans — who have seen their share of the economic pie increase in recent decades — would give up a portion of the big tax cuts they have enjoyed since 2001. Corporations would give up tax breaks — such as special benefits for certain industries, including oil and gas companies, and for the purchase of corporate jets — that do nothing to promote economic growth.

Federal employees would have to pay a larger share of the contributions to their retirement plan, agribusinesses would see reduced subsidies, air travelers would pay more of the costs of security at airports and the air traffic control system, and Medicare and Medicaid would be reduced by \$320 billion over ten years. Reductions in discretionary appropriations over the next ten years already agreed to in the Budget Control Act would affect nearly all Americans, as funding for a wide array of programs and activities — such as grants to state and local governments to help pay for improvements in primary and secondary education, food safety inspections, visitor assistance at national parks, cancer research, and the military — is constrained.

The only people largely shielded from cuts under the President's plan are the most vulnerable Americans — children, the disabled, the blind, and the elderly with very low incomes. In light of the recent Census data showing a historically high rate of poverty, the President wisely followed the core principle established by the Bowles-Simpson commission report that deficit reduction should not push more Americans into, or deeper into, poverty.

Such a balanced approach — both increases in revenues and reductions in spending — is the only approach that will put the budget on an economically and politically sustainable path.

This is why such diverse bipartisan groups as the Bipartisan Policy Center’s Debt Reduction Task Force (Rivlin-Domenici), the President’s Commission on Fiscal Responsibility and Reform (Bowles-Simpson), and the Senate’s “Gang of Six” all proposed a combination of revenue increases and program cuts. In fact, all three proposed a significantly larger increase in revenues than President Obama did today. Furthermore, all of these groups insisted, as the President did, that no deficit reduction be achieved from cuts in programs other than Medicaid that serve the most vulnerable Americans. Also, an unbiased observer cannot read the report of the bipartisan committee of experts convened by the National Academy of Sciences and National Academy of Public Administration (which laid out four alternative policy paths to stabilize the debt-to-GDP ratio) without concluding that a balanced package of revenue increases and spending cuts is the only possible long-term approach.

It is not possible to put the budget on a sustainable path through revenue increases alone. But it also is not possible to achieve that goal just through program cuts — the American public will not stand for the deep cuts in crucial programs that would be necessary if there is no increase in revenues above what would be raised under current tax policies.

The balanced approach the President has proposed takes on a wide variety of special interests, from wealthy Americans who want to preserve their tax breaks to the pharmaceutical industry that does not want to give up the increases in the prices the federal government pays for prescription drugs for low-income Americans that the industry was given in the 2003 Medicare prescription drug bill. But if Congress does not stand up to these special interests, it will be the broad American public that pays — both in squandered opportunities for deficit reduction and in big cuts in programs that benefit average Americans rather than those best able to lobby Congress.

The sooner Congress accepts that a balanced approach that includes revenue increases and program cuts and takes on special interests is the only path that offers a real chance of producing a sustainable budget, the sooner the country will see real progress on this front. An unbalanced deficit reduction package that allows lawmakers to continue to pretend that no increase in revenues is necessary and that it is possible to avoid confrontations with powerful special interests would be worse than no deal at all. The latter outcome would at least show the public that it is lawmakers’ unwillingness to confront reality on revenues and special interests that is blocking the path to substantial, sustainable deficit reduction. This is why the President’s vow to veto a deficit reduction package that is not balanced represents a stand in support of real deficit reduction.

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