# OVERVIEW
# FY 2010 BUDGET CONFERENCE AGREEMENT

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## Laying a New Foundation for Nation's Economy

The Budget conference agreement for Fiscal Year 2010 is a fiscally responsible budget plan that addresses the fiscal and economic crises inherited by the Obama Administration and lays a new foundation for our nation's economy. It preserves the major priorities in President Obama's budget with strategic investments in energy, education, and health care – investments needed to restore our crumbling economy and put the country in a position to remain globally competitive. It provides significant middle-class tax relief, directed at families with incomes under $250,000. And it begins to put the country back on a more fiscally responsible path by cutting the federal budget deficit in half by 2012 and by two-thirds by 2014 – bringing the deficit down to three percent of GDP.

**Inheriting Fiscal and Economic Crises**
President Obama and the Democratic Congress have been handed a colossal mess. We are now in the midst of the worst recession since the Great Depression. We face housing and financial market crises that have wiped out home values and weakened our credit markets. We have lost 3.7 million jobs in the last six months. And we have ongoing wars in Iraq and Afghanistan.

Spending nearly doubled under the prior administration and revenues have now fallen to the lowest level as a share of the economy since 1950. Not surprisingly, we have seen record deficits and a doubling of the national debt over the last eight years. Gross debt rose from $5.8 trillion in 2001 to an estimated $12 trillion in 2009. While that $6.2 trillion includes some debt resulting from the economic recovery package, the additional debt load is directly a function of the collapsed economy – a collapse that occurred under the watch of President Bush.

The economic mess left for the Obama administration has made the budgetary outlook even worse than originally believed. The Congressional Budget Office's re-estimate of the President's budget showed the 10-year deficits would be $2.3 trillion more than originally projected. To keep the deficit on a downward trajectory and meet the President's goal of cutting the deficit in half, the conference agreement makes adjustments to the President's budget proposal, while supporting the President's core priorities.

**Restoring Economic Growth**
President Obama and the Democratic Congress acted swiftly in February to adopt an economic recovery package to jumpstart the economy, create jobs, and begin laying the foundation for long-term economic growth. The package included investments in infrastructure, energy, education, and health. It provided tax cuts for 95 percent of working Americans. The package strengthened the economy by increasing food stamp and unemployment insurance benefits, which have a strong stimulative effect on the economy. The Obama Administration has also taken steps to address

both the housing and financial market crises, which are being coordinated with additional actions by the Federal Reserve and other agencies.

**Preserving Major Priorities in Obama Budget**
The conference agreement includes President Obama's budget proposals that focus on areas that will lay the foundation for our nation's long-term economic security, including: reducing our dependence on foreign energy; striving for excellence in education; and reforming our health care system.

*Energy Independence.* It has never been more clear that our nation's economic and national security are directly linked to our energy policy. We must address our dangerous addiction to foreign oil and confront the challenges of global climate change. In the process, we can create new "green collar" jobs that will help our nation's economic recovery. To meet these challenges, the conference agreement builds on the energy initiatives in the economic recovery package with continued investments in alternative and clean energy technology, energy efficiency, and modernization of our energy infrastructure. It includes a deficit-neutral reserve fund that could accommodate initiatives to invest in clean energy or address global climate change, such as that proposed by the President.

*Education*. The conference agreement also recognizes that education is crucial to our nation's future economic strength. For too long, we have been falling behind our competitors in educating our citizens. The conference agreement responds with investments in education and training programs that will help our economic growth and build a highly skilled workforce to compete in the global marketplace. Increasing access to higher education is central to this effort. This is why the conference agreement assumes a Pell grant level of $5,550 in 2010 and includes a deficit-neutral reserve fund to allow for increases in Pell grants in line with those proposed in President Obama's budget. This will make college more affordable and more accessible for millions of Americans.

*Health Reform*. The conference agreement recognizes that reforming our nation's health care system is essential to ensuring our long-term fiscal stability and economic strength, in addition to the well-being of our citizenry. Soaring health care costs are the biggest source of the projected explosion in federal debt in our long-term budget outlook. Rapidly rising health costs make it harder for our businesses to compete globally, while putting a tremendous strain on family budgets. The conference agreement follows up on the health investments made in the economic recovery package, and includes, as requested by the President, a reserve fund to allow for a major health reform initiative. This deficit-neutral reserve fund is in keeping with President Obama's commitment to paying for the cost of health reform.

**Returning to a Sound Fiscal Course**
The conference agreement begins to return the nation to a sound fiscal course by cutting the deficit by more than half by 2012, and by two-thirds by 2014. Under the conference agreement, the deficit will be cut to $620 billion in 2012 and to $523 billion in 2014 – bringing the deficit down to three percent of GDP.

Spending as a share of the economy falls under the conference agreement, with domestic discretionary spending declining from 4.4 percent of GDP in 2010 to 3.4 percent in 2014. In nominal terms, non-defense discretionary funding increases at an average annual rate of 2.9 percent.

The conference agreement retains crucial budget enforcement provisions, such as a strong paygo rule and allowing reconciliation for deficit reduction only.

The conference agreement generates valuable savings by expanding oversight activities in large benefit programs, more aggressively pursuing fraud, and increasing tax compliance and enforcement activities to ensure taxpayer dollars are spent wisely.

The conference agreement also includes a two-year placeholder for the cost of possible disaster relief.

**Providing Tax Relief for Middle Class**

The conference agreement provides significant middle-class tax relief. In total, the conference agreement cuts taxes by $764 billion over the next five years. This tax relief includes:

- $512 billion to extend middle-class tax cuts, such as the 10 percent bracket, the child tax credit, marriage penalty relief, and education incentives, as well as the other 2001 and 2003 tax cuts extended in the President's budget for taxpayers making under $250,000;
- $214 billion for three years of AMT reform;
- $72 billion to match the President's estate tax reform proposal – which would permanently extend the 2009 level of a $7 million exemption for couples and $3.5 million for individuals;
- $54 billion for two years of extenders; and
- $9 billion for other tax cuts.

The conference agreement includes $97 billion in loophole closers and raisers. The specifics of these proposals will be developed by the Finance and Ways and Means Committees.

The conference agreement allows for the extension of the President's Making Work Pay tax credit beyond 2010 through its deficit-neutral reserve funds. This is consistent with the President's commitment to ensuring the extension of this tax credit is paid for.

**Supporting Our Troops and Accounting for War Costs**

The conference agreement matches President Obama's core defense budget and the President's request for additional war costs. Unlike Bush administration budgets, which repeatedly left out or understated likely war costs, President Obama's budget includes a far more honest accounting of the likely costs of overseas contingency operations including the wars in Iraq and Afghanistan. The conference agreement follows this approach, which will enhance oversight of war funds and save vital defense resources.

**Honoring Our Veterans**

The conference agreement honors our veterans by providing a $5.6 billion, 11.7 percent, increase over the 2009 level in veterans' health care and other services. It follows the President's budget in ending the Bush administration's ban on enrolling modest-income veterans for Department of Veterans' Affairs (VA) health care. It provides more funding than 2009 for VA to research and treat mental health, post-traumatic stress disorder, and traumatic brain injury. It also assumes VA's current policy of paying for the treatment of veterans' service-connected conditions and billing private insurance companies only for treatment of non-service-connected conditions.

**Addressing Long-Term Fiscal Challenge**
While the conference agreement takes important steps in the near-term of cutting the deficit in half by 2012 and by two-thirds by 2014, it is clear that more will be needed to address the long-term fiscal imbalance confronting the nation beyond the five-year budget window. The combination of our retiring baby boom generation, soaring health care costs, and an outdated and inefficient revenue system are projected to explode federal debt over the long-term to an unsustainable level. The economic downturn has only worsened that long-term debt outlook.

As noted above, to begin addressing our soaring health care costs – the biggest source of the projected long-term debt explosion – the conference agreement provides for a major health care reform initiative to be done on a deficit-neutral basis. It will be critical for that effort to follow up on the health care investments made in the recently passed economic recovery package, such as funding for health information technology, prevention and wellness interventions, and comparative effectiveness research. Over time, these investments and other steps can help to bend the cost curve on health care and put our health care accounts back on a sustainable course.

President Obama's Fiscal Responsibility Summit – which occurred within roughly the first month of his administration – initiated an open bipartisan dialogue on ways to address the long-term fiscal challenge. That dialogue will hopefully lead to bipartisan action on this challenge in the near future. The administration has also indicated its seriousness about reforming our nation's tax system by appointing former Federal Reserve Chairman Paul Volcker to lead a task force on tax reform this year.

No matter how successful we are in pulling out of the current economic downturn, our long-term economic security will remain in jeopardy until we address this projected long-term fiscal imbalance.

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