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The Obama 2011 Budget: A Summary and Analysis

The President's budget claims it will result in declining deficits from **$1.6 trillion in 2010** (10.6 percent of GDP) to **$1.3 trillion in 2011** (8.3 percent of GDP) to **no less than $700 billion in any subsequent year**, averaging 4 percent of GDP from 2012 on.

President's 2011 Budget Proposal
Deficits and Debt According to President's Estimates

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Deficits													
$ trillions	0.459	1.413	1.556	1.267	0.828	0.727	0.706	0.752	0.778	0.778	0.785	0.908	1.003
% of GDP	3.2%	9.9%	10.6%	8.3%	5.1%	4.2%	3.9%	3.9%	3.9%	3.7%	3.6%	3.9%	4.2%
Debt Held by public													
% of GDP	41%	53%	64%	69%	71%	72%	72%	73%	74%	74%	75%	76%	77%
$ trillions	**5.803**	7.545	9.298	10.498	11.472	**12.326**	13.139	13.988	14.833	15.686	16.535	**17.502**	18.573
						doubles						**triples**	

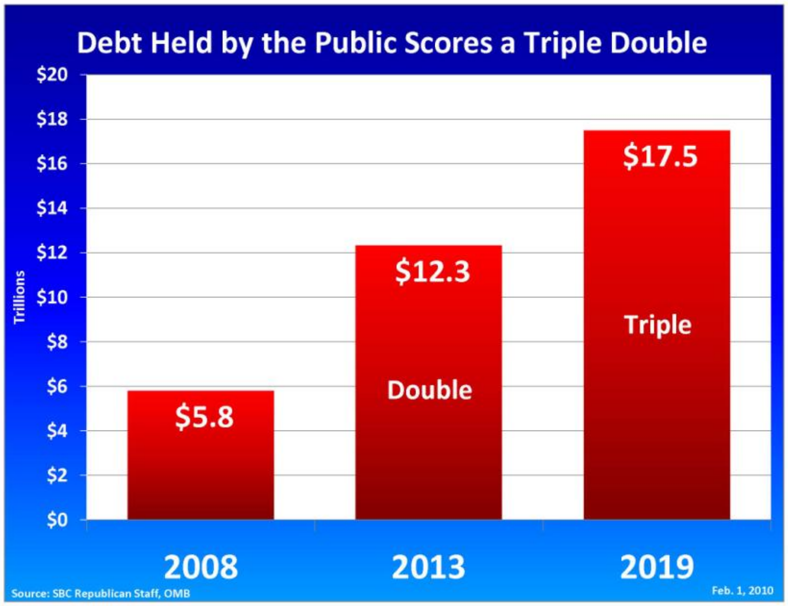
Some media coverage will undoubtedly suggest that the President's budget is being honest or "realistic" about the deficits associated with his policy proposals because he estimates his deficits would average about $850 billion per year over 2011-2020, while the CBO estimates of the deficit released last Tuesday averaged only $600 billion (3.2 percent of GDP) per year over that period. That is a false comparison, however.

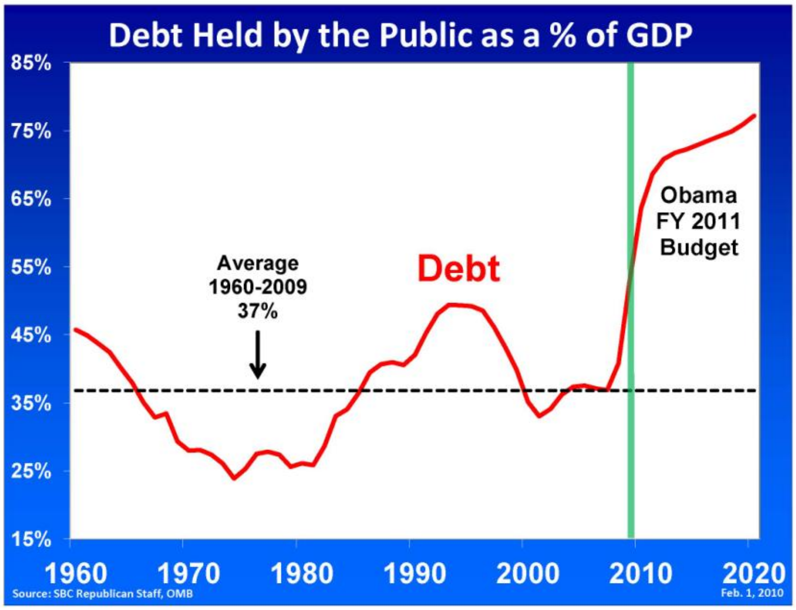
CBO's baseline budget outlook simply projects what the deficit would look like if Congress sat on its hands and enacted no changes to current law for the next 10 years. If that unlikely scenario played out, tax rates would rise in 2011 when the tax cuts are scheduled to expire under current law, and revenues would increase, resulting in lower deficits (all else equal).

The President's budget is the opposite of that "no new laws" scenario of the CBO baseline. Instead, the figures associated with the President's budget reflect the Administration's estimates of the deficits and debt that would result if ALL the policies in the President's budget were enacted. Recall that in his first budget request a year ago, the President claimed that his budget would produce deficits averaging $710 billion per year over 10 years. CBO, however, re-estimated the President's budget as producing annual deficits ($910 billion) about 28 percent larger than promised by the Administration because CBO did not use rosy economic assumptions and estimated lower savings for some of the Administration's proposals than claimed in the President's budget.

When CBO completes its analysis of the President's 2011 budget about a month from now, it is almost certain, for the same reasons as last year, to reflect higher annual deficit amounts than the average $850 billion per year now claimed by the Administration.

In the meantime, using the figures in the President's 2011 budget document, it appears **the budget does nothing to change the unsustainable growth of debt** held by the public as proposed in his budget nearly a year ago. Under this latest package of Presidential proposals, debt held by the public will double from $5.8 trillion (41 percent of GDP) in 2008 to $12.3 trillion in 2013. By 2019, debt under the President's policies will triple from the 2008 level to $17.5 trillion (76 percent of GDP).





One reason for the growth in debt is another round of stimulus policies proposed in the President's budget for 2010. CBO's estimate of the deficit for this year, if no new laws are enacted, is about $1.4 trillion. But the administration's proposals for additional stimulus legislation and other supplemental spending would add about $0.2 trillion to the deficit just for 2010 alone.

<u>President's Claims in 2010 Budget Cast Doubt on 2011 Request</u>

Last year, the President's inaugural budget claimed it would reduce the deficit to 3 percent of GDP by 2013. While the President was able to enact many of his policies proposed last year, the 3 percent goal remains elusive. His budget for 2011 does not seem to be able to get deficits significantly below 4 percent of GDP.

Last year the President's budget claimed he would only need $50 billion for 2011 for the cost of the two wars. Less than nine months later, the President is instead seeking more than three times as much ($159 billion) for that purpose for 2011, but pretends (like last year) that the cost will magically drop to $50 billion per year every year thereafter.

Last year, even though the US economy was already well into one of the worst post-war recessions, the budget included the rosy scenario that unemployment would be only 7.9 percent in 2010. A year later, the 2011 budget request realizes unemployment will be 10 percent this year. But for 2011, the budget assumes the economy will grow at 3.8 percent, even though CBO's forecast is for only 1.9 percent growth.

Should We Believe the President's 2011 Budget Based on What We Know About His Budget Last Year?

	2010 Budget							**2011 Budget**							
	2009	2010	2011	2012	2013	2014	2019	2009	2010	2011	2012	2013	2014	2015	2019
Deficit/GDP down to 3% by 2013? **NO**				3.4%	2.9%	2.9%						4.2%	3.9%	3.9%	
Honest Budgeting for War ($ bil)? **NO**		130	50	50	50	50	50		163	159	50	50	50	50	50
OMB Unemployment Rate (CY)	8.1%	7.9%	7.1%	6.0%	5.2%	5.0%		9.3%	10.0%	9.2%	8.2%	7.3%	6.5%	5.9%	
OMB Real GDP growth (CY)	-1.2%	3.2%	4.0%					-2.5%	2.7%	3.8%					
President "rosy" compared to CBO Jan. baseline-->								*-2.5%*	*2.2%*	*1.9%*					
Debt held by public (% GDP)							67%								76%

Revenues

Tax Relief. The President proposes to extend temporary tax relief by continuing many of the measures enacted or extended in ARRA or subsequent legislation. The most significant tax proposal is a one-year extension of the Making Work Pay Credit. This proposal will result in about $30 billion in forgone revenue in each of the next two years. This suggests that, should the administration seek to extend or make permanent the credit in the future, its deficit effects would be far in excess of the one year extension proposed in the President's budget.

In addition, the President's budget would extend COBRA health insurance premium assistance, provide advanced energy manufacturing tax credits, extend temporary increase in expensing for small businesses, extend temporary bonus depreciation for certain property, and extend the option for grants to states in lieu of housing tax credits. The President has also proposed an unspecified $38 billion (in forgone revenue) for a yet-to-be enacted temporary jobs proposal. Including the jobs initiatives allowance and the extension of the Making Work Pay Credit, the total temporary tax proposals will cost $73 billion in 2011 and $59 billion over ten years in forgone revenue. The lower ten year cost largely reflects increased revenues due to the bonus depreciation proposal in the latter part of the decade.

The budget includes a proposal, as it did last year, to make the research and experimentation tax credit permanent. In terms of its ten year cost, compared to other individual tax relief measures (such as the Making Work Pay Credit extension), making permanent the research and experimentation credit is the largest tax cut in the president's budget with a revenue cost of $83 billion.

The administration also proposes to extend the American opportunity tax credit, resulting in a revenue loss of $46 billion. Expanding the saver's credit would cost $15 billion. The president proposes to expand the earned income tax credit and to expand the child and dependent care tax credit, at a cost of $9 billion in revenue.

As has been advertised several times by the President, the budget proposes to eliminate capital gains taxation on small businesses, which would cost $8 billion. The budget also includes a proposal to remove cell phones from listed property, at a cost of nearly $3 billion. Extending expiring tax provisions for one year would have an additional cost of $47 billion over ten years.

Not counting the spending associated with refundable tax credits, the gross tax relief proposed by the President amounts to $298 billion over ten years.

Tax Increases. The President proposes to increase individual tax rates in 2011 for both regular income and capital gains/dividend income for those earning above $200,000 (single) and $250,000 (joint). He also proposes to reinstate the personal exemption phaseout and limitation on itemized deductions for upper-income taxpayers, and to limit the tax rate at which itemized deductions reduce tax liability for all taxpayers. In total, the President's tax rate increases and limitations on deductions would increase revenues by $970 billion over ten years.

A significant new set of taxes proposed in this year's budget would fall on the financial sector. The largest component of this new policy set is a "financial crisis responsibility fee," which

PRESIDENT'S REVENUE PROPOSALS IN 2011 BUDGET

(revenue increases (+) or decreases (-) $ billions, relative to adjusted baseline)

	2011	10-yrs 2011-20
Tax relief included in adjusted baseline:		
Fully extend EGTRRA and JGTRRA provisions and index AMT to inflation, [a]	*-199.0*	*-3,755.6*
Temporary Tax relief proposals:		
Extend making work pay tax credit [b]	-29.4	-39.2
Unspecified Jobs Allowance [b]	-25.0	-38.0
Other extensions/temporary proposals [c]	-18.7	18.2
Temporary Tax Relief Proposals [b]	**-73.1**	**-59.0**
Tax relief proposals:		
Make research and experimentation tax credit permanent	-5.3	-82.6
Extend American opportunity tax credit [b]	-1.0	-46.3
Extend other expiring provisions for one year [b]	-21.4	-46.6
Expand saver's credit [b]	0.2	-14.6
Expand the child and dependent care tax credit [b]	-0.4	-9.0
Change retention policy for consular fees	-0.8	-8.7
Eliminate capital gains taxation on small businesses	0.0	-8.1
Other tax relief [b]	-0.7	-23.4
Subtotal, tax relief proposals	**-29.4**	**-239.2**
Tax increase proposals:		
Raise marginal rates to 36 and 39.6 percent for taxpayers earning over $200K (single) and $250K (joint)	14.5	364.4
Limit tax rate at which itemized deductions reduce tax liability to 28 percent	7.9	291.2
Reinstate pers exemption phaseout and limitation on itemized deductions over $200K (single) and $250K (joint)	6.8	208.5
Raise cap gains/dividends tax rate to 20% for taxpayers earning over $200K (single) and $250K (joint)	12.2	105.4
Health reform receipts [d]	16.0	743.0
Enforcement and reform of U.S. international tax system	6.9	122.2
New taxes on financial institutions and products	8.2	93.3
Reform and extend build America bonds [b]	0.3	64.2
IRS program integrity allocation adjustments	0.4	62.2
Repeal LIFO method of accounting for inventories	0.0	59.1
Reduce the tax gap	1.2	49.4
Eliminate fossil fuel tax (coal, oil, and gas) preferences	2.8	38.8
Tax carried interest as ordinary income	1.5	24.0
Modify cellulosic biofuel producer credit	6.6	24.0
Reinstate Superfund taxes	1.2	18.9
Other tax increases	0.8	39.8
Subtotal, tax increase proposals	**86.7**	**2,308.3**
Climate Revenues [e]	***39.0***	***873.0***
Total Tax Increase w/Climate Revenues	***125.7***	***3,181.3***
Total, net tax proposals realtive to adjusted baseline	**-15.8**	**2,010.0**
Net Tax increase w/Climate Revenues	***23.2***	***2,883.0***

a. In continuing the 2001 and 2003 tax cuts, the estate tax is maintained at its 2009 parameters (45% tax rate on estates over $3.5 million).
b. Proposals affect outlays, only the receipt effects are shown here. The combined outlay components of these proposals amount to in excess of $190 billion over 10 years.
c. Extend COBRA health insurance premium assistance, advanced energy manufacturing tax credits, temporary increase in expensing for small businesses, temporary bonus depreciation for certain property, extend option for grants to states in lieu of housing tax credits, and interactive effects.
d. Reflects the receipts component of the health reform allowance. Outlays would total $593 billion over ten years.
e. Tax increase in H.R. 2454, Waxman-Markey American Clean Energy and Security Act of 2009, passed the House 6/26/09.

would levy $90 billion over ten years. Combined with smaller tax changes for the financial sector, these new taxes would raise a combined $93 billion over ten years.

The President's budget also includes an allowance for health reform that is based on a modified average of the House and Senate passed health bills. The allowance includes an estimated increase in revenues of $743 billion over ten years.

The President's budget includes other revenue raisers that were also proposed last year. President Obama's budget includes about $49 billion in additional revenues from efforts to reduce the tax gap, and $122 billion in higher taxes from international tax enforcement and reform. The president is also proposing repeal several tax preferences for fossil fuels, raising taxes by $39 billion over ten years. He also proposes to reinstate Superfund taxes ($20 billion), tax carried interest as ordinary income ($24 billion), modify the cellulosic biofuel producer credit ($24 billion), and repeal last-in-first-out accounting ($59 billion).

The President's budget proposes climate change legislation, but does not reflect the budgetary effects of such legislation in his budget. If approximately $873 billion in revenues were included in the budget totals (equal to the revenues raised in the Waxman-Markey bill), the gross and net tax increase over ten years would amount to $3.18 trillion and $2.88 trillion, respectively.

Spending

The Discretionary "Freeze"

The budget's marquee discretionary policy is a "freeze" on certain non-security spending at fiscal year 2010 enacted levels for fiscal years 2011 through 2013. The budget indicates that its proposed change to non-security discretionary programs provide $249 billion in savings over 10 years. A close examination of the figures in the budget show that the "freeze" actually allows non-security spending **to increase at close to double the administration's projected rate of inflation for 2011**. Relative to the baseline, therefore, **the President's so-called "freeze" does not save anything; it costs money**.

The President's budget makes two adjustments to enacted appropriations for 2010 in how it defines the universe of discretionary spending it claims it is "freezing." First, the budget includes obligation limitations ("oblims"), which control the amount of resources drawn from the trust funds that operate the highway/transit and the aviation/airport programs, as part of the totals for discretionary budgetary resources. This adds $54.2 billion to the base of 2010 discretionary resources for purposes of calculating a level from which to measure a freeze (but is not relevant for budget enforcement). Second, the budget would make all Pell Grants a mandatory program, which subtracts $17.5 billion from the base of discretionary resources in 2010. (A majority of Pell Grant funding is currently discretionary, subject to the annual appropriations process, but some Pell grant funding is already mandatory.) The resulting total is termed discretionary budgetary resources for 2010, and is the base upon which the Administration proposes its "freeze" for 2011-2013.

The budget then removes spending for supplemental appropriations (largely for overseas operations) and funding for "Security agencies" from the base, resulting in $446.3 billion in discretionary budgetary resources that is used as the "frozen" amount in the President's request. Spending that is removed consists of the following:

- The Department of Defense,
- The National Nuclear Security Administration in the Department of Energy,
- The Department of Homeland Security (less the Bioshield program, which is transferred to the Department of Health and Human Services)
- The Department of Veterans Affairs, and
- Budget Function 150, International Affairs.

The administration's "freeze" level of spending is artificially high as a measure of the cost of ongoing non-security operations in 2010. In particular, the administration's freeze contains two items that should not be counted in the base. First, the $3 billion moved from Homeland Security to Health and Human Services was provided to strengthen the Nation's ability to respond to bioterrorism, so should not be counted as a non-security appropriation. In addition, the FY 2010 figures include the cost for the once-a-decade census, which distorts the cost of ongoing government operations. Removing these one-time measures from the base is akin to removing the costs of the war or supplemental appropriations; failure to remove one-time spending hides the growth in government that is proposed by the President under the guise of a spending freeze.

In a similar fashion, the size of government supported by the administration's marquee freeze number is masked by proposed discretionary offsets in the budget. According to information provided by OMB, the budget contains $900 million in new fees to offset non-security discretionary spending in 2011, and $7.1 billion in mandatory savings assumed to be included in appropriations bills (so-called CHIMPS). Adding these amounts to the non-security request to arrive at a 2011 figure for the budget that is conceptually comparable to the 2010 enacted level shows that **non-security budgetary resources grow by 2.7 percent ($12 billion) over 2010**, which is almost twice the rate of inflation (CPI-W) projected in the budget.

The logic by which the administration arrives at a "freeze" is shown in the table below.

The President's Freeze Is a Snow Job:
Non-Security Spending Increases at Nearly Twice Inflation

(By fiscal year in billions of dollars)

2010 Enacted Discretionary Budget Authority Under Current Concepts	**1,223.7**
Category Changes:	
Add Obligation Limitations for highway, transit, and aviation programs	54.2
Make Pell Grants an Entitlement Program	-17.5
2010 Discretionary Budgetary Resources After Category Changes	**1,260.4**
Remove Enacted War Costs and Supplementals	-130.4
Remove Security Agencies:	
Department of Defense	-530.8
National Nuclear Security Administration (Dept. of Energy)	-9.9
Department of Homeland Security (DHS)	-39.4
Department of Veterans Affairs	-53.1
International Affairs (Budget Function 150)	-50.6
2010 Enacted Appropriations Subject to 2011-2013 Freeze	**446.3**
Remove Items that Distort Freeze Base:	
Moving Bioshield to Non-Security	-3.0
Funding for 2010 Census	-6.0
2010 Enacted Base Appropriations For Honest 2011 Non-Security Freeze	**437.3**
President's 2011 Non-Security Request	**441.3**
Add Back New Non-Security Discretionary User Fees in President's Budget	2.0
Add Back Savings from Changes in Mandatory Programs in Budget	7.1
President's 2011 Non-Security Request Consistent With 2010 Base	**449.3**
Percent Change from 2010 Enacted for Honest Non-Security Freeze	**2.7%**
MEMORANDUM: FY 2011 Inflation Rate (CPI-W) per President's Budget	1.4%

Within the agencies that make up the non-security category (see table below), the largest dollar increases go to the Departments of Education ($3.4 billion or 7.3 percent) and Health and Human Services ($2.7 billion or 3.3 percent). Large percentage increases are proposed for the Small Business Administration (25 percent or $0.2 billion) and the Corporation for National and Community Service (16.7 percent or $0.2 billion). The increases are largely offset by reductions in the Department of Housing and Urban Development (-$2.0 billion) and the Corps of Engineers (-$0.5 billion).

Discretionary Budgetary Resources for Agencies Subject to the "Freeze"

(Budget authority in billions of dollars)

Agency	2010 Enacted	2011 Request[1]	$ Change	Percent Change
Agriculture	25.0	24.8	-0.2	-0.8%
Commerce (excluding decennial census)	7.9	9.2	1.3	16.5%
Education	46.8	50.2	3.4	7.3%
Energy (ex. National Nuclear Security Administration)	16.5	17.3	0.8	4.8%
Health and Human Services (excluding Bioshield)	81.1	83.8	2.7	3.3%
Housing and Urban Development	43.6	41.6	-2.0	-4.6%
Interior	12.2	12.1	-0.1	-0.8%
Justice	27.5	29.1	1.6	5.8%
Labor	14.3	14.0	-0.3	-2.1%
State (excluding Function 150)	0.1	0.1	---	0.0%
Transportation	76.0	78.0	2.0	2.6%
Budget Authority (BA)	*21.8*	*23.2*	*1.4*	*6.4%*
Obligation Limitations	*54.2*	*54.8*	*0.6*	*1.1%*
Treasury	13.6	14.1	0.5	3.7%
Corps of Engineers	5.4	4.9	-0.5	-9.3%
Environmental Protection Agency	10.3	10.0	-0.3	-2.9%
General Services Administration	0.6	0.7	0.1	16.7%
National Aeronautics and Space Administration	18.7	19.0	0.3	1.6%
National Science Foundation	6.9	7.4	0.5	7.2%
Small Business Administration	0.8	1.0	0.2	25.0%
Social Security Administration	9.3	10.1	0.8	8.6%
Corporation for National and Community Service	1.2	1.4	0.2	16.7%
Other Agencies	19.4	20.3	0.9	4.6%
Total Budgetary Resources	**437.3**	**449.3**	**12.0**	**2.7%**

1. Excludes Fee Proposals and Proposed Changes in Mandatory Programs.

Health Reform. The President's 2011 budget includes a placeholder for passage of health reform legislation, which the budget estimates will reduce the deficit by $150 billion over the 2011-2020 period. This figure reflects an average of the budgetary impacts of the House and Senate-passed health reform bills, extrapolated to 2020, but adjusted by removing four policies that the President's budget displays outside the confines of health reform.

The policies are: 1) requiring information reporting on certain payments to corporations ($9 billion in savings), 2) codifying the economic substance doctrine ($4 billion in savings), 3) modifying cellulosic biofuel producer credits ($24 billion in savings), and 4) extending federal Medicaid relief to the states (FMAP -- $26 billion in costs). The net impact of removing these proposals from the health reform placeholder is a shift of $12 billion in deficit reduction outside of health reform.

The President's 2011 budget request for health reform:

- **Includes Medicare Reductions That Are Used to Fund A New Entitlement Program:** Once again, the President proposes to fund a brand new entitlement program by making significant cuts to Medicare. As has been shown by CBO and the President's CMS Actuaries, these cuts cannot be used to both fund a new entitlement program and make Medicare more solvent.

- **Does not include the cost of new "backroom deals" being contemplated as part of a second health reform proposal.** Press reports indicate that House and Senate Democrats are again working behind the closed doors on a second health reform package that could be passed through reconciliation. Press reports indicate that this package could include as much as $300 billion in new spending.

Medicare. Under the President's adjusted baseline (which includes a $371 billion increase relative to the current law baseline by assuming that a legislative fix for scheduled reductions in physician payments will be eliminated without offsets), Medicare is projected to spend $6.955 trillion over the next ten years (2011-2020). The President's budget does not show how Medicare spending will change as a result of enactment of health reform as proposed in his budget.

Medicaid. Under the President's adjusted baseline, Medicaid is projected to spend $3.602 trillion over the next ten years (2011-2020). The President's budget does not show how Medicaid spending will increase as a result of enactment of health reform as proposed in his budget. The President's budget also would increase Medicaid spending by $25.5 billion for a 6-month extension of the temporary increase in the Federal Medicaid match enacted under the stimulus bill.

Discretionary Health Programs. The President's 2011 budget would increase discretionary budget authority for health programs by $1.6 billion in 2011, the largest piece of which would be for the National Institutes of Health (NIH). For 2011, NIH would receive $32 billion, which is an increase of $1 billion over the 2010 level. This is in addition to the $10 billion provided in the stimulus bill for NIH research in 2009 and 2010.

National Defense. The President proposes $574 billion in "regular" discretionary budget authority for National Defense for 2011 (not including war costs, but including the atomic defense programs of the Department of Energy). This is a 3.5-percent increase over the 2010 level. Over the next five years, the Obama administration proposes a 3.0-percent average annual increase for National Defense.

As with last year's budget, the Administration claims non-existent "savings" from reducing war costs. The budget requests $33 billion for remaining 2010 war costs (in addition to the $130 billion requested in last year's budget and now enacted), primarily to fund the President's order for 30,000-troop increase in Afghanistan. Last year, the Administration budgeted only $50 billion for the costs of the wars in 2011. Now the White House is asking for $159 billion for 2011 instead as troops continue to remain in Iraq and have increased in Afghanistan. Despite the fact that the number of committed troops has increased rather than decreased, the budget pretends war costs will drop sharply to a fixed $50 billion in 2012 and every year thereafter.

International Affairs. For 2011, the President proposes $58.5 billion in discretionary budget authority for international programs, which is a 15.6-percent increase over the 2010 level. Around 55 percent of the spending in this function goes to Department of State programs; about 12 percent to U.S. Agency for International Development programs; and the balance of the funding goes to numerous boards, commissions, and independent agencies.

Note that, unlike with National Defense, the Administration has not provided a separate display for funding requested in this budget function for 2011 related to the wars costs. However, for 2010, the budget requests a $4.5 billion supplemental, mainly for diplomatic and development aid costs associated with the troop surge in Afghanistan. For 2012, the budget proposes another large increase of 12.3 percent over 2011, with average annual increases of 2.1 percent each year thereafter.

Nuclear Energy. The budget proposes adding $36 billion in 2011 to the $18.5 billion already enacted for nuclear-power plant loan guarantees. While the President's proposal is a good step forward, the expansion of nuclear power is sound policy on its own accord and should not be used to buy votes to enact a national sales tax-and-spend on energy that is embodied by current cap and trade bills.

Interior/Energy Terminations. The budget proposes to eliminate $36 billion in oil and gas tax preferences (similar to the FY2010 budget proposal) and an additional $2 billion in coal tax preferences. Presumably, these proposals will have a difficult time passing muster with moderate Democrats from oil and coal states.

Once again, the administration proposes to repeal the ultra-deepwater oil and gas drilling program, terminate abandoned mine lands payments, and reinstate Superfund taxes, all of which are a hard sell to Congress.

Agriculture Terminations. The administration proposes to save $3.5 billion by reducing commodity payments to wealthy farmers, reducing cotton storage payments, and reforming the market access program.

Transportation/Infrastructure. The President's budget fails to include a multi-year reauthorization proposal for either the highway/mass transit program or the airport program. In addition, the budget proposes no solutions for the Highway Trust Fund, which is supposed to be a user-pays system (through the gas tax) and is insolvent in 2010, which will require a transfer from the general fund. Instead, by requesting a level of obligation limitations for highways in

2011 that is the same as the baseline, the Administration is implicitly requesting a transfer from the general fund of $12 billion in 2011 just to keep the Highway Trust Fund from going bankrupt, since there are not enough trust fund revenues to support the level of spending in the baseline.

For 2012, the Administration proposes a one-year moratorium on drawing on new resources from the Highway Trust Fund. Rather, the Administration would allow revenues to "build up" in the trust fund during 2012 and would instead seek discretionary appropriations of $45 billion to fund highways and transit for that year (but that request will have to compete with all other discretionary programs to be funded in the 2012 appropriation bills).

In his 2010 budget, the President had proposed to re-classify the mandatory pieces of the highway program as discretionary, vastly simplifying an unnecessarily Byzantine program. In the 2011 budget, however, the President shies away from clarity and yields instead to the hardened positions around the opaque status quo.

The Budget requests $4 billion for a National Infrastructure Financing Fund (NIIF) for transportation-only projects. But as with the $5 billion requested last year for a National Infrastructure Bank, which was not enacted, the budget does not include legislative language, so how the Fund will be organized and will operate is unknown.

As with his 2010 budget, the President proposes again to increase the aviation security fee in 2012 by $1 every year until the $2.50 per passenger enplanement reaches $5.50 in 2014, or roughly $2.5 billion annually. The Administration is attempting to recover 76 percent of the costs of providing aviation security by 2014, instead of the current 40 percent. The cost of aviation security was intended to be shared by the airlines and federal government ever since the activity was nationalized after 9/11; the airlines and the Transportation Security Administration have never come to full agreement on how to divide the costs.

IBR Student Loan Cap. The Income Based Repayment plan for federal student loans was originally enacted by Congress in 2007 (College Cost Reduction and Access Act) and allowed borrowers to cap annual payments at 15% of their discretionary income with any balance not paid off over 25 years being forgiven (or 10 years in the case of public sector employees). The President's 2011 budget would reduce the maximum loan payments to 10% of discretionary income and would allow loans to be forgiven after 20 years. This proposal would cost $9 billion over the 2010-2020 period.

Student Loan Nationalization. In its 2010 budget, the Administration proposed to eliminate the federal government's guaranteed student loan program, the Federal Family Education Loan program (FFEL), and begin originating all new federal student loans through the Direct Loan program. The President has once again called for the nationalization of student loans in his 2011 budget. According to OMB this proposal would save $45 billion over the 2010-2020 period. This proposal was included in the House-passed Student Aid and Responsibility Act and is currently awaiting consideration in the Senate. CBO, which has different accounting procedures for student loan programs, has scored this proposal as saving $87 billion over ten years under standard credit reform scoring, and $47 billion under the more informative market risk method.

Pell Grants. Once again, the budget proposes to shift the Pell Grant program from a discretionary to a mandatory program (a shift of $307 billion over 10 years), while also increasing and indexing the maximum award. The program would also receive an additional $118 billion over ten years to fund the existing maximum award. Currently the discretionary portion of Pell supports a $4,860 maximum award, which, when combined with the mandatory add-on, will provide a total maximum grant of $5,550 for academic year 2010-2011. The Administration's proposed increasing and indexing of the maximum award would add a further $69 billion in mandatory spending over the 2011-2020 period. The budget request would spend nearly $35 billion on Pell for 2011, supporting a projected maximum award of $5,710.

A $250 Check for Retirees. The budget reiterates the President's proposal in October to send another $250 check to every beneficiary of the following programs: Social Security, Supplemental Security Income, and Railroad Retirement and Veterans pensions. Last year, all these beneficiaries received a $250 check as a result of enactment of the stimulus bill in February, with the rationale of spurring consumer demand among those who might not benefit from the tax cuts in that bill. When the President proposed another $250 payment, the rationale was to make up for the lack of a cost-of-living (COLA) increase for 2010 benefits (resulting from negative inflation during the period used to compute the annual COLA). The President's budget now includes the proposal as part of its "Temporary Recovery Measures," apparently reverting back to an economic stimulus rationale for the proposal. The proposal would increase the deficit by $12 billion.

Emergency Unemployment Compensation. The President's budget provides for further extensions of the Emergency Unemployment Compensation (EUC) and Extended Benefit (EB) programs. This emergency-designated spending would cost $49 billion over 2010-2011. Since the beginning of this recession, Congress has voted to extend or expand emergency unemployment benefits several times — resulting the availability of up to 99 weeks of unemployment benefits in some states (26 regular state Unemployment Insurance, 53 federal EUC, and 20 EB benefits).

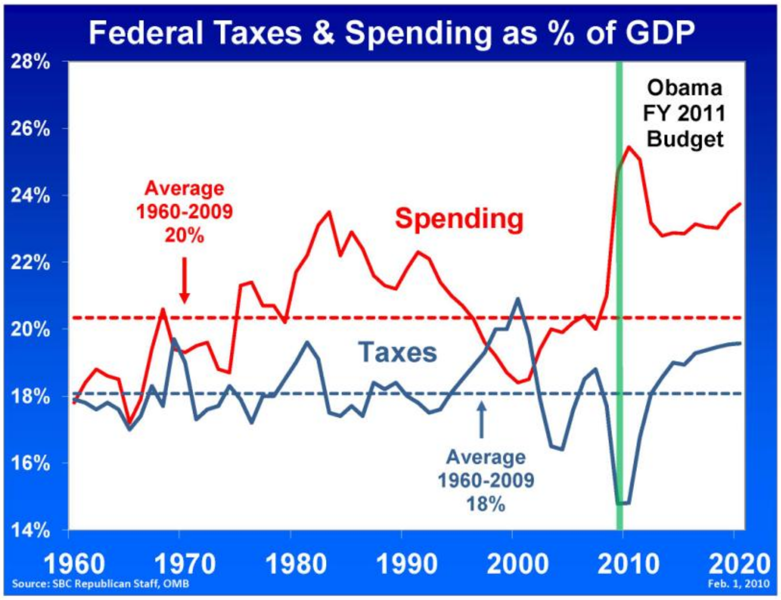
COBRA Premium Assistance. The stimulus bill (ARRA) included a provision that provides laid off workers with a subsidy equal to 65 percent of their cost of continuing employer-provided health insurance under COBRA. The budget proposes a further extension of that policy at a $5.5 billion cost over 2010-2012.

Temporary Assistance for Needy Families (TANF). The President's budget proposes to extend TANF Supplemental Grants and to enhance the TANF Emergency Fund. The extended Supplemental Grants will go to states with high populations and low per poor person funding. The Emergency Fund, which was created under ARRA, will continue to supplement states facing high recession-related costs (increased basic assistance caseloads). These proposals cost nearly $7 billion over the 2010-2020 period.

Low Income Home Energy Assistance Program (LIHEAP). The President's budget proposes a new trigger mechanism to provide automatic increases in energy assistance during periods of increased energy costs. This new entitlement has a cost of $6.4 billion over the ten-year period. The President's budget would also provide $3.3 billion for LIHEAP's regular discretionary appropriation for 2011, which is a decrease of $1.8 billion from its FY 2010 appropriation.

National Aeronautics and Space Administration. NASA will receive $19 billion in 2011 under the President's request, an increase of about $300 million over 2010. After celebrating its 50th year and the 40th anniversary of the moon landing last year, the President proposes that

NASA abandon its historic function of space exploration. The Space Shuttle program will retire this year and the President proposes that its replacement, the Constellation Program, which was intended to return humans to the moon, be cancelled.



<u>Budget Process Reform Proposals</u>

<u>Statutory Pay-go</u>. The Administration proposes a statutory pay-go system enforced by sequestration. The Administration's proposal exempts the extension of the 2001 and 2003 tax cuts, extending and indexing for inflation the 2009 parameters of the Alternative Minimum Tax, and accounting for additional expected Medicare physician payments from pay-go enforcement. The Administration's proposal is similar to the statutory Paygo scheme that is about to be enacted as part of the debt limit increase that has passed the Senate and is awaiting expected House passage and the President's signature.

<u>Limit on Advance Appropriations</u>. Although the Congressional budget resolution has historically set an advanced appropriation limit, the Administration proposes to set the advanced appropriations limit in the 2011 Budget at $28.843 billion for 2012 and freeze the advanced appropriations limit at that level for subsequent years. (There would be an exception for advance appropriations for the Corporation for Public Broadcasting and for Veterans Medical Care.)

<u>Expedited Procedure for Recession Requests</u>. The Administration proposes a special process for the President to send a number of packaged rescission requests to Congress for fast-track consideration. The House would be required to vote on the package without amendment within a specified number of days. If the package passes the House, the Senate would then consider the same package, without amendment, within a specified number of days.

<u>Acquisition of Financial Assets</u>. The budget document states that the administration plans to evaluate the scorekeeping rules in relation to cash it pays to acquire financial assets. This appears to be cover for the Administration's failure to follow CBO's lead in treating Fannie Mae and Freddie Mac as governmental entities. The budget continues to treat these two GSE's as non-budgetary private entities in conservatorship rather than as federal agencies. Acquisitions of Fannie Mae and Freddie Mac stock are recorded by the Administration as a pure outlay (increase in the deficit) with no recognition at the time of purchase of some offsetting value. CBO, in contrast, includes those purchases on a credit reform basis with an adjustment for risk, consistent with Congressional direction for accounting for the purchase of financial assets in the Troubled Assets Relief Program (TARP).

<u>Fiscal Commission</u>. The Administration supports the creation of a Fiscal Commission charged with identifying policies to improve the fiscal situation in the medium term and to achieve fiscal sustainability over the long run (the budget document is silent about whether the commission should be created by law or by executive order). Specifically, the Commission would be charged with balancing the budget excluding interest payments on the debt by 2015. The Commission will examine policies to meaningfully improve the long-run fiscal outlook, including changes to address the growth of entitlement spending and the gap between the projected revenues and expenditures of the Federal Government.

<u>Government Performance Initiative</u>. The budget requests $100 million to perform test cases of 35 performance review proposals. OMB, in conjunction with the Council of Economic Advisors, selected the 35 performance proposals and plans to work with Executive Branch agencies to review the success of various performance evaluation systems. The administration also cites successful data-driven performance systems in the states and large municipalities and supports the use of empirical evidence as a model for funding priorities and reducing costs.

The Obama Administration has noted the failures of the past in performance governance. Specifically it cites agencies' disinterest in The Government Performance and Results Act (GPRA) and Performance Assessment and Rating Tool (PART), and Congress's failures to use these reports in budgeting. However, the Administration's performance initiatives do not propose any means by which to involve Congress in performance evaluation and review.

Economic Assumptions

Both this calendar year and next, the Obama Administration assumes a GDP growth rate in excess of that expected by the Congressional Budget Office. In fact, the Administration assumes a real GDP growth rate in 2011 that is twice as fast as that assumed by CBO. Interestingly, for the first time in nearly 15 years, the President's new budget omits the standard comparison of its economic assumptions with those of the Congressional Budget Office.

Over the ten-year budget window, the Obama Administration is considerably more optimistic about the country's economic growth prospects. The Administration assumes cumulative real GDP will total nearly $4.6 trillion more than CBO assumes. The year-to-year divergence in forecasts starts out moderately sized and shrinks for a few years before ballooning in the outyears. By 2020, OMB assumes an annual GDP that is 4.4% larger than CBO assumes. All else being equal, this divergence, relative to CBO's forecast, makes OMB's projected revenues higher and understates the size of the annual budget deficits.

The following groupings compare the Administration's economic assumptions with the latest (January) Blue Chip forecast (although the CY2012 Blue Chip estimates are from October), and CBO's January baseline.

Real GDP growth CY2010		**Real GDP growth CY2011**		**Real GDP growth CY2012**	
Obama:	+2.7%	Obama:	+3.8%	Obama:	+4.3%
Blue Chip:	+2.8%	Blue Chip:	+3.1%	Blue Chip:	+3.3%
CBO:	+2.2%	CBO:	+1.9%	CBO:	+4.6%

These data are year-over-year.

Inflation (CPI-U) CY2010		**Inflation (CPI-U) CY2011**		**Inflation (CPI-U) CY2012**	
Obama:	+1.9%	Obama:	+1.5%	Obama:	+2.0%
Blue Chip:	+2.1%	Blue Chip:	+2.0%	Blue Chip:	+2.1%
CBO:	+2.4%	CBO:	+1.3%	CBO:	+1.2%

These data are year-over-year.

Unemployment rate CY2010		**Unemployment rate CY2011**		**Unemployment rate CY2012**	
Obama:	10.0%	Obama:	9.2%	Obama:	8.2%
Blue Chip:	10.0%	Blue Chip:	9.2%	Blue Chip:	8.1%
CBO:	10.1%	CBO:	9.5%	CBO:	8.0%

The unemployment figures are calendar year averages.