U.S. House of Representatives
Committee on the Budget
B-71 Cannon House Office Building, Washington, DC 20515 (202) 226-7200 ★ democrats.budget.house.gov

Chris Van Hollen,
Ranking Democrat

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Win the Future:
Make it in America

The Democratic Budget Resolution for Fiscal Year 2012

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The Challenge

We consider this long-term budget plan at an especially consequential moment for our country. As a result of the extraordinary actions taken over the last few years, America avoided a second Great Depression and is slowly emerging from the ravages of a financial meltdown and near economic collapse.

While the economy is improving, millions of Americans remain out of work through no fault of their own and thousands more are facing home foreclosures because they have lost their jobs. Our top priority must be to support a robust recovery and put America back to work. At the same time, we must act now to lay the foundation for sustained long-term economic growth.

Even before the economic meltdown, real wages for most Americans had been frozen for over a decade as families faced rising costs. Middle class families have been squeezed. We must implement a plan to support small businesses, grow the economy, and ensure shared prosperity. That will require making strategic national investments to out-educate, out-innovate, and out-compete the rest of the world. It will also require developing and implementing a disciplined plan to steadily and predictably reduce our deficits and debt so that we establish a strong foundation for long-term growth.

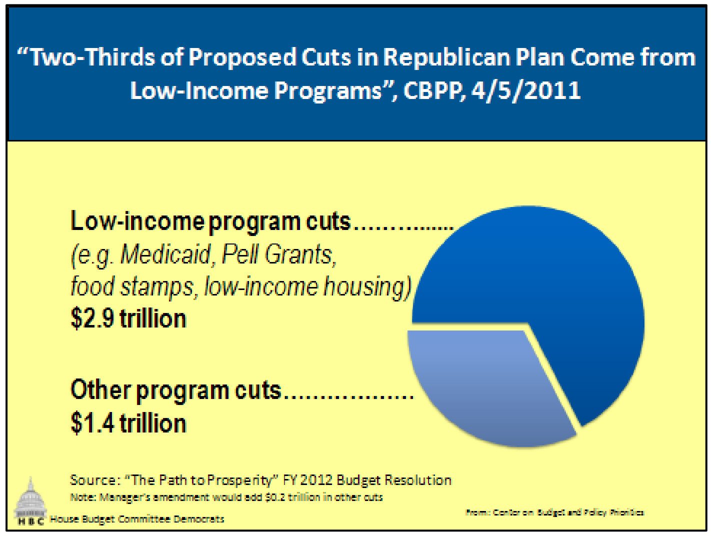
Competing Visions

We all agree America is a great nation – the question is how do we keep America strong, dynamic, and exceptional? On that, Republicans and Democrats clearly have different views and would make different choices.

Republican Road to Ruin

No amount of spin can hide the fact that the so-called Path to Prosperity is a wrong turn for the nation. It is a yellow-brick road for the already prosperous and a dead end for the rest of the country. President Bush was fast to seek a taxpayer rescue of the financial industry for a meltdown caused by its own misconduct, and Wall Street has rebounded quickly and big bonuses are back. But as the rest of the country continues to struggle, the Republican budget would harm the fragile recovery and slash investments important to future economic growth.

Anyone can make cuts on paper, but there are real world consequences to these decisions that must be considered. To govern is to choose, and the choices made in the Republican budget are wrong for America. It is not courageous to protect tax giveaways to big oil companies and other special interests while slashing investments in our kids' education, scientific research, and critical infrastructure. It is not bold to provide tax breaks to millionaires while ending the Medicare guarantee for seniors and sticking seniors with the bill for rising health care costs. It is not visionary to reward corporations that ship American jobs overseas while terminating affordable health care for tens of millions of Americans. It is not brave to give governors a blank check for their pet initiatives and a license to cut support for seniors in nursing homes, individuals with disabilities, and low-income kids. And it is not fair to raise taxes on middle-income Americans to pay for additional tax breaks for Wall Street executives and the very wealthy. Yet those are the choices made in the Republican budget. Where is the shared sacrifice? We have American men and women putting their lives on the line in Iraq and Afghanistan while others hide their income in the Cayman Islands and Switzerland and refuse to pay their fair share to support our nation.



Simply put, Republicans have introduced a budget that would harm the fragile recovery and place further weight on the shoulders of working families and seniors.

Democratic Balanced Blueprint

The Democratic plan is a balanced blueprint to put our fiscal house in order in a way that does not threaten our economic recovery. In contrast to the Republican budget, it reduces the deficit in a steady, responsible way as we build the foundation for shared prosperity and long-term economic growth. This budget invests in our nation's future, helping small businesses to create jobs and giving our children and grandchildren the tools to keep American competitive in this global economy.

The Democrats' budget plan is a balanced approach to spending and revenue – in fact, based on Congressional Budget Office (CBO) baselines and scoring, this plan achieves primary balance in 2018. Like every American family, we must tighten our belts and scrub our budget to identify all the areas for savings. Our plan includes targeted, well-timed cuts to reduce the deficit, ranging from both security and non-security agencies to agricultural subsidies, to help ensure we are spending within our means. It calls for shared responsibility and sacrifice, asking the wealthiest Americans and special interests to help pay their fair share. But the best way to reduce the deficit is to put Americans back to work, and this budget makes targeted investments to create jobs and keep America competitive.

This budget is premised on the idea that self-reliance is an important part of the American character, but that America is also strong because out of many, we unite as one behind shared values and principles to advance the common good. It is a path forward to actually address our deficit, while also making the strategic national investments necessary to ensure that our country out-educates, out-innovates, and out-builds the rest of the world.

The Democratic Budget at a Glance

Deficits:

- Reaches primary balance in 2018.
- Reduces the deficit by $1.2 trillion more than the President's budget.

Revenues

- Makes permanent middle-class tax relief, but does not extend the additional tax cuts for individuals with income over $200,000 (married couples above $250,000). In contrast, the Republican budget extends over $4 trillion in tax cuts, including tax cuts for millionaires, tax breaks for Big Oil, and tax incentives that ship jobs overseas.
- Matches the savings from the President's revenue policies.

Discretionary spending

- Matches the President's freeze in overall non-security discretionary spending for five years, but does not assume the President's specific programmatic cuts.
- Cuts security spending – for defense, international affairs, and homeland security – by $89 billion over ten years compared with current levels, and by $308 billion below the President's level.
- Phases out overseas contingency account. The budget saves $309 billion relative to the President's budget by terminating his budget's placeholder amounts.

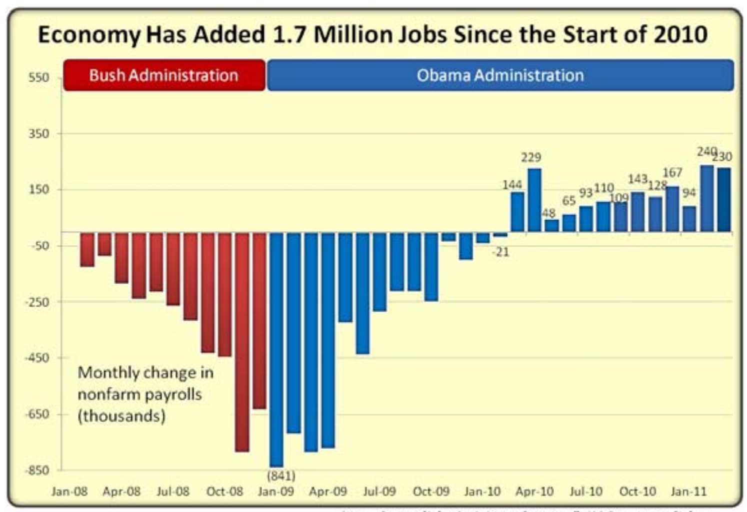
Mandatory spending

- Protects Medicaid and the Medicare guarantee for seniors, in contrast to the Republican budget, which transforms Medicare into a voucher of declining value, and dismantles Medicaid before cutting it by $771 billion.
- Retains retirement security for seniors and opposes the privatization of Social Security.
- Supports infrastructure and transportation investments that create jobs, where the Republican budget cuts about $318 billion in transportation funding at the expense of jobs and communities.
- Includes the President's proposed mandatory spending to sustain the maximum Pell grant at $5,550, and funding to reverse the SNAP (food stamp) reduction enacted in December. Both initiatives are fully paid for with spending reductions.
- Reduces farm subsidies by $20 billion, moving assistance away from wealthy agribusinesses and toward struggling family farmers while maintaining the farm and nutrition safety net.
- Funds program integrity measures designed to tighten implementation in entitlement programs and ensure taxpayers pay what they owe.

Win the Future: Make it in America

Every American family understands that giving our children a good education expands their opportunities for success. Small business owners recognize that they must make certain investments in order to build a successful enterprise. Similarly, America must make the national investments necessary to keep our country strong in the increasingly competitive global marketplace. There are certain investments that the private sector will not make that are nevertheless essential to making sure America remains the economic powerhouse of the world. From the invention of the telegraph in 1836, to the Eisenhower Interstate System, to the first moonwalk, to the creation of the silicon chip, America has driven innovation around the world. Now other countries are making investments to emulate our success. We must not stand still. We must win the future.

Although the economy has grown for six straight quarters and added 1.7 million private sector jobs since the start of 2010, too many Americans are still looking for work. Therefore, one of Congress's chief priorities is to encourage more private sector job growth. Democrats continue to strongly support job creation initiatives, particularly in sectors of high unemployment, through critical investments in the nation's physical and human infrastructure and through directly encouraging businesses to invest, expand, and hire. The best way to get us on track is to put the millions of Americans who would love to be taxpayers again back to work building new infrastructure and a twenty-first century economy.



Source: Bureau of Labor Statistics non-farm payrolls, U.S. Department of Labor.

Even before the financial meltdown and the deep recession, American middle class families were treading water, facing stagnant wages and rising health care costs. Between 2000 and 2008, real median family incomes fell 3 percent, after having grown 15 percent from 1992 to 2000. And between February 2001 and February 2009, nearly one-third of American manufacturing jobs – once the pillar of the middle class – disappeared.

We must reverse that trend. We must win the future by creating the conditions that allow small businesses to thrive and making strategic national investments necessary to compete in the global economy. We must invest in the cutting edge research and development that is too big or too speculative for the private sector. The innovations and spin-offs from past investments have reaped huge dividends. We must invest in and reform our educational systems to ensure our kids are prepared to win the global competition, especially in the areas of science, math, engineering and technology. We must restore America's aging infrastructure and build the infrastructure of the 21st century. Our own engineers have graded our infrastructure as a "D." We wouldn't want our kids to come home with that grade, and we must do better.

Now is the time to support the backbone of America – small businesses, a new age of innovation in manufacturing and the American middle class. Now is the time to grow the manufacturing sector of the 21st century and "Make it In America." That's why our budget provides funds to support the initiatives that President Obama proposed in his 2012 budget as necessary for "Competing and Winning in the World Economy."

Much of the country's existing infrastructure is crumbling, and poses a danger to our citizens and an impediment to future development. At the same time, the unemployment rate in the construction industry is over 20 percent. To address these problems, the President's budget proposes a front-loaded set of investments in transportation infrastructure – highways, mass transit, passenger rail, and aviation – that will provide an immediate boost to the country's transportation systems and will put people back to work building America's future. Moreover, these investments will deliver benefits nation-wide, lowering future transportation costs, connecting communities, boosting the productivity of the private sector, and increasing Americans' quality of life.

The President proposes to budget for these investments in a restructured, expanded transportation trust fund. In addition to a full reauthorization of surface transportation programs, including $50 billion in front-loaded funding, the Administration also proposes to invest $30 billion into an infrastructure bank. This enterprise will allow the government to maximize the use of tax dollars through loans and grants that improve our roads, bridges and other aspects of our aging infrastructure. Additionally, the President proposes to enhance tax incentives for businesses to research and develop new products and to pursue new investments in clean energy.

Our Democratic budget adopts and strengthens those policies that will spur job creation. Like the President's budget, our resolution is committed to finding the additional $50 billion in front-loaded resources and to support an infrastructure bank – with an even broader scope that includes energy, science, and public resource investments – so long as leaders of both parties can reach a bipartisan agreement on how to generate the sufficient resources. In addition to supporting transportation investments through a needed reauthorization of highway and transit programs, the resolution makes more efficient use of federal dollars, lowers administrative costs, and gives states increased flexibility by moving the more than 100 separate Department of Transportation programs into a smaller set of core initiatives.

And as the Congress is currently in the midst of reauthorizing our federal aviation services, including a critical upgrade of the Federal Aviation Administration's air traffic control system, the resolution supports the eventual bipartisan agreement to improve and ensure the safety of our skies. Whether that agreement improves the financing of the Airport and Airway Trust fund

(AATF) and/or increases airports' ability to fund their own capital projects, the Democratic resolution provides the tools and resources that support aviation infrastructure and safety.

A Balanced Approach to Deficit Reduction

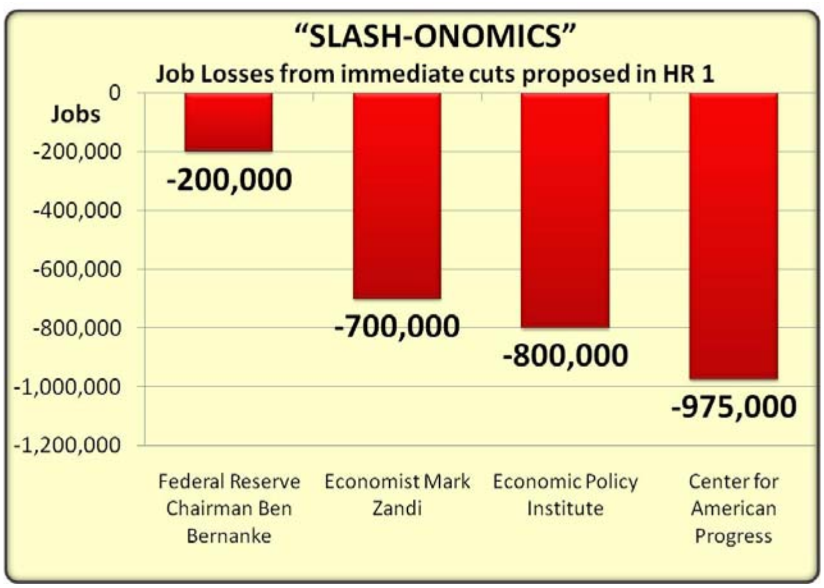
> "…We are concerned that it falls short of the balanced, comprehensive approach needed to achieve the broad bipartisan agreement necessary to enact a responsible plan."
>
> "Bowles, Simpson react to Republican budget proposal", March 30, 2011 Press Release

The Co-Chairs of the President's bipartisan Fiscal Commission have criticized the Republican budget because it "lacks the balanced, comprehensive approach" needed to enact a responsible plan. Specifically, they stated that the Republican budget fails to address the revenue side of the deficit equation; is timid about attacking wasteful spending in various national security agencies; and is too harsh on vulnerable/disadvantaged populations.

The Democratic plan addresses this shortcoming by taking a balanced approach to reducing the deficit. It places the federal budget on a steady, predictable path to deficit reduction through a combination of spending cuts and revenues generated by ending tax breaks to special interests and millionaires.

First, Do No Harm to the Economy and Jobs

Every doctor knows the first principle of medicine is "Do No Harm." The same principle should apply to our budding economic recovery. We should take no actions that will weaken the recovery and throw more people out of work. Yet that is exactly what will happen if we slash federal spending too deeply over a short period of time.



That is why the President's bipartisan Fiscal Commission warned:

- "Don't disrupt the fragile recovery. We need a comprehensive plan now to reduce the debt over the long term. But budget cuts should start gradually so they don't interfere with the ongoing recovery." (Fiscal Commission Report, 12)

- Reduce the deficit gradually. In order to avoid shocking the fragile economy, the Commission recommends waiting until 2012 to begin enacting programmatic spending cuts, and waiting until fiscal year 2013 before making large nominal cuts." (Fiscal Commission Report, 43)

Targeted, Timed Cuts to Reduce the Deficit without Threatening Economic Growth

Non-Security Discretionary Spending

Non-security discretionary funding accounts for only 14 percent of the budget but accounts for more than 50 percent of the cuts Republican propose to the budget excluding war funding and cuts to eliminate Medicaid expansions and the tax credits to provide affordable health care provided in health reform. Even if all non-security discretionary funding had been eliminated in FY 2011, the deficit would have been close to $1 trillion. This is the portion of the budget that goes for essential investments in education, scientific research, clean energy and infrastructure, community development, first responders, and consumer protections like food safety.

The Democratic budget adopts the five-year non-security discretionary spending freeze at the levels established by President Obama. It does so, however, without endorsing the cuts the President's budget made to the Community Development Block Grant, the Community Service Block Grant, and the Low Income Home Energy Assistance Program.

Unlike the Republican budget, our budget doesn't ignore important investments in our communities, whether through Community Development Block Grants or through investments to ensure public safety. It maintains adequate funding for programs like the Community Oriented Policing Services hiring and Firefighter Assistance Grants programs, critical first responder programs that help protect our communities from crime, natural disaster, and terrorist attack. It places a priority on programs that serve vulnerable populations, such as nutritional assistance through the Supplemental Food Program for Women, Infants, and Children (WIC). Further, the Democratic budget recognizes that it is important for commerce and safety that we provide adequate funding to maintain America's many harbors, seaports, and waterways – including the vital practice of dredging, or deepening, them.

Our budget does, however, require the Appropriations Committee to develop offsetting cuts to ensure the freeze. The budget calls for the elimination of duplicative programs, streamlined acquisition processes, improved contracting systems, the implementation of many of the recommendations made by the GAO in its March 1, 2011, report, "Opportunities to Reduce

Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue," and some of the important reforms identified by the Fiscal Commission. The five-year spending freeze means that by 2017 non-security spending will be at its lowest level as a share of the economy since the Eisenhower Administration.

Spending on Defense, International Affairs, Homeland Security, and other Security Agencies and Functions

The country's national security depends upon a well-coordinated strategy that involves the Department of Defense, the National Nuclear Security Administration, the Department of Homeland Security, and international affairs programs – including those at the Department of State and the U.S. Agency for International Development. A growing economy is the foundation of our security and enables the country to provide the resources for a strong military, sound homeland security agencies, and effective diplomacy and international development.

The nation's current long-term debt trajectory will weaken future economic growth. Chairman of the Joint Chiefs of Staff Admiral Mullen, the most senior officer in the U.S. military, has recognized this gathering threat by saying: "The most significant threat to our national security is our debt." How do we counter this threat? There is a bipartisan consensus that everything must be on the table and that the security agencies themselves must be part of the effort to strengthen our national security by reducing our debt. The bipartisan National Commission on Fiscal Responsibility and Reform and the bipartisan Rivlin-Domenici Debt Reduction Task Force concluded that a serious and balanced deficit reduction plan must put national security programs on the table. Likewise, the House Budget Committee affirmed these conclusions on a bipartisan vote of 33 to 5, adopted a sense of the House stating:

> "It is the sense of the House that—the nation's debt is an immense security threat to our country, just as Admiral Mullen, Chairman of the Joint Chiefs of Staff, has stated; the Government Accountability Office has recently issued a report documenting billions of dollars of waste and duplication at government agencies, including the Department of Defense, and the Department of Defense has never passed a clean audit; the bipartisan National Commission on Fiscal Responsibility and Reform and the bipartisan Rivlin-Domenici Debt Reduction Task Force were correct in concluding that all programs, including national security, should be "on the table" as part of a deficit reduction plan; and any budget plan serious about reducing the deficit must follow this precept to consider all programs, including national security programs, the largest segment of discretionary spending."

In addition, many key Republican figures have expressed their support for reviewing defense spending as a method of producing savings for our country. They include:

Haley Barbour – "Anybody who says you can't save money at the Pentagon has never been to the Pentagon. We can save money on defense and if we Republicans don't propose saving money on defense, we'll have no credibility on anything else." (3.15.11)

Dick Armey **– "**Defense spending should not be exempt from scrutiny. With such dramatic increases in appropriations, it is not plausible that all resources are being spent prudently." (1.19.2010)

Former Senator, and three term chairman of the Senate Budget Committee, Pete Domenici (R-NM) - During the course of our Task Force's work, we confronted the question of whether the military must sacrifice also. We understand that making cuts in this area is hard, but our fiscal circumstances require us to restrain defense spending growth and demand more efficiency from our military. (02.24.2011)

Consistent with conclusions of the Fiscal Commission and the Debt Reduction Task Force, the House Budget Committee, and numerous senior Republicans, the Democratic Plan calls for savings across all the budgets of the national security agencies, including the Department of Defense, the National Nuclear Security Administration, the Department of Homeland Security, the Department of State, and the Agency for International Development. As Secretary of Defense Robert Gates has stated, "the different parts of the executive branch are increasingly integrated in the way they deal with problems, the State Department and the Defense Department and AID. And yet the jurisdictional lines here on the Hill are such that you don't get to see the overall national security picture that we see in the Situation Room or that the president sees that brings intelligence and the State Department and Defense and these different elements together and integrate those…"

This more comprehensive view of our national security budget has bipartisan backing. Senator McCain has stated that he believes diplomacy and development funding to be important pillars of national security and Senator Graham, the Ranking Member of the Senate State Foreign Operations Appropriations Subcommittee, has stated that "we need to look at the whole [international affairs] account as a national security account that complements our military…" Many others have recommended developing a unified approach to a national security budget that includes these and other functions and agencies.

The House Republican budget reduces spending in this broad security category by $259 billion relative to the President's request – largely out of international security and democracy building programs at the State Department and the U.S. Agency for International Development. The Democratic resolution reduces spending in this area by $308 billion and instructs the relevant committees to allocate the reductions in a manner that best serves U.S. national security and foreign policy objectives. These amounts of cuts should be achievable considering the bipartisan Fiscal Commission suggested cuts in various national security agencies totaling over $1 trillion compared with the President's 2012 request for ten years.

How can we achieve savings in national security? The national security recommendations of the National Commission on Fiscal Responsibility and Reform contained a number of suggestions for savings that could be made without jeopardizing our troops, military families, veterans, or the country's security and global standing. More can be done to rein in wasteful spending at the Nation's security agencies, including spending at the Department of Defense – an agency that hasn't passed an audit – and the Department of Homeland Security, such as the elimination of programs the Government Accountability Office recently reported as duplicative, which could save billions of dollars. Effective implementation of weapons acquisition reforms at the Department of Defense can help control excessive cost growth in the development of new weapons systems and help ensure that weapons systems are delivered on time and in adequate quantities to equip our servicemen and servicewomen. The State Department, the U.S. Agency for International Development (USAID), and other U.S. international affairs agencies can save money and improve cost-effectiveness by ensuring that their workforces have the appropriate mix of direct-hire personnel and contractors, as identified by the Administration's 2010 Quadrennial Diplomacy and Development Review. Further, the relevant Committees should also carefully review the end strength requirements of the Armed Forces as troops redeploy from Iraq and Afghanistan and reexamine the country's permanent overseas presence in light of the National Military Strategy and an assessment of current and likely future threats.

The Overseas Contingency Account

The Democratic budget would also terminate funds for the Overseas Contingency Account after 2014 so that any future overseas operations will be funded through the base budget unless the Executive seeks, and the Congress approves, emergency funding.

The Democratic Resolution matches the President's budget regarding overseas contingencies through 2014. However, this Democratic Budget does not provide any funds beyond the end of 2014 for any overseas operations that are not funded through the base budget. The President's stated policy is that no American troops will remain in Iraq after December 2011 and that Afghan forces will take the full lead for security in Afghanistan by the end of 2014 (Afghanistan-Pakistan Annual Review, December 16, 2010). While there are different views in the Democratic Caucus regarding the exact timetable for U.S. forces to leave Afghanistan, there is consensus that all troops should be out of Afghanistan by the end of 2014. Moreover, this budget makes clear that the Executive should not have a permanent general "contingency fund" for overseas military operations. The Republican budget provides the Executive with an overseas contingency fund blank check for 10 years. This Democratic plan does not.

Veterans' Health Care

The Democratic budget fully funds the President's 2012 request to provide veterans with high-quality health care and to improve the speed and accuracy of benefit claims processing. The Democratic budget also explicitly rejects any legislation that would damage the excellent care provided to the men and women who have served the country in uniform or any legislation that would eliminate VA's health care system and replace it with a voucher or premium support for the purchase of private insurance."

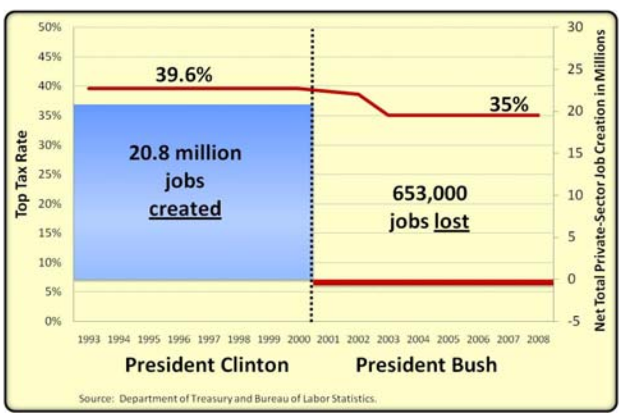
Shared Sacrifice

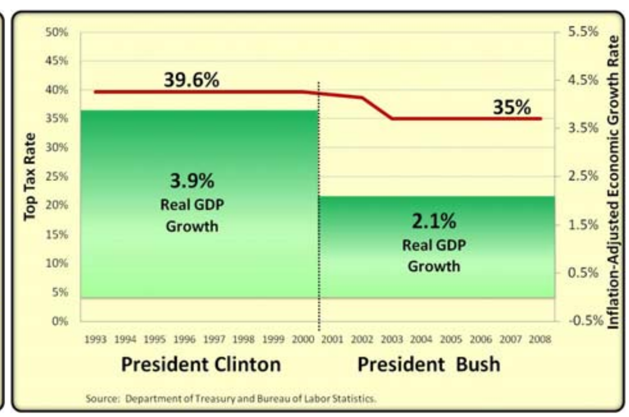
The Democratic plan also reduces the deficit by, among other measures, eliminating Big Oil subsidies, special interest tax breaks, and asking for shared sacrifice from millionaires. While our men and women in uniform are putting their lives on the line in Afghanistan and Iraq it is unconscionable that the wealthiest Americans received a tax break rather than share the sacrifice in some small way to meet our common national challenges.

The Bush Administration inherited a $5.6 trillion surplus from the Clinton Administration. That surplus was squandered between 2000 and 2008 as a result of numerous actions, including the adoption of tax cuts that disproportionately benefited the top 2% income earners in the country.

The Trickle Down Myth

The House Republican notion that the deficit is caused only by excess spending and not also by insufficient revenue is belied by the facts. One simple fact: if we returned to the same marginal tax rates that were in place during the booming economy of the Clinton Administration, we would achieve much of the deficit reduction in the Republican bill.





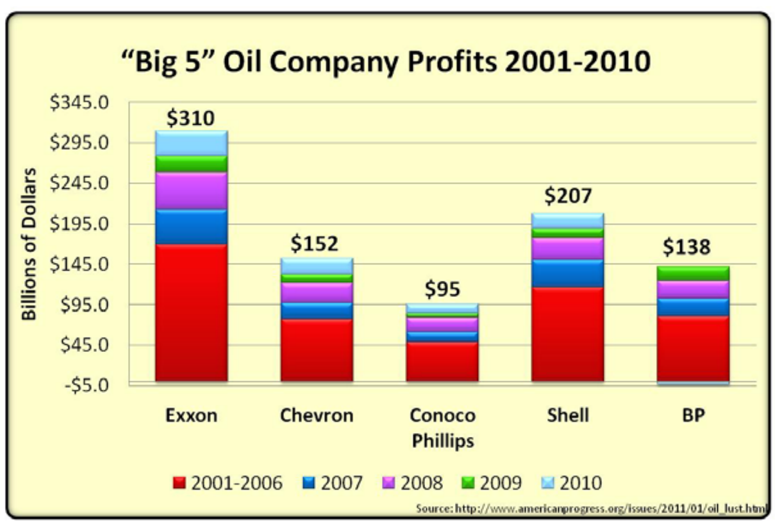
The House Republican claims that modest changes in the individual income tax rates are the primary drivers of economic decision making and growth is totally detached from the empirical facts. As shown in the two charts above, real GDP grew at the fast clip of 3.9 percent during the Clinton Administration and 21 million new jobs were created. By contrast, 653,000 private sector jobs had been lost by the end of the Bush Administration when the lower income tax rates were in place. And, again, median family incomes fell by 3 percent in real terms – clearly the antithesis of "trickle-down." The facts are clear: the major factors driving economic growth have little to do with modest changes in income tax rates. The trickle-down theory of economics, if not already discredited, crashed into the brick wall of reality given the economic performance during the eight years of the Bush Administration. That wrong-headed theory did, however, help explode the deficit.

Protecting Middle Income Americans While Ending Tax Breaks to Millionaires, Big Oil Companies, and Special Interests

It is time to return to a balanced approach and demand shared sacrifice from those who have benefited the most financially from the exceptional opportunities and security provided in our great nation. This Democratic budget achieves the same amount of net savings as the revenue policies in the President's budget; it does not endorse any of the specific proposals the President makes unless expressly stated in the budget resolution or this report. The Ways and Means Committee has the responsibility for developing the specific tax policies.

Individual Income Taxes

Like the President's proposal, this budget extends the middle class tax cuts, provides long term relief from the Alternative Minimum Tax for tens of millions of Americans families, and provides estate tax relief at the 2009 levels. The Democratic resolution also tracks the President's budget in applying the Clinton-era top tax rates to the top 2% of income earners. The Fiscal Commission blueprint and deficit numbers also assume the revenue generated from returning to that rate. The Fiscal Commission also generates revenues through broadening the tax base by closing corporate tax loopholes and eliminating various tax expenditures. The Democratic resolution encourages the Ways and Means Committee to consider, among other things, various tax reform proposals made by the Commission. In doing so, this budget resolution expressly rejects the approach in the Republican budget, which provides more tax breaks to millionaires at the expense of middle-income taxpayers. This budget resolution protects middle-income tax payers and would direct the Ways and Means Committee to consider options to ensure that millionaires pay their fair share, including the Fiscal Commission's recommendation to limit tax expenditures.



Corporate Income Taxes

The corporate income tax code includes many incentives that help spur economic growth and innovation, such as the research and development tax credit and clean energy incentives. This resolution adopts those and the other pro-growth tax incentives in the President's budget. At the same time, the Democratic resolution concurs with the Fiscal Commission's view that the corporate income tax system is badly in need of reform. It is chock full of special interest tax breaks and subsidies. Like the President's proposal, this budget eliminates the taxpayer subsidies for Big Oil. It also ends those pernicious tax breaks that reward U.S. corporations that ship American jobs – rather than products – overseas. This resolution urges the Ways and Means Committee to consider the full range of corporate tax reform proposals to determine which one can most effectively optimize economic growth and provide for necessary revenues.

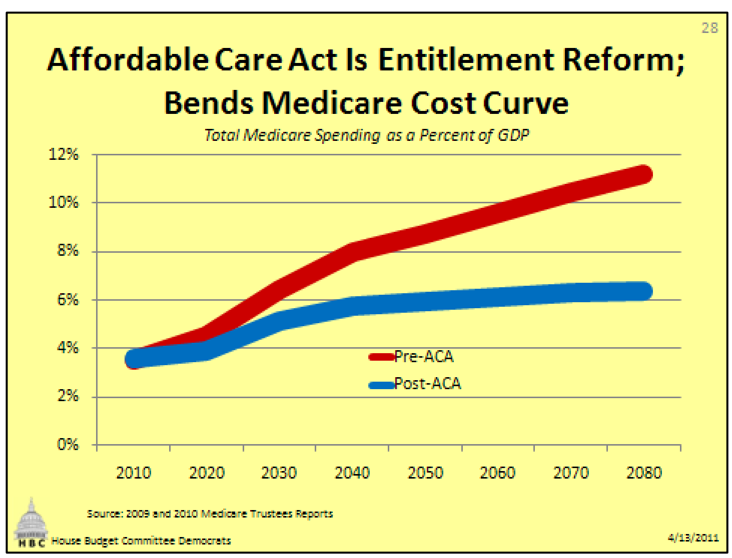
Keeping Our Commitments to America's Seniors and Most Vulnerable

Social Security, Medicare and Medicaid are essential to the health and retirement security of millions of Americans. The challenge before us is to make these vital programs sustainable over the long run given the rising spending growth trends. These trends are due to the aging of our population and the fact that per capita health care costs – both private and public – have grown faster than the economy.

Reducing Costs of Health System

The rising health care costs are not unique to the Medicare and Medicaid – they are endemic to the entire health care system. In fact, for 30 years, the per-beneficiary spending in Medicare and Medicaid has grown at virtually the same rate as that for the overall health system. And over the last decade, the per-beneficiary costs in Medicaid grew much more slowly that the rest of the health care system. By contrast, in the private market for individual coverage, premiums more than doubled between the years 2000 and 2008, as insurance industry profits quadrupled.

Clearly, bringing down the rising health care costs throughout the health care system will also reduce the costs to some of the largest participants – Medicare and Medicaid.



Last year, the Congress passed and the President signed the Affordable Care Act to begin to tackle the challenge of rising costs throughout the health care system. The Affordable Care Act will begin to slow the growth of per capita costs of health care throughout the system – including Medicare. It includes virtually every cost containment provision recommended by health care experts. In her recent testimony before the House Budget Committee, longtime federal budget expert Dr. Alice Rivlin said the Affordable Care Act would bend the health care cost curve and that repeal would set back efforts to create a more disciplined and effective health care system. Yet the Republican budget will terminate those system-wide reforms that will reduce costs throughout the system.

The key insurance market reforms that will be fully implemented by 2014 will change the very inefficient system that contributes to rising premiums. As of today, everyone who has health insurance coverage picks up the tab for those who don't. Insured individuals pay higher premiums because of those who pay none, but get their primary care in the emergency room. That broken system results in less preventive care and higher premiums. Those premiums will come down in 2014 once everyone takes personal responsibility for purchasing their own coverage and the risks are pooled throughout the population. The non-partisan, independent CBO has indicated that individuals and families will pay less for their health coverage. In a letter to Speaker Boehner written on February 18th, 2011, CBO projects that premiums for employer-based coverage will rise if the Affordable Care Act is repealed. And CBO indicates that repealing the law would mean that the majority of people in the individual market will get fewer benefits and pay more for coverage because of the elimination of the tax credits.

Now interestingly, the Republican budget does preserve many of the specific Medicare reforms made in the Affordable Care Act, including some of the mechanisms to slow the growth of system costs and eliminate excessive taxpayer subsidies to managed care insurance companies. In fact, the Republican budget's 10-year numbers rely on about half a trillion dollars in Medicare savings that come from the reasonable reforms made in the Affordable Care Act. This is especially startling because Republicans had charged that these responsible savings were an assault on Medicare.

GOP Priorities: Cutting Medicare Benefits and Ending Medicaid

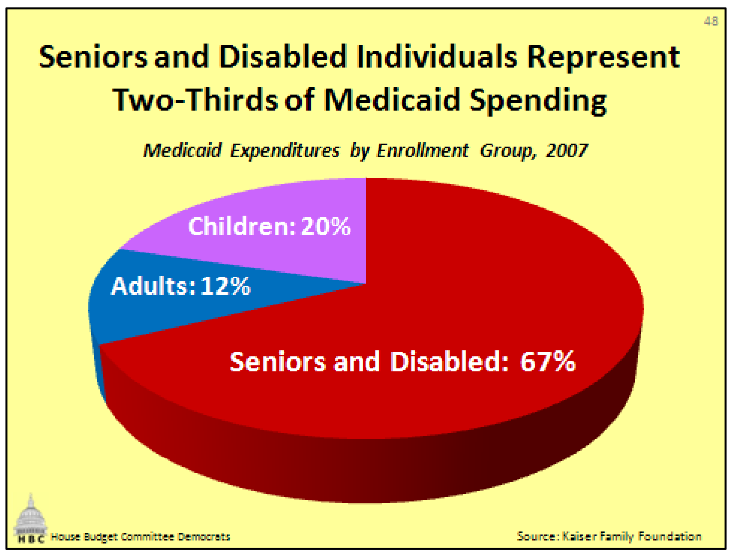
Ending the Medicare Guarantee

What is new in the Republican budget plan is the termination of the Medicare guarantee for seniors. It doesn't reform Medicare; it deforms and dismantles it. It forces seniors off of Medicare and into the private insurance market. It does nothing to rein in the rising costs of health care, but transfers the bill for those rising costs to seniors. Congress created Medicare because the private market failed seniors and disabled workers, given their health risks. There is no guarantee the market will offer affordable, meaningful health coverage now. More than half of Medicare beneficiaries have five or more chronic conditions – this is not a population insurers seek out. Moreover, if your voucher amount is not sufficient to pay for the benefits you need, tough luck. If your doctor is not on the private plan, too bad. This Republican plan simply rations health care and choice of doctor by income. It is very different from the Federal Employees Health Benefit Plan, which equally shares the risk of rising medical costs with beneficiaries.

The Republican budget resolution immediately takes away new benefits for seniors provided in the Affordable Care Act, even though the budget retains the Act's Medicare savings. For example, the Affordable Care Act will gradually eliminate the coverage gap, or "doughnut hole," in the Medicare prescription drug benefit by 2020. Without the Affordable Care Act, seniors who exceed the initial coverage limit next year would have to pay completely out-of-pocket for the next $1,790 of their prescription drug costs. Overall, the Act will save seniors with high drug costs an average of more than $2,000 by 2020. But the Republican budget would repeal this help, dramatically increasing out-of-pocket costs for seniors with high prescription drug costs; it would eliminate Medicare coverage of key preventive services such as mammograms and colonoscopies, and reduce the newly expanded support for home- and community-based alternatives to nursing homes.

Terminating Medicaid

This Republican budget also rips apart the safety net for seniors in nursing homes and assisted living facilities, as well as low-income kids and individuals with disabilities who rely on Medicaid. There is nothing courageous about targeting the most vulnerable in our society. Yet that is the biggest area of Republican cuts. 'Block granting' Medicaid is simply code for deep, arbitrary cuts in support to the most vulnerable seniors, individuals with disabilities, and low income kids. Giving governors so-called 'flexibility' is just a nice sounding way of giving them license to use federal taxpayer dollars to use to pay for their pet initiatives without oversight and accountability. That's not reform. Medicaid is already underfunded. Block granting it and cutting it further in the name of reform is like saving a drowning person by throwing them an anchor.



We've Seen this Before

The claim that dismantling the Medicare guarantee and block granting Medicaid is necessary to save them is simply Orwellian. It is reminiscent of that tortured statement, "you have to destroy the village in order to save it."

Democrats welcome an honest debate about how we can build upon the reforms in the Affordable Care Act to strengthen and sustain Medicare and Medicaid. But we will vigorously oppose any effort to undermine the integrity of these essential supports for seniors and vulnerable individuals. You don't have to be a history buff to know that Republicans in earlier Congresses fought the establishment of Medicare and Social Security as ferociously as they are fighting the Affordable Care Act today.

Other Mandatory Spending Programs: Farm Reform, Pell Grants, SNAP, and Program Integrity

Reducing Agriculture Spending

The Democratic budget includes meaningful, targeted reform that preserves jobs, protects the economic recovery, and gets a handle on the soaring deficit. The budget reduces spending for farm subsidies by $20 billion over ten years, moving assistance away from wealthy agribusinesses and toward struggling family farmers. Recognizing that farm policy is vital to rural communities and protects food and energy security around the country, the budget maintains the farm and nutrition safety net but reaps substantial savings.

Increases to Pell Grants and Supplemental Nutrition Assistance (SNAP)

The Democratic budget includes two mandatory funding proposals that will be fully paid for with other spending reductions. First, it includes the President's proposed mandatory funding for Pell grants. Together with the Pell appropriations request, this mandatory funding will maintain the Pell grant maximum award of $5,550. Second, the Democratic Alternative restores the SNAP reduction that was enacted last December as part of the Child Nutrition Reauthorization Act.

Program Integrity Initiatives

Within the non-security freeze, the Democratic budget includes appropriations for four program integrity initiatives. These initiatives are designed to make sure taxpayers pay what they owe and that beneficiaries of a variety of benefit programs meet program qualifications. The initiatives include additional funding for:

- Internal Revenue Service activities designed to help close the "tax gap", the difference between what is owed and what is actually paid.
- Social Security Administration continuing disability reviews and SSI redeterminations.
- Department of Labor in-person reemployment and eligibility assessments and unemployment insurance improper payment reviews.
- Heath care fraud and abuse control efforts.

Investing in America for a Stronger Future

We have choices to make about the path we forge toward the future. With this budget, Democrats are choosing to tackle the nation's pressing deficit and debt issues through a balanced approach. The result is a budget plan that reaches primary balance in 2018 without sacrificing the Medicare guarantee or retirement security for seniors. It protects working families but asks for shared responsibility and sacrifice to help bring the budget back into control. It protects our security and includes the investments we need to make it in America. These wise investments in education, innovation, and infrastructure will create jobs now and make the nation even stronger in the future.

Appendices

Appendix 1: Aggregates and budget function totals for the Democratic budget

Appendix 2: Accounts identified for advance appropriations in the Democratic budget

APPENDIX 1
BUDGET AGGREGATES
(in billions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	'12-'16	'12-'21
Levels:												
Receipts…………..	2,542	2,893	3,197	3,429	3,621	3,809	4,025	4,246	4,463	4,688	15,682	36,912
Outlays…………..	3,638	3,721	3,881	4,062	4,310	4,496	4,683	4,963	5,222	5,475	19,611	44,450
Deficit (-)…………	-1,096	-828	-683	-633	-689	-688	-657	-718	-759	-786	-3,929	-7,537
Primary deficit…	-839	-504	-281	-156	-137	-65	28	23	36	56	-1,917	-1,838
As a percent of GDP:												
Receipts………	16.2%	17.6%	18.5%	18.8%	18.9%	19.0%	19.2%	19.4%	19.6%	19.7%		
Outlays……….	23.2%	22.7%	22.5%	22.3%	22.5%	22.4%	22.4%	22.7%	22.9%	23.0%		
Deficit (-)………	-7.0%	-5.0%	-4.0%	-3.5%	-3.6%	-3.4%	-3.1%	-3.3%	-3.3%	-3.3%		

BUDGET BY FUNCTION
(in billions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	'12-'16	'12-'21
Budget Authority	3,604.2	3,668.1	3,896.1	4,067.4	4,323.4	4,535.2	4,743.2	5,011.2	5,284.3	5,526.7	19,559.2	44,659.8
Outlays	3,637.7	3,720.9	3,880.5	4,062.0	4,309.8	4,496.3	4,682.5	4,963.2	5,222.2	5,474.7	19,610.8	44,449.8
Revenue	2,541.6	2,893.0	3,197.3	3,428.8	3,620.8	3,808.7	4,025.4	4,245.7	4,462.9	4,688.3	15,681.6	36,912.4
Surplus (+)/Deficit (-)	-1,096.1	-827.9	-683.2	-633.1	-689.0	-687.6	-657.1	-717.5	-759.4	-786.5	-3,929.3	-7,537.4
Debt Held by the Public	11,532.6	12,462.9	13,241.4	13,971.8	14,753.3	15,532.7	16,281.6	17,086.9	17,935.6	18,809.7		
Debt Subject to Limit	16,316.4	17,416.6	18,384.7	19,336.3	20,362.4	21,403.4	22,433.0	23,505.4	24,621.9	25,784.2		
050 National Defense												
Budget Authority	585.0	602.4	618.6	631.2	644.4	656.0	668.1	680.3	692.6	705.3	3,637.4	7,039.7
Outlays	598.7	598.6	606.6	618.3	633.4	642.3	650.5	667.9	679.9	692.2	3,055.5	6,388.4
150 International Affairs												
Budget Authority	57.2	58.0	55.5	55.3	55.5	58.0	60.1	61.2	62.3	63.5	281.4	586.5
Outlays	50.6	54.6	56.1	56.1	57.0	58.0	58.8	58.3	58.3	59.3	274.4	567.3
250 General Science, Space, and Technology												
Budget Authority	32.6	31.5	31.4	31.4	32.4	33.2	34.0	34.8	35.7	36.6	159.2	333.4
Outlays	31.9	31.8	31.6	31.4	32.0	32.7	33.5	34.2	35.1	35.9	158.8	330.1
270 Energy												
Budget Authority	12.9	9.7	7.3	6.2	6.3	6.3	6.4	6.7	6.7	6.8	42.3	75.2
Outlays	18.2	13.7	9.1	6.5	5.7	5.8	6.0	5.9	5.9	6.0	53.2	82.8
300 Natural Resources and Environment												
Budget Authority	37.4	36.0	36.2	36.2	37.2	38.0	39.5	40.2	41.6	42.1	182.9	384.3
Outlays	40.7	38.6	37.4	37.3	37.2	37.7	37.9	38.6	39.8	40.3	191.3	385.5
350 Agriculture												
Budget Authority	21.0	20.3	20.3	19.5	19.6	19.5	19.8	20.1	20.3	20.5	100.6	200.8
Outlays	20.4	22.0	19.9	18.9	19.0	18.9	19.1	19.4	19.6	19.9	100.3	197.2
370 Commerce and Housing Credit												
Budget Authority	25.2	13.6	12.3	13.3	13.8	17.3	18.9	21.2	28.8	22.0	78.1	186.3
Outlays	25.6	12.0	-2.9	-4.5	-7.0	-6.5	-7.5	3.1	9.0	3.5	23.3	24.9
400 Transportation												
Budget Authority	93.0	93.4	93.6	94.3	95.3	96.3	97.4	98.5	99.6	100.8	469.6	962.2
Outlays	93.0	93.4	94.0	95.5	96.9	98.1	99.4	100.8	103.0	105.0	472.7	978.9
450 Community and Regional Development												
Budget Authority	15.8	15.9	16.1	16.4	16.8	17.1	17.5	17.9	18.3	18.7	80.9	170.5
Outlays	26.0	24.3	22.5	19.0	17.6	16.9	16.7	17.0	17.4	17.8	109.4	195.3
500 Education, Training, Employment, and Social Services												
Budget Authority	111.7	103.6	106.8	111.5	118.4	122.9	124.8	126.7	128.3	130.0	551.9	1,184.7
Outlays	117.3	105.2	105.2	110.3	115.3	120.1	123.2	125.1	126.9	128.5	553.3	1,177.1
550 Health												
Budget Authority	356.5	371.0	452.9	518.2	565.9	612.9	654.7	700.8	755.9	799.7	2,264.5	5,788.6
Outlays	358.3	368.6	435.9	506.5	570.4	615.8	652.3	697.8	742.4	795.9	2,239.7	5,743.9
570 Medicare												
Budget Authority	483.9	520.9	549.0	571.6	618.7	640.4	663.1	722.9	775.0	829.1	2,744.2	6,374.8
Outlays	483.6	521.1	548.9	571.5	618.9	640.3	663.0	723.1	774.9	829.0	2,744.0	6,374.2

BUDGET BY FUNCTION
(in billions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	'12-'16	'12-'21
600 Income Security												
Budget Authority	536.4	524.0	520.9	518.4	525.8	526.2	530.5	546.1	557.7	570.3	2,625.4	5,356.2
Outlays	531.1	522.4	519.4	516.3	527.6	523.6	523.1	543.2	554.8	567.3	2,616.7	5,328.6
650 Social Security												
Budget Authority	769.9	808.4	851.6	898.8	950.0	1,007.5	1,070.2	1,136.8	1,207.8	1,279.9	4,278.7	9,980.8
Outlays	766.8	805.0	847.9	894.5	945.3	1,002.3	1,064.7	1,130.9	1,201.3	1,273.3	4,259.5	9,931.9
700 Veterans Benefits and Services												
Budget Authority	128.3	130.0	134.1	138.2	147.4	146.3	145.4	155.1	159.7	164.4	678.1	1,449.0
Outlays	128.1	130.0	134.1	137.9	146.9	145.7	144.8	154.4	159.0	163.6	676.9	1,444.4
750 Administration of Justice												
Budget Authority	55.2	61.3	55.5	56.2	59.7	59.4	60.8	62.4	66.0	68.7	288.0	605.4
Outlays	57.1	57.0	57.4	58.2	60.8	59.8	61.7	62.1	65.4	68.0	290.6	607.7
800 General Government												
Budget Authority	27.4	26.9	27.5	28.2	29.2	29.8	30.5	31.3	31.8	32.5	139.2	295.1
Outlays	30.5	27.9	28.1	28.5	29.2	29.6	30.2	30.7	31.4	31.9	144.2	298.0
900 Net Interest												
Budget Authority	257.0	324.0	402.0	477.3	552.3	622.5	685.5	740.3	795.6	842.9	2,012.5	5,699.3
Outlays	257.0	324.0	402.0	477.3	552.3	622.5	685.5	740.3	795.6	842.9	2,012.5	5,699.3
920 Non-Security Allowances												
Budget Authority	-20.4	-16.5	-22.3	-22.4	-25.8	-28.4	-30.3	-32.2	-33.7	-35.2	-107.4	-267.3
Outlays	-13.5	-10.6	-18.4	-19.2	-23.2	-26.5	-29.0	-31.2	-33.0	-34.7	-85.0	-239.4
930 Security Allowances												
Budget Authority	-15.0	-20.0	-25.0	-30.0	-35.0	-35.7	-36.4	-37.1	-37.9	-38.7	-125.0	-310.8
Outlays	-8.6	-15.4	-21.1	-26.2	-31.4	-33.9	-35.2	-36.2	-37.0	-37.7	-102.7	-282.6
950 Undistributed Offsetting Receipts												
Budget Authority	-93.1	-96.2	-98.3	-102.3	-104.4	-110.5	-117.1	-122.9	-127.8	-133.3	-494.2	-1,105.8
Outlays	-93.1	-96.2	-98.3	-102.3	-104.4	-110.5	-117.1	-122.9	-127.8	-133.3	-494.2	-1,105.8
970 Overseas Contingency Operations												
Budget Authority	126.5	50.0	50.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	226.5	226.5
Outlays	118.0	92.9	65.1	30.3	10.2	3.5	1.2	0.5	0.2	0.1	316.5	322.0

Appendix 2: Accounts identified for advance appropriations in the Democratic budget

The Democratic budget maintains the limitation on the amount and type of advance appropriations for fiscal years 2013 and 2014. Advance appropriations for fiscal year 2013 are restricted to $28.852 billion for the programs, projects, activities, or accounts listed below. Advances for 2014 are listed separately.

Advance Appropriations for Fiscal Year 2013:

Employment and Training Administration
Office of Job Corps
Education for the Disadvantaged
School Improvement Programs
Special Education
Career, Technical and Adult Education
Payment to Postal Service
Tenant-based Rental Assistance
Project-based Rental Assistance

Advance Appropriations for Fiscal Year 2014:

The Corporation for Public Broadcasting